

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice as soon as possible from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Alliance UniChem Shares, you should send this document, together with the accompanying documents (including the Prospectus and the Forms of Proxy) as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee. However, the distribution of this document and any accompanying documents into certain jurisdictions other than the United Kingdom may be restricted by law. Therefore, persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

You should read the whole of this document. In addition, this document should be read in conjunction with the accompanying documents including the Prospectus (a copy of which has been filed with the Financial Services Authority) and the blue and white Forms of Proxy.

**Recommended Merger of
Boots Group PLC**
(proposed to be re-named Alliance Boots plc)
and
Alliance UniChem Plc

to be effected by means of a
scheme of arrangement
under section 425 of the Companies Act 1985

Your attention is drawn to the letter from the Chairman of Alliance UniChem in Part 1 (*Letter from the Chairman of Alliance UniChem*) of this document, which contains the unanimous recommendation of the Alliance UniChem Directors that you vote in favour of the Scheme at the Court Meeting and in favour of the Special Resolution to be proposed at the Alliance UniChem Extraordinary General Meeting. A letter from Credit Suisse and Merrill Lynch explaining the Scheme appears in Part 2 (*Explanatory Statement*) of this document.

Notices of the Court Meeting and the Alliance UniChem Extraordinary General Meeting, both of which will be held at Armourer's Hall, 81 Coleman Street, London EC2R 5BJ on 4 July 2006, are set out at the end of this document. The Court Meeting will start at 10:30 a.m. and the Alliance UniChem Extraordinary General Meeting at 10:45 a.m. (or as soon thereafter as the Court Meeting shall have concluded or been adjourned).

The action to be taken in respect of the Meetings is set out on page 6 of this document and also in paragraph 9 of Part 1 (*Letter from the Chairman of Alliance UniChem*) of this document. Shareholders will find enclosed with this document a blue Form of Proxy for use in connection with the Court Meeting and a white Form of Proxy for use in connection with the Alliance UniChem Extraordinary General Meeting. Whether or not you intend to attend the Meetings in person, please complete and sign each of the enclosed Forms of Proxy in accordance with the instructions printed on them and return them to the Company's Registrars, Lloyds TSB Registrars, at The Causeway, Worthing, West Sussex BN99 6AT, as soon as possible and, in any event, so as to be received at least 48 hours before the time appointed for the relevant Meeting. If the blue Form of Proxy for the Court Meeting is not returned by the above time, it may be handed to the Chairman of the Court Meeting before the start of that Meeting and will still be valid. However, in the case of the Alliance UniChem Extraordinary General Meeting, unless the white Form of Proxy is returned by the time mentioned in the instructions printed on it, it will be invalid.

If you would like to submit your proxy vote electronically, you can do so by visiting www.sharevote.co.uk. You will need your personal voting reference number (this is a series of 24 numbers printed under your name on the appointment form). Alternatively, if you have registered with Lloyds TSB Registrars' on-line portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk (click on "Company Meetings"). Full instructions are given on both websites. The deadline for the receipt of electronic proxies is 48 hours before the relevant Meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.

The completion and return of a Form of Proxy will not prevent you from attending and voting in person at the Court Meeting, the Alliance UniChem Extraordinary General Meeting or any adjournment thereof, if you so wish and are so entitled.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

Merrill Lynch, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Alliance UniChem in relation to the matters described in this document and is not advising any other person and accordingly will not be responsible to any person other than Alliance UniChem for providing the protections afforded to the customers of Merrill Lynch or for providing advice in relation to the matters described in this document.

Credit Suisse, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Alliance UniChem in relation to the matters described in this document and is not advising any other person and accordingly will not be responsible to any person other than Alliance UniChem for providing the protections afforded to the customers of Credit Suisse or for providing advice in relation to the matters described in this document.

Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Boots in relation to the matters described in this document and is not advising any other person and accordingly will not be responsible to any person other than Boots for providing the protections afforded to the customers of Goldman Sachs International or for providing advice in relation to the matters described in this document.

This document and the accompanying documents have been prepared for the purposes of complying with English law and the City Code and the information included may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

Application has been made to the UK Listing Authority for the New Boots Shares proposed to be issued in connection with the Merger to be admitted to the Official List and to the London Stock Exchange for the New Boots Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective on the Effective Date (which is currently expected to be 31 July 2006). Application has not been, and will not be, made for the New Boots Shares to be admitted to, or to be traded on, any other stock exchange.

The New Boots Shares will not be registered under the US Securities Act and will be issued in the United States pursuant to the Scheme in reliance on the exemption from registration provided by Section 3(a)(10) of that Act. In addition, the New Boots Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States in reliance on available exemptions from such state law registration requirements, subject to the restrictions described in paragraph 21 of Part 2 (*Explanatory Statement*) of this document.

The New Boots Shares issued to, or for the benefit of, any resident of Canada will not be qualified for sale under the securities laws of any province or territory of Canada and will be subject to resale restrictions.

The New Boots Shares have not been, and will not be, registered under the applicable laws of any Restricted Jurisdiction. Accordingly, the New Boots Shares may not be offered, sold, delivered or transferred, directly or indirectly, in or into any Restricted Jurisdiction or to or for the account or benefit of any national, resident or citizen of any Restricted Jurisdiction and this document may not be distributed in or into any Restricted Jurisdiction.

Notice to New Hampshire residents: Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made to any prospective purchaser, customer or client, any representation inconsistent with the provisions of this paragraph.

This document is dated 5 June 2006.

IMPORTANT NOTICE

The distribution of this document and the accompanying documents in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document and the accompanying documents come should inform themselves about, and observe, such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction.

Neither this document nor the accompanying documents constitute an offer or an invitation to purchase or subscribe for any securities or a solicitation of an offer to buy any securities pursuant to those documents or otherwise in any jurisdiction in which such offer or solicitation is unlawful. This document and the accompanying documents have been prepared in connection with a proposal in relation to a scheme of arrangement pursuant to, and for the purpose of, complying with English law and the City Code and information disclosed may not be the same as that which would have been prepared in accordance with laws of jurisdictions outside England. Nothing in this document or the accompanying documents should be relied upon for any other purpose.

The statements contained herein are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set forth herein since that date. Nothing contained herein shall be deemed to be a forecast, projection or estimate of the future financial performance of Alliance UniChem, except where otherwise stated.

No person has been authorised to make any representations on behalf of Boots or Alliance UniChem concerning the Merger or the Scheme which are inconsistent with the statements contained herein and any such representations, if made, may not be relied upon as having been so authorised.

No person should construe the contents of this document as legal, financial or tax advice and should consult their own advisers in connection with the matters contained herein.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this document constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "prepares", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Boots Group, the Alliance UniChem Group or, following Completion, the Enlarged Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Boots Group's, the Alliance UniChem Group's and, following Completion, the Enlarged Group's present and future business strategies and the environment in which the Boots Group, the Alliance UniChem Group and the Enlarged Group will operate in the future. As a result, the Boots Group's, the Alliance UniChem Group's and, following Completion, the Enlarged Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the Boots Group's, the Alliance UniChem Group's and the Enlarged Group's forward-looking statements contained in this document or any other forward-looking statement any of them may make. Except as required by the UK Listing Authority, the London Stock Exchange, the City Code, the Court or by law, neither the Boots Group, the Alliance UniChem Group nor the Enlarged Group undertakes any obligation to update any of the forward-looking statements contained in this document or other forward-looking statements any of them may make.

DEALING DISCLOSURE REQUIREMENTS

Under the provisions of Rule 8.3 of the City Code, if any person is, or becomes, “interested” (directly or indirectly) in 1% or more of any class of “relevant securities” of Alliance UniChem or Boots, all “dealings” in any “relevant securities” of that company (including by means of an option in respect of, or a derivative referenced to, any such “relevant securities”) must be publicly disclosed by no later than 3:30 p.m. (London time) on the Business Day following the date of the relevant transaction. This requirement will continue until the Effective Date or when the “offer period” for the purposes of the City Code otherwise ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an “interest” in “relevant securities” of Alliance UniChem or Boots, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the City Code, all “dealings” in “relevant securities” of Alliance UniChem or Boots by Alliance UniChem or Boots, or by any of their respective “associates”, must be disclosed by no later than 12:00 noon (London time) on the Business Day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose “relevant securities” “dealings” should be disclosed, and the number of such securities in issue, can be found on the Panel’s website at www.thetakeoverpanel.org.uk.

“Interests in securities” arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an “interest” by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the City Code, which can also be found on the Panel’s website. If you are in any doubt as to whether or not you are required to disclose a “dealing” under Rule 8, you should consult the Panel.

DEFINED TERMS

Certain terms used in this document are defined in Part 9 (*Definitions*) of this document.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<u>Event</u>	<u>Time and/or date</u>
Latest time for lodging blue Forms of Proxy for the Court Meeting⁽¹⁾	10:30 a.m. on 2 July 2006 ⁽²⁾
Latest time for lodging white Forms of Proxy for the Alliance UniChem Extraordinary General Meeting⁽¹⁾	10:45 a.m. on 2 July 2006 ⁽²⁾
Voting Record Time for Court Meeting and Alliance UniChem Extraordinary General Meeting	6:00 p.m. on 2 July 2006 ⁽³⁾
Boots Extraordinary General Meeting	10:00 a.m. on 4 July 2006
Court Meeting	10:30 a.m. on 4 July 2006
Alliance UniChem Extraordinary General Meeting	10:45 a.m. on 4 July 2006 ⁽⁴⁾
<i>The following dates are subject to change (please see note (5) below)</i>	
Scheme Court Hearing	26 July 2006 ⁽⁵⁾
Reduction Court Hearing	28 July 2006 ⁽⁵⁾
Last day of dealings in, and for registration of transfers of, and disablement in CREST of, Alliance UniChem Shares	28 July 2006 ⁽⁵⁾
Scheme Record Time	6:00 p.m. on 28 July 2006 ⁽⁵⁾
Record date for the Alliance UniChem Merger Dividend and the Boots Merger Dividend	6:00 p.m. on 28 July 2006 ⁽⁵⁾
Effective Date of the Scheme	31 July 2006 ⁽⁵⁾
Cancellation of listing of Alliance UniChem Shares	8:00 a.m. on 31 July 2006 ⁽⁵⁾
New Boots Shares issued and admitted to the Official List and dealings in the New Boots Shares commence	8:00 a.m. on 31 July 2006 ⁽⁵⁾
Crediting of New Boots Shares to CREST accounts	8:00 a.m. on 31 July 2006 ⁽⁵⁾
Latest date for despatch of share certificates in respect of New Boots Shares	14 August 2006 ⁽⁵⁾
Payment of the Alliance UniChem Merger Dividend and the Boots Merger Dividend	3 October 2006 ⁽⁵⁾

Notes:

- (1) If the blue Form of Proxy for the Court Meeting is not returned by the above time, it may be handed to the Chairman of the Court Meeting before the start of that Meeting. However, the white Form of Proxy for the Alliance UniChem Extraordinary General Meeting must be lodged by 10:45 a.m. on 2 July 2006 in order to be valid.
- (2) Please see Action To Be Taken on the next page.
- (3) If either the Court Meeting or the Alliance UniChem Extraordinary General Meeting is adjourned, the Voting Record Time for the adjourned meeting will be 6:00 p.m. on the date two days before the date set for the adjourned meeting.
- (4) To commence at 10:45 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.
- (5) These times and dates are indicative only and will depend, among other things, on the date on which the Court sanctions the Scheme and confirms the associated Reduction of Capital as well as the date on which the Court Orders are delivered to the Registrar of Companies.

Unless otherwise stated, all references in this document to times are to London times.

The Court Meeting and the Alliance UniChem Extraordinary General Meeting will both be held at Armourer's Hall, 81 Coleman Street, London EC2R 5BJ.

The Boots Extraordinary General Meeting will be held at The Cavendish Conference Centre, 22 Duchess Mews, London W1G 9DT.

The dates listed above are based on current expectations and may be subject to change. If any of the expected dates change, Alliance UniChem will give notice of the change by issuing an announcement through a Regulatory Information Service.

ACTION TO BE TAKEN

Detailed instructions on the action to be taken are set out in paragraph 9 of Part 1 (*Letter from the Chairman of Alliance UniChem*) of this document and are summarised below:

Voting at the Court Meeting and the Alliance UniChem Extraordinary General Meeting

The Scheme requires approval at a meeting of Alliance UniChem Shareholders convened by order of the Court to be held at Armourer's Hall, 81 Coleman Street, London EC2R 5BJ. The Court Meeting will start at 10:30 a.m. on 4 July 2006. Implementation of the Scheme also requires approval of Alliance UniChem Shareholders at the Alliance UniChem Extraordinary General Meeting to be held at the same address at 10:45 a.m. on 4 July 2006 (or as soon thereafter as the Court Meeting has concluded or been adjourned).

It is important that, for the Court Meeting, as many votes as possible are cast so that the Court may be satisfied that a fair and reasonable representation of Alliance UniChem Shareholder opinion has been obtained. You are therefore strongly urged to sign and return your Forms of Proxy as soon as possible and, in any event, so as to be received by Lloyds TSB Registrars at The Causeway, Worthing, West Sussex BN99 6AT by the following times:

Blue Forms of Proxy for the Court Meeting	10:30 a.m. on 2 July 2006 ⁽¹⁾
White Forms of Proxy for the Alliance UniChem Extraordinary General Meeting	10:45 a.m. on 2 July 2006

Reply paid cards are provided for this purpose for use in the United Kingdom only. Overseas shareholders will need to affix a stamp to the enclosed reply paid cards or place them into a stamped envelope.

If you would like to submit your proxy vote electronically, you can do so by visiting www.sharevote.co.uk. You will need your personal voting reference number (this is a series of 24 numbers printed under your name on the appointment form). Alternatively, if you have registered with Lloyds TSB Registrars' on-line portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk (click on "Company Meetings"). Full instructions are given on both websites. The deadline for receipt of electronic proxies is 48 hours before the relevant Meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.

The completion and return of a Form of Proxy will not prevent you from attending and voting in person at the Court Meeting, the Alliance UniChem Extraordinary General Meeting or any adjournment thereof, if you so wish and are so entitled.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

If you have any questions relating to this document or the completion and return of the Forms of Proxy, please contact Alliance UniChem's Registrars, Lloyds TSB Registrars, on 0870 600 3970 or, if telephoning from outside the United Kingdom, on +44 (0) 121 415 7047 between Monday and Friday from 8:30 a.m. to 5:30 p.m. Please note that, for legal reasons, the helpline cannot provide advice on the merits of the Merger or the Scheme or provide financial advice.

(1) Alternatively, blue Forms of Proxy for the Court Meeting (but NOT the white Forms of Proxy for the Alliance UniChem Extraordinary General Meeting) may be handed to the Chairman of the Court Meeting before the start of the Court Meeting on 4 July 2006 and will still be valid.

CONTENTS

PART 1	LETTER FROM THE CHAIRMAN OF ALLIANCE UNICHEM	8
	1. Introduction	8
	2. Summary of the Terms of the Merger	9
	3. Merger Dividends	9
	4. Rationale for the Merger	10
	5. Proposed Change of Name	12
	6. Board, Employees and Operating Presence	12
	7. Irrevocable Undertaking	13
	8. Alliance UniChem Share Option Schemes	13
	9. Meetings and Action to be Taken	13
	10. Further Information	14
	11. Recommendation	15
PART 2	EXPLANATORY STATEMENT	16
	1. Introduction	16
	2. Terms of the Merger	16
	3. New Boots Shares	17
	4. Rationale for the Merger	17
	5. Information on Alliance UniChem	17
	6. Information on Boots	18
	7. Current Trends in Trading and Prospects	18
	8. Financial Effects of the Merger	19
	9. Irrevocable Undertaking	20
	10. The Alliance UniChem Directors and the Effect of the Scheme on their Interests	20
	11. Alliance UniChem Share Schemes	21
	12. Dividends, Dividend Policy and Year End	22
	13. Framework Agreement and Inducement Fees	23
	14. OFT Undertakings	24
	15. Competition Filing in Russia	25
	16. Boots Extraordinary General Meeting	25
	17. De-listing of Alliance UniChem Shares	25
	18. Settlement	25
	19. Structure of the Merger	26
	20. United Kingdom Taxation	30
	21. Overseas Shareholders	30
	22. Action to be Taken	32
	23. Further Information	32
PART 3	THE SCHEME OF ARRANGEMENT	33
PART 4	CONDITIONS TO THE IMPLEMENTATION OF THE SCHEME AND THE MERGER	38
PART 5	FINANCIAL INFORMATION ON THE ALLIANCE UNICHEM GROUP	47
PART 6	FINANCIAL INFORMATION ON THE BOOTS GROUP	48
PART 7	UNITED KINGDOM TAXATION	82
PART 8	ADDITIONAL INFORMATION	84
PART 9	DEFINITIONS	109
PART 10	NOTICE OF COURT MEETING	116
PART 11	NOTICE OF ALLIANCE UNICHEM EXTRAORDINARY GENERAL MEETING	118

PART 1

LETTER FROM THE CHAIRMAN OF ALLIANCE UNICHEM



Alliance UniChem

Directors:

Paolo Scaroni (Chairman)
Ian Meakins
Stefano Pessina
George Fairweather
Ornella Barra
Steven Duncan
Kenneth Clarke
Neil Cross
Adrian Loader
Patrick Ponsolle
Manfred Stach
Etienne Jornod

Registered office:

2 The Heights
Brooklands
Weybridge
Surrey
KT13 0NY

(Registered in England and
Wales with number 2517178)

5 June 2006

To Alliance UniChem Shareholders and, for information only, to participants in the Alliance UniChem Share Schemes

Dear Shareholder,

RECOMMENDED MERGER OF ALLIANCE UNICHEM AND BOOTS

1. Introduction

On 3 October 2005, the Boards of Alliance UniChem and Boots announced that they had agreed the terms of a recommended merger to create the Enlarged Group, an international pharmacy-led health and beauty group, to be called "Alliance Boots".

On announcement, the Merger was subject to (amongst other things) the satisfaction or waiver of certain pre-conditions, including completion of the disposal of BHI and receipt of appropriate competition clearances.

The Boots Group completed the disposal of BHI on 31 January 2006 for an aggregate consideration of approximately £1.93 billion, on a debt free, cash free basis. On 24 February 2006, Boots paid a special dividend of, in aggregate, approximately £1.43 billion to Boots Shareholders. After anticipated taxation and other costs associated with the BHI transaction of approximately £100 million, Boots retained approximately £400 million of the proceeds of the BHI transaction for investment in the Boots Group and the Enlarged Group. Of this amount, £85 million has been paid to the Boots Pension Scheme and a further £250 million will be invested in, amongst other things, the Boots Group supply chain.

On 30 November 2005, the European Commission agreed to Alliance UniChem's and Boots' request to have the Merger considered by the UK competition authorities. On 22 February 2006, the OFT published its decision that, subject to undertakings being agreed in relation to the divestment of a number of stores, the Merger would not be referred to the Competition Commission. The CAT considered an application for review of the OFT's decision to accept undertakings in lieu of reference of the Merger to the Competition Commission and announced, on 9 May 2006, that it had dismissed this application. On 25 May 2006, the OFT accepted undertakings from Boots to divest 96 pharmacies of the Enlarged Group following Completion. Further details of these undertakings are given in paragraph 14 of Part 2 (*Explanatory Statement*) of this document. The information contained in this Part 1 does not take into account the disposals contemplated by these undertakings.

The implementation of the Scheme and the Merger remains subject to the satisfaction or waiver of the competition condition set out in paragraph 2(c) of Part 4 (*Conditions to the Implementation of the Scheme and the Merger*) of this document.

I am writing to you on behalf of the Alliance UniChem Board to explain the background to, and the terms of, the Merger and to explain why the Alliance UniChem Board, which has been advised by Merrill Lynch and Credit Suisse, is unanimously recommending that Alliance UniChem Shareholders vote in favour of the Scheme at the Court Meeting and the Special Resolution to be proposed at the Alliance UniChem Extraordinary General Meeting, as the Alliance UniChem Directors unanimously intend to do in respect of all Alliance UniChem Shares they hold. This letter also explains the actions that you should now take and sets out the proposals to be put to you at the Meetings.

2. Summary of the Terms of the Merger

It is intended that the Merger will be implemented by way of the Scheme, the full details of which are set out in Part 3 (*The Scheme of Arrangement*) of this document.

If the Scheme becomes effective, Alliance UniChem Shareholders will receive:

for each Alliance UniChem Share	1.332 New Boots Shares
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and so in proportion for any other number of Alliance UniChem Shares held. Fractions of New Boots Shares will not be allotted to Alliance UniChem Shareholders pursuant to the Scheme. Instead, fractional entitlements will be aggregated and sold in the market with the net proceeds of such sales, to the extent that they exceed £3, being paid to the persons entitled thereto. Upon the Scheme becoming effective, New Alliance UniChem Shares will be issued to Boots (or its nominee(s)) whereupon Alliance UniChem will become a wholly-owned subsidiary of Boots.

Assuming the issue of the maximum number of New Boots Shares pursuant to the Scheme and that no Boots Shares are issued in the period from the date of publication of this document to the Effective Date, the enlarged issued ordinary share capital of Boots would be held, on the Effective Date, as to 49.8% by Alliance UniChem Shareholders and as to 50.2% by Boots Shareholders. On this basis, the Merger values Alliance UniChem at approximately £3.4 billion, based on the closing middle market share price of Boots Shares on 31 May 2006, being the last practicable date prior to publication of this document.

Further information on Boots is set out in paragraph 6 of Part 2 (*Explanatory Statement*) of this document and in the Prospectus.

The implementation of the Scheme is subject to the Conditions, which are summarised in paragraph 19(c) of Part 2 (*Explanatory Statement*) of this document and set out in full in Part 4 (*Conditions to the Implementation of the Scheme and the Merger*) of this document.

The Court Meeting and the Alliance UniChem Extraordinary General Meeting, and the nature of the approvals required to be given at them, are described in more detail in paragraph 9 below. Alliance UniChem Shareholders are entitled to attend the Scheme Court Hearing in person or to be represented at their own expense by counsel.

Given the size of the proposed Merger in relation to the current size of Boots, it will be necessary for Boots Shareholders to approve the Merger. The implementation of the Merger is conditional upon the passing of each of the Merger Resolutions at the Boots Extraordinary General Meeting.

3. Merger Dividends

Alliance UniChem and Boots each intend to pay (subject to Completion) merger dividends in respect of the period up to the Effective Date to shareholders who are on the relevant register of members at the close of business on the Business Day immediately prior to the Effective Date. Such dividends will be paid in accordance with Boots' and Alliance UniChem's current dividend policies on the bases set out in paragraph 12 of Part 2 (*Explanatory Statement*) of this document.

4. Rationale for the Merger

The merger of equals between Boots and Alliance UniChem will create an international pharmacy-led health and beauty group, to be called "Alliance Boots". The Merger is expected to build on the existing strategies of the Alliance UniChem Group and the Boots Group and to combine their complementary skills and businesses. The Merger is expected to position better the Enlarged Group to capture the growth opportunities that Alliance UniChem and Boots expect in the health and beauty sectors, while also delivering expected cost savings to enhance the Enlarged Group's efficiency and competitiveness in pursuing those opportunities.

Growth Opportunities in Health and Beauty

Growth in demand for healthcare has been driven by increased consumer health awareness and an ageing population. European governments continue to focus on ways to minimise healthcare costs and, as a result, have implemented policies which are expected to offer significant opportunities for the Enlarged Group. For example:

- European governments have promoted the increased prescription of generics instead of more expensive branded pharmaceuticals. The Enlarged Group is well positioned to benefit from this trend due to its international buying capabilities and the attraction of *Almus*, the Alliance UniChem Group's award-winning brand of generic drugs; and
- the UK government is requiring pharmacists to take a more clinical and proactive role in the health of patients as a result of the new pharmacy contract in England and Wales.

Growth in demand for beauty products has been driven by increasing consumer willingness to spend money on personal care. The Enlarged Group will inherit the Boots Group's position as the leader by revenue in this market in the UK and will have a portfolio of differentiated and leading brands such as "No 7" and "Soltan", which are already being sold by the Boots Group in selected international markets.

Europe's Leading Retail Pharmacy Business

The Merger will create an international pharmacy-led health and beauty group comprising approximately 3,000 retail outlets, including associates, of which approximately 2,700 will have a pharmacy, with a wholesale network serving approximately 125,000 outlets.

Approximately 2,600 healthcare retail outlets in the UK

It is intended that, following an integration period, the Enlarged Group's network will include two retail formats, both branded "Boots", ranging from smaller dispensing pharmacies to larger high street and edge of town health and beauty stores including:

- approximately 1,500 community pharmacies where healthcare and dispensing revenues typically account for the majority of revenues. These pharmacies are typically in community and secondary high street locations and have a strong emphasis on healthcare and advice. These are well placed to provide an increased role in the provision of healthcare services, working closely with other primary healthcare providers; and
- approximately 800 destination health and beauty stores, usually offering dispensing and other healthcare services and advice provided in community pharmacies and also providing a broader health and beauty offering, including Boots' private label and other Boots brands such as "No. 7", "Soltan" and "Botanics".

In addition, the Enlarged Group will operate approximately 300 other retail outlets, including freestanding Boots Opticians outlets.

International retail

The Enlarged Group will operate over 400 pharmacies in Norway, The Netherlands, Thailand, Ireland, Italy and, through an associate, in Switzerland, and will also operate a limited number of other retail outlets.

Wholesale

The Enlarged Group will continue the Alliance UniChem Group's wholesale business model which is designed to provide customers and manufacturers with an efficient system for the distribution of medicines and other healthcare products to pharmacies, supported by value added services. The Alliance UniChem Group's wholesale network (including associates) operates in 13 countries, through around 380 depots.

Enhanced International Growth Opportunities in New Markets

The Enlarged Group will have a pipeline of attractive opportunities in new geographical markets for the expansion of both its retail pharmacy network and its wholesale and distribution activities. The Enlarged Group's ability to access new markets and its attractiveness to potential partners is expected to be enhanced significantly by the management expertise, internationally recognised brands and balance sheet strength of the Enlarged Group.

Complementary management teams

The Enlarged Group's management team offers a strong combination of pharmacy, wholesale, retail, acquisition and brand management experience. The Alliance UniChem Group has an established track record of successful expansion into new geographical markets. The Boots Group's management brings proven retail, pharmacy and product development expertise with which to enhance the Enlarged Group's expansion potential.

Internationally recognised brands

The "Boots" brand is expected to increase the Enlarged Group's appeal to potential partners, customers and pharmacists. In addition, the sale of the Enlarged Group's extensive proprietary product range (e.g. "No 7", "Soltan", "Botanics" and "Almus") to new customers in new international markets is expected to provide incremental benefits.

Strong balance sheet

The Enlarged Group intends to have an investment grade credit rating in order to provide financial flexibility and support attractive acquisitions in international markets.

Projected Annual Pre-Tax Cost Savings of at least £100 million⁽¹⁾ and Incremental Revenue Potential

Cost savings

The Enlarged Group expects annual pre-tax cost savings as a result of the Merger of at least £100 million per annum by the fourth full year⁽²⁾ following Completion. The savings are expected to be delivered such that over 60% of the run-rate savings will accrue by the second year following Completion and 100% by the fourth year. The cost savings are expected to arise from:

- streamlining the Enlarged Group's purchasing, logistics and wholesale network to deliver savings of approximately £80 million by the fourth full year following Completion; and
- rationalising corporate costs to deliver savings of approximately £20 million by the fourth full year following Completion.

The aggregate one-off charges to the income statement, which are all cash costs, related to achieving these synergies are expected to amount to approximately £53 million. In addition, the Enlarged Group is expected to incur additional capital expenditure of £7 million in relation to the delivery of these synergies.

(1) These statements of estimated cost savings and the one-off costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors. Because of this, the cost savings referred to may not be achieved, or those achieved could be materially different from those estimated.

(2) Being the 12 month period ending on the fourth anniversary of Completion.

Revenue opportunities

The Enlarged Group also expects incremental revenue benefits from the increased availability of its leading brands, own-brand products and the Boots Advantage Card across the larger network. In addition, the Enlarged Group is expected to benefit from the application of pharmacy, retail and wholesale skills across the Enlarged Group.

5. Proposed Change of Name

A resolution to change the name of Boots to "Alliance Boots plc", subject to Completion, will be put to Boots Shareholders at the Boots Extraordinary General Meeting.

6. Board, Employees and Operating Presence

As from the Effective Date, the Boots Board will be comprised of the following members:

	Position following the Effective Date
Sir Nigel Rudd	Chairman
Stefano Pessina	Executive Deputy Chairman
Richard Baker	Chief Executive
George Fairweather	Group Finance Director
Ornella Barra	Wholesale and Commercial Affairs Director
Steve Duncan	Community Pharmacy Director
Scott Wheway	Health and Beauty Retail Director
Guy Dawson	Non-Executive Director
Adrian Loader	Non-Executive Director
Tim Parker	Non-Executive Director
Hélène Ploix	Non-Executive Director
Patrick Ponsolle	Non-Executive Director
Manfred Stach	Non-Executive Director

A further Non-Executive Director will be appointed following the Effective Date.

Stefano Pessina, Executive Deputy Chairman, will be responsible for integration and strategy and will, following Completion, report directly to the Boots Board.

In the event that any of the individuals set out above are unwilling or unable to act as a Boots Director as from the Effective Date, Alliance UniChem and Boots have agreed that, on the Effective Date, six Boots Directors will be nominated by Boots and seven Boots Directors will be nominated by Alliance UniChem.

Alliance UniChem and Boots have agreed that, as at the Effective Date, Directors nominated by Alliance UniChem will comprise a majority of the Nominations Committee of Boots.

As a result of the Merger, Ian Meakins will cease to be Chief Executive of Alliance UniChem. On the Effective Date, Jim Smart will cease to be Chief Financial Officer of Boots, and both he and Paul Bateman will leave the Boots Board. Details of the composition of the Boots Board with effect from Completion are set out above.

The Boots Board and the Alliance UniChem Board have confirmed to each other that, following Completion, the existing employment rights, including pension rights, of all employees of both the Alliance UniChem Group and the Boots Group will be fully safeguarded.

As stated in Part III (*Information on the Boots Group*) of the Prospectus, the Boots Group has embarked on a rationalisation of its supply chain, which is expected to result in the loss of approximately 2,250 jobs in the Boots Group. As also described in paragraph 4 of this Part I, there will, following Completion, be a further rationalisation of corporate costs and a streamlining of the Enlarged Group's purchasing, logistics and wholesale network. This may result in further redundancies in the UK. Any redundancies resulting from the Merger are expected to occur across the Enlarged Group.

As described in paragraph 14 of Part 2 (*Explanatory Statement*) of this document, Boots has given undertakings to the OFT to use its best endeavours to divest 96 pharmacies following Completion. It is expected that these pharmacies will be divested as going concerns.

Given the complementary nature of the businesses of the Alliance UniChem Group and the Boots Group outside the UK, no significant impact is currently expected as a result of the Merger on the international businesses of the Enlarged Group.

Paragraph 11 of Part 2 (*Explanatory Statement*) and paragraph 6 of Part 8 (*Additional Information*) of this document set out details of the effects of the Merger and the Scheme on the Alliance UniChem Share Schemes and the Boots Share Schemes.

It is intended that the Enlarged Group will maintain a substantial operating presence in Nottingham, Feltham, Weybridge and Chessington in relation to the Enlarged Group's UK retail and wholesale businesses. It is intended that the Enlarged Group will maintain a small head office in central London.

7. Irrevocable Undertaking

Stefano Pessina (who is a Director and Executive Deputy Chairman of Alliance UniChem) and a Luxembourg company controlled by him have irrevocably undertaken, subject to certain exceptions, to vote in favour of the resolutions to be proposed at the Court Meeting and the Alliance UniChem Extraordinary General Meeting in respect of, in aggregate, 108,818,474 Alliance UniChem Shares, representing approximately 30% of Alliance UniChem's entire issued share capital. Please see paragraph 9 of Part 2 (*Explanatory Statement*) of this document for further details of the agreement in relation to this irrevocable undertaking.

Following Completion, Mr. Pessina will indirectly hold approximately 15% of the enlarged issued share capital of Boots, a holding Mr. Pessina has indicated he intends to retain for the long term.

8. Alliance UniChem Share Option Schemes

Information relating to the effect of the Scheme on the holders of options and awards granted under the Alliance UniChem Share Schemes can be found in paragraph 11 of Part 2 (*Explanatory Statement*) and paragraph 6 of Part 8 (*Additional Information*) of this document.

9. Meetings and Action to be Taken

You will find enclosed with this document:

- a Prospectus relating to the New Boots Shares;
- a blue Form of Proxy for use at the Court Meeting; and
- a white Form of Proxy for use at the Alliance UniChem Extraordinary General Meeting.

Participants in the Alliance UniChem Share Schemes will also find enclosed additional documents in relation to their outstanding options and/or awards under the Alliance UniChem Share Schemes.

Whether or not you intend to attend the Court Meeting and/or the Alliance UniChem Extraordinary General Meeting, you are requested to complete and sign the enclosed Forms of Proxy and return them in accordance with the instructions printed on them. Completed Forms of Proxy should be returned to the Company's Registrars, Lloyds TSB Registrars, at The Causeway, Worthing, West Sussex BN99 6AT, as soon as possible and, in any event, so as to be received at least 48 hours before the time appointed for the relevant Meeting.

If the blue Form of Proxy for use at the Court Meeting is not returned by such time, it may be handed to the Chairman of the Court Meeting before the start of the Court Meeting and will still be valid. However, in the case of the Alliance UniChem Extraordinary General Meeting, the white Form of Proxy will be invalid unless it is returned to the Company's Registrars, Lloyds

TSB Registrars, at The Causeway, Worthing, West Sussex BN99 6AT, so as to be received no later than 10:45 a.m. on 2 July 2006. The completion and return of the Forms of Proxy will not prevent you from attending and voting in person at the Court Meeting, the Alliance UniChem Extraordinary General Meeting or any adjournment thereof, if you so wish and are so entitled.

If you would like to submit your proxy vote electronically, you can do so by visiting www.sharevote.co.uk. You will need your personal voting reference number (this is a series of 24 numbers printed under your name on the appointment form). Alternatively, if you have registered with Lloyds TSB Registrars' on-line portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk (click on "Company Meetings"). Full instructions are given on both websites. The deadline for receipt of electronic proxies is 48 hours before the relevant Meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

It is important that, for the Court Meeting, as many votes as possible are cast so that the Court may be satisfied that a fair and reasonable representation of opinion of Alliance UniChem Shareholders has been obtained. You are therefore strongly urged to sign and return your Forms of Proxy for both the Court Meeting and the Alliance UniChem Extraordinary General Meeting as soon as possible.

If you have any questions relating to this document or the completion and return of the Forms of Proxy, please contact Alliance UniChem's Registrars, Lloyds TSB Registrars, on 0870 600 3970 or, if telephoning from outside the United Kingdom, on +44 (0) 121 415 7047 between Monday and Friday from 8:30 a.m. to 5:30 p.m. Please note that, for legal reasons, the helpline cannot provide advice on the merits of the Merger or the Scheme or provide financial advice.

Details relating to settlement are included in paragraph 18 of Part 2 (*Explanatory Statement*) of this document.

Overseas Persons should refer to paragraph 21 of Part 2 (*Explanatory Statement*) of this document.

Notices convening the Court Meeting and the Alliance UniChem Extraordinary General Meeting are set out in Parts 10 (*Notice of Court Meeting*) and 11 (*Notice of Alliance UniChem Extraordinary General Meeting*) of this document, respectively.

10. Further Information

The terms of the Scheme are set out in full in Part 3 (*The Scheme of Arrangement*) of this document. In addition, Part 2 (*Explanatory Statement*) of this document sets out a letter from Merrill Lynch and Credit Suisse explaining further details relating to the Merger and the Scheme.

Your attention is also drawn to the further information contained in this document and, in particular, to the conditions to the implementation of the Scheme and the Merger in Part 4 (*Conditions to the Implementation of the Scheme and the Merger*) of this document, the financial information on Alliance UniChem referred to in Part 5 (*Financial Information on the Alliance UniChem Group*) of this document, the financial information on Boots in (or referred to in) Part 6 (*Financial Information on the Boots Group*) of this document and the additional information set out in Part 8 (*Additional Information*) of this document. Your attention is also drawn to the Prospectus which accompanies this document.

Boots' annual report and accounts for the year ended 31 March 2006 is expected to be published on or about 22 June 2006. However, please note that Boots' audited consolidated financial statements for the year ended 31 March 2006 are included in Part VII (*Historical Financial Information Relating to the Boots Group*) of the Prospectus.

11. Recommendation

The Alliance UniChem Directors, who have been so advised by Merrill Lynch and Credit Suisse, consider the terms of the Merger to be fair and reasonable. In addition, the Alliance UniChem Directors believe the terms of the Merger to be in the best interests of Alliance UniChem Shareholders as a whole and unanimously recommend that Alliance UniChem Shareholders vote in favour of the Scheme at the Court Meeting and the Special Resolution to be proposed at the Alliance UniChem Extraordinary General Meeting, as they intend to do in respect of their own direct and indirect beneficial holdings of, in aggregate, 109,276,332 Alliance UniChem Shares, representing approximately 30.2% of Alliance UniChem's existing issued share capital.

Merrill Lynch is deemed by the Panel to be a connected party to Boots. Credit Suisse is therefore acting as the independent financial adviser to Alliance UniChem for the purposes of providing independent advice to the Alliance UniChem Board on the Merger under Rule 3 of the City Code. In providing their advice to the Alliance UniChem Directors, Merrill Lynch and Credit Suisse have taken into account the commercial assessments of the Alliance UniChem Directors.

Yours sincerely,

Paolo Scaroni
Chairman
Alliance UniChem Plc

PART 2

EXPLANATORY STATEMENT

(in compliance with section 426 of the Companies Act)



Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ



Credit Suisse Securities (Europe) Limited
One Cabot Square
London
E14 4QJ

5 June 2006

To Alliance UniChem Shareholders and, for information only, to participants in the Alliance UniChem Share Schemes

Dear Sir or Madam,

RECOMMENDED MERGER OF ALLIANCE UNICHEM AND BOOTS

1. Introduction

We have been authorised by the Alliance UniChem Board to write to you to set out the terms of the Merger, to explain the Scheme and to provide you with other relevant information. Statements made in this letter which refer to the business of Alliance UniChem reflect the views of the Alliance UniChem Board.

The terms of the Scheme are set out in full in Part 3 (*The Scheme of Arrangement*) of this document. Your attention is also drawn in particular to the additional information set out in Part 8 (*Additional Information*) of this document.

Shareholders should read the whole of this document, and the Prospectus, before deciding whether or not to vote in favour of the Scheme.

Your attention is drawn to the letter from Paolo Scaroni, the Chairman of Alliance UniChem, set out in Part 1 (*Letter from the Chairman of Alliance UniChem*) of this document, which forms part of this explanatory statement. That letter contains, amongst other things, the unanimous recommendation by the Alliance UniChem Directors to Alliance UniChem Shareholders to vote in favour of the resolutions to approve and implement the Scheme to be proposed at the Court Meeting and at the Alliance UniChem Extraordinary General Meeting. That letter also states that the Alliance UniChem Directors, who have been so advised by Merrill Lynch and Credit Suisse, consider the terms of the Merger to be fair and reasonable. In providing advice to the Alliance UniChem Directors, Merrill Lynch and Credit Suisse have taken into account the commercial assessments of the Alliance UniChem Directors.

2. Terms of the Merger

It is intended that the Merger will be implemented by way of the Scheme. The purpose of the Scheme is to enable Boots to become the owner of the entire issued share capital of Alliance UniChem by way of the cancellation of the existing Alliance UniChem Shares and the subsequent allotment to Boots of the New Alliance UniChem Shares. The implementation of the Scheme is subject to the satisfaction or waiver of the Conditions.

In accordance with the terms of the Scheme, if the Scheme becomes effective, all Alliance UniChem Shareholders who are on the register of members of Alliance UniChem at the Scheme Record Time (currently expected to be 6:00 p.m. on 28 July 2006) will receive:

for each Alliance UniChem Share

1.332 New Boots Shares

and so in proportion for any other number of Alliance UniChem Shares held. Fractions of New Boots Shares will not be allotted to Alliance UniChem Shareholders pursuant to the Scheme. Instead, fractional entitlements will be aggregated and sold in the market with the net proceeds of such sales, to the extent that they exceed £3, being paid to the persons entitled thereto. Upon the Scheme becoming effective, the New Alliance UniChem Shares will be issued to Boots (or its nominee(s)) whereupon Alliance UniChem will become a wholly-owned subsidiary of Boots.

Assuming the issue of the maximum number of New Boots Shares pursuant to the Scheme and that no Boots Shares are issued in the period from the date of publication of this document to the Effective Date, the enlarged issued ordinary share capital of Boots would be held, on the Effective Date, as to 49.8% by Alliance UniChem Shareholders and as to 50.2% by the existing Boots Shareholders. On this basis, the Merger values Alliance UniChem at approximately £3.4 billion, based on the closing middle market share price of the Boots Shares on 31 May 2006, being the last practicable date prior to publication of this document.

Alliance UniChem Shareholders will retain all rights and interest in any dividends and other distributions declared or paid by Alliance UniChem by reference to a record date prior to the Effective Date. Please see paragraph 12 of this Part 2 for further details in relation to dividends.

3. New Boots Shares

The maximum number of shares to be issued pursuant to the Merger is 481,846,975 New Boots Shares. On the Effective Date, if no Boots Shares are issued on or after 31 May 2006 (being the last practicable date prior to publication of this document), the issued share capital of Boots would comprise 967,564,207 ordinary shares of 37⁷/₃₉ pence each (assuming the issue of the maximum number of New Boots Shares in connection with the Merger).

The New Boots Shares will be issued pursuant to the Scheme credited as fully paid, will rank equally with the existing Boots Shares and will be entitled to all dividends and other distributions declared or paid by Boots by reference to a record date on or after the Effective Date. The New Boots Shares will not carry any right to participate in any dividends or other distributions declared or paid by Boots by reference to a record date prior to the Effective Date. Please see paragraph 12 of this Part 2 for further details in relation to dividends.

In addition, the New Boots Shares will be listed on the Official List, will be admitted to trading on the London Stock Exchange and will be issued free from all liens, charges, encumbrances and other third party rights and/or interests of any nature whatsoever.

The New Boots Shares, when issued, will be in registered form and will be capable of being held in certificated or uncertificated form. Pending the issue of definitive certificates for the New Boots Shares, transfers of New Boots Shares in certificated form will be certified against the register. No temporary documents of title in respect of the New Boots Shares will be issued.

Further details of the rights attaching to the New Boots Shares are summarised in paragraph 3(b) of Part XIII (*Additional Information*) of the Prospectus.

4. Rationale for the Merger

The merger of equals between Boots and Alliance UniChem will create an international pharmacy-led health and beauty group, to be called "Alliance Boots". The Merger is expected to build on the existing strategies of the Alliance UniChem Group and the Boots Group and to combine their complementary skills and businesses. The Merger is expected to position better the Enlarged Group to capture the growth opportunities that Alliance UniChem and Boots expect in the health and beauty sectors, while also delivering expected cost savings to enhance the Enlarged Group's efficiency and competitiveness in pursuing those opportunities.

Further details of the rationale for the Merger are set out in paragraph 4 of Part I (*Letter from the Chairman of Alliance UniChem*) of this document.

5. Information on Alliance UniChem

The Alliance UniChem Group is a leading European healthcare group with two core business areas: pharmaceutical wholesaling and retail pharmacies.

Including associates, the Alliance UniChem Group has pharmaceutical wholesaling operations in 13 countries and distributes to approximately 125,000 pharmacies, hospitals and health centres through a distribution network comprising around 380 depots. In addition, the Alliance UniChem Group operates over 1,300 retail pharmacies in five European countries, of which approximately 120 are operated by associate businesses.

The wholesale division, which excludes associates, comprises businesses in eight countries, each locally managed. In some countries, local management operate a number of business units, each focused on particular segments of the pharmaceutical wholesaling market. Included within the wholesale division are Alliance UniChem Group's pre-wholesale and contract logistics operations.

The retail division, which excludes associates, comprises retail pharmacy chains in four European countries, each locally managed. Due to the nature of the Alliance UniChem Group's businesses in Norway, The Netherlands and Italy, the local management teams have recently started to operate both the wholesale and retail businesses on a country basis.

For the year ended 31 December 2005, the Alliance UniChem Group generated operating profit⁽¹⁾ (including share of associates' operating profit) of £331.8 million on revenue (including share of associates' revenue) of £11,136.5 million. As at 31 December 2005, the Alliance UniChem Group had net assets of £1,184.8 million.

Please see Part IV (*Information on the Alliance UniChem Group*) of the Prospectus for a more detailed description of the Alliance UniChem Group.

6. Information on Boots

The Boots Group is a health and beauty group with operations in retail and manufacturing. Its products are sold in 17 countries, it employs approximately 63,000 people in total and operates approximately 1,500 health and beauty stores with an aggregate selling area of approximately 680,000 square metres. The Boots Group sells a wide range of products under the Boots brand and also owns a number of UK market leading brands by revenue such as "No 7" and "Soltan". The Boots Group's international division, BRI, has Boots branded implants in host retailer stores in 14 countries as well as approximately 95 owned stores in Asia.

For the year ended 31 March 2006, from continuing operations, the Boots Group generated trading profit⁽²⁾ of £335.9 million on revenue of £5,027.4 million. As at 31 March 2006, the Boots Group had net assets of £1,651.5 million.

Please see Part III (*Information on the Boots Group*) of the Prospectus for a more detailed description of the Boots Group.

7. Current Trends in Trading and Prospects

(a) Alliance UniChem

At Alliance UniChem's Annual General Meeting of shareholders held in Weybridge on 25 April 2006, Paolo Scaroni, Chairman of Alliance UniChem, made the following statement to shareholders:

"In the first quarter of the year the Group delivered another strong financial performance, in line with our overall expectations at the time of the 2005 preliminary results announcement on 28 February 2006.

The Group's wholesale division has performed well in the first quarter. Overall growth in our wholesale markets during this period was broadly in line with our expectations taking into account the anticipated effect of regulatory reviews, particularly in France, where governments continually strive to maintain costs at manageable levels. Initiatives taken by us in the year to date include the launch at the beginning of April in France of Almus, our exclusive range of generic drugs.

(1) Operating profit comprises profit from operations before exceptional items as classified by Alliance UniChem (comprising costs in relation to the Merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments).

(2) Trading profit is used to measure ongoing operational performance. It is defined as profit before taxation and net finance costs, excluding items the directors deem one-off or unusual, and profits/(losses) on the disposal of non-current assets.

Our retail division has again continued to perform strongly during the period. Growth in our retail network has continued with a net 17 pharmacies added during the quarter including six in associates. In England and Wales the number of Medicines Use Reviews conducted by our accredited pharmacists continues to grow.

Overall performance from our associate businesses continues to be strong.

The Group continues to seek opportunities to expand, both in countries where we operate and beyond. Since the beginning of the year we have entered the Russian pharmaceutical wholesale market through the acquisition of Apteka Holding Z.A.O. the fifth largest pharmaceutical wholesaler in the country. In addition, in April, Hedef Alliance, our Turkish associate, exercised its option to acquire control and majority ownership of its associate, UCP, a leading pharmaceutical wholesaler in Egypt."

(b) Boots

In the year to 31 March 2006, revenue from continuing operations of the Boots Group increased by 1.9%. Over the same period BTC revenue increased by 1.7% in total and, on a like for like basis, increased by 0.6%, excluding the deflationary impact of the Pharmaceutical Price Regulation Scheme (PPRS), price reductions and the timing of Easter, in a weak consumer environment. The UK retail market is not expected to strengthen significantly in the near future, although Boots will continue, through the series of initiatives outlined in Boots' announcement of its preliminary results for the year ended 31 March 2006, to drive performance. These initiatives include a continued focus on healthcare, continued development and promotion of own-label products, the modernisation of stores and addition of new retail space, and the delivery of cost savings by driving efficiency.

Since 1 April 2006, trading in the Boots Group remains in line with the Boots Board's current expectations for the year ending 31 March 2007.

Boots' annual report and accounts for the year ended 31 March 2006 is expected to be published on or about 22 June 2006. However, please note that Boots' audited consolidated financial statements for the year ended 31 March 2006 are included in Part VII (*Historical Financial Information Relating to the Boots Group*) of the Prospectus.

8. Financial Effects of the Merger

(a) Alliance UniChem Shareholders

Under the Merger, Alliance UniChem Shareholders will receive 1.332 New Boots Shares for every Alliance UniChem Share held (and so in proportion for any other number of Alliance UniChem Shares so held). The following table sets out, for illustrative purposes only and on the bases and assumptions set out in the notes below, the financial effects of the Merger on the capital value and income for a holder of one Alliance UniChem Share, if the Scheme becomes effective:

	<u>Notes</u>	<u>pence</u>
(i) Increase in capital value		
Market value of one Alliance UniChem Share	(i)	925.5
Market value of 1.332 New Boots Shares	(ii)	<u>939.1</u>
Increase in value		<u>13.6</u>
This represents an increase of		1.5%
(ii) Increase in income		
Dividend income on one Alliance UniChem Share	(iii)	20.5
Dividend income on 1.332 New Boots Shares	(iv)	<u>40.1</u>
Increase in income		<u>19.6</u>
This represents an increase of		95.6%

Notes:

- (i) Based on the closing middle market price of 925.5 pence for each Alliance UniChem Share on 31 May 2006 (the last practicable date prior to publication of this document)
- (ii) Based on the closing middle market price of 705 pence for each Boots Share on 31 May 2006 (the last practicable date prior to publication of this document)
- (iii) Based on the total dividend of 20.5 pence for each Alliance UniChem Share paid in respect of the year ended 31 December 2005 before deduction of any withholding taxes
- (iv) Based on the total dividend of 30.1 pence for each Boots Share paid in respect of the year ended 31 March 2006 before deduction of any withholding taxes. Alliance UniChem Shareholders should note that the dividend policy of the Enlarged Group will change following completion of the Merger, as described in this document

(b) Boots

Details of the expected financial effects of the Merger on Boots are set out in paragraph 2 of Part I (*Information on the Enlarged Group*) and in Part IX (*Information on the Expected Impact of the Merger on the Assets and Liabilities of the Boots Group*) of the Prospectus.

9. Irrevocable Undertaking

On 3 October 2005, Boots entered into an agreement with Stefano Pessina (who is a Director and Executive Deputy Chairman of Alliance UniChem) and a Luxembourg company controlled by him (which, for the purposes of this paragraph, are together referred to as the **Covenantors**) pursuant to which the Covenantors irrevocably undertook, subject as provided below, to vote in favour of the resolutions to be proposed at the Court Meeting and at the Alliance UniChem Extraordinary General Meeting.

Following Completion, Mr. Pessina will indirectly hold approximately 15% of the enlarged issued share capital of Boots, a holding Mr. Pessina has indicated he intends to retain for the long term.

The Covenantors are together the registered and beneficial owners of 108,818,474 Alliance UniChem Shares, representing approximately 30% of the entire issued share capital of Alliance UniChem.

The undertakings given by the Covenantors will cease to have any force or effect in the event that (amongst other things):

- the Alliance UniChem Shareholders fail to pass the resolutions to be proposed at the Alliance UniChem Extraordinary General Meeting or at the Court Meeting;
- the Boots Shareholders fail to pass the Merger Resolutions;
- the Boots Board either withdraws, qualifies or adversely modifies its recommendation of the Merger or recommends an offer (howsoever structured) for Boots;
- an alternative offer (howsoever structured) is made for Alliance UniChem and acceptances are received in respect of such offer amounting to, in aggregate, more than 45% of the Alliance UniChem Shares; or
- an offer (howsoever structured) is made for Boots which is not, or has not been, recommended by the Boots Directors, and which becomes wholly unconditional.

Further details of this irrevocable undertaking (including a full list of the circumstances in which the undertakings given by the Convenantors will cease to have any force or effect) are provided in paragraph 7 of Part 8 (*Additional Information*) of this document.

10. The Alliance UniChem Directors and the Effect of the Scheme on their Interests

The Alliance UniChem Shares held by the Alliance UniChem Directors will be subject to the Scheme. Further information on the Alliance UniChem Shares held by the Alliance UniChem Directors is provided in paragraph 4 of Part 8 (*Additional Information*) of this document.

Particulars of the service contracts and letters of appointment of the Alliance UniChem Directors are set out in paragraph 5 of Part 8 (*Additional Information*) of this document.

The Alliance UniChem Directors currently only participate in one discretionary share plan, the Alliance UniChem Share Incentive Plan (the **SIP**). Due to the structure of the Merger, allocations (non-binding statements of intention to make an award under the SIP) outstanding under the SIP will vest subject to the attainment of the performance targets on the date the Court sanctions the Scheme. Awards outstanding under the SIP will be exercisable within three months of the date the Court sanctions the Scheme and will then lapse.

Alliance UniChem's remuneration committee has determined that all of the applicable performance targets would be met in full at the time of the Merger, and so the allocations will vest in full. Accordingly, following sanction of the Scheme by the Court, the Alliance UniChem Directors who hold allocations under the SIP will receive from the UniChem 1992 Employee Trust (the **Trust**) all of the Alliance UniChem Shares subject to their respective allocations. Sufficient of the Alliance UniChem Shares to which each Alliance UniChem Director is entitled will be sold on their behalf to meet any tax liability that arises on vesting. The remainder of the Alliance UniChem Shares acquired by each Alliance UniChem Director will be subject to the Scheme. Each Alliance UniChem Director who participates in the SIP has agreed to continue to hold the New Boots Shares ultimately acquired in respect of the Alliance UniChem Shares received under the SIP until the earlier of the date he would have been able to realise the value of his allocation under the SIP if the Merger had not occurred or the date he ceases to be employed by the Enlarged Group.

George Fairweather, the only Alliance UniChem Director who holds vested awards under the SIP (details of which are set out at paragraph 4(c)(iv) of Part 8 (*Additional Information*) of this document) will exercise options granted pursuant to those awards immediately following the sanction of the Scheme by the Court and will participate in the Scheme on the same basis as other Scheme Shareholders.

11. Alliance UniChem Share Schemes

Alliance UniChem operates four employee share schemes, being the Alliance UniChem 1997 Share Option Scheme, the Alliance UniChem Share Incentive Plan, the Alliance UniChem Savings Related Share Option Scheme 1990 and the Ian Meakins Share Incentive Plan. The effect of the Scheme on the Alliance UniChem Share Schemes can briefly be summarised as follows:

- **The Alliance UniChem 1997 Share Option Scheme (the 1997 Scheme)** – The outstanding options are currently subject to performance conditions. However, options under the 1997 Scheme can be exercised free of these performance conditions from the date the Court sanctions the Scheme. Outstanding UK HM Revenue & Customs approved options will lapse six months after the date the Court sanctions the Scheme but cannot be exercised after the Effective Date. Outstanding unapproved options (other than certain options held by optionholders resident in France) will lapse after the Effective Date. The terms of options held for less than four years by optionholders resident in France will be amended so that they will not lapse on the Effective Date but will remain outstanding and exercisable until they lapse at the end of the six month period starting on the fourth anniversary of the date of grant of the options. This will allow those options to continue to qualify for beneficial tax treatment.
- **The Alliance UniChem Share Incentive Plan (the SIP)** – Only Alliance UniChem Directors participate in the SIP. An explanation is set out in paragraph 10 above as to how the Alliance UniChem Directors' allocations under the SIP will be treated.
- **The Alliance UniChem Savings Related Share Option Scheme 1990 (the 1990 Scheme)** – Optionholders will be entitled to exercise their options within the period of six months from the date the Court sanctions the Scheme or, if earlier, within six months of the next bonus date following the posting of this document on which optionholders will be entitled to a bonus under their respective savings contracts. Options can be exercised to the extent

possible with the amount repaid under their related savings contract. Boots will make a proposal to optionholders under the 1990 Scheme inviting them to exchange their options for equivalent options over New Boots Shares. Options can be exchanged within a period of six months from the date the Court sanctions the Scheme. Options not exchanged or exercised within this six month period will lapse. Options which are exchanged will be exercisable in accordance with the rules of the 1990 Scheme.

- **Ian Meakins Share Incentive Plan** — Mr Meakins holds an option over 119,946 Alliance UniChem Shares. This option can be exercised at any time up until 1 February 2014, when it will lapse. Mr Meakins is also entitled to receive an award of up to a maximum of 153,571 Alliance UniChem Shares in March 2008, subject to satisfaction of performance conditions and certain additional requirements. Alliance UniChem may agree with Mr Meakins that he will receive a cash payment equal to the value of these entitlements, after taking into account the extent to which the performance conditions have been satisfied as at the date of the Merger, and to cancel them at that time.

Alliance UniChem Shares held by the trustee of the Trust will be applied to meet option exercises which are satisfied before the Scheme Record Time. New Alliance UniChem Shares will be issued in respect of exercises of options over Alliance UniChem Shares which are satisfied after the Scheme Record Time as the trustee of the Trust, as a Scheme Shareholder, will participate in the Scheme and will not be able to transfer any Alliance UniChem Shares that it holds after the Scheme Record Time. Accordingly, participants under the Alliance UniChem Share Schemes who acquire Alliance UniChem Shares from the Trust before the Scheme Record Time will participate in the Scheme on the same basis as other Scheme Shareholders. Any Alliance UniChem Shares issued to participants after the Scheme Record Time will not be bound by the Scheme but will be automatically acquired by Boots on the same terms as under the Scheme pursuant to an amendment to Alliance UniChem's Articles of Association to be proposed at the Alliance UniChem Extraordinary General Meeting, as set out in the notice of the Alliance UniChem Extraordinary General Meeting in Part 11 (*Notice of Alliance UniChem Extraordinary General Meeting*) of this document. Participants in the 1990 Scheme who exchange their options over Alliance UniChem Shares for options over New Boots Shares and any continuing optionholders under the 1997 Scheme may receive New Boots Shares from the Trust or have New Boots Shares issued to them by Boots when they exercise their options after the Scheme becomes effective.

Participants in each of the Alliance UniChem Share Schemes will be sent further details of the impact of the Scheme on their outstanding options and/or awards under the Alliance UniChem Share Schemes and the actions they can take, including details of how to participate in the Alliance UniChem Merger Dividend.

12. Dividends, Dividend Policy and Year End

Alliance UniChem and Boots each intend to pay (subject to Completion) merger dividends to their respective shareholders. Each such merger dividend will be paid in accordance with Alliance UniChem's and Boots' respective current dividend policies, as described below:

(a) Alliance UniChem

Prior to the Effective Date, it is intended that the Alliance UniChem Board will resolve to pay (subject to Completion) the Alliance UniChem Merger Dividend to those Alliance UniChem Shareholders who are on the register of members of Alliance UniChem at the close of business on the Business Day immediately prior to the Effective Date. The amount of the Alliance UniChem Merger Dividend will be an amount equal to the anticipated dividend for each Alliance UniChem Share for the financial year ending 31 December 2006 pro-rated for the number of days elapsed in the period from 31 December 2005 to the Effective Date less, where applicable, the amount of any interim dividend which is paid or payable by Alliance UniChem in accordance with its current dividend policy in respect of the current financial year ending 31 December 2006. Any such interim dividend will only be considered in the event that Completion occurs after 31 July 2006.

Assuming Completion occurs on 31 July 2006, the amount of the Alliance UniChem Merger Dividend will be 13.25 pence for each Alliance UniChem Share, the ex-dividend and record date

will be 6:00 p.m. on 28 July 2006 and the payment date will be 3 October 2006. The Alliance UniChem dividend re-investment plan will not apply to the Alliance UniChem Merger Dividend.

(b) Boots

On 18 May 2006, Boots announced its preliminary results in respect of the year ended 31 March 2006 and announced a proposed final dividend for that financial year of 21.0 pence for each Boots Share. The ex-dividend date for such final dividend was 31 May 2006 and its record date was 2 June 2006. This final dividend will be submitted for approval at the Boots annual general meeting scheduled to be held on 20 July 2006. The New Boots Shares will not carry any right to participate in this final dividend.

Prior to the Effective Date, it is intended that the Boots Board will resolve to pay (subject to Completion) the Boots Merger Dividend to those Boots Shareholders who are on the register of members of Boots at the close of business on the Business Day immediately prior to the Effective Date. The amount of such Boots Merger Dividend will be an amount equal to the anticipated dividend for each Boots Share for the financial year ending 31 March 2007 pro-rated for the number of days elapsed in the period from 31 March 2006 to the Effective Date less, where applicable, the amount of any interim dividend which is paid or payable by Boots in accordance with its current dividend policy in respect of the current financial year ending 31 March 2007. Any such interim dividend would only be considered in the event that Completion occurs after 31 July 2006.

Assuming Completion occurs on 31 July 2006, the amount of the Boots Merger Dividend will be 10.0 pence for each Boots Share, the record date will be 6:00 p.m. on 28 July 2006, the ex-dividend date will be 31 July 2006 and the payment date will be 3 October 2006. The New Boots Shares will not carry any right to participate in the Boots Merger Dividend.

(c) Enlarged Group

As from the Effective Date, consistent with the Enlarged Group's enhanced growth strategy, Boots intends to follow a progressive dividend policy which balances returns to shareholders with the need to retain sufficient funds for investment in growth opportunities. In settling its initial dividend, it is expected that, as from the Effective Date, Boots will target a dividend cover of 2.0 to 2.5 times.

Boots has a 31 March financial year end. Assuming Completion occurs on 31 July 2006 and the Boots Merger Dividend and the Alliance UniChem Merger Dividend are each paid as contemplated above, it is currently intended that no further interim dividend will be paid by Boots in respect of the financial year ending 31 March 2007. The first dividend payable on the New Boots Shares is therefore likely to be the final dividend in respect of the year ending 31 March 2007.

Shortly following Completion, Boots intends to write to holders of the New Boots Shares to offer them the opportunity to join Boots' corporate nominee arrangements and thereby participate in the Boots dividend reinvestment plan.

13. Framework Agreement and Inducement Fees

On 3 October 2005, Boots and Alliance UniChem entered into the Framework Agreement in connection with the Merger which has, and will continue to, govern their relationship until the Merger becomes effective or lapses.

Pursuant to the Framework Agreement, Boots and Alliance UniChem have each undertaken to take all steps as are reasonable and necessary to implement the Merger and have each given certain undertakings in relation to the conduct of their businesses in the period prior to the implementation of the Merger. Each of the parties has also agreed, subject to certain limited exceptions, not to solicit any competing proposal to the Merger.

The Framework Agreement terminates in certain circumstances, including where the Boots Shareholders fail to pass the Merger Resolutions, where the Alliance UniChem Shareholders fail

to pass the resolutions to be proposed at the Court Meeting or at the Alliance UniChem Extraordinary General Meeting, where the Court fails to sanction the Scheme and also where either the Boots Board or the Alliance UniChem Board withdraws, qualifies or adversely modifies its recommendation of the Merger.

Boots has agreed to pay Alliance UniChem an inducement fee of £43 million (inclusive of any amounts in respect of VAT) if:

- the Boots Directors recommend an alternative offer (howsoever structured) for Boots;
- an alternative offer (howsoever structured) for Boots becomes or is declared unconditional;
- the Boots Directors withdraw, qualify or adversely modify their recommendation of the Merger; or
- the Boots Shareholders fail to pass the Merger Resolutions.

Alliance UniChem has agreed to pay Boots an inducement fee of £31 million (inclusive of any amounts in respect of VAT) if, after an announcement of a firm intention to make an offer (howsoever structured) for Boots by a person with a direct or indirect controlling interest in a business, the principal activity of which is national pharmaceutical wholesale or pharmacy activity in the United Kingdom, any of the following occurs:

- the Alliance UniChem Directors recommend an alternative offer (howsoever structured) for Alliance UniChem;
- an offer (howsoever structured) for Alliance UniChem becomes or is declared unconditional;
- the Alliance UniChem Directors withdraw, qualify or adversely modify their recommendation of the Merger; or
- the Alliance UniChem Shareholders fail to pass the resolutions to be proposed at the Court Meeting or at the Alliance UniChem Extraordinary General Meeting.

Pursuant to the terms of the Framework Agreement and with effect from Completion, The Boots Company PLC has agreed to assume the obligations of Alliance UniChem in respect of the Alliance UniChem Group's principal defined benefit pension scheme and Boots has agreed to guarantee such obligations of The Boots Company PLC.

Further details of the Framework Agreement, and the inducement fees, are provided in paragraph 7 of Part 8 (*Additional Information*) of this document.

14. OFT Undertakings

The OFT has accepted undertakings from Boots in lieu of reference of the Merger to the Competition Commission. Pursuant to the undertakings, Boots has agreed that it will, following Completion, use its best endeavours to divest a pharmacy in each of the 96 areas in which the OFT has identified a prospect of substantial lessening of competition. Under the terms of the undertakings, the sale of the relevant 96 pharmacies must take place within an agreed confidential timeframe to purchasers approved by the OFT. If satisfactory divestments under the terms of the undertakings have not occurred within the agreed timetable, the OFT may require a trustee to be appointed to sell pharmacies in the relevant areas on behalf of Boots at no minimum price and on such reasonable terms and conditions as the trustee considers appropriate to effect an expedient sale. It is estimated that the aggregate revenue attributable to these 96 pharmacies would represent less than 1% of the Enlarged Group's revenue. The Alliance UniChem Directors and the Boots Directors do not believe that the disposals contemplated by the undertakings will have a material effect on the Enlarged Group.

The implementation of the Scheme and the Merger remains subject to the satisfaction or waiver of the competition condition set out in paragraph 2(c) of Part 4 (*Conditions to the Implementation of the Scheme and the Merger*) of this document.

The information in this Part 2 does not take into account the divestments contemplated by the undertakings agreed with the OFT.

15. Competition Filing in Russia

On 21 March 2006, Alliance UniChem completed the acquisition of a 96% controlling interest in the parent company of Apteka Holding Z.A.O. (**Apteka**). The implementation of the Scheme will lead to Boots obtaining indirect control of Alliance UniChem's interest in Apteka and therefore, on 10 April 2006, Boots (in co-operation with Alliance UniChem) applied for clearance from the Russian competition authorities, as required under applicable Russian law. This clearance was received on 29 May 2006.

16. Boots Extraordinary General Meeting

Given the size of the proposed Merger in relation to the current size of Boots, it will be necessary for Boots Shareholders to approve the Merger. The implementation of the Merger is conditional upon the passing of the Merger Resolutions at the Boots Extraordinary General Meeting.

17. De-listing of Alliance UniChem Shares

Prior to the Effective Date, Boots and/or Alliance UniChem intend to apply to the FSA for the listing of the Alliance UniChem Shares to be cancelled and to the London Stock Exchange for the Alliance UniChem Shares to cease to be admitted to trading on the London Stock Exchange's main market for listed securities. This is expected to take place on the Effective Date. The last day of dealings in Alliance UniChem Shares on the London Stock Exchange is expected to be 28 July 2006 (being the Business Day immediately prior to the Effective Date) and no transfers of Alliance UniChem Shares will be registered after 6:00 p.m. on that date. On the Effective Date, share certificates in respect of the Scheme Shares will cease to be valid and should be destroyed.

18. Settlement

Subject to the Scheme becoming effective and except with the consent of the Panel, settlement of the consideration to which any Alliance UniChem Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme free of any liens, right of set-off, counterclaims or other analogous rights to which Boots may otherwise be, or claim to be, entitled against such Alliance UniChem Shareholder.

All documents sent through the post will be sent at the risk of the person(s) entitled thereto.

(a) Scheme Shares held in uncertificated form (that is, in CREST)

Where, on the Effective Date, an Alliance UniChem Shareholder holds Scheme Shares within CREST, the New Boots Shares to which such Alliance UniChem Shareholder is entitled will be issued to such person in uncertificated form through CREST. Boots shall procure that CRESTCo is instructed to credit the appropriate stock account in CREST of such Alliance UniChem Shareholder with such shareholder's entitlements to New Boots Shares.

As from the Scheme Record Time, each holding of Alliance UniChem Shares credited to any stock account in CREST shall be disabled and all Alliance UniChem Shares will be removed from CREST in due course thereafter.

Boots reserves the right to settle all or any part of the entitlement referred to above to all or any Alliance UniChem Shareholder(s) who hold Scheme Shares in uncertificated form at the Scheme Record Time in certificated form in the manner referred to in paragraph 8(b) below if, for reasons outside its reasonable control, it wishes to do so.

(b) Scheme Shares held in certificated form

Where, on the Effective Date, an Alliance UniChem Shareholder holds Scheme Shares in certificated form, the New Boots Shares to which such Alliance UniChem Shareholder is entitled will be issued in certificated form. Definitive certificates for New Boots Shares will be

despatched by first class post (or by such other method as may be approved by the Panel) to Alliance UniChem Shareholders as soon as practicable after the Effective Date and, in any event, no later than 14 days from the Effective Date to the address appearing on the register of members of Alliance UniChem (or, in the case of joint holders, at the address of that joint holder whose name stands first in the said register in respect of such joint holding).

Temporary documents of title will not be issued pending the despatch by post of new definitive share certificates. Holders wishing to register transfers of New Boots Shares prior to the issue of the new share certificates will be required to produce their existing certificates for Alliance UniChem Shares to Capita Registrars (a trading division of Capita IRG Plc) of Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA. On the issue of the definitive share certificates for the New Boots Shares, the certificates for the old Alliance UniChem Shares will cease to be of value. Every holder of Alliance UniChem Shares will be bound on the request of Alliance UniChem to deliver up to Alliance UniChem, or to any person appointed by Alliance UniChem, the existing certificate(s) for cancellation. Existing certificates for Boots Shares will continue to be valid.

(c) Fractional entitlements

No fraction of a New Boots Share will be allotted to Alliance UniChem Shareholders pursuant to the Merger. Instead, fractional entitlements will be aggregated and sold in the market with the net proceeds of such sales, to the extent that they exceed £3, being paid to the persons entitled thereto.

(d) General

All documents and remittances sent to Alliance UniChem Shareholders will be despatched at their own risk.

All mandates, instructions and other instruments in force relating to holdings in Scheme Shares (save in respect of the Alliance UniChem dividend reinvestment plan) will, unless and until amended or revoked, continue in force and be deemed as from the Effective Date to be a valid and effective mandate or instruction to Boots in respect of Boots Shares. If an Alliance UniChem Shareholder holds Boots Shares, the mandates, instructions and instruments in force for Boots Shares shall supersede the mandates, instructions and instruments in force for the Scheme Shares.

19. Structure of the Merger

(a) Introduction

It is intended that the Merger will be effected by means of the Scheme, being a scheme of arrangement between Alliance UniChem and its shareholders under section 425 of the Companies Act. The Scheme is set out in full in Part 3 (*The Scheme of Arrangement*) of this document. The purpose of the Scheme is to provide for Boots (and/or its nominee(s)) to become the owner of the entire issued share capital of Alliance UniChem. This is to be achieved by the cancellation of the Scheme Shares held by Alliance UniChem Shareholders and the application of the reserve arising from such cancellation in paying up in full a number of New Alliance UniChem Shares which is equal to the number of Scheme Shares cancelled and issuing those New Alliance UniChem Shares to Boots and/or its nominees.

Holders of Scheme Shares will then receive New Boots Shares on the basis set out in paragraph 2 above.

For the Scheme to become effective, a special resolution implementing the Scheme must be passed by Alliance UniChem Shareholders at the Alliance UniChem Extraordinary General Meeting and the Scheme must be approved by a majority in number of those Alliance UniChem Shareholders, present and voting, either in person or by proxy, at the Court Meeting, representing 75% or more in value of all Alliance UniChem Shares held by such Alliance UniChem Shareholders.

The Scheme also requires the sanction of the Court, as well as satisfaction or waiver of the other Conditions set out in Part 4 (*Conditions to the Implementation of the Scheme and the*

Merger) of this document. The Scheme will become effective in accordance with its terms on delivery of an office copy of the Scheme Court Order and of the Reduction Court Order to the Registrar of Companies, and the registration by him of the Reduction Court Order.

If the Scheme becomes effective, it will be binding on all Alliance UniChem Shareholders, irrespective of whether or not they attend or vote in favour of the Scheme at the Court Meeting or in favour of the Special Resolution to be proposed at the Alliance UniChem Extraordinary General Meeting.

The last day of dealings in, and for registration of transfers of, and disablement in CREST of, Alliance UniChem Shares will be the last Business Day prior to the Effective Date (expected to be 28 July 2006). On the Effective Date, Alliance UniChem Shares will be de-listed from the Official List and from the London Stock Exchange's market for listed securities.

Once the Scheme has been sanctioned by the Court, it is intended that the corporate nominee agreement between Alliance UniChem and Lloyds TSB Registrars, and the related nominee arrangements between Lloyds TSB Registrars and various beneficial owners of Alliance UniChem Shares, will be terminated before the Scheme Record Time. On such termination, Lloyds TSB Registrars shall transfer the Alliance UniChem Shares held by it to the underlying beneficial owners. Such persons will therefore become Alliance UniChem Shareholders before the Scheme Record Date and will, on the Effective Date, be issued the New Boots Shares to which they are entitled pursuant to the Scheme, in certificated form.

Prior to the Scheme becoming effective, applications will be made to the UKLA for the listing of the Alliance UniChem Shares to be cancelled and to the London Stock Exchange for the Alliance UniChem Shares to cease to be admitted to trading on the London Stock Exchange's market for listed securities.

On the Effective Date, share certificates in respect of Scheme Shares will cease to be valid and should be destroyed. In addition, on the Effective Date, entitlements to Scheme Shares held within the CREST system will be cancelled and the New Boots Shares shall be admitted to listing on the Official List.

The New Alliance UniChem Shares to be issued to Boots pursuant to the Scheme will be free from all liens, charges, encumbrances, and other third party rights and/or interests of any nature whatsoever, but will not participate in the Alliance UniChem Merger Dividend.

Boots reserves the right to implement the Merger by way of a takeover offer. In such circumstances, the Merger will be implemented on the same terms and conditions, so far as applicable, as those which would apply to the implementation of the Merger by means of the Scheme.

(b) The Meetings

Before the Court's approval can be sought to sanction the Scheme, the Scheme will require approval by the holders of Alliance UniChem Shares at the Court Meeting and the passing of a special resolution by Alliance UniChem Shareholders at the Alliance UniChem Extraordinary General Meeting.

Notices of the Court Meeting and the Alliance UniChem Extraordinary General Meeting are set out in Parts 10 (*Notice of Court Meeting*) and 11 (*Notice of Alliance UniChem Extraordinary General Meeting*) of this document, respectively. All holders of Alliance UniChem Shares whose names appear on the register of members of Alliance UniChem at 6:00 p.m. on 2 July 2006 or, if either the Alliance UniChem Extraordinary General Meeting or the Court Meeting is adjourned, on the register of members at 6:00 p.m. on the date two days before the date set for the adjourned Meeting, shall be entitled to attend and vote at the relevant Meeting in respect of the number of Alliance UniChem Shares registered in their name at the relevant time, as further described below.

The Court Meeting

The Court Meeting, which has been convened for 10:30 a.m. on 4 July 2006, is being held at the direction of the Court to seek the approval of Alliance UniChem Shareholders for the Scheme.

At the Court Meeting, voting will be by way of a poll and each Alliance UniChem Shareholder present in person or by proxy will be entitled to one vote for each Scheme Share held. The approval required at the Court Meeting is a majority in number of those Alliance UniChem Shareholders present and voting, either in person or by proxy, representing 75% or more in value of all Alliance UniChem Shares held by such Alliance UniChem Shareholders. The result of the poll will be posted on the Company's website.

It is important that, for the Court Meeting in particular, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of Alliance UniChem Shareholder opinion. You are therefore strongly urged to sign and return your Forms of Proxy for both the Court Meeting and the Extraordinary General Meeting as soon as possible.

The Alliance UniChem Extraordinary General Meeting

The Alliance UniChem Extraordinary General Meeting has been convened for 10:45 a.m. on 4 July 2006 (or as soon thereafter as the Court Meeting has concluded or been adjourned), to consider and, if thought fit, pass a special resolution (which requires votes in favour representing at least 75% of the votes cast) to approve:

- (i) the Scheme;
- (ii) the cancellation and extinguishing of the Scheme Shares in relation to the Scheme of Arrangement and a reduction of Alliance UniChem's share capital equal to the nominal value of the Scheme Shares which are to be cancelled pursuant to the Scheme;
- (iii) the increase of Alliance UniChem's share capital to its former amount, the giving of authority to the Directors pursuant to section 80 of the Companies Act to allot securities in Alliance UniChem and the issue of New Alliance UniChem Shares to Boots (and/or its nominee(s)) in accordance with the Scheme; and
- (iv) certain amendments to Alliance UniChem's Articles as described below.

Amendments to Alliance UniChem's Articles

As the Scheme will apply only to Alliance UniChem Shareholders who hold Scheme Shares, it is proposed to amend Alliance UniChem's Articles at the Alliance UniChem Extraordinary General Meeting, as set out in the notice of the Alliance UniChem Extraordinary General Meeting in Part 11 (*Notice of the Alliance UniChem Extraordinary General Meeting*) of this document, to provide that any Alliance UniChem shares issued at or after 6:00 p.m. on the Business Day before the confirmation by the Court of the Reduction of Capital must be transferred to Boots in consideration of the issue or transfer by Boots of such New Boots Shares as would have been delivered under the Scheme had such Alliance UniChem Shares been Scheme Shares. It is also proposed that Alliance UniChem's Articles be amended to ensure that any Alliance UniChem Shares which are issued after the Extraordinary General Meeting but before 6:00 p.m. on the Business Day before the confirmation by the Court of the Reduction of Capital will be subject to and bound by the Scheme.

All of the proposed amendments to Alliance UniChem's Articles referred to above are set out in the Notice of Alliance UniChem Extraordinary General Meeting set out in Part 11 (*Notice of Alliance UniChem Extraordinary General Meeting*) of this document.

Forms of Proxy for the Court Meeting and the Alliance UniChem Extraordinary General Meeting should be returned, in the pre-paid envelope provided for use in the United Kingdom only, to the Company's Registrars, Lloyds TSB Registrars, at The Causeway, Worthing, West Sussex BN99 6AT, as soon as possible and, in any event, so as to be received at least 48 hours before the time appointed for the relevant Meeting. If a blue Form of Proxy for use at the Court Meeting is not returned by the above time, it may be handed to the Chairman of the Court Meeting before the start of that Meeting. However, in the case of the Alliance UniChem Extraordinary General Meeting, unless the white Form of Proxy is returned by the time mentioned in the

instructions printed on it, it will be invalid. The completion and return of a Form of Proxy will not prevent you from attending and voting in person at either the Court Meeting or the Alliance UniChem Extraordinary General Meeting, or at any adjournment thereof, if you so wish and are so entitled.

(c) Conditions to the Merger

The Conditions to the Merger are set out in full in Part 4 (*Conditions to the Implementation of the Scheme and the Merger*) of this document. In summary, the implementation of the Scheme is conditional upon:

- (i) approval of the Scheme by a majority in number representing 75% or more in value of the Alliance UniChem Shareholders entitled to be present and voting, either in person or by proxy, at the Court Meeting;
- (ii) the Special Resolution to approve matters to give effect to the Scheme being duly passed by the requisite majority of Alliance UniChem Shareholders at the Alliance UniChem Extraordinary General Meeting;
- (iii) the sanction of the Scheme and confirmation of the Reduction of Capital by the Court (in either case, with or without modification, on terms acceptable to Alliance UniChem and Boots) and the delivery of an office copy of the Scheme Court Order and of the Reduction Court Order to the Registrar of Companies, and the registration of the Reduction Court Order by him;
- (iv) the Admission of the New Boots Shares;
- (v) the passing of the Merger Resolutions at the Boots Extraordinary General Meeting⁽¹⁾ which has been convened for 10:00 a.m. on 4 July 2006 being resolutions to:
 - (A) approve the Merger;
 - (B) increase the authorised share capital of Boots;
 - (C) grant the Boots Directors the requisite authority for the purposes of allotting the New Boots Shares to Alliance UniChem Shareholders in connection with the Merger;
 - (D) appoint those Alliance UniChem Directors referred to in paragraph 6 of Part 1 (*Letter from the Chairman of Alliance UniChem*) of this document to the Boots Board; and
 - (E) amend the articles of association of Boots to remove the requirement for a Boots Director who reaches the age of 65 to vacate the office of Director at the next annual general meeting (unless invited by the Boots Board to remain in office during the previous four months);
- (vi) the satisfaction or waiver of the competition condition; and
- (vii) the other Conditions (set out in Part 4 (*Conditions to the Implementation of the Scheme and the Merger*) of this document) which are not otherwise summarised in paragraphs (i) to (vi) above being satisfied or waived.

(d) Sanction of the Scheme by the Court

Under the Companies Act, the Scheme also requires the sanction of the Court. The Scheme Court Hearing is expected to be held on 26 July 2006 and the Reduction Court Hearing is expected to be held on 28 July 2006. Boots has confirmed that it will be represented by counsel at the Scheme Court Hearing so as to consent to the Scheme and to undertake to the Court to be bound thereby.

The Scheme will become effective in accordance with its terms on delivery of an office copy of the Scheme Court Order and the Reduction Court Order to the Registrar of Companies and the registration by him of the Reduction Court Order.

(1) In addition to the Merger Resolutions, certain other resolutions will be proposed at the Boots Extraordinary General Meeting (including a resolution to change the name of Boots to "Alliance Boots plc"), the passing of which are not Conditions to the Merger.

If the Scheme becomes effective, it will be binding on all Alliance UniChem Shareholders, who hold Scheme Shares, irrespective of whether or not, being entitled to do so, they attended or voted in favour of the Scheme at the Court Meeting or in favour of the Special Resolution at the Alliance UniChem Extraordinary General Meeting.

If the Scheme does not become effective by 31 March 2007 (or such later date (if any) as Boots and Alliance UniChem may agree and the Court may allow) the Scheme will not become effective and the Merger will not proceed.

(e) Corporate Nominee Arrangements

If you are a current user of the Alliance UniChem corporate nominee arrangements, prior to the Effective Date, Lloyds TSB will transfer to you the legal title to the Alliance UniChem Shares that it holds on your behalf. In this way, any New Boots Shares to which you may be entitled under the Scheme will be issued to you direct upon the Scheme becoming effective in certificated form.

Shortly following Completion, Boots intends to write to holders of the New Boots Shares to offer them the opportunity to join Boots' corporate nominee arrangement.

20. United Kingdom Taxation

Your attention is drawn to Part 7 (*United Kingdom Taxation*) of this document. Alliance UniChem Shareholders who are in any doubt about their taxation position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, are strongly advised to contact an appropriate independent professional financial adviser immediately.

21. Overseas Shareholders

If the despatch of New Boots Shares to Alliance UniChem Shareholders resident outside the UK is, in the jurisdictions in which they are resident, either unlawful or would or may require Boots to obtain or observe any governmental or other consent or any Alliance UniChem registration, filing or other formality (including ongoing requirements) with which Boots is unable to comply or which Boots regards as unduly onerous, Boots will not despatch certificates for New Boots Shares to such Alliance UniChem Shareholders but, instead, such Alliance UniChem Shareholders' entitlement to New Boots Shares shall either be issued to a nominee appointed by Boots on behalf of such Alliance UniChem Shareholders on the terms that the nominee shall sell the New Boots Shares so issued and remit the cash proceeds of the sale to such overseas Alliance UniChem Shareholders or be issued to such overseas Alliance UniChem Shareholders and sold on their behalf with the cash proceeds being remitted to such overseas Alliance UniChem Shareholders.

The availability of the Scheme to persons resident in, or citizens of, jurisdictions outside the United Kingdom may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom should inform themselves about, and observe, any applicable requirements. It is the responsibility of each of the overseas Alliance UniChem Shareholders to satisfy themselves as to the full observance of the laws of relevant jurisdiction in connection therewith including the obtaining of any governmental exchange control or other consents which may be required or the compliance with other necessary formalities which are required to be observed and the payment of any issue transfer or other taxes due in such jurisdiction.

This document has been prepared for the purposes of complying with English law and the City Code and the information disclosed may be different from that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

The New Boots Shares will not be registered under the US Securities Act or the securities laws of any state of the United States, nor have the relevant clearances been, nor will they be, obtained from any body or authority in any Restricted Jurisdiction. Accordingly, unless an exemption under such Act or relevant securities law is available, the New Boots Shares may not

be offered, sold, re-sold or delivered, directly or indirectly, into or from any Restricted Jurisdiction.

All Alliance UniChem Shareholders (including, without limitation, nominees, trustees or custodians) who would, or otherwise intend to, forward this document and its accompanying documents to any jurisdiction outside the United Kingdom, should seek appropriate authority before taking any action.

Canada

The New Boots Shares issued to, or for the benefit of, any resident of Canada pursuant to the Scheme will not be qualified for sale under the securities laws of any province or territory of Canada and will be subject to resale restrictions.

Alliance UniChem Shareholders who are residents of Canada should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

United States

The New Boots Shares will not be registered under the US Securities Act and will be issued in the United States pursuant to the Scheme in reliance on the exemption from registration provided by Section 3(a)(10) of that Act. Boots and Alliance UniChem will advise the Court that its sanctioning of the Scheme will be relied upon to establish the availability of this exemption.

The New Boots Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States pursuant to the Scheme only in reliance on available exemptions from such state law registration requirements. In this connection, the blue and white Forms of Proxy will require all Alliance UniChem Shareholders to confirm that they are outside the United States or, if not, that they are either a “qualified institutional buyer” within the meaning of Rule 144A under the US Securities Act or an institutional “accredited investor” as defined in Rule 501(a)(1), (2), (3) or (7) under the US Securities Act. Any Alliance UniChem Shareholder that is unable to give the required confirmations will receive cash in lieu of any New Boots Shares to which it would otherwise be entitled, as described above.

Any Alliance UniChem Shareholder in the United States that is not an affiliate, for the purposes of the US Securities Act, of Boots or Alliance UniChem prior to the implementation of the Scheme and is not an affiliate of Boots following implementation of the Scheme may sell New Boots Shares received pursuant to the Scheme in ordinary secondary market transactions without restriction under the US Securities Act.

Any Alliance UniChem Shareholder in the United States that is an affiliate of Boots or Alliance UniChem prior to the implementation of the Scheme and/or is or becomes an affiliate of Boots following implementation of the Scheme will be subject to timing, manner of sale and volume restrictions on the sale of New Boots Shares received pursuant to the Scheme pursuant to Rule 145(d) under the US Securities Act. For these purposes, an “affiliate” of any person is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, that person. Alliance UniChem Shareholders in the United States that believe they are or may be “affiliates” of Boots or Alliance UniChem should consult their own legal advisors prior to any sale of New Boots Shares received pursuant to the Scheme.

The Boots Shares are and will not be listed on any US securities exchange or registered under the US Securities Exchange Act of 1934. Accordingly, following completion of the Scheme, Boots will not file any reports with the SEC pursuant to the periodic reporting requirements of the US Securities Exchange Act.

Neither the SEC nor any US state securities commission has approved or disapproved of the New Boots Shares or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offence in the United States.

Alliance UniChem Shareholders who are citizens or residents of the United States should consult their own legal and tax advisers with respect to the legal and tax implications of the Scheme in their particular circumstances.

22. Action to be Taken

Your attention is drawn to paragraph 9 of the letter from the Chairman of Alliance UniChem set out in Part 1 (*Letter from the Chairman of Alliance UniChem*) of this document which explains the action you should take in relation to the Scheme.

23. Further Information

The terms of the Scheme are set out in full in Part 3 (*Scheme of Arrangement*) of this document. Your attention is also drawn to the further information contained in this document and, in particular, to the conditions to the implementation of the Scheme and the Merger in Part 4 (*Conditions to the Implementation of the Scheme and the Merger*) of this document, the financial information on the Alliance UniChem Group in Part 5 (*Financial Information on the Alliance UniChem Group*) of this document, the financial information on Boots in Part 6 (*Financial Information on the Boots Group*) of this document and the information set out in Part 8 (*Additional Information*) of this document. Your attention is also drawn to the Prospectus which accompanies this document.

Yours faithfully

Kevin J. Smith
for and on behalf of
Merrill Lynch International

Yours faithfully

Philip Remnant
for and on behalf of
Credit Suisse Securities (Europe) Limited

PART 3

THE SCHEME OF ARRANGEMENT

No. 3737 of 2006

**IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT**

**IN THE MATTER OF ALLIANCE UNICHEM PLC
AND IN THE MATTER OF THE COMPANIES ACT 1985**

SCHEME OF ARRANGEMENT

(under section 425 of the Companies Act 1985)

**BETWEEN
ALLIANCE UNICHEM PLC
AND
THE HOLDERS OF SCHEME SHARES**

(as hereinafter defined)

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions bear the following meanings:

Act	the Companies Act 1985 (as amended)
Alliance UniChem Extraordinary General Meeting	the extraordinary general meeting of Alliance UniChem Shareholders to be held at 10:45 a.m. on 4 July 2006 (or as soon thereafter as the Court Meeting shall have concluded or been adjourned) and any adjournment thereof
Boots	Boots Group PLC, a public company incorporated in England and Wales with registered number 4452715
Business Day	any day on which banks are generally open in England and Wales for the transaction of business other than a Saturday or Sunday or public holiday
certificated or in certificated form	a share which is not in uncertificated form (that is, not in CREST)
Company or Alliance UniChem	Alliance UniChem Plc, a public company incorporated in England and Wales with registered number 2517178
Court	the High Court of Justice in England and Wales or the Court of Appeal in England and Wales, as the case may be
Court Meeting	the meeting of the Scheme Shareholders convened by order of the Court pursuant to section 425 of the Companies Act to consider and, if thought fit, approve the Scheme, including any adjournment thereof
CREST	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)

CRESTCo	CRESTCo. Limited
Effective Date	the date on which this Scheme becomes effective in accordance with Clause 6 of this Scheme
holder	a registered holder, including any person entitled by transmission
New Alliance UniChem Shares	the new ordinary shares of 10 pence each in the capital of the Company to be issued credited as fully paid pursuant to the Scheme
New Boots Shares	the new ordinary shares of 37 ⁷ / ₃₉ pence each in the capital of Boots to be issued credited as fully paid pursuant to the Scheme
Ordinary Shares	ordinary shares of 10 pence each in the capital of the Company
Panel	the Panel on Takeovers and Mergers
Reduction of Capital	the reduction of the Company's share capital involving the cancellation and extinguishing of the Scheme Shares provided for by the Scheme under section 137 of the Companies Act
Reduction Court Order	the Order of the Court confirming the Reduction of Capital under section 137 of the Companies Act
Scheme	this scheme of arrangement in its present form or with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by the Company and Boots
Scheme Court Order	the Order of the Court sanctioning the Scheme under section 425 of the Companies Act
Scheme Record Time	6:00 p.m. on the Business Day immediately preceding the Effective Date
Scheme Shares	(i) the Ordinary Shares in issue at the date of this Scheme document; (ii) any Ordinary Shares issued after the date of this Scheme document and before the Voting Record Time; and (iii) any Ordinary Shares issued at or after the Voting Record Time and prior to 6:00 p.m. on the Business Day before the confirmation by the Court of the Reduction of Capital provided for by the Scheme in respect of which the original or any subsequent holders thereof are, or shall have agreed in writing to be, bound by the Scheme
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
uncertificated or in uncertificated form	recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
Voting Record Time	6:00 p.m. on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 6:00 p.m. on the second day before the day of such adjourned meeting
£, Sterling, pence and p	the lawful currency of the United Kingdom

and references to Clauses are to Clauses of this Scheme.

- (B) At the date of this Scheme, the authorised share capital of the Company is £43,292,630 divided into 432,926,300 Ordinary Shares, of which, as at 31 May 2006, 361,739,712 have been issued and are credited as fully paid and the remainder are unissued.
- (C) Boots has agreed to appear by counsel on the hearing of the petition to sanction this Scheme and to submit to be bound by and to undertake to the Court to be bound by the Scheme and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME

1. Cancellation of the Scheme Shares

- 1.1 The issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares.
- 1.2 Subject to and forthwith upon the said reduction of capital taking effect:
- (a) the authorised share capital of the Company shall be increased to its former amount by the creation of such number of New Alliance UniChem Shares as is equal to the number of Scheme Shares cancelled pursuant to Clause 1.1 above; and
 - (b) the reserve arising in the books of account of the Company as a result of the said reduction of capital shall be capitalised and applied in paying up in full at par the New Alliance UniChem Shares created pursuant to Clause 1.2(a) above, which shall be allotted and issued credited as fully paid free from all liens, charges, encumbrances, rights of pre-emption and other third party rights and interests of any nature whatsoever to Boots and/or its nominee(s) and will be entitled to all dividends and other distributions declared or paid by the Company by reference to a record date on or after the Effective Date.

2. Consideration for cancellation of the Scheme Shares

- 2.1 Subject to and in consideration for the cancellation of the Scheme Shares and the allotment and issue of the New Alliance UniChem Shares as provided in Clause 1 of this Scheme, Boots shall (subject as hereinafter provided) issue credited as fully paid to or for the account of each holder of the Scheme Shares (as appearing in the register of members of the Company at the Scheme Record Time):

for every Scheme Share

1.332 New Boots Shares

and so in proportion for any other number of Scheme Shares held.

- 2.2 Fractional entitlements to New Boots Shares will not be issued to holders of Scheme Shares. Instead, fractional entitlements to New Boots Shares will be aggregated and sold in the market with the net proceeds of such sales, to the extent that they exceed £3, being paid to the persons entitled thereto.
- 2.3 The New Boots Shares will be issued credited as fully paid, will rank equally with the existing Boots Shares and will be entitled to all dividends and other distributions declared or paid by Boots by reference to a record date on or after the Effective Date.
- 2.4 The New Boots Shares to be issued pursuant to Clause 2.1 shall be issued free from all liens, charges, equitable interests, encumbrances and other third party rights and interest of any nature whatsoever.
- 2.5 The provisions of this Clause 2 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any holder of Scheme Shares with a registered address in a jurisdiction outside the United Kingdom, Boots is advised that the allotment and/or issue of New Boots Shares pursuant to this Clause would infringe the laws of such jurisdiction or would require Boots to comply with

any governmental or other consent or any registration, filing or other formality with which Boots is unable to comply or compliance with which Boots regards as unduly onerous, Boots may, in its sole discretion, either:

- (a) determine that such New Boots Shares shall not be allotted and/or issued to such holder under this Clause but shall instead be allotted and issued to a nominee for such holder appointed by Boots on terms that the nominee shall, as soon as is practicable following the Effective Date, sell the New Boots Shares so allotted and issued and shall account to such holder for the net proceeds of such sale; or
- (b) determine that such New Boots Shares shall be sold, in which case the New Boots Shares shall be issued to such holder and Boots shall appoint a person to act pursuant to this Clause 2.5(b) and such person shall be authorised on behalf of such holder to procure that any shares in respect of which Boots has made such determination shall, as soon as is practicable following the Effective Date, be sold.

Any sale under Clause 2.5(a) or 2.5(b) shall be carried out at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions incurred in connection with such sale including any amount in respect of value added tax thereon) shall be paid to the persons entitled thereto in accordance with their entitlements. To give effect to any sale under Clause 2.5(a) or 2.5(b), the nominee referred to in Clause 2.5(a) and/or the person appointed by Boots in accordance with Clause 2.5(b) (as the case may be) shall be authorised as attorney on behalf of the holder concerned to execute and deliver as transferor an instrument or instruction of transfer and to give such instructions and to do all other things which he may consider necessary or expedient in connection with such sale. In the absence of bad faith or wilful default, none of the Company, Boots, the nominee or the person so appointed shall have any liability for any loss or damage arising as a result of the timing or terms of such sale.

3. Share Certificates

- 3.1 Upon the Scheme becoming effective on the Effective Date, each existing certificate representing a holding of Scheme Shares shall cease to be valid in respect of such holding and each holder of Scheme Shares shall be bound at the request of the Company to deliver up the same to the Company or to any person appointed by the Company to receive the same for cancellation or to destroy such share certificates.
- 3.2 Upon the Scheme becoming effective on the Effective Date, in respect of those holders of Scheme Shares who hold Scheme Shares in uncertificated form, CREST shall be instructed to cancel such holders' entitlements to such Scheme Shares.

4. Settlement

- 4.1 As soon as practicable after the Effective Date and, in any event, no later than 14 days from the Effective Date, Boots shall despatch, or procure the despatch of, definitive share certificates for the New Boots Shares by first class post (or by such other method as may be approved by the Panel) to shareholders who hold Scheme Shares in certificated form. Such certificates will be sent at the risk of the person entitled to them.
- 4.2 Where, at the Effective Date, a shareholder holds Scheme Shares in uncertificated form, the New Boots Shares to which such shareholder is entitled will be issued to such person in uncertificated form through CREST. Boots shall procure that CRESTCo is instructed to credit the appropriate stock account in CREST of such shareholder with such shareholder's entitlements to New Boots Shares. As from the Scheme Record Time, each holding of Scheme Shares credited to any stock account in CREST shall be disabled and all Scheme Shares will be removed from CREST in due course thereafter.
- 4.3 All deliveries of share certificates required to be made pursuant to this Scheme shall be effected by sending the same by first class post in prepaid envelopes (or by such other

method as may be approved by the Panel) addressed to the persons entitled thereto at their respective registered address as appearing in the register of members of the Company at the Scheme Record Time (or, in the case of joint holders, at the registered address of one of the joint holders whose name stands first in the said register in respect of such joint holding on such date) or in accordance with any special instructions regarding communications, and neither Boots nor the Company nor their respective agents shall be responsible for any loss or delay in the transmission of any certificates sent in accordance with this clause, which shall be sent at the risk of the persons entitled thereto.

4.4 The provisions of this Clause 4 shall be subject to any prohibition or condition imposed by law.

5. General

With effect from and including the Effective Date, existing certificates representing a holding of Scheme Shares shall cease to have effect as documents of title to the Scheme Shares comprised therein and every holder of Scheme Shares shall be bound at the request of the Company to deliver up the same to the Company or as it may direct. In addition, in respect of those Scheme Shareholders holding their Scheme Shares in CREST, CRESTCo will be instructed to cancel such Scheme Shareholders' entitlements to the Scheme Shares.

6. Effective Date

6.1 The Scheme shall become effective in accordance with its terms as soon as office copies of each of the Scheme Court Order and the Reduction Court Order shall have been delivered to the Registrar of Companies in England and Wales for registration and the Reduction Court Order has been registered by him.

6.2 Unless the Scheme shall become effective on or before 31 March 2007 or such later date, if any, as Boots and the Company may agree and the Court may allow, the Scheme shall never become effective.

7. Modification

Boots and the Company may jointly consent on behalf of all concerned to any modification of, or addition to, the Scheme or to any condition which the Court may approve or impose.

Dated 5 June 2006

PART 4

CONDITIONS TO THE IMPLEMENTATION OF THE SCHEME AND THE MERGER

The Merger is conditional upon the Scheme becoming or being declared unconditional and becoming effective by no later than 31 March 2007 or such later date (if any) as Boots and Alliance UniChem may agree and the Court may allow.

1. The Scheme is subject to the following Conditions:
 - (a) the approval by a majority in number representing 75% or more in value of the holders of Alliance UniChem Shares present and voting, either in person or by proxy, at the Court Meeting;
 - (b) the Special Resolution required to approve and implement the Scheme being duly passed by the requisite majority at the Alliance UniChem Extraordinary General Meeting; and
 - (c) the sanction (with or without modification, such modification being acceptable to Boots and Alliance UniChem) of the Scheme and the confirmation of the Reduction of Capital by the Court, an office copy of the Scheme Court Order and the Reduction Court Order being delivered to the Registrar of Companies and registration of the Reduction Court Order by the Registrar of Companies.
2. Alliance UniChem and Boots have agreed that, subject to the provisions of paragraph 3 below, the Merger is also conditional upon, and accordingly the necessary action to make the Scheme effective will only be taken upon, the satisfaction or waiver of the following Conditions prior to the Scheme being sanctioned by the Court:
 - (a) the passing at the Boots Extraordinary General Meeting of:
 - (i) such resolution or resolutions as are necessary to approve, implement and effect the Merger and the acquisition of any Alliance UniChem Shares including a resolution or resolutions to increase the share capital of Boots and to authorise the creation and allotment of New Boots Shares;
 - (ii) resolutions to appoint Directors nominated by Alliance UniChem to achieve the composition of the Boots Board as set out in paragraph 6 of Part 1 (*Letter from the Chairman of Alliance UniChem*) of this document, subject only to Completion (except for any such resolution which is not passed as a result of the death or incapacity of the person named in such resolution or as a result of the person named in such resolution ceasing to be willing or able to be nominated as a director of Boots);
 - (iii) a resolution to amend the articles of association of Boots such that Directors who reach the age of 65 will not be required to vacate the office of Director at the next annual general meeting, subject only to Completion;
 - (b) Admission becoming effective or if Alliance UniChem and Boots so agree (and subject to the consent of the Panel) the UKLA agreeing to admit the New Boots Shares to the Official List and the London Stock Exchange agreeing to admit such shares to trading;
 - (c) the period within which:
 - (i) an application to the CAT may be made for review of the decision of the OFT dated 25 May 2006 (or any subsequent decision made by the OFT following a referral back to the OFT as contemplated by sub-paragraphs (i)(B) or (ii)(C) below or otherwise) not to refer the Merger or any matter relating to the Merger to the Competition Commission having expired without such an application having been made or, where any such application is made, either:
 - (A) any such application having been dismissed by the CAT and it being established, on terms reasonably satisfactory to Boots and Alliance UniChem, that no further appeal will be made against the decision of the CAT; or
 - (B) in the event that the CAT decides to quash the whole or part of any OFT decision and to refer the matter back to the OFT with a direction to re-consider and make a new decision, the OFT having issued a further decision not to refer

the Merger or any matter relating to the Merger to the Competition Commission without amendments, assurances, conditions or undertakings being required that are not reasonably satisfactory to Alliance UniChem and Boots (**Non-Referral Decision**) and the period within which an application for review of such Non-Referral Decision may be made to the CAT having expired without such an application having been made or, where any application has been made, such application having been dismissed by the CAT and it being established, on terms reasonably satisfactory to Alliance UniChem and Boots, that no further appeal will be made against the decision of the CAT;

- (ii) a request for permission to appeal against the judgment of the CAT dated 9 May 2006 in relation to case number 1059/4/1/06 (**CAT Judgment**) having expired without such a request having been made or, where any request for permission is made, permission having been refused by the CAT and/or the Court of Appeal or, where permission has been granted:
 - (A) the appeal against the CAT Judgment having been dismissed by the Court of Appeal, and it being established, on terms reasonably satisfactory to Alliance UniChem and Boots, that no appeal will be made against the judgment of the Court of Appeal; or
 - (B) in the event that the appeal against the CAT Judgment is upheld by the Court of Appeal and the matter is referred back to the CAT, the CAT issuing a further judgment dismissing the application for review of the decision of the OFT dated 6 February 2006, and it being established, on terms reasonably satisfactory to Alliance UniChem and Boots, that no further appeal will be made against that judgment of the CAT; or
 - (C) in the event that the appeal against the CAT Judgment is upheld by the Court of Appeal and the matter is referred back to the OFT with a direction to take a new decision, the OFT having issued a further decision not to refer the Merger or any matter relating to the Merger to the Competition Commission without amendments, assurances, conditions or undertakings being required that are not reasonably satisfactory to Alliance UniChem and Boots (**Further Non-Referral Decision**) and the period within which an application for review of such Further Non-Referral Decision may be made to the CAT having expired without such an application having been made or, where any application has been made, such application having been dismissed by the CAT and it being established, on terms reasonably satisfactory to Alliance UniChem and Boots, that no further appeal will be made against the decision of the CAT;
- (d) save (in respect of the Alliance UniChem Group) as fairly disclosed to Boots prior to 3 October 2005 by any member of the Alliance UniChem Group or (in respect of the Boots Group) as fairly disclosed to Alliance UniChem prior to 3 October 2005 by any member of the Boots Group, or as may be agreed between Alliance UniChem and Boots, there being no provision of any agreement, arrangement, licence, permit or other instrument to which any member of the wider Alliance UniChem Group or the wider Boots Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, which in consequence of the Merger or the proposed acquisition of any shares or other securities in Alliance UniChem or the issue of the New Boots Shares pursuant to the Merger or because of a change in the control or management of Alliance UniChem or Boots or otherwise, would or might reasonably be expected to result in to an extent which is material in the context of the wider Alliance UniChem Group as a whole or, as the case may be, the wider Boots Group taken as a whole:
 - (i) any moneys borrowed by or any other indebtedness (actual or contingent) of, or grant available to any such member, being or becoming repayable or capable of being declared repayable immediately or earlier than their or its stated maturity date or repayment date or the ability of any such member to borrow moneys or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;

- (ii) any such agreement, arrangement, licence, permit or instrument or the rights, liabilities, obligations or interests of any such member thereunder being terminated or adversely modified or affected or any obligation or liability arising or any adverse action being taken thereunder;
- (iii) any assets or interests of any such member being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged;
- (iv) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any such member;
- (v) the rights, liabilities, obligations or interests of any such member in, or the business of any such member with, any person, firm or body (or any arrangement or arrangements relating to any such interest or business) being terminated, adversely modified or affected;
- (vi) the value of any such member or its financial or trading position or prospects being prejudiced or adversely affected;
- (vii) any such member ceasing to be able to carry on business under any name under which it presently does so; or
- (viii) the creation of any liability, actual or contingent, by any such member,

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the wider Alliance UniChem Group or the wider Boots Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, would reasonably be expected to result, to an extent which is material in the context of the wider Alliance UniChem Group taken as a whole or, as the case may be, the wider Boots Group taken as a whole, in any of the events or circumstances as are referred to in sub-paragraphs (i) to (viii) of this paragraph;

- (e) no government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental or investigative body (including, without limitation, any national or supranational anti-trust or merger control authority), court, trade agency, association, institution or any other body or person whatsoever in any jurisdiction (each a **Third Party**) having decided to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference, or enacted, made or proposed any statute, regulation, decision or order, or having taken any other steps which would or might reasonably be expected to:
 - (i) require, prevent or delay the divestiture, or alter the terms envisaged for any proposed divestiture by any member of the wider Boots Group or any member of the wider Alliance UniChem Group of all or any portion of their respective businesses, assets or property or impose any limitation on the ability of any of them to conduct their respective businesses (or any of them) or to own any of their respective assets or properties or any part thereof which, in any such case, is material in the context of the wider Boots Group or the wider Alliance UniChem Group, in either case taken as a whole;
 - (ii) require, prevent or delay the divestiture by any member of the wider Boots Group of any shares or other securities in Alliance UniChem which, in any such case, is material in the context of the wider Boots Group taken as a whole;
 - (iii) impose any limitation on, or result in a delay in, the ability of any member of the wider Boots Group or wider Alliance UniChem Group, directly or indirectly, to acquire or to hold or to exercise effectively any rights of ownership in respect of shares or loans or securities convertible into shares or any other securities (or the equivalent) in any member of the wider Alliance UniChem Group or the wider Boots Group or to exercise management control over any such member which is material to the Alliance UniChem Group or the Boots Group;

- (iv) otherwise adversely affect the business, assets, profits or prospects of any member of the wider Boots Group or of any member of the wider Alliance UniChem Group in a manner which is adverse to and material in the context of the Boots Group or the Alliance UniChem Group in either case taken as a whole;
- (v) make the Merger or its implementation or the acquisition or proposed acquisition by Boots or any member of the wider Boots Group of any shares or other securities in, or control of Alliance UniChem void, illegal and/or unenforceable under the laws of any jurisdiction, or otherwise, directly or indirectly, restrain, restrict, prohibit, delay or otherwise materially interfere with the same, or impose additional conditions or obligations with respect thereto, or otherwise challenge or materially interfere therewith which, in any such case, is material in the context of the wider Boots Group taken as a whole;
- (vi) require any member of the wider Boots Group or the wider Alliance UniChem Group to offer to acquire any shares or other securities (or the equivalent) or interest in any member of the wider Alliance UniChem Group or the wider Boots Group owned by any third party (other than in the implementation of the Merger) which, in either case, is material in the context of the wider Boots Group or the wider Alliance UniChem Group (as the case may be), taken as a whole;
- (vii) impose any limitation on the ability of any member of the wider Alliance UniChem Group or the wider Boots Group to co-ordinate their respective businesses, or any part of them, with the businesses of any other members of the wider Alliance UniChem Group or the wider Boots Group, in each case which is adverse to and material in the context of the group concerned taken as a whole; or
- (viii) result in any member of the wider Alliance UniChem Group or the wider Boots Group (which member is material in the context of the wider Alliance UniChem Group or, as the case may be, the wider Boots Group in each case taken as a whole) ceasing to be able to carry on business under any name under which it presently does so,

and all applicable waiting and other time periods during which any such Third Party could institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference or any other step under the laws of any jurisdiction in respect of the Merger or the acquisition or proposed acquisition of any Alliance UniChem Shares having expired, lapsed or been terminated;

- (f) all necessary filings or applications having been made in connection with the Merger and all statutory or regulatory obligations in any jurisdiction having been complied with in connection with the Merger or the acquisition by any member of the wider Boots Group of any shares or other securities in, or control of, Alliance UniChem (and all waiting and other time periods (including extensions thereto) under any applicable legislation and/or regulations in any jurisdiction having expired, lapsed or been terminated (as appropriate)) and all authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions and approvals reasonably deemed necessary or appropriate by both Alliance UniChem and Boots for or in respect of the Merger or the proposed acquisition of any shares or other securities in, or control of, Alliance UniChem by any member of the wider Boots Group having been obtained in terms and in a form reasonably satisfactory to both Alliance UniChem and Boots from all appropriate Third Parties and all such authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions and approvals together with all material authorisations orders, recognitions, grants, licences, confirmations, clearances, permissions and approvals necessary or appropriate to carry on the business of any member of the wider Boots Group or the wider Alliance UniChem Group which is material in the context of the relevant group as a whole remaining in full force and effect and all filings necessary for such purpose have been made and there being no notice or intimation of any intention to revoke or not to renew any of the same at the time at which the Merger becomes otherwise effective and all necessary statutory or regulatory obligations in any jurisdiction in respect of the Merger having been complied with in each case where a consequence of a failure to make such notification or filing or to wait for the expiry, termination or lapsing of any waiting period or to comply with any such obligation or obtain any necessary authorisation would have a material adverse effect on the relevant group taken as a whole;

- (g) save as provided in the Framework Agreement, except as publicly announced by Alliance UniChem prior to 3 October 2005, and save as disclosed in the interim financial statements of Alliance UniChem for the six month period ended 30 June 2005 or as fairly disclosed to Boots prior to 3 October 2005 by any member of the Alliance UniChem Group, no member of the wider Alliance UniChem Group having, since 30 June 2005, and except as publicly announced by Boots prior to 3 October 2005 and save as disclosed in the accounts of Boots for the year ended 31 March 2005 or as fairly disclosed to Alliance UniChem prior to 3 October 2005 by any member of the Boots Group, no member of the wider Boots Group having, since 31 March 2005:
- (i) save (in respect of a member of the wider Alliance UniChem Group) as between Alliance UniChem and wholly-owned subsidiaries of Alliance UniChem or for Alliance UniChem Shares issued pursuant to the exercise of options or awards granted under the Alliance UniChem Share Option Schemes or (in respect of a member of the wider Boots Group) as between Boots and wholly-owned subsidiaries of Boots or for Boots Shares issued pursuant to the exercise of options or awards granted under the Boots Share Option Schemes, issued, authorised or agreed the issue of additional shares of any class;
 - (ii) save (in respect of a member of the wider Alliance UniChem Group) as between Alliance UniChem and wholly-owned subsidiaries of Alliance UniChem or (in respect of a member of the wider Boots Group) as between Boots and wholly-owned subsidiaries of Boots, issued or agreed to issue or authorised the issue of securities convertible into shares of any class or rights, warrants or options to subscribe for, or acquire, any such shares or convertible securities;
 - (iii) other than to another member of the Alliance UniChem Group or, as the case may be, another member of the Boots Group, recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution whether payable in cash or otherwise;
 - (iv) save for intra-Alliance UniChem Group transactions or, as the case may be, intra-Boots Group transactions, merged or demerged with any body corporate or acquired or disposed of or transferred, mortgaged or charged or created any security interest over any assets or any right, title or interest in any asset (including shares and trade investments) or authorised or proposed or announced any intention to propose any merger, demerger, acquisition or disposal, transfer, mortgage, charge or security interest which is material to the Alliance UniChem Group or the Boots Group (as the case may be), and other than in the ordinary course of business;
 - (v) save for intra-Alliance UniChem Group transactions or, as the case may be, intra-Boots Group transactions, made or authorised or proposed or announced an intention to propose any change in its loan capital which is material to the Alliance UniChem Group or the Boots Group (as the case may be);
 - (vi) issued, authorised or proposed the issue of any debentures or (save for intra-Alliance UniChem Group transactions or, as the case may be, intra-Boots Group transactions), save in the ordinary course of business, incurred or increased any indebtedness or become subject to any contingent liability;
 - (vii) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or, save in respect to the matters mentioned in sub-paragraph (i) above, made any other change to any part of its share capital;
 - (viii) implemented, or authorised, proposed or announced its intention to implement, any reconstruction, amalgamation, scheme, commitment or other transaction or arrangement otherwise than in the ordinary course of business which is material in the context of the wider Alliance UniChem Group taken as a whole or, as the case may be, the wider Boots Group taken as a whole, or entered into or materially changed the terms of any contract with any director or senior executive of Alliance UniChem or any director of any member of the wider Alliance UniChem Group;

- (ix) made any material change to:
 - (A) the terms of the trust deeds constituting the pension scheme(s) established for its directors, employees or their dependents; or
 - (B) the benefit entitlements which accrue or the pension entitlements which are payable thereunder; or
 - (C) the terms on which qualification for, or accrual or entitlement, to such benefit entitlements or pension entitlements are determined; or
 - (D) the terms upon which the liabilities (including pension entitlements) of such pension schemes are funded or made,

which is material and adverse in the context of the wider Alliance UniChem Group taken as a whole or, as the case may be, the wider Boots Group taken as a whole;

- (x) entered into or varied or authorised, proposed or announced its intention to enter into or vary any contract, transaction or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, onerous or unusual nature or magnitude or which is or could be materially restrictive on the businesses of any member of the wider Alliance UniChem Group or the wider Boots Group or which involves or could involve an obligation of such a nature or magnitude or which is other than in the ordinary course of business and which in each case is material in the context of the wider Alliance UniChem Group taken as a whole or, as the case may be, the wider Boots Group taken as a whole;
- (xi) (other than in respect of a member which is dormant and was solvent at the relevant time) taken any corporate action or had any legal proceedings started or threatened against it for its winding-up, dissolution or reorganisation or for the appointment of a receiver, administrative receiver, administrator, trustee or similar officer of all or a material part of its assets or revenues or any analogous proceedings in any jurisdiction or had any such person appointed;
- (xii) entered into any contract, transaction or arrangement which would be restrictive on the business of any member of the wider Alliance UniChem Group or the wider Boots Group other than to a nature and extent which is normal in the context of the business concerned and other than to a nature and extent which is not material in the context of the wider Alliance UniChem Group taken as a whole or, as the case may be, the wider Boots Group taken as a whole;
- (xiii) waived or compromised any claim which is material in the context of the Alliance UniChem taken as a whole or, as the case may be, the wider Boots Group taken as a whole, otherwise than in the ordinary course of business; or
- (xiv) entered into any contract, commitment, arrangement or agreement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced any intention to, or to propose to, effect any of the transactions, matters or events referred to in this condition,

and, for the purposes of this condition, the term **Alliance UniChem Group** shall mean Alliance UniChem and its wholly-owned subsidiaries and the term **Boots Group** shall mean Boots and its wholly-owned subsidiaries;

- (h) since (in respect of the wider Alliance UniChem Group) 30 June 2005 and save as disclosed in the interim financial statements of Alliance UniChem Group for the six month period then ended and save as publicly announced in accordance with the Listing Rules by Alliance UniChem prior to 3 October 2005 and save as fairly disclosed to Boots prior to 3 October 2005 by any member of the Alliance UniChem Group and which in any such case is material in the context of the wider Alliance UniChem Group taken as a whole and since (in respect of the wider Boots Group) 31 March 2005 and save as disclosed in the accounts for the year then ended and save as publicly announced in accordance with the Listing Rules by Boots prior to 3 October 2005 and save as fairly disclosed to Alliance UniChem prior to the 3 October 2005 by any member of the Boots Group and which in any such case is material in the context of the wider Boots Group taken as a whole:

- (i) no adverse change or deterioration having occurred in the business, assets, financial or trading position or profits or prospects of any member of the wider Alliance UniChem Group or, as the case may be, the wider Boots Group;
 - (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the wider Alliance UniChem Group or, as the case may be, the wider Boots Group is or may become a party (whether as a plaintiff, defendant or otherwise) and no investigation by any Third Party against or in respect of any member of the wider Alliance UniChem Group or, as the case may be, the wider Boots Group having been instituted, announced or threatened by or against or remaining outstanding in respect of any member of the wider Alliance UniChem Group or, as the case may be, the wider Boots Group which in any such case might reasonably be expected to affect adversely any member of the wider Alliance UniChem Group or, as the case may be, the wider Boots Group;
 - (iii) no contingent or other liability having arisen or become apparent to Boots or, as the case may be, Alliance UniChem which would be likely to adversely affect any member of the wider Alliance UniChem Group or, as the case may be, the wider Boots Group; and
 - (iv) no steps having been taken which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the wider Alliance UniChem Group or, as the case may be, the wider Boots Group which is necessary for the proper carrying on of its business;
- (i) save as fairly disclosed to Boots prior to 3 October 2005 by any member of the Alliance UniChem Group, Boots not having discovered:
- (i) that any financial, business or other information concerning the wider Alliance UniChem Group as contained in the information publicly disclosed at any time by or on behalf of any member of the wider Alliance UniChem Group is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make that information not misleading, where the misleading information, misrepresentation or omission is material in the context of the Merger;
 - (ii) that any member of the wider Alliance UniChem Group or any partnership, company or other entity in which any member of the wider Alliance UniChem Group has a significant economic interest and which is not a subsidiary undertaking of Alliance UniChem is subject to any liability (contingent or otherwise) which is not disclosed in the annual report and accounts of Alliance UniChem for the year ended 31 December 2004 or the interim financial statements of the Alliance UniChem Group for the six month period ended 30 June 2005 and which is material in the context of the wider Alliance UniChem Group taken as a whole; or
 - (iii) any information which adversely affects the import of any information disclosed at any time by or on behalf of any member of the wider Alliance UniChem Group and which is material in the context of the wider Alliance UniChem Group as a whole;
- (j) save as fairly disclosed to Boots prior to 3 October 2005 by any member of the Alliance UniChem, Boots not having discovered that:
- (i) any past or present member of the wider Alliance UniChem Group has failed to comply with any and/or all applicable legislation or regulation, of any jurisdiction with regard to the disposal, spillage, release, discharge, leak or emission of any waste or hazardous substance or any substance likely to impair the environment or harm human health or animal health or otherwise relating to environmental matters, or that there has otherwise been any such disposal, spillage, release, discharge, leak or emission (whether or not the same constituted a non-compliance by any person with any such legislation or regulations, and wherever the same may have taken place) any of which disposal, spillage, release, discharge, leak or emission would be likely to give rise to any liability (actual or contingent) on the part of any member of the wider Alliance UniChem Group which is material in the context of the wider Alliance UniChem Group taken as a whole; or

- (ii) there is, or is reasonably likely to be, for that or any other reason whatsoever, any liability (actual or contingent) of any past or present member of the wider Alliance UniChem Group to make good, repair, reinstate or clean up any property or any controlled waters now or previously owned, occupied, operated or made use of or controlled by any such past or present member of the wider Alliance UniChem Group, under any environmental legislation, regulation, notice, circular or order of any government, governmental, quasi-governmental, state or local government, supranational, statutory or other regulatory body, agency, court, association or any other person or body in any jurisdiction and which is material in the context of the wider Alliance UniChem Group taken as a whole;
- (k) save as fairly disclosed to Alliance UniChem prior to 3 October 2005 by any member of the Boots Group, Alliance UniChem not having discovered:
- (i) that any financial, business or other information concerning the wider Boots Group as contained in the information publicly disclosed at any time by or on behalf of any member of the wider Boots Group is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make that information not misleading, where the misleading information, misrepresentation or omission is material in the context of the Merger;
 - (ii) that any member of the wider Boots Group or any partnership, company or other entity in which any member of the wider Boots Group has a significant economic interest and which is not a subsidiary undertaking of Boots is subject to any liability (contingent or otherwise) which is not disclosed in the annual report and accounts of Boots for the year ended 31 March 2005 and which is material in the context of the wider Boots Group taken as a whole; or
 - (iii) any information which adversely affects the import of any information disclosed at any time by or on behalf of any member of the wider Boots Group and which is material in the context of the wider Boots Group as a whole;
- (l) save as fairly disclosed to Alliance UniChem prior to 3 October 2005 by any member of the Boots Group, Alliance UniChem not having discovered that:
- (i) any past or present member of the wider Boots Group has failed to comply with any and/or all applicable legislation or regulation, of any jurisdiction with regard to the disposal, spillage, release, discharge, leak or emission of any waste or hazardous substance or any substance likely to impair the environment or harm human health or animal health or otherwise relating to environmental matters, or that there has otherwise been any such disposal, spillage, release, discharge, leak or emission (whether or not the same constituted a non-compliance by any person with any such legislation or regulations, and wherever the same may have taken place) any of which disposal, spillage, release, discharge, leak or emission would be likely to give rise to any material liability (actual or contingent) on the part of any member of the wider Boots Group in the context of the wider Boots Group taken as a whole; or
 - (ii) there is, or is reasonably likely to be, for that or any other reason whatsoever, any liability (actual or contingent) of any past or present member of the wider Boots Group to make good, repair, reinstate or clean up any property or any controlled waters now or previously owned, occupied, operated or made use of or controlled by any such past or present member of the wider Boots Group, under any environmental legislation, regulation, notice, circular or order of any government, governmental, quasi-governmental, state or local government, supranational, statutory or other regulatory body, agency, court, association or any other person or body in any jurisdiction and which is material in the context of the wider Boots Group taken as a whole; and
- (m) Alliance UniChem and Boots being reasonably satisfied that the board of directors of Boots will comprise only the directors contemplated by paragraph 6 of Part 1 (*Letter from the*

Chairman of Alliance UniChem) of this document or, if that is not possible (including as a result of the death or incapacity of any such person or as a result of any such person ceasing to be willing or able to be nominated as a director of Boots), to ensure that the composition of the board of directors of Boots will comprise 13 directors, of which seven are nominated by Alliance UniChem in accordance with the Framework Agreement, effective as of Completion.

For the purposes of these Conditions, the **wider Alliance UniChem Group** means Alliance UniChem and its subsidiary undertakings, associated undertakings and any other undertaking in which Alliance UniChem and or such undertakings (aggregating their interests) have a significant interest and the **wider Boots Group** means Boots and its subsidiary undertakings, associated undertakings and any other undertaking in which Boots and/or such undertakings (aggregating their interests) have a significant interest and for these purposes **subsidiary undertaking, associated undertaking and undertaking** have the meanings given by the Companies Act 1985, other than paragraph 20(1)(b) of Schedule 4A to that Act which shall be excluded for this purpose, and **significant interest** means a direct or indirect interest in 10% or more of the equity share capital (as defined in that Act).

3. Subject to the requirements of the Panel, Boots reserves the right, with the consent of Alliance UniChem, to waive, and shall at the direction of Alliance UniChem waive, in whole or in part, all or any of Conditions 2(d), (g) and (h), insofar as they relate to Boots or any member of the wider Boots Group, and/or all or any of Conditions (k), (l) and (m).
4. Subject to the requirements of the Panel, Boots reserves the right, with the consent of Alliance UniChem, to waive, in whole or in part, all or any of Conditions (c), (e) and (f).
5. Subject to the requirements of the Panel, Boots reserves the right to waive, in whole or in part, all or any of Conditions (d), (g) and (h) insofar as they relate to Alliance UniChem or any member of the wider Alliance UniChem Group, and/or all or any of Conditions (i) and (j).
6. Boots shall be under no obligation to waive or treat as satisfied, and Alliance UniChem shall be under no obligation to direct Boots to waive, or consent to Boots' waiver of, any of Conditions 2(c) to (m) (inclusive) by a date earlier than the latest date for the satisfaction thereof, notwithstanding that the other Conditions of the Merger may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of the Conditions may not be capable of fulfilment.
7. If Boots is required by the Panel to make an offer for Alliance UniChem Shares under the provisions of Rule 9 of the City Code, Boots may make such alterations to any of the above Conditions as are necessary to comply with the provisions of that Rule.
8. Boots reserves the right to elect to implement the Merger by way of a takeover offer. In such event, such offer will be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Scheme and the Scheme will be stopped.
9. The Scheme will not proceed if, following the publication of this document, the Merger or any matter arising from the Merger is referred to the Competition Commission or if the European Commission initiates proceedings under Article 6(1)(c) of the Regulation in respect of the Merger or any aspect of the Merger before the date on which the resolutions are passed at the Court Meeting and at the Alliance UniChem Extraordinary General Meeting.
10. The Merger and the Scheme are governed by the laws of England and Wales and are subject to the exclusive jurisdiction of the courts of England and Wales.

PART 5

FINANCIAL INFORMATION ON THE ALLIANCE UNICHEM GROUP

Financial information relating to the Alliance UniChem Group for the three years ended 31 December 2005 is set out in Part VIII (*Historical Financial Information Relating to the Alliance UniChem Group*) of the Prospectus.

PART 6

FINANCIAL INFORMATION ON THE BOOTS GROUP

The financial information relating to the Boots Group included within this Part 6 does not constitute statutory accounts within the meaning of section 240 of the Companies Act. The financial information included in this Part 6 for each of the two years ended 31 March 2005 prepared under UK GAAP and entirely comparative, has been extracted without material adjustment from the audited financial statements of Boots included in the Annual Report for the year ended March 31 2005.

KPMG Audit Plc of 2 Cornwall Street, Birmingham B3 2DL, Chartered Accountants, who are members of and regulated by the Institute of Chartered Accountants of England and Wales, has issued unqualified audit opinions on the consolidated financial statements for each of the two years ended 31 March 2005.

Financial information relating to the Boots Group for the year ended 31 March 2006 is set out in Part VII (*Historical Financial Information Relating to the Boots Group*) of the Prospectus.

Group Profit and Loss Account

For the year ended 31st March 2005	Notes	2005 £m	Restated ¹ 2004 £m
Turnover			
Turnover from continuing operations		5,441.9	5,286.4
Discontinued operations		28.8	40.0
Turnover: group and share of joint venture	1	5,470.7	5,326.4
Less: share of joint venture's turnover ²		(1.6)	(1.4)
Group turnover		5,469.1	5,325.0
Operating profit			
Operating profit from continuing operations		508.2	570.1
Discontinued operations		(6.5)	(20.0)
Group operating profit		501.7	550.1
Share of operating loss of joint venture ²		(0.6)	(1.1)
Total operating profit including share of joint venture	2	501.1	549.0
Profit on disposal of fixed assets	3	3.0	32.5
Provision for loss on closure of operations³	3	(5.4)	3.9
Loss on disposal of business³	3	(51.3)	—
Profit on ordinary activities before interest and taxation	1	447.4	585.4
Net interest payable and similar items	5	(19.8)	(5.5)
Profit on ordinary activities before taxation		427.6	579.9
Tax on profit on ordinary activities	6	(124.7)	(167.7)
Profit on ordinary activities after taxation		302.9	412.2
Equity minority interests		(0.5)	(0.7)
Profit for the financial year attributable to shareholders		302.4	411.5
Dividends paid and proposed	8	(216.6)	(226.3)
Retained profit for the financial year	21	85.8	185.2
Basic earnings per share	9	40.9p	52.8p
Basic earnings per share before exceptionals	9	45.7p	48.0p
Diluted earnings per share	9	40.8p	52.6p
Diluted earnings per share before exceptionals	9	45.7p	47.9p

¹ Restated on adoption of FRS20 'Shared-based payment' and UITF38 'Accounting for ESOP Trusts' (see note 21).

² Relates to Handbag a discontinued operation.

³ Discontinued operations (see note 3).

Other primary statements of the group

Statement of total recognised gains and losses

	2005 £m	Restated ¹ 2004 £m
For the year ended 31st March 2005		
Profit for the financial year attributable to shareholders	302.4	411.5
Currency translation adjustments	1.5	(14.8)
Total recognised gains and losses for the year	<u>303.9</u>	<u>396.7</u>
Prior year adjustment in respect of adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21)	38.7	
Total recognised gains and losses since last annual report	<u>342.6</u>	

Currency translation differences include tax of £nil (2004 £(2.2)m)

Currency translation differences are net of gains or losses on currency hedges of £(4.9)m (2004 £9.9m) and associated tax credit of £0.4m (2004 charge £2.4m)

Note on historical cost profits and losses

	2005 £m	Restated ¹ 2004 £m
For the year ended 31st March 2005		
Reported profit on ordinary activities before taxation	427.6	579.9
Realisation of property revaluation surpluses	1.3	15.0
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	1.0	1.1
Historical cost profit on ordinary activities before taxation	429.9	596.0
Historical cost profit retained	88.1	201.3

Reconciliation of movements in equity shareholders' funds

	2005 £m	Restated ¹ 2004 £m
For the year ended 31st March 2005		
Total recognised gains and losses for the year	303.9	396.7
Dividends	(216.6)	(226.3)
New share capital issued (net of expenses)	2.0	0.3
Repurchase of shares	(300.0)	(259.9)
Charge for 'Share-based payment' share scheme awards	5.8	8.4
Disposal of own shares	7.7	2.7
Net decrease in equity shareholders' funds	(197.2)	(78.1)
Opening equity shareholders' funds ²	1,806.6	1,884.7
Closing equity shareholders' funds	1,609.4	1,806.6

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

² Originally £1,881.3m before deducting prior year adjustment of £74.7m (see note 21).

Balance Sheets

31st March 2005	Notes	Group 2005 £m	Restated ¹ Group 2004 £m	Company 2005 £m	Company 2004 £m
Fixed assets					
Intangible assets	10	283.4	281.5	—	—
Tangible assets	11	1,593.1	1,499.4	—	—
Investments	12	—	—	2,103.6	1,106.7
		<u>1,876.5</u>	<u>1,780.9</u>	<u>2,103.6</u>	<u>1,106.7</u>
Current assets					
Stocks	13	713.6	690.8	—	—
Debtors falling due within one year	14	582.4	516.0	1,721.4	1,205.3
Debtors falling due after more than one year	14	151.0	165.9	—	502.6
Current asset investments and deposits	15	19.4	239.1	—	223.0
Cash at bank and in hand		109.4	110.5	27.7	—
		<u>1,575.8</u>	<u>1,722.3</u>	<u>1,749.1</u>	<u>1,930.9</u>
Creditors: Amounts falling due within one year	16	(1,074.1)	(1,135.3)	(1,150.5)	(455.2)
Net current assets		<u>501.7</u>	<u>587.0</u>	<u>598.6</u>	<u>1,475.7</u>
Total assets less current liabilities		<u>2,378.2</u>	<u>2,367.9</u>	<u>2,702.2</u>	<u>2,582.4</u>
Creditors: Amounts falling due after more than one year	17	(588.7)	(382.9)	(541.0)	(869.6)
Provisions for liabilities and charges	20	(179.0)	(177.2)	—	—
Net assets		<u>1,610.5</u>	<u>1,807.8</u>	<u>2,161.2</u>	<u>1,712.8</u>
31st March 2005					
	Notes	Group 2005 £m	Restated ¹ Group 2004 £m	Company 2005 £m	Company 2004 £m
Capital and reserves					
Called up share capital	21, 23	182.6	193.9	182.6	193.9
Share premium account	21	2.3	0.3	2.3	0.3
Revaluation reserve	21	241.9	244.2	—	—
Capital redemption reserve	21	26.5	15.2	26.5	15.2
Merger reserve	21	310.8	310.8	—	—
Profit and loss account	21	845.3	1,042.2	1,949.8	1,503.4
Equity shareholders' funds		<u>1,609.4</u>	<u>1,806.6</u>	<u>2,161.2</u>	<u>1,712.8</u>
Equity minority interests		<u>1.1</u>	<u>1.2</u>	<u>—</u>	<u>—</u>
		<u>1,610.5</u>	<u>1,807.8</u>	<u>2,161.2</u>	<u>1,712.8</u>

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

Group cash flow statement

For the year ended 31st March 2005	Notes	2005 £m	2004 £m
Cash inflow from operating activities	24	514.7	637.8
Returns on investment and servicing of finance			
Interest paid		(34.3)	(40.4)
Interest received		14.5	17.8
Dividends paid by subsidiaries to minority interests		(0.6)	—
		<u>(20.4)</u>	<u>(22.6)</u>
Taxation		<u>(128.8)</u>	<u>(166.2)</u>
Capital expenditure and financial investment			
Purchase of fixed assets		(303.4)	(194.2)
Disposal of fixed assets		20.5	149.6
		<u>(282.9)</u>	<u>(44.6)</u>
Acquisitions and disposals	4	<u>(9.0)</u>	<u>(2.2)</u>
Equity dividends paid		<u>(225.1)</u>	<u>(229.1)</u>
Cash (outflow)/inflow before use of liquid resources and financing		<u>(151.5)</u>	173.1
Management of liquid resources			
Decrease in short term deposits		219.7	53.5
Financing			
Capital element of finance lease rental agreements		(5.7)	(5.9)
Increase/(decrease) in other borrowings		293.3	(11.0)
Cash inflow/(outflow) from change in borrowings and lease financing		287.6	(16.9)
Issue of ordinary share capital (net of expenses)		2.1	0.3
Repurchase of shares		(303.3)	(264.6)
Disposal of own shares		7.7	2.3
		<u>(5.9)</u>	<u>(278.9)</u>
Increase/(decrease) in cash in the year		<u><u>62.3</u></u>	<u><u>(52.3)</u></u>

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Reconciliation of net cash flow to movement in net debt

For the year ended 31st March 2005	Notes	2005 £m	2004 £m
Increase/(decrease) in cash in the year		62.3	(52.3)
Cash inflow from change in liquid resources	25	(219.7)	(53.5)
Cash (inflow)/outflow from change in borrowings and lease financing	25	(287.6)	16.9
Movement in net debt resulting from cash flows		<u>(445.0)</u>	(88.9)
Finance lease additions		(1.5)	(4.2)
Currency and other non-cash adjustments		0.9	(3.9)
Movement in net debt during the year		<u>(445.6)</u>	(97.0)
Opening net debt		(148.5)	(51.5)
Closing net debt	25	<u><u>(594.1)</u></u>	<u><u>(148.5)</u></u>

Net debt comprises cash, liquid resources, finance leases and all other borrowings.

Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group and company financial statements except as noted below:

Implementation of FRS20 – Share-based payment

During the year, the company adopted FRS20, issued by the Accounting Standards Board in April 2004, and has restated the 2004 comparatives accordingly. The directors believe that the fair value approach underlying FRS20 gives a more appropriate view of the impact of share-based payment transactions than the previous amortisation treatment, and so the standard has been adopted early. The effects of implementation are shown in note 21.

Implementation of UITF38 – Accounting for ESOP trusts

During the year, the company adopted UITF38, issued by the Accounting Standards Board and requiring adoption for accounting periods ending on or after 22nd June 2004. Comparatives have been restated accordingly. The effects of implementation are shown in note 21.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain land and buildings.

A separate profit and loss account for the company has not been presented as permitted by section 230(4) of the Companies Act 1985.

Consolidation

The group financial statements combine the results of the company and all its subsidiaries and joint ventures, to the extent of group ownership and after eliminating intra-group transactions.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Joint ventures are those undertakings, not recognised as subsidiaries, in which the group has a participating interest and are jointly controlled. The group's share of the results of joint ventures, which are accounted for under the gross equity method, are included in the profit and loss account and its share of their net assets is included in investments in the group balance sheet.

In the company balance sheet, investments in subsidiaries and joint ventures are stated at cost (being the par value of shares issued where merger relief applies) less impairments.

Foreign currencies

The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets (net of any related tax effects), are dealt with through reserves.

Where foreign currency hedges are taken out for committed future foreign currency purchases, the fair value of those hedges are not included in the profit and loss account and balance sheet. All other exchange differences are dealt with in the profit and loss account.

The cost of the company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made, except where hedge accounting applies in which case the year end rate is used.

Accounting policies (continued)

Goodwill and intangible assets

Goodwill on acquisitions comprises the excess of the fair value of the consideration plus any associated costs for investments in subsidiary undertakings and joint ventures over the fair value of net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. On disposal of such businesses, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, not exceeding 20 years.

The cost of intangible assets acquired (which are capitalised only if separately identifiable) is not amortised except where the end of the useful economic lives of the acquired intangible asset can be reasonably foreseen. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

Tangible fixed assets and depreciation

Depreciation of tangible fixed assets is provided to write off the cost or valuation, less residual value, by equal instalments over their expected useful economic lives as follows:

- Freehold land, assets in the course of construction — not depreciated
- Freehold and long leasehold buildings, depreciated to their estimated residual values over their useful economic lives of not more than 50 years
- Short leasehold properties — remaining period of lease when less than 50 years
- Computer equipment including software — 3 to 8 years
- Motor cars — 4 or 5 years
- Other motor vehicles — 3 to 10 years
- Fixtures and plant — 3 to 20 years

Any impairment in the value of fixed assets is recognised immediately.

The group adopted the transitional provisions of FRS15 'Tangible Fixed Assets' to retain the book value of land and buildings many of which were last revalued in 1993 and has not adopted a policy of annual revaluations for the future.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

Share-based payment transactions

Shares in the company which have been purchased for the benefit of employees under various incentive schemes, are held in three employee share ownership trusts:

- The qualifying employee share ownership trust (QUEST) provides for the all employee SAYE Scheme

Accounting policies (continued)

- Shares owned by the ESOP trusts form part of the Boots Long Term Bonus Scheme for executive directors and senior employees
- Shares owned by all the employee share ownership plan (AESOP) are conditionally gifted to all employees employed at a qualifying date and then held in trust for a qualifying service period of not less than three years

Shares are held at original cost in the own shares reserve which forms part of the overall profit and loss reserve.

Expense arising from share based payments

The fair value of the shares/options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the shares/options. The fair value is based on market value. The amount recognised as an expense reflects the estimated number of shares/options that are expected to vest except where forfeiture is only due to 'total share holder return' targets not being achieved.

In accordance with the transitional provisions of FRS20, no expense is recorded in respect of grants made under the above schemes prior to 7th November 2002.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

Derivative financial instruments

The derivative financial instruments used by the group to manage its interest rate and currency risks are interest rate swaps, currency swaps and forward rate contracts. Interest receipts and payments arising on interest rate swaps are recognised within net interest payable over the period of the contract. Termination payments made or received are amortised over the life of the underlying exposure in cases where the exposure continues to exist, and taken to the profit and loss account immediately where the underlying exposure ceases to exist. Interest receipts and payments arising on currency swaps are recognised gross within interest payable and interest receivable over the period of the contract. Gains and losses arising on forward currency contracts entered into to hedge trading transactions are recognised in the profit and loss account in the same period as the underlying exposure. Forward contracts hedging cash and borrowings are valued at closing rates of exchange at each period end, with gains and losses offset against the related cash and borrowings. The interest differential on these instruments is recognised against net interest payable.

Turnover

Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income. Consideration received from customers is only recorded as turnover when the group has completed full performance in respect of that consideration.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Accounting policies (continued)

Research and development

Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pensions

Pension costs are recognised in the financial statements in accordance with the requirements of SSAP24 'Accounting for Pension Costs'.

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

The group continues to follow the transitional provisions as permitted by FRS17 'Retirement Benefits' at 31st March 2005 which are disclosed in Note 27.

Leases

The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases (being leases which give rights to the group approximating to ownership) is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation

Deferred tax is provided in respect of all timing differences that have originated, but not reversed, by the balance sheet date except as required by FRS19 'Deferred Tax'. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rates and laws substantively enacted at the balance sheet date.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and joint ventures as there is no commitment to remit these profits. It is not anticipated that any significant taxation will become payable on the revaluation surplus or sale of properties, as taxation on gains on properties used for the purpose of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

Notes relating to the financial statements

1. Segmental information

(i) Turnover by business segment

	2005 £m	Restated ¹ 2004 £m
Health	1,862.5	1,773.9
Beauty & Toiletries	2,054.7	1,997.4
Lifestyle	733.9	707.7
Boots The Chemists	4,651.1	4,479.0
Boots Opticians	182.5	199.7
	4,833.6	4,678.7
Boots Healthcare International ²	494.2	476.0
Boots Retail International ³	46.4	41.6
Group and other ⁴	67.7	90.1
Continuing operations	5,441.9	5,286.4
Discontinued operations ⁵	28.8	40.0
Turnover: Group and share of joint ventures	5,470.7	5,326.4

¹ Restated for transfer of Boots Insurance Services from Boots Opticians to Boots The Chemists and product reclassification including the transfer of Health food from Health to Lifestyle.

² Boots Healthcare International also made inter-segmental sales of £28.5m (2004 £28.6m).

³ Boots Retail International also made inter-segmental sales of £1.9m (2004 £1.4m).

⁴ Group and other includes Boots Manufacturing third party sales of £64.8m (2004 £68.4m).

⁵ Discontinued operations include LASIK, Dentistry, Chiropody, Laser Hair Removal and the Handbag joint venture.

(ii) Turnover by geographical segment

	Origin 2005 £m	Origin 2004 £m	Destination 2005 £m	Destination 2004 £m
UK	4,913.8	4,813.3	4,867.0	4,761.7
Rest of Europe	371.0	336.5	396.6	370.5
Rest of World	185.9	176.6	207.1	194.2
	5,470.7	5,326.4	5,470.7	5,326.4

Included in the UK is turnover of £28.8m (2004 £40.0m) from discontinued operations. In addition, inter-segmental sales were made of £130.4m (2004 £117.6m).

(iii) Profit before interest and taxation by business segment

	Before exceptional items 2005 £m	Total 2005 £m	Restated ^{1,2} before exceptional items 2004 £m	Restated ^{1,2} total 2004 £m
Boots The Chemists	470.0	471.2	532.6	525.3
Boots Opticians	4.2	4.2	12.9	12.9
	474.2	475.4	545.5	538.2
Boots Healthcare International	87.8	95.3	80.6	80.6
Boots Retail International	(8.2)	(8.2)	(10.4)	(10.4)
Group and Other ³	(45.6)	(52.2)	(45.6)	(5.9)
Continuing operations	508.2	510.3	570.1	602.5
Discontinued operations ⁴	(7.1)	(62.9)	(21.1)	(17.1)
Profit before interest and taxation	501.1	447.4	549.0	585.4

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

² Restated for transfer of Boots Insurance Services from Boots Opticians to Boots The Chemists.

³ Group and Other consists of head office and other costs not allocated to business segments.

⁴ Discontinued operations include LASIK, Dentistry, Chiropody, Laser Hair Removal and the Handbag joint venture.

For an analysis of exceptional items see note 3.

1. Segmental information (continued)

(iv) Profit before interest and taxation by geographical origin

	Before exceptional items 2005 £m	Total 2005 £m	Restated ¹ before exceptional items 2004 £m	Restated ¹ total 2004 £m
UK	406.3	345.1	468.5	504.9
Rest of Europe	76.9	77.1	68.0	68.0
Rest of World	17.9	25.2	12.5	12.5
Profit before interest and taxation	501.1	447.4	549.0	585.4

Included in the UK is operation profit of £62.9m (2004 £17.1m) from discontinued operations.

(v) Net assets by business segment

	2005 £m	Restated ¹ 2004 £m
Boots The Chemists	2,043.6	1,801.4
Boots Opticians	56.8	31.3
	2,100.4	1,832.7
Boots Healthcare International	453.6	426.7
Boots Retail International	26.6	17.5
Other	55.5	61.2
Net operating assets — continuing operations	2,636.1	2,338.1
Net operating assets — discontinued operations	(4.3)	31.3
Unallocated net liabilities	(1,021.3)	(561.6)
Group net operating assets	1,610.5	1,807.8

Net operating assets include intangible and tangible fixed assets, investment in joint ventures, stocks, third party debtors and creditors. Unallocated net liabilities includes all taxation balances, dividend creditors and net debt.

(vi) Net operating assets by geographical segment

	2005 £m	Restated ¹ 2004 £m
UK	2,085.6	1,811.1
Rest of Europe	504.8	464.5
Rest of World	41.4	93.8
	2,631.8	2,369.4

¹ Restated on adoption of FRS20 'Share based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

2. Total operating profit

	Continuing operations 2005 £m	Discontinued operations 2005 £m	Total 2005 £m	Restated ¹ continuing operations 2004 £m	Discontinued operations 2004 £m	Restated ¹ total 2004 £m
Group turnover	5,441.9	27.2	5,469.1	5,286.4	38.6	5,325.0
Cost of sales	(2,931.6)	(19.2)	(2,950.8)	(2,868.5)	(24.4)	(2,892.9)
Gross profit	2,510.3	8.0	2,518.3	2,417.9	14.2	2,432.1
Selling, distribution and store costs	(1,724.7)	(7.7)	(1,732.4)	(1,519.4)	(18.6)	(1,538.0)
Research and development costs	(22.6)	—	(22.6)	(21.3)	—	(21.3)
Administrative expenses	(254.8)	(6.8)	(261.6)	(307.1)	(15.6)	(322.7)
Group operating profit²	508.2	(6.5)	501.7	570.1	(20.0)	550.1
Share of operating loss of joint ventures	—	(0.6)	(0.6)	—	(1.1)	(1.1)
Total operating profit including share of joint ventures	508.2	(7.1)	501.1	570.1	(21.1)	549.0

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

² Costs of £45.5m have been included in 2004 for rationalising head office as part of the Getting in Shape programme.

There have been no significant acquisitions during the two year period.

<u>Total operating profit is after charging</u>	2005 £m	2004 £m
Operating lease rentals		
• Property rents	189.2	182.2
• Computer and plant hire	23.8	22.7
Depreciation, amortisation and impairments of fixed assets	146.3	133.6
Auditors' remuneration, including £0.2m (2004 £0.2m) for the company	1.0	0.9

The group auditors and their associates also received £0.8m (2004 £1.9m) in respect of non-audit services in the UK. This represents less than 5% of consultancy and professional services costs of the group for 2005. This included:

- further assurance services of £0.1m (2004 £1.2m) that included advice on accounting matters and an ongoing audit review of a major new systems development;
- tax services of £0.3m (2004 £0.5m) with £0.1m (2004 £0.2m) relating to compliance work, the balance being advisory;
- other services of £0.4m (2004 £0.2m).

These latter arrangements are covered by written agreements to ensure the objectivity and independence of the auditor is not compromised.

3. Exceptional items

	Continuing operations 2005 £m	Discontinued operations 2005 £m	Total 2005 £m	Continuing operations 2004 £m	Discontinued operations 2004 £m	Total 2004 £m
Profit on disposal of fixed assets¹	3.0	—	3.0	32.5	—	32.5
Provision for loss on closure of operations	—	(5.4)	(5.4)	—	3.9	3.9
Loss on disposal of business ² (see note 4)	—	(51.3)	(51.3)	—	—	—
Total exceptional items before taxation	3.0	(56.7)	(53.7)	32.5	3.9	36.4
Attributable tax credit (see note 6)	1.1	16.8	17.9	0.6	—	0.6
	4.1	(39.9)	(35.8)	33.1	3.9	37.0

¹ The current year profit is net of a £9.2m loss in respect of the closure of the Airdrie manufacturing facility.

² Loss on disposal of businesses in 2005 relates to the Dentistry and LASIK businesses and the sale of the Handbag joint venture.

4. Acquisition and disposal of businesses

(i) Acquisitions

All businesses acquired have been accounted for using the acquisition method of accounting. None of these were individually significant and they are therefore not shown separately.

During the year, Boots The Chemists acquired a number of pharmacy businesses for £4.7m (2004 £0.9m). There were no significant fair value adjustments in respect of these acquisitions.

(ii) Disposals

	2005 £m	2004 £m
Tangible fixed assets	(29.3)	—
Net assets disposed of	(29.3)	—
Related goodwill	(1.6)	—
Disposal and other termination costs	(20.0)	—
Loss on disposal of businesses	(50.9)	—
Loss on disposal of joint venture	(0.4)	—
Total loss on disposal	(51.3)	—

The principal disposals in the year were of the Dentistry (completed on 20th January 2005) and LASIK (completed on 10th November 2004) businesses to Optical Express. These have been treated as discontinued operations. The consideration was £nil. The Chiropody and Laser Hair Removal businesses were also exited.

There were no disposals in the year to 31st March 2004.

(iii) Net cash (outflow) for acquisitions and disposals

	2005 £m	2004 £m
Acquisition of businesses	(4.7)	(1.1)
Disposal of business	0.3	—
Cash balances acquired with businesses	(0.3)	—
Costs of disposal paid	(3.6)	—
Investment in joint ventures	(0.7)	(1.1)
	(9.0)	(2.2)

5. Net interest payable and similar items

	2005 £m	2004 £m
Interest payable and similar charges:		
Bank loans and overdrafts	(8.3)	(6.2)
Other loans ¹	(24.6)	(18.1)
Finance lease charges	(0.5)	(0.7)
Income from interest rate swaps	4.1	6.8
	<u>(29.3)</u>	<u>(18.2)</u>
Interest receivable and similar income	10.1	13.2
Share of interest of joint ventures	(0.6)	(0.5)
Net interest payable and similar items	<u>(19.8)</u>	<u>(5.5)</u>

¹ Included in other loans is interest payable on the £300m eurobond of £16.5m (2004 £16.5m) and €300m eurobond of £2.4m (2004 £nil).

6. Tax on profit on ordinary activities

	2005 £m	Restated ¹ 2004 £m
Current tax:		
UK corporation tax at 30.0% (2004 30.0%)	106.4	121.8
Share of tax charge of joint ventures	1.2	—
Adjustments in respect of prior periods	(5.2)	(5.5)
	<u>102.4</u>	<u>116.3</u>
Relief for overseas taxation	(1.1)	(4.1)
	<u>101.3</u>	<u>112.2</u>
Overseas taxation	23.1	16.7
Total current tax charge for the year	124.4	128.9
Deferred taxation (see note 20):		
Origination and reversal of timing differences	0.3	38.8
Tax on profit on ordinary activities	124.7	167.7
Tax credit included above attributable to exceptional non-operating items	(17.9)	(0.6)

Reconciliation of current tax charge

The UK standard rate of corporation tax for the year is 30.0% (2004 30.0%). The actual tax charge for the current and previous year is below the standard rate for the reasons set out in the following reconciliation:

	2005 £m	Restated ¹ 2004 £m
Profit on ordinary activities before taxation	427.6	579.9
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30.0% (2004 30.0%)	128.3	174.0
Factors affecting charge for the year:		
Changes in accelerated capital allowances	(6.4)	(4.8)
Changes in pension fund prepayment	1.7	(6.6)
Other timing differences	(0.6)	(15.3)
Intangibles amortisation	(4.5)	(6.5)
Disallowable expenses	4.4	3.8
Exceptional items including losses on disposals and closure costs	2.1	(11.9)
Foreign tax charged at higher rates than UK standard rate	4.6	1.7
Prior year adjustments	(5.2)	(5.5)
Total current tax charge for the year	124.4	128.9

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

6. Tax on profit on ordinary activities (continued)

Taxation on gains on properties used for the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

The group has only recognised as a deferred tax asset overseas losses which are likely to be utilised in the next five years. Where there is no certainty of recovery no asset has been recognised. Unprovided deferred tax on losses net of amortisation is £15.1m (2004 £20.2m).

7. Profit for the financial year attributable to shareholders

Boots has not presented its own profit and loss account as permitted by section 230 (4) of the Companies Act 1985.

Of the profit attributable to shareholders, £965.4m (2004 £997.3m) is dealt with in the financial statements of the company.

8. Dividends paid and proposed

	<u>2005</u> p per share	2004 p per share	<u>2005</u> £m	2004 £m
Interim	9.1	8.8	66.5	67.7
Final proposed	21.0	21.0	150.1	158.6
	<u>30.1</u>	<u>29.8</u>	<u>216.6</u>	<u>226.3</u>

9. Earnings per share

	<u>2005</u>	Restated ¹ 2004
Basic earnings per share before exceptional items	45.7 p	48.0p
Effect of exceptional items	(4.8)p	4.8p
Basic earnings per share	40.9 p	52.8p
Diluted earnings per share before exceptional items	45.7 p	47.9p
Effect of exceptional items	(4.9)p	4.7p
Diluted earnings per share	<u>40.8 p</u>	<u>52.6p</u>

The calculation of basic and diluted earnings per share is based on:

<u>Earnings</u>	<u>2005</u> £m	Restated ¹ 2004 £m
Earnings for basic and diluted earnings per share calculation before exceptional items	338.2	374.5
Exceptional items (see note 3)	(35.8)	37.0
Earnings for basic and diluted earnings per share calculation	<u>302.4</u>	<u>411.5</u>

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

<u>Number of shares</u>	<u>2005</u> m	2004 m
Weighted average number of shares used in basic earnings per share calculation	739.8	780.0
Dilutive effect of options	1.1	1.7
Weighted average number of shares used in diluted earnings per share calculation	<u>740.9</u>	<u>781.7</u>

The weighted average number of shares used in basic earnings per share calculation excludes 10.4m (2004 12.6m) shares held by The Boots ESOP Trust, the QUEST and unappropriated shares held by Boots Share Plan Trustees where the rights to dividends have been waived.

The dilutive effect relates to options under an employee savings related scheme and executive option schemes.

Basic and diluted earnings per share before exceptional items are disclosed to reflect the underlying performance of the group.

10. Intangible fixed assets

<u>Group</u>	<u>Purchased goodwill £m</u>	<u>Product rights acquired £m</u>	<u>Total £m</u>
Cost			
At 1st April 2003	31.0	304.4	335.4
Currency adjustments	—	(16.8)	(16.8)
Additions	0.9	0.2	1.1
At 31st March 2004	31.9	287.8	319.7
Currency adjustments	—	2.0	2.0
Additions	4.5	0.8	5.3
Disposals	—	(3.6)	(3.6)
At 31st March 2005	36.4	287.0	323.4
Amortisation			
At 1st April 2003	6.3	27.8	34.1
Currency adjustments	—	0.2	0.2
Charge for year	1.6	2.3	3.9
At 31st March 2004	7.9	30.3	38.2
Currency adjustments	—	0.1	0.1
Charge for year	1.5	2.2	3.7
Disposals	—	(3.6)	(3.6)
Impairments ¹	1.6	—	1.6
At 31st March 2005	11.0	29.0	40.0
Net book value at 31st March 2004	24.0	257.5	281.5
Net book value at 31st March 2005	25.4	258.0	283.4

¹ The impairment of goodwill relates to the exit from the services businesses and has been charged to Exceptional Items.

Brands acquired by the company or by its subsidiaries, namely Clearasil and Dobendan and its derivatives are well known and well positioned in their markets and Boots Healthcare International (BHI) plans to improve this position from a programme of continued investment. BHI have therefore concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence, an annual impairment review is undertaken. The valuation of these brands has been in excess of the carrying values in the accounts for the two years presented. The majority of the other product rights are where the group has a licence to market other people's brands in specific countries.

11. Tangible fixed assets

<u>Group</u>	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1st April 2003	788.0	373.2	1,214.5	2,375.7
Currency adjustments	(0.9)	(0.5)	(0.9)	(2.3)
Additions	5.6	29.2	180.1	214.9
Disposals	(85.5)	(16.6)	(52.9)	(155.0)
Reclassifications and transfers	(7.0)	3.7	3.3	—
At 31st March 2004	700.2	389.0	1,344.1	2,433.3
Currency adjustments	0.6	0.6	0.9	2.1
Additions	7.1	19.0	262.2	288.3
Disposals	(6.6)	(27.0)	(75.0)	(108.6)
Reclassifications	(0.7)	(103.6)	104.3	—
At 31st March 2005	700.6	278.0	1,636.5	2,615.1
Depreciation				
At 1st April 2003	61.0	218.6	579.6	859.2
Currency adjustments	(0.4)	(0.3)	(0.7)	(1.4)
Depreciation for year	8.4	28.4	88.1	124.9
Disposals	(1.6)	(11.1)	(36.1)	(48.8)
Reclassifications and transfers	(4.3)	2.9	1.4	—
At 31st March 2004	63.1	238.5	632.3	933.9
Currency adjustments	0.1	0.3	0.5	0.9
Depreciation for year	7.3	19.2	117.5	144.0
Disposals	(2.2)	(15.9)	(38.7)	(56.8)
Reclassifications	—	(75.3)	75.3	—
At 31st March 2005	68.3	166.8	786.9	1,022.0
Net book value at 31st March 2004	637.1	150.5	711.8	1,499.4
Net book value at 31st March 2005	632.3	111.2	849.6	1,593.1

The cost of plant and machinery includes £19.3m (2004 £21.4m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £10.2m (2004 £11.1m) and for which the depreciation charge for the year was £2.8m (2004 £3.6m).

Tangible fixed assets include payments on account and assets in the course of construction of £79.5m (2004 £121.4m).

In 2005 disposals include assets with a net book value of £29.3m associated with the disposal of businesses (see note 4).

	Group 2005 £m	Group 2004 £m
Net book value of land and buildings comprises:		
Freehold	519.2	527.5
Long leasehold (more than 50 years unexpired)	78.3	78.5
Short leasehold	34.8	31.1
	632.3	637.1
Analysis of cost or valuation of land and buildings:		
Cost	191.4	180.6
Valuation of properties — Directors 1993	508.3	511.1
— Independent 1989 and prior	0.9	8.5
	700.6	700.2
Value of tangible fixed assets under the historical cost convention:		
Cost	2,362.5	2,179.4
Depreciation	1,013.3	926.2
Net book value	1,349.2	1,253.2

11. Tangible fixed assets (continued)

The valuations of properties were based upon existing use.

12. Fixed asset investments

<u>Group</u>	Joint venture equity £m	Loans to joint venture £m	Total £m
Cost			
At 1st April 2003	(8.8)	10.0	1.2
Additions	—	1.6	1.6
Share of retained losses for the financial year	(1.4)	—	(1.4)
At 31st March 2004	(10.2)	11.6	1.4
Additions	—	0.7	0.7
Disposals	12.6	(12.3)	0.3
Share of retained losses for the financial year	(2.4)	—	(2.4)
At 31st March 2005	—	—	—
Provision/amortisation			
As at 1st April 2003	—	1.2	1.2
Impairments	—	0.2	0.2
At 31st March 2004	—	1.4	1.4
Impairments	—	(1.4)	(1.4)
At 31st March 2005	—	—	—
Net book value at 31st March 2004	(10.2)	10.2	—
Net book value at 31st March 2005	—	—	—
<u>Company</u>	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1st April 2003	209.0	1,178.4	1,387.4
Currency adjustments	—	(3.3)	(3.3)
Additions	—	18.4	18.4
Disposals	—	(295.8)	(295.8)
At 31st March 2004	209.0	897.7	1,106.7
Currency adjustments	—	5.8	5.8
Additions	805.0	455.3	1,260.3
Disposals	—	(250.0)	(250.0)
At 31st March 2005	1,014.0	1,108.8	2,122.8
Provision/amortisation			
At 1st April 2004	—	—	—
Movement	—	19.2	19.2
At 31st March 2005	—	19.2	19.2
Net book value at 31st March 2004	209.0	897.7	1,106.7
Net book value at 31st March 2005	1,014.0	1,089.6	2,103.6

12. Fixed asset investments (continued)

The principal subsidiary undertakings are as follows:

Company	Principal activities	Percentage held by company ¹	Percentage held by subsidiary undertakings
Boots Group PLC	Investing		
Subsidiary undertakings (incorporated in Great Britain)			
The Boots Company PLC	Manufacturing, marketing and distribution of healthcare and consumer products	100	
Boots Healthcare International Ltd.	Marketing consumer products		100
Boots Properties Limited	Property holding		100
Boots The Chemists Ltd.	Retail chemists		100
Boots Holdings (BH) Ltd.	Holding Company	100	

¹ Percentages relate to holdings of ordinary share capital.

13. Stocks

	Group 2005 £m	Group 2004 £m
Manufacturing:		
Raw materials	26.8	28.4
Work in progress	11.6	10.3
Finished goods	91.4	89.1
	129.8	127.8
Retailing	583.8	563.0
	713.6	690.8

14. Debtors

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Falling due within one year:				
Trade debtors	413.8	360.7	—	—
Owned by subsidiary undertakings	—	—	1,710.9	1,192.9
Owned by joint venture	—	0.1	—	—
Other debtors	69.9	52.8	—	—
Deferred tax asset (see note 20)	1.5	1.0	—	—
Prepayments and accrued income	85.7	87.9	1.1	3.3
Corporation tax	11.5	13.5	9.4	9.1
	582.4	516.0	1,721.4	1,205.3
Falling due after more than one year:				
Other debtors	147.6	163.9	—	502.6
Deferred tax asset (see note 20)	3.4	2.0	—	—
	151.0	165.9	—	502.6
	733.4	681.9	1,721.4	1,707.9

Other debtors include pension prepayments (see note 27).

15. Current asset investments and deposits

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Listed investments	0.1	0.1	—	—
Short term deposits	19.3	239.0	—	223.0
	19.4	239.1	—	223.0
Market value of investments listed on the London Stock Exchange	0.2	0.2	—	—

16. Creditors: Amounts falling due within one year

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Borrowings (see note 18)	173.1	156.5	110.2	141.9
Trade creditors	364.4	402.8	—	—
Due to subsidiary undertakings	—	—	874.0	137.9
Due to joint venture	—	3.2	—	—
Bills of exchange	0.9	1.5	—	—
Corporation tax	95.1	103.2	—	—
Taxation and social security (including VAT and other sales taxes)	29.1	29.1	0.1	0.1
Other creditors	57.9	135.5	0.2	2.6
Accruals and deferred income	203.5	144.9	15.9	14.1
Dividends (see note 8)	150.1	158.6	150.1	158.6
	1,074.1	1,135.3	1,150.5	455.2

17. Creditors: Amounts falling due after more than one year

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Borrowings (see note 18)	549.8	341.6	541.0	308.8
Due to subsidiary undertakings	—	—	—	560.8
Corporation tax	0.6	—	—	—
Other creditors	5.4	8.8	—	—
Accruals and deferred income	32.9	32.5	—	—
	588.7	382.9	541.0	869.6

The only creditors falling due after more than five years are included in borrowings, details of which are shown in note 18.

18. Borrowings

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Bank loans and overdrafts repayable on demand	49.0	112.9	30.0	141.9
Other bank loans and overdrafts ¹	135.1	74.6	80.0	—
Variable rate notes – Sterling ²	0.5	0.5	—	—
5.5% eurobond 2009 ³	300.0	300.0	308.8	308.8
Euro 300m floating eurobond 2007	206.1	—	206.1	—
Other medium term notes	25.8	—	25.8	—
Currency swaps	0.5	—	0.5	—
Obligations under finance leases	5.9	10.1	—	—
	<u>722.9</u>	<u>498.1</u>	<u>651.2</u>	<u>450.7</u>
Amounts included above repayable by instalments	<u>40.9</u>	<u>63.0</u>	—	—
Repayments fall due as follows:				
Within one year:				
• Bank loans and overdrafts	149.3	134.5	110.0	141.9
• Obligations under finance leases	4.0	4.1	—	—
• Other borrowings	19.8	17.9	0.2	—
	<u>173.1</u>	<u>156.5</u>	<u>110.2</u>	<u>141.9</u>
After more than one year:				
• Within one to two years	17.3	23.1	0.2	—
• Within two to five years	532.5	18.5	540.8	—
• After five years	—	300.0	—	308.8
	<u>549.8</u>	<u>341.6</u>	<u>541.0</u>	<u>308.8</u>
	<u>722.9</u>	<u>498.1</u>	<u>651.2</u>	<u>450.7</u>

¹ Other bank loans and overdrafts include £35.0m (2004 £52.8m) that relates to the factoring of certain rental commitments over a ten-year period up to March 2007.

² Variable rate notes are repayable, subject to certain restrictions, at the option of the holders.

³ The 5.5% eurobond 2009 was transferred from The Boots Company PLC to the new holding company, Boots Group PLC, on 20th January 2003 at its market value on that date of £308.8m.

The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted at 31st March 2005 are: £150m (2004 £150m) of the 5.5% eurobond 2009 and £nil (2004 £30m) of factored rental commitments.

The group has a number of currency swap agreements which convert Japanese Yen and Euro fixed and floating liabilities into sterling floating rate liabilities, with a total sterling liability of £77.9m (2004 £nil).

All borrowings are unsecured.

19. Financial instruments and derivatives

The disclosures for short term debtors and creditors have been excluded from the numerical disclosures in sections (i) and (ii) below as permitted by FRS13 'Derivatives and Other Financial Instruments: Disclosures'.

19. Financial instruments and derivatives (Continued)

(i) Fair values of financial assets and liabilities

Where available, fair values have been determined with reference to quoted market prices. All other fair values have been determined by discounting expected future cash flows at interest rates prevailing at 31st March 2005.

	Book value 2005 £m	Fair value 2005 £m	Book value 2004 £m	Fair value 2004 £m
Primary financial instruments held or issued to finance the group's operations:				
Cash in hand and bank	109.4	109.4	110.5	110.5
Current asset investments and deposits	19.4	19.5	239.1	239.2
Bank loans and overdrafts repayable on demand	(49.0)	(49.0)	(112.9)	(112.9)
5.5% eurobond 2009	(300.0)	(299.5)	(300.0)	(305.6)
€300m floating rate eurobond 2007	(206.1)	(206.3)	—	—
Other medium term notes	(25.8)	(25.8)	—	—
Obligations under finance leases	(5.9)	(5.9)	(10.1)	(10.1)
Other borrowings (excluding currency swaps)	(135.6)	(136.4)	(75.1)	(77.6)
Other financial liabilities ¹	(0.5)	(0.5)	(0.6)	(0.6)
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	4.4	5.7	4.8	8.2
Currency swaps	(0.5)	(0.5)	—	—
Forward Foreign Exchange Contracts	—	—	—	(0.3)

¹ Other financial liabilities are not included in net debt (see note 25).

(ii) Interest rate risk profile

The tables below reflect the interest rate and currency risk profile after taking into account the effect of interest rate swaps, currency swaps and forward foreign exchange contracts.

(a) Financial liabilities

Currency	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is payable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed years
Sterling	(356.2)	(190.9)	(0.5)	(547.6)	6.0	3.6
Euro	(158.0)	—	(0.6)	(158.6)	—	—
Other	(16.7)	—	—	(16.7)	—	—
At 31st March 2005	(530.9)	(190.9)	(1.1)	(722.9)	6.0	3.6
Sterling	(147.3)	(182.9)	(0.5)	(330.7)	5.9	4.6
Euro	(93.6)	—	(0.8)	(94.4)	—	—
Other	(73.6)	—	—	(73.6)	—	—
At 31st March 2004	(314.5)	(182.9)	(1.3)	(498.7)	5.9	4.6

The sterling and euro financial liabilities on which no interest is paid have weighted average periods to maturity of 0.1 and 1.2 years respectively (2004 2.0 and 1.2 years).

19. Financial instruments and derivatives (Continued)

(b) Financial assets

<u>Currency</u>	<u>£m</u>
Sterling	41.8
Euro	35.1
Other	51.9
As at 31st March 2005	128.8
Sterling	289.2
Euro	25.8
Other	39.4
At 31st March 2004	354.4

All financial assets held at 31st March 2005 and 31st March 2004 were at floating rates of interest.

The other currency financial assets relate mainly to bank deposits held by foreign subsidiary companies. The majority of the floating rate assets and liabilities receive or pay interest based on rates ruling in the London inter-bank market.

(iii) Foreign currency exposure profile

Operations with a sterling functional currency have Euro and US dollar monetary (liabilities)/ assets amounting to £(145.6)m (2004 £10.5m) and £1.9m (2004 £0.8m) respectively. Operations with non-sterling functional currencies have no monetary assets outside their local currencies (2004 US dollars £nil).

There were no other material foreign currency monetary assets and liabilities that may give rise to an exchange gain or loss in the profit and loss account.

(iv) Maturity of financial facilities

The group's undrawn committed facilities at 31st March 2005 of £520m (2004 £462m) expire in July 2009.

(v) The maturity of borrowings

Details are shown in note 18.

(vi) Hedging

Deferred gains of £7.0m (2004 £8.6m) resulting from the closure of interest rate swaps in respect of fixed rate borrowings are held in the balance sheet. It is expected that £3.2m (2004 £2.4m) will be recognised in the profit and loss account next year.

There were £12.5m (2004 £23.6m) nominal value forward foreign exchange contracts outstanding at 31st March 2005 used to hedge the cost of future foreign currency denominated purchases. There were also £7.6m (2004 £nil) nominal value forward foreign exchange contracts outstanding at 31st March 2005 used to hedge balance sheet liabilities. All contracts expire within one year. On a mark to market basis, the contracts have a fair value of £nil (2004 £0.3m loss).

20. Provision for liabilities and charges

<u>Group</u>	<u>Deferred taxation £m</u>	<u>Vacant property provisions £m</u>	<u>Closure or termination of operations £m</u>	<u>Total £m</u>
At 1st April 2003 as originally reported	127.5	9.6	36.7	173.8
Prior year adjustment¹	<u>(12.9)</u>	<u>—</u>	<u>—</u>	<u>(12.9)</u>
As at 1st April 2003 as restated	114.6	9.6	36.7	160.9
Transfer from debtors (see note 14)	<u>(4.9)</u>	<u>—</u>	<u>—</u>	<u>(4.9)</u>
	109.7	9.6	36.7	156.0
Currency adjustment	(0.6)	—	—	(0.6)
Profit and loss account	38.8	3.9	(6.6)	36.1
Utilised	—	(1.2)	(16.1)	(17.3)
Transfer to debtors (see note 14)	<u>3.0</u>	<u>—</u>	<u>—</u>	<u>3.0</u>
At 31st March 2004	<u>150.9</u>	<u>12.3</u>	<u>14.0</u>	<u>177.2</u>
Transfer from debtors (see note 14)	<u>(3.0)</u>	<u>—</u>	<u>—</u>	<u>(3.0)</u>
	147.9	12.3	14.0	174.2
Currency adjustment	1.4	—	—	1.4
Profit and loss account	0.3	1.2	54.7	56.2
Utilised	—	(1.9)	(55.8)	(57.7)
Transfer to debtors (see note 14)	<u>4.9</u>	<u>—</u>	<u>—</u>	<u>4.9</u>
At 31st March 2005	<u>154.5</u>	<u>11.6</u>	<u>12.9</u>	<u>179.0</u>

¹ Adjustment for the implementation of FRS5 application note G revenue recognition applicable for FY2003/4.

The vacant property provisions represent recognition of the net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of these provisions will vary according to the individual properties concerned.

The provision for closure or termination of operations relates to recognition of costs arising as a result of the Halfords, Lasik and Dentistry disposals, the withdrawal from Chiropody and the rationalising of the group's manufacturing facilities. The majority of these costs are expected to be incurred in the next two years.

	<u>Group 2005 £m</u>	<u>Group 2004 £m</u>
Analysis of deferred taxation provision:		
Accelerated capital allowances	87.8	78.5
Intangibles amortisation	31.5	38.5
Pension prepayments	50.0	51.6
Other items	<u>(14.8)</u>	<u>(17.7)</u>
	<u>154.5</u>	<u>150.9</u>
Deferred tax asset:		
Overseas losses (included in debtors — see note 14)	4.9	3.0

Unprovided deferred tax relating to property revaluations and rolled-over gains is not readily quantifiable but it is expected to be fully offset by available capital losses.

21. Capital and reserves

<u>Group</u>	<u>Profit and loss account £m</u>	<u>Called up share capital £m</u>	<u>Share premium account £m</u>	<u>Revaluation reserve £m</u>	<u>Capital redemption reserve £m</u>	<u>Merger reserve £m</u>	<u>Total £m</u>
At 1st April 2003 as originally reported	<u>1,219.2</u>	<u>203.5</u>	<u>—</u>	<u>260.3</u>	<u>5.6</u>	<u>310.8</u>	<u>1,999.4</u>
Prior year adjustment ¹	<u>(30.0)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(30.0)</u>
At 1st April 2003 as restated	<u>1,189.2</u>	<u>203.5</u>	<u>—</u>	<u>260.3</u>	<u>5.6</u>	<u>310.8</u>	<u>1,969.4</u>
Retained profit for the financial year	186.3	—	—	—	—	—	186.3
New share capital BG PLC issued	—	—	0.3	—	—	—	0.3
Revaluation surplus realised on disposals	15.0	—	—	(15.0)	—	—	—
Revaluation reserve element of depreciation charge	1.1	—	—	(1.1)	—	—	—
Repurchase of shares	(259.9)	(9.6)	—	—	9.6	—	(259.9)
Currency adjustments	(14.8)	—	—	—	—	—	(14.8)
At 31st March 2004	<u>1,116.9</u>	<u>193.9</u>	<u>0.3</u>	<u>244.2</u>	<u>15.2</u>	<u>310.8</u>	<u>1,881.3</u>

¹ Adjustment for the implementation of FRS5 application note G revenue recognition applicable for FY2003/4.

21. Capital and reserves (continued)

Group	Profit and loss account			Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Total £m
	Own shares £m	Other £m	Total £m						
At 1st April 2004 as originally reported	—	1,116.9	1,116.9	193.9	0.3	244.2	15.2	310.8	1,881.3
Retained profit 2004	—	(1.1)	(1.1)	—	—	—	—	—	(1.1)
Prior year's profit and loss	—	65.7	65.7	—	—	—	—	—	65.7
Prior year adjustment	(139.3)	64.6	(74.7)	—	—	—	—	—	(74.7)
At 1st April 2004 as restated	(139.3)	1,181.5	1,042.2	193.9	0.3	244.2	15.2	310.8	1,806.6
Retained profit for the financial year	—	85.8	85.8	—	—	—	—	—	85.8
New share capital BG PLC issued	—	—	—	—	2.0	—	—	—	2.0
Revaluation surplus realised on disposals	—	1.3	1.3	—	—	(1.3)	—	—	—
Revaluation reserve element of depreciation charge	—	1.0	1.0	—	—	(1.0)	—	—	—
Repurchase of shares (see note 23)	—	(300.0)	(300.0)	(11.3)	—	—	11.3	—	(300.0)
Charge for share scheme awards	—	5.8	5.8	—	—	—	—	—	5.8
Disposal of own shares	(20.7)	(13.0)	7.7	—	—	—	—	—	7.7
Currency adjustments	—	1.5	(1.5)	—	—	—	—	—	1.5
At 31st March 2005	(118.6)	963.9	845.3	182.6	2.3	241.9	26.5	310.8	1,609.4

¹ Adjustment for the implementation of FRS5 application note G revenue recognition in 2003/4.

The balance on the merger reserve at 31st March 2005 represents the difference between called up share capital of the company and the called up share capital, share premium account and capital redemption reserve of the former holding company (The Boots Company PLC) at 20th January 2003, the date of the capital reorganisation.

Goodwill set off against reserves is £394.3m (2004 £394.3m).

Impact of UITF38 'Accounting for ESOP trusts'

During the year, the introduction of UITF38 by the Accounting Standards Board has affected the treatment of fixed asset investments in own shares in the balance sheet. A prior year adjustment as at 31st March 2004 has been made to reduce fixed asset investments by £74.7m, increase profit and loss reserves by £64.6m and create an own shares reserve in equity of £139.3m. Net assets at 31st March 2004 have been reduced by £74.7m as a result of these changes. Under UITF38, any impairment in the carrying value of shares held in the Quest is no longer charged to the Profit and Loss account, and therefore an amount of £39.8m in respect of previous year's impairments has been credited to the Statement of Total Recognised Gains and Losses.

21. Capital and reserves (continued)

Impact of FRS20 'Share-based payment'.

The prior year operating profit has been reduced by £1.1m to reflect the impact of the early adoption of FRS20. An amount of £1.1m has been charged to the Statement of Total Recognised Gains and Losses in respect of the difference between the share scheme charge calculated on the new basis and that already charged. The impact of these charges on operating profit and net assets in the year to 31st March 2005 is £nil.

Capital and reserves analysis (Company figures)	Profit and loss account			Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Total £m
	Own shares £m	Other £m	Total £m				
At 1st April 2003	—	992.3	992.3	203.5	—	5.6	1,201.4
Issue of shares in Boots Group PLC	—	—	—	—	0.3	—	0.3
Retained profit for the financial year	—	771.0	771.0	—	—	—	771.0
Repurchase of shares (see note 22)	—	(259.9)	(259.9)	(9.6)	—	9.6	(259.9)
At 31st March 2004	—	1,503.4	1,503.4	193.9	0.3	15.2	1,712.8
Retained profit for the financial year	—	748.8	748.8	—	—	—	748.8
New share capital of Boots Group issued	—	—	—	—	2.0	—	2.0
Repurchase of shares	—	(300.0)	(300.0)	(11.3)	—	11.3	(300.0)
Charge for share scheme awards	—	4.6	4.6	—	—	—	4.6
Movement in own shares	(12.5)	5.5	(7.0)	—	—	—	(7.0)
At 31st March 2005	(12.5)	1,962.3	1,949.8	182.6	2.3	26.5	2,161.2

Distributable reserves

£763.8m of the profit and loss reserves relate to group restructurings and intra group property sales and are not distributable.

22. Share based payments

The group operates an All Employee Share Ownership Plan (AESOP). Under the Free share part of the plan employees in service for the whole of the preceding financial year are awarded a grant of free shares, conditional on completion of three years further service from the date of grant and a profit target being met. Shares are held in trust for employees from the date of grant. The cost of this plan is calculated by charging the entitlement to shares based on the group's estimate of the number of shares likely to vest.

The group also has a Long Term Bonus Scheme under which executive directors and certain senior executives can receive ordinary shares if a performance condition based on Total Shareholder Return is met. Awards are satisfied from shares purchased in the market held in an ESOP trust. The performance condition is a market based condition. Fair value is estimated at the beginning of each performance period based on expected performance and thereafter adjusted only for the impact of leavers.

Under an Executive Share Option Plan, executive directors and certain senior executives have been granted options to subscribe for ordinary shares subject to a performance condition based on the group's Earnings Per Share performance. The fair value of options on the date of grant has been estimated by an independent third party using a proprietary valuation model. The inputs into the model were option price (£5.76-£7.10), expected volatility (21-23%) based on historic volatility, expected dividend yield (5%), a share price of £6.50, a risk free rate of 5.5% and a term of ten years with no exercise possible during the first three years. This fair value has been spread over the expected vesting period based on estimates of future EPS performance and adjusted for leavers. New shares are issued to satisfy awards under this scheme.

A number of grants under the schemes listed above and also under a Save As You Earn (SAYE) option scheme were made before 7th November 2002. The recognition and measurement principles have not been applied to these grants in accordance with the transitional provisions of FRS20 Share-based payment'.

22. Share based payments (continued)

The terms and conditions of the grants made after 7th November 2002 whereby, all rights will be satisfied by the delivery of shares are as follows:

<u>Grant date</u>	<u>Number of instruments</u>	<u>Vesting conditions</u>	<u>Contractual life of options</u>
Executive options			
29/11/2002	63,842	EPS performance target after three years (retested if necessary at the end of 4, 5 and 6 years)	10 years
23/6/2003	1,568,547	EPS performance target after three years (retested if necessary at the end of 4, 5 and 6 years)	10 years
18/9/2003	272,925		10 years
4/12/2003	50,385		10 years
14/6/2004	1,444,474	EPS performance target after three years (retested if necessary at the end of 5 years)	10 years
8/11/2004	35,981		10 years
AESOP shares			
27/6/2003	1,225,378	Employment throughout the financial year prior to grant date plus a further 3 years from grant and profit target	
2/7/2004	1,021,063		

The terms and conditions of performance cycles for the Long Term Bonus Scheme (LTBS) commencing after 7th November 2002, whereby all rights will be satisfied by the delivery of shares are as follows:

<u>LTBS cycle commencing</u>	<u>Number of instruments</u>	<u>Vesting conditions</u>
1/4/2003	1,857,986	Total shareholder return ranking against a peer group of 10 other companies
1/4/2004	1,085,170	Total shareholder return ranking against a peer group of 10 other companies

The number and weighted average exercise prices of executive options granted is as follows:

	<u>Granted pre 7th November 2002</u>		<u>Granted after 7th November 2002</u>	
	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>
Outstanding at 1st April 2004	£6.23	2,745,580	£6.19	1,955,699
Forfeited during the period	£6.26	(1,115,603)	£6.26	(75,268)
Exercised during the period	n/a	nil	£6.06	(353,996)
Granted during the period	n/a	nil	£6.31	1,480,455
Outstanding at the end of the period	£6.21	1,629,977	£6.34	3,006,890
Exercisable at 31st March 2005	n/a	nil	n/a	nil

The exercise price range and average contractual life of executive options granted is as follows:

	<u>Granted pre 7th November 2002</u>	<u>Granted after 7th November 2002</u>
Exercise price range	£5.94 to £6.35	£5.76 to £7.10
Weighted average contractual life	7.0 years	8.7 years

22. Share based payments (continued)

Fair value at measurement date (for equity instruments granted during the period):

	2005 £m	Restated ¹ 2004 £m
Free shares granted during the period	7.0	7.6
Executive options granted during the period	2.3	2.6
Fair value of Long Term Bonus Scheme awards with performance conditions commencing during the year	2.1	1.4

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

	2005 £m	Restated ¹ 2004 £m
Employee expenses for year ended 31st March 2005		
Free shares granted	4.5	6.2
Executive options granted	0.8	0.6
Long Term Bonus Scheme	(0.2)	1.6
Total expense recognised as employee costs	5.1	8.4

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

23. Share Capital

	Number of shares 2005 m	Number of shares 2004 m	2005 £m	2004 £m
Ordinary shares of 25p each:				
Authorised	1,200.0	1,200.0	300.0	300.0
Allotted, called up and fully paid	730.5	775.5	182.6	193.9

	Number m	Nominal Value £m	Consideration £m
Shares allotted during the year			
Option schemes 2005	0.4	0.1	2.1
Option schemes 2004	0.1	—	0.3

Share repurchase

During the year to 31st March 2005 45.4m ordinary shares were purchased and subsequently cancelled at prices ranging from 596p per share to 696p per share with an average of 656p per share. The total cost of the purchases was £300.0m, which has been charged against distributable reserves.

During 2004 38.3m ordinary shares were purchased and subsequently cancelled at prices ranging from 610p to 750p per share, with an average of 673p per share. The total cost of the purchases was £259.9m, which has been charged against distributable reserves.

Share options

Under a savings-related scheme, options have been granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. In 1999 a QUEST was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted. At 31st March 2005, options exercisable from 2005 to 2007 at between 588p and 808p per share were outstanding in respect of 0.9m shares. At 31st March 2004, options exercisable from 2004 to 2007 at between 485 and 808p per share were outstanding in respect of 2.9m shares.

Under an executive share option plan, certain senior executives have been granted options to subscribe for ordinary shares after a period of three years from date of grant as long as performance targets are met. At 31st March 2005, options exercisable from 2005 to 2014 at between 576p and 710p per share were outstanding in respect of 4.6m shares. At 31st March 2004, options exercisable from 2004 to 2013 at between 576p and 710p per share were outstanding in respect of 4.7m shares.

23. Share capital (continued)

Own shares

At 31st March 2005 the number of own shares held by the group was 14.4 million (2004 (16.2 million)). These were held in the various employee share ownership trusts. The market value of these shares is £90.1m (2004 £100.4m).

24. Reconciliation of operating profit to operating cash flows:

	2005 £m	Restated ¹ 2004 £m
Group operating profit	501.7	550.1
Depreciation, amortisation and impairments of fixed assets	146.3	133.6
Amortisation of own shares	5.1	4.2
Loss on disposal of fixed assets	2.3	3.4
Increase in stocks	(20.6)	(53.7)
Increase in debtors, including pension prepayments	(49.3)	(43.5)
(Decrease)/increase in creditors	(47.8)	48.4
Cash flows relating to provisions	(5.3)	1.3
Other non-cash movements	(3.0)	11.3
Net cash inflow before expenditure relating to exceptional items	529.4	655.1
Cash flows from exceptional items (see below)	(14.7)	(17.3)
Cash inflow from operating activities	514.7	637.8

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

	2005 £m	2004 £m
Cash flows from exceptional items:		
Utilisation of provisions on disposal/closure of businesses	(14.7)	(17.3)
	(14.7)	(17.3)

25. Analysis of net debt

	As at 1st April 2003 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2004 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2005 £m
Cash at bank and in hand	203.4	(89.0)	—	(3.9)	110.5	(1.7)	—	0.6	109.4
Bank loans and overdrafts repayable on demand	(149.7)	36.7	—	0.1	(112.9)	64.0	—	(0.1)	(49.0)
Net (overdraft)/cash	53.7	(52.3)	—	(3.8)	(2.4)	62.3	—	0.5	60.4
Liquid resources	293.1	(53.5)	—	(0.5)	239.1	(219.7)	—	—	19.4
Obligations under finance leases	(11.8)	5.9	(4.2)	—	(10.1)	5.7	(1.5)	—	(5.9)
Other borrowings	(386.5)	11.0	—	0.4	(375.1)	(293.3)	—	0.4	(668.0)
Total	(51.5)	(88.9)	(4.2)	(3.9)	(148.5)	(445.0)	(1.5)	0.9	(594.1)

Liquid resources comprise listed investments and short term deposits (see note 15)

26. Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

	Group 2005 £m	Group 2004 £m
Contracts placed	16.9	28.6

26. Commitments and contingent liabilities (continued)

(ii) Annual commitments under operating leases are as follows:

	Group land and buildings £m	Group other £m
Expiring:		
Within one year	7.2	1.4
Over one year and less than five years	21.0	14.0
Over five years	<u>160.0</u>	<u>8.2</u>
At 31st March 2005	<u>188.2</u>	<u>23.6</u>
Expiring:		
Within one year	7.3	0.8
Over one year and less than five years	21.0	12.4
Over five years	147.2	18.9
At 31st March 2004	<u>175.5</u>	<u>32.1</u>

(iii) Other financial commitments

On 1st November 2002 Boots entered into a contractual arrangement with Xansa Plc to provide IT application support and development services over a seven-year period. This arrangement includes a guaranteed minimum payment from Boots to Xansa of £26m.

(iv) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') has been a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll was the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company was named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A settlement by Knoll of consumer actions and claims of insurers and state attorneys general in the United States has been approved, and a settlement of most of the actions in Canada has been approved. The company asserted that the relevant courts in North America had no jurisdiction over it in these cases and this was approved by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to such claims as may arise concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims as may arise remains uncertain, they believe that it should not have a material adverse impact on the group.

27. Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes.

Boots Pension Scheme

The principal UK pension scheme is Boots Pension Scheme.

The independent scheme actuary carried out the latest valuation of the scheme as at 1st April 2004. The UK pension charge for the year ended 31st March 2005 has been determined under SSAP24 using the projected unit method and the results under SSAP24 were as follows:

<u>Scheme assets and liabilities as at latest valuation date – 1st April 2004</u>	UK
Market value of assets	£2,796m
Value of accrued liabilities	£2,716m
Funding level	103%

27. Pensions (continued)

The key assumptions used in determining the accounting costs for the scheme are given below. The financial assumptions were derived from market yields on bonds at the valuation date.

<u>% pa</u>	UK 2004 Valuation
Pension increases	2.8%
General long term pay increases	4.4%
Investment return	5.7%

The pension charge for the year for Boots Pension Scheme was £54m (2004 £28m). This comprises the regular cost of pensions, offset by amortisation of the surpluses and deficits disclosed by previous valuations over periods up to 13 years. The group contributed £63m including £13m of pension augmentations in the year to the Boots Pension Scheme. A pension prepayment of £168m (2004 £172m) is included within other debtors. These prepayments include £50m (2004 £50m) paid in advance.

Other pension arrangements

In common with other companies, additional unfunded defined benefit pension arrangements exist for certain senior executives in the UK. Since 1st October 2000, new UK employees have been offered membership of Boots Stakeholder Pension Plan, a funded defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme. The cost of these arrangements was £4m (2004 £3m).

Total pension cost

The overall pension charge for the year (excluding pension augmentations) comprises:

	Percentage of pensionable pay 2005 %	Costs 2005 £m	Percentage of pensionable pay 2004 %	Costs 2004 £m
Regular cost	19%	68	15%	60
Variations from regular cost	-1%	(5)	-6%	(23)
Notional Interest on prepayment	-3%	(9)	-2%	(9)
Boots Pension Scheme	15%	54	7%	28
Other UK pension arrangements		4		3
Overseas arrangements		3		3

FRS17

Whilst the financial statements for the year ended 31st March 2005 continue to include a pension charge and pension prepayment calculated under the principles of SSAP24, this new standard requires certain additional disclosures. These are noted below. The actuarial valuations with respect to UK schemes have been based on the most recent formal valuations (below) and updated by the Scheme Actuary to 31st March 2005. The figures for overseas schemes are not material and have not been included.

FRS17 'Retirement Benefits' will change fundamentally the calculation and reporting of the cost of retirement benefits. The disclosures below relate to UK schemes.

The principal assumptions used by the independent qualified actuaries in updating the latest valuations of each of the schemes for FRS17 purposes were:

<u>% pa</u>	31st March 2005	31st March 2004	31st March 2003
Inflation	2.9%	2.9%	2.6%
Rate of general long term increase in salaries	4.4%	4.4%	4.1%
Rate of increase to pensions in payment	2.8%	2.8%	2.5%
Discount rate for scheme liabilities	5.4%	5.5%	5.5%

27. Pensions (continued)

The market value of the assets in the UK schemes, the present value of liabilities and the resulting deficit together with the expected rates of return on the assets were as follows:

	Long term rate of return expected at 31st March 2005 % p.a.	Value at 31st March 2005 £m	Long term rate of return expected at 31st March 2004 % p.a.	Value at 31st March 2004 £m	Long term rate of return expected at 31st March 2003 % p.a.	Value at 31st March 2003 £m
Bonds	5.2	2,593	5.0	2,831	4.8	2,676
Equities	7.7	304	—	—	—	—
Other net assets	4.9	116	4.0	5	3.5	18
Total market value of assets		3,013		2,836		2,694
Present value of scheme liabilities		(3,096)		(2,894)		(2,540)
(Deficit)/surplus in scheme		(83)		(58)		154
Related deferred tax asset/ (liability)		25		17		(46)
Net pension (liability)/asset		(58)		(41)		108

Had the group adopted FRS17 the financial statements would have reflected the following amounts during the year:

	2005 £m	2004 £m
For the year ended 31st March 2005		
Amounts charged to operating profit		
Current service cost	75	76
Past service costs	13	12
Total operating charge	88	88
Amounts included as other finance income		
Expected return on pension scheme assets	142	128
Interest on pension scheme liabilities	(159)	(138)
Net return	(17)	(10)
Amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return in excess of expected return on pension scheme assets	59	33
Experience gains/(losses) arising on the scheme liabilities	96	(56)
Changes in assumptions underlying the present value of the scheme liabilities	(139)	(152)
Actuarial gain/(loss) recognised in STRGL	16	(175)
Analysis of movements in deficit during the year		
For year ended 31st March 2005		
(Deficit)/surplus in scheme at beginning of the year	(58)	154
Current service cost	(75)	(76)
Contributions	64	61
Past service costs	(13)	(12)
Other finance income	(17)	(10)
Actuarial gain/(loss)	16	(175)
Deficit in scheme at end of the year	(83)	(58)

27. Pensions (continued)

History of experience losses and gains For year ended 31st March 2005	2005	2004	2003
Difference between expected and actual return on scheme assets:			
• Amount (£m)	59	33	198
• Percentage of scheme assets (%)	2.0	1.2	7.3
Experience gains/(losses) on scheme liabilities:			
• Amount (£m)	96	(56)	23
• Percentage of the present value of the scheme liabilities (%)	3.1	(1.9)	0.9
Total amount recognised in STRGL:			
• Amount (£m)	16	(175)	13
• Percentage of the present value of the scheme liabilities (%)	0.5	(6.1)	0.5

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31st March would be as follows:

Group net assets and reserves reconciliation	2005 £m	Restated ¹ 2004 £m
Net assets as reported	1,611	1,808
Effect of including net pension liabilities (UK schemes)	(58)	(41)
Less SSAP24 pension prepayment net of deferred tax	(83)	(85)
Net assets restated for FRS17	1,470	1,682
Profit and loss account reserve as reported	845	1,042
Effect of including net pension liabilities (UK schemes)	(58)	(41)
Less SSAP24 pension prepayment net of deferred tax	(83)	(85)
Profit and loss account reserve restated for FRS17	704	916

¹ Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP Trusts' (see note 21).

28. Staff numbers and costs

The average number of persons employed by the group:

	2005 number of heads	2005 full time equivalents	Restated ¹ 2004 number of heads	Restated ¹ 2004 full time equivalents
Continuing operations				
Boots The Chemists	59,538	35,384	58,742	36,725
Boots Opticians	4,171	2,938	3,960	2,974
	63,709	38,322	62,702	39,699
Boots Healthcare International	3,270	3,165	3,434	3,307
Boots Retail International	960	927	900	863
Group and other	916	852	745	669
Continuing operations	68,855	43,266	67,781	44,538
Discontinued operations ²	776	606	1,129	960
Total	69,631	43,872	68,910	45,498

¹ Restated for transfer of Boots Insurance Services from Boots Opticians to Boots The Chemists.

² Discontinued operations include: LASIK, Dentistry, Chiropody and Laser Hair Removal.

The total number of persons employed by continuing operations at 31st March 2005 was 65,700 heads, 41,620 full time equivalents (2004 68,302 heads, 44,367 full time equivalents).

28. Staff numbers and costs (continued)

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
The aggregates payroll cost was as follows:		
Wages and salaries	839.5	891.5
Social security costs	67.5	67.0
Other pension costs	59.4	33.4
	<u>966.4</u>	<u>991.9</u>

29. Related party disclosures

During the year the group had no material transactions with related parties other than £0.7m (2004 £1.6m) of additional funding to handbag.com limited a joint venture in which the group had a 50% interest in the share capital until it was disposed of on 17th March 2005.

For details of investment in joint ventures see note 12.

30. Post balance sheet event

On 7th April 2005, Boots announced its intention to see the Boots Healthcare International consumer healthcare business and return a significant proportion of the proceeds to shareholders.

During the year ended 31st March 2005, Boots Healthcare International generated sales of £522.7m (including £28.5m of inter-segmental sales) and a profit before interest and taxation of £87.8m.

PART 7

UNITED KINGDOM TAXATION

The following paragraphs summarise certain limited aspects of the United Kingdom taxation consequences of the Merger and are intended as a general guide for Shareholders beneficially holding Alliance UniChem Shares as investments. They are based on United Kingdom law as presently in force and currently published United Kingdom HM Revenue & Customs practice. They assume, save where specifically mentioned, that the relevant Shareholder is resident, and if an individual, ordinarily resident, in the United Kingdom for United Kingdom taxation purposes, has not acquired (and is not deemed to have acquired) his or her Alliance UniChem Shares by virtue of an office or employment and is not a share dealer or charity or other person with special tax status or claiming special tax reliefs or treatment. If you are in any doubt as to your tax position, you should consult your independent professional adviser immediately.

(a) UK taxation of chargeable gains

Liability to UK taxation of chargeable gains will depend on the individual circumstances of the Shareholder.

A Shareholder who (either alone or together with connected persons) does not hold more than five per cent. of the shares, or any class of shares, in or debentures (or any class of debentures) of, Alliance UniChem should not be treated as having made a disposal of his or her Scheme Shares for the purposes of UK taxation of chargeable gains as a result of the cancellation of his or her Scheme Shares. Any gain or loss which would otherwise have arisen on a disposal of his or her Scheme Shares will be “rolled-over” into the New Boots Shares, and the New Boots Shares will be treated as the same asset as his or her Scheme Shares acquired at the same time and for the same consideration as he or she acquired his or her Scheme Shares.

Any Shareholder who (either alone or together with connected persons) holds more than five per cent. of the shares, or any class of shares, in or debentures (or any class of debentures) of, Alliance UniChem is advised that an application for clearance has been made to HM Revenue & Customs under section 138 of the Taxation of Chargeable Gains Act 1992 in respect of the Proposal. Such clearance has been granted and, accordingly, any such Shareholder should be treated in the manner described in the preceding paragraph.

Where a Shareholder receives cash and also receives New Boots Shares, such a Shareholder should be able (if the amount of cash is small in comparison with the value of his or her Scheme Shares) to treat the cash received as a deduction in the base cost of his or her Scheme Shares rather than as the proceeds of a part disposal of those Scheme Shares. Under current HM Revenue & Customs practice, any cash payment of £3,000 or less, or which is 5% or less than the market value of the Shareholder’s holding of Scheme Shares, will generally be treated as “small” for these purposes.

A subsequent disposal of New Boots Shares by a Shareholder who is resident or, if an individual, ordinarily resident in the United Kingdom for taxation purposes may, depending on the Shareholder’s circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains.

A disposal of New Boots Shares by a Shareholder not resident in the United Kingdom which carries on a trade or, for non-corporate shareholders, a profession or vocation in the United Kingdom through, in the case of non-corporate Shareholders, a branch or agency or through, in the case of corporate shareholders, a permanent establishment, and who has used the New Boots Shares in or for the purposes of such trade or, for non-corporate shareholders, such profession or vocation or who has used, held or acquired the New Boots Shares for the purposes of such branch or agency or permanent establishment may, depending on the Shareholder’s circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

A Shareholder who is an individual, who has ceased to be resident or ordinarily resident in the United Kingdom for tax purposes for a period of less than five years and who disposes of New Boots Shares during that period may also be liable on his return to the United Kingdom to tax on any capital gain realised (subject to any available exemption or relief).

(b) Dividends on New Boots Shares

No tax is withheld from dividends paid by Boots.

The UK position of Shareholders in respect of dividends paid by Boots will be similar to that which would have applied had they continued to hold and receive dividends on their Alliance UniChem Shares. Further information about the UK tax treatment of dividends paid on New Boots Shares is set out in Part XII of the Prospectus.

(c) Other direct tax matters

Special tax provisions may apply to Shareholders who have acquired or acquire Alliance UniChem Shares upon the exercise of share options or the vesting of share awards, under the Alliance UniChem Share Schemes. Such provisions may impose income tax and employee National Insurance contributions liabilities when share options or share awards vest under the Alliance UniChem Share Schemes.

(d) Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No stamp duty or SDRT will be payable by Alliance UniChem Shareholders as a result of the Merger.

The above statements are intended as a general guide to the current law and practice in the United Kingdom. They assume that Shareholders do not hold their Scheme Shares and will not hold their New Boots Shares in a depositary receipt scheme or a clearance service. If you are in any doubt as to your tax position, you should consult your independent professional adviser immediately.

PART 8

ADDITIONAL INFORMATION

1. Responsibility Statements

- (a) The Alliance UniChem Directors, whose names are set out in paragraph 2(a) of this Part 8, each accept responsibility for the information contained in this document other than information for which responsibility is taken by others pursuant to paragraph 1(b) and/or 1(c) of this Part 8. To the best of the knowledge and belief of the Alliance UniChem Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (b) The Boots Directors, whose names are set out in paragraph 2(c) of this Part 8, each accept responsibility for the information contained in this document relating to the Boots Group and the Boots Directors and members of their immediate families, related trusts and persons connected with them (within the meaning of section 346 of the Companies Act). To the best of the knowledge and belief of the Boots Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (c) The Alliance UniChem Directors and the Boots Directors, whose names are set out in paragraphs 2(a) and 2(c) of this Part 8 respectively, jointly accept responsibility for the information contained in this document relating to the rationale for the Merger, as set out in paragraph 4 of Part 1 (*Letter from the Chairman of Alliance UniChem*) and in paragraph 4 of Part 2 (*Explanatory Statement*) of this document. To the best of the knowledge and belief of the Alliance UniChem Directors and the Boots Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they are jointly responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Alliance UniChem Directors and the Boots Directors

- (a) The Alliance UniChem Directors, and their respective functions, are as follows:

<u>Name</u>	<u>Position held</u>
Paolo Scaroni	Non-Executive Chairman
Ian Meakins	Chief Executive
Stefano Pessina	Executive Deputy Chairman
George Fairweather	Group Finance Director
Ornella Barra	Executive Director
Steven Duncan	Executive Director
Kenneth Clarke	Deputy Chairman and Senior Independent Non-Executive Director
Neil Cross	Independent Non-Executive Director
Adrian Loader	Independent Non-Executive Director
Patrick Ponsolle	Independent Non-Executive Director
Manfred Stach	Independent Non-Executive Director
Etienne Jornod	Non-Executive Director

- (b) Alliance UniChem, whose registered number is 2517178, has its registered office at 2 The Heights, Brooklands, Weybridge, Surrey KT13 0NY.

(c) The Boots Directors, and their respective functions, are as follows:

<u>Name</u>	<u>Position held</u>
Sir Nigel Rudd	Non-Executive Chairman
Richard Baker	Chief Executive
Jim Smart	Chief Financial Officer
Paul Bateman	Group Operations Director
Guy Dawson	Non-Executive Director
Timothy Parker	Non-Executive Director
Hélène Ploix	Non-Executive Director
Martin Read	Non-Executive Director

(d) Boots, whose registered number is 4452715, has its registered office at 1 Thane Road West, Nottingham NG2 3AA.

3. Market Quotations

The following table shows the closing middle market price, as derived from the Daily Official List, for Alliance UniChem Shares and Boots Shares on the first Business Day in each of the six months immediately prior to the date of publication of this document, on 30 September 2005 (the last Business Day prior to the commencement of the Offer Period) and on 31 May 2006 (the last practicable date prior to publication of this document):

<u>Date</u>	<u>Alliance UniChem Shares pence</u>	<u>Boots Shares pence</u>
30 September 2005	866.5	608.5
1 December 2005	746.0	598.5
3 January 2006	798.0	611.5
1 February 2006	852.0	648.0
1 March 2006	888.0	709.0
3 April 2006	906.5	713.0
2 May 2006	891.0	702.5
31 May 2006	925.5	705.0

4. Interests and Dealings

(a) Definitions

For the purposes of this paragraph 4:

- (i) **arrangement** includes indemnity or option arrangements, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or to refrain from dealing;
- (ii) **associate** means:
 - (A) any parent companies, subsidiaries, fellow subsidiaries and associated companies of Boots or (as the case may be) Alliance UniChem, and companies of which any such companies are associated companies;
 - (B) connected advisers and persons controlling, controlled by or under the same control as such connected advisers;
 - (C) the Boots Directors or (as the case may be) the Alliance UniChem Directors, or the directors of any company covered in (A) above (together, in each case, with any member of their immediate families and related trusts); and
 - (D) the pension funds of Boots or (as the case may be) Alliance UniChem, or any company covered in (A) above;
- (iii) references to a **bank** do not mean a bank whose sole relationship with Boots or (as the case may be) Alliance UniChem, or a company covered in (A) above is the provision of

- normal commercial banking services or such activities in connection with the Merger as confirming that cash is available, handling acceptances and other registration work;
- (iv) **connected adviser** includes an organisation which (A) is advising Boots or (as the case may be) Alliance UniChem in relation to the Merger, (B) is corporate broker to Boots or (as the case may be) Alliance UniChem, (C) is advising a person acting in concert with Boots or (as the case may be) the Alliance UniChem Directors in relation to the Merger or in relation to the matter which is the reason for that person being a member of the concert party or (D) is advising a relevant associate in relation to the Merger;
- (v) **dealing or dealt** includes;
- (A) acquiring or disposing of relevant securities;
 - (B) taking, granting, acquiring, disposing of, entering into, closing out, terminating, exercising or varying an option in respect of any relevant securities;
 - (C) subscribing or agreeing to subscribe for relevant securities;
 - (D) exercising or converting any relevant securities carrying conversion or subscription rights;
 - (E) acquiring, disposing of, entering into, closing out, exercising (by either party) of any rights under, or varying of, a derivative referenced, directly or indirectly, to relevant securities;
 - (F) entering into, terminating or varying the terms of any agreement to purchase or sell relevant securities; and
 - (G) any other action resulting, or which may result, in an increase or decrease in the number of relevant securities in which a person is interested or in respect of which he has a short position;
- (vi) **derivative** includes any financial product the value of which, in whole or in part, is determined directly or indirectly by reference to the price of an underlying security but which does not include the possibility of delivery of such underlying securities;
- (vii) **disclosure period** means the period commencing on 3 October 2004 (being the date 12 months prior to the commencement of the Offer Period) and ending on 31 May 2006 (the last practicable date prior to publication of this document);
- (viii) **interest** in relevant securities includes where a person:
- (A) owns relevant securities;
 - (B) has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to the relevant securities or has general control of them;
 - (C) by virtue of any agreement to purchase, option or derivative, has the right or option to acquire relevant securities or call for their delivery or is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
 - (D) is party to any derivative whose value is determined by reference to their price and which results, or may result, in his having a long position in them;
- (ix) **relevant associate** means Boots or (as the case may be) Alliance UniChem and the subsidiaries and associated companies of Boots or (as the case may be) Alliance UniChem and companies of which any such subsidiaries or associated companies are associated companies;

- (x) **relevant securities** means Alliance UniChem Shares, Boots Shares and any securities of either company convertible into, or rights to subscribe for, or options (including traded options) in respect of, or derivatives referenced to, such shares;
- (xi) **short position** means any short position (whether conditional or absolute and whether in the money or otherwise) including any short position under a derivative;
- (xii) ownership or control of 20% or more of the equity share capital of a company is regarded as the test of associated company status and **control** means a holding, or aggregate holdings, of shares carrying 30% or more of the voting rights attributable to the share capital of the company which are currently exercisable at a general meeting, irrespective of whether the holding or holdings give(s) de facto control; and
- (xiii) references to a **pension fund** of Boots or (as the case may be) Alliance UniChem or of a company which is a relevant associate do not include any such pension funds which are managed under an agreement or arrangement with an independent third party in the terms set out in Note 6 on the definition of **acting in concert** in the Code.

(b) Interests and Dealings in Boots

- (i) As at the last day of the disclosure period, Alliance UniChem held no interests or short positions in Boots Shares.
- (ii) During the Offer Period, there have been no dealings for value by Alliance UniChem in Boots Shares.
- (iii) As at the last day of the disclosure period, none of the Alliance UniChem Directors, their immediate families nor connected persons (within the meaning of section 346 of the Companies Act) held any interests or short positions in Boots Shares.
- (iv) During the Offer Period, there have been no dealings for value in Boots Shares in which the Alliance UniChem Directors, their immediate families or connected persons were interested.
- (v) As at the last day of the disclosure period, the interests of the Boots Directors and members of their immediate families and related trusts in Boots Shares, all of which are beneficial, as shown in the register required to be kept under the provisions of section 325 of the Companies Act or which have been notified to Boots pursuant to sections 324 and 328 of the Companies Act, or which are interests of persons connected with a Boots Director within the meaning of section 346 of the Companies Act, were as follows:

<u>Name</u>	<u>No. of Boots Shares</u>
Sir Nigel Rudd	31,600
Paul Bateman	6,347
Jim Smart	554
Guy Dawson	2,689
Tim Parker	4,263
Hélène Ploix	2,740
Dr Martin Read	—

- (vi) As at the last day of the disclosure period, the following options and awards over Boots Shares had been granted to the Boots Directors, their immediate families, related trusts and connected persons and remained outstanding:

<u>Optionholder</u>	<u>Share Plan/Scheme</u>	<u>Date of grant/award</u>	<u>No. of Boots Shares</u>	<u>Exercise price pence</u>	<u>Exercise period</u>
Richard Baker	The Executive Share Option Plan	18.09.03	181,950	687	18.09.06 – 17.09.13
	The Executive Share Option Plan	14.06.04	99,536	647	14.06.07 – 13.06.14
	Individual Option Plan	18.09.03	90,975	687	18.09.06 – 17.09.13
Paul Bateman	The Executive Share Option Plan	12.09.01	26,428	630	12.09.04 – 11.09.11
	The Executive Share Option Plan	18.06.02	40,944	635	18.06.05 – 17.06.12
	The Executive Share Option Plan	23.06.03	49,504	606	23.06.06 – 22.06.13
	The Executive Share Option Plan	14.06.04	54,095	647	14.06.07 – 13.06.14
Jim Smart	The Executive Share Option Plan	23.06.03	25,371	606	23.06.06 – 22.06.13
	The Executive Share Option Plan	14.06.04	24,517	647	14.06.07 – 13.06.14

- (vii) Certain of the Boots Directors hold contingent interests in Boots Shares pursuant to the Boots Performance Share Plan. If the highest performance targets are attained, and the maximum number of Boots Shares awarded vest in each participant, the following individuals will receive Boots Shares as set out below:

<u>Boots Director</u>	<u>No. of Boots Shares</u>
Richard Baker	273,605
Paul Bateman	118,851
Jim Smart	53,648

- (viii) As at the last day of the disclosure period, each executive Boots Director was also deemed, as a potential beneficiary, to have an interest in:

- (A) 589,619 Boots Shares held by Boots ESOP Trust Limited, on behalf of Boots Employee Trust, established to facilitate the operation of the Boots' executive bonus scheme;
- (B) 5,347,119 Boots Shares held by Boots (QUEST) Trustee Limited, on behalf of Boots Qualifying Employee Share Trust, established in connection with Boots' UK all-employee SAYE Share Option Scheme; and
- (C) 2,043,374 Boots Shares held by Boots Share Plan Trustees Limited, established to hold shares for employees in connection with Boots' all employee share ownership plan.

- (ix) As at the last day of the disclosure period, the following executive Boots Directors had been conditionally awarded free Boots Shares:

<u>Name</u>	<u>No. of free Boots Shares</u>
Richard Baker	28
Paul Bateman	79
Jim Smart	52

- (x) As at the last day of the disclosure period, the following parties, all of which are subsidiaries of Boots, held interests in Boots Shares as follows:

<u>Party</u>	<u>No. of Boots Shares</u>
Boots (Quest) Trustee Limited, as Trustee of the Boots Qualifying Share Trust	5,374,119
Boots ESOP Trust Limited, as Trustee of the Boots Employee Trust	589,619
Boots Share Plan Trustee Limited, as Trustee of the Boots All Employee Share Ownership Plan	2,043,374

- (xi) As at the last day of the disclosure period, Goldman Sachs & Co and persons controlling, controlled by or under the same control as Goldman Sachs & Co held the following interest in Boots ADRs:

<u>Name</u>	<u>No. of Boots ADRs</u>
Goldman Sachs & Co*	1,032

* Goldman Sachs & Co acting as discretionary manager

- (xii) As at the last day of the disclosure period, Credit Suisse, and persons controlling, controlled by or under the same control as Credit Suisse, held the following short positions in Boots Shares:

<u>Party</u>	<u>No. of Boots Shares</u>
Credit Suisse Securities (Europe) Limited	2,838,516

- (xiii) During the disclosure period, the following dealings for value in Boots Shares by the Boots Directors and members of their respective immediate families, related trusts or connected persons have taken place:

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Boots Shares</u>	<u>Price of Boots Share pence</u>
13.12.05	Dr Martin Read	Sale	5,500	595.00
22.05.06	Richard Baker	Partnership	17	715.50
20.01.05	Hélène Ploix	DRIP	118	670.00
03.10.05	Hélène Ploix	DRIP	134	608.00
31.01.06	Hélène Ploix	DRIP	6	653.09
31.01.06	Hélène Ploix	DRIP	50	653.09
19.10.04	Paul Bateman	Partnership	19	665.50
18.11.04	Paul Bateman	Partnership	19	637.00
17.12.04	Paul Bateman	Partnership	20	651.00
17.01.05	Paul Bateman	Partnership	18	665.00
14.02.05	Paul Bateman	DRIP	51	671.80
18.02.05	Paul Bateman	Partnership	18	688.50
21.03.05	Paul Bateman	Partnership	21	619.00
20.04.05	Paul Bateman	Partnership	20	633.50
20.05.05	Paul Bateman	Partnership	20	613.50
16.06.05	Paul Bateman	Free	42	594.00
20.06.05	Paul Bateman	Partnership	21	594.00
20.07.05	Paul Bateman	Partnership	20	610.00
19.08.05	Paul Bateman	DRIP	286	601.48
19.08.05	Paul Bateman	Partnership	21	612.00
15.09.05	Paul Bateman	Partnership	20	628.50
20.10.05	Paul Bateman	Partnership	20	611.50
21.11.05	Paul Bateman	Partnership	21	609.00
20.12.05	Paul Bateman	Partnership	21	600.00
20.01.06	Paul Bateman	DRIP	120	642.50

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Boots Shares</u>	<u>Price of Boots Share pence</u>
20.01.06	Paul Bateman	Partnership	19	635.50
20.02.06	Paul Bateman	Partnership	18	711.97
21.03.06	Paul Bateman	Partnership	17	725.00
20.04.06	Paul Bateman	Partnership	18	687.00
22.05.06	Paul Bateman	Partnership	18	715.50

- (xiv) During the disclosure period, the following dealings for value in Boots American Depositary Receipts (**Boots ADRs**) by Goldman Sachs & Co (an affiliate of Goldman Sachs International, financial adviser to the Boots Group) have taken place:

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Boots ADRs</u>	<u>Price per Boots ADR US\$</u>
27.10.04	Goldman Sachs & Co	Purchase	1,126	24.60
25.02.05	Goldman Sachs & Co*	Sale	678	25.85
23.05.05	Goldman Sachs & Co	Purchase	23	22.10
23.05.05	Goldman Sachs & Co	Sale	23	22.10
23.08.05	Goldman Sachs & Co*	Sale	536	22.25
04.11.05	Goldman Sachs & Co	Sale	5,811	22.00
04.11.05	Goldman Sachs & Co	Purchase	5,811	22.00
05.12.05	Goldman Sachs & Co	Sale	220	21.70
05.12.05	Goldman Sachs & Co	Purchase	220	21.70
06.01.06	Goldman Sachs & Co	Purchase	2,520	22.05
06.01.06	Goldman Sachs & Co	Sale	2,520	22.40
10.01.06	Goldman Sachs & Co	Purchase	800	22.25
10.01.06	Goldman Sachs & Co	Purchase	1,000	22.20
10.01.06	Goldman Sachs & Co	Purchase	1,920	22.20
17.02.06	Goldman Sachs & Co	Purchase	1,555	17.50

* Goldman Sachs & Co acting as discretionary manager

- (xv) During the disclosure period, the following dealings for value in Boots Shares by UBS AG and persons controlling, controlled by or under the same control as UBS AG have taken place:

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Boots Shares</u>	<u>Price per Boots Share pence</u>
28.10.04	DSI International Management Inc.	Purchase	220	663.50
04.11.04	DSI International Management Inc.	Sale	41,000	664.07
08.11.04	DSI International Management Inc.	Sale	6,756	668.15
08.11.04	DSI International Management Inc.	Sale	3,657	668.15
08.11.04	DSI International Management Inc.	Sale	3,539	668.15
08.11.04	DSI International Management Inc.	Sale	8,742	668.15
08.11.04	DSI International Management Inc.	Sale	2,635	668.15
07.12.04	DSI International Management Inc.	Purchase	4,637	645.42
07.12.04	DSI International Management Inc.	Purchase	20,000	645.42
10.12.04	DSI International Management Inc.	Purchase	3,546	638.00
10.12.04	DSI International Management Inc.	Purchase	1,912	638.00
10.12.04	DSI International Management Inc.	Purchase	1,820	638.00
10.12.04	DSI International Management Inc.	Purchase	4,370	638.00
10.12.04	DSI International Management Inc.	Purchase	1,354	638.00
06.01.05	DSI International Management Inc.	Purchase	2,400	643.63
06.01.05	DSI International Management Inc.	Purchase	11,000	643.63
25.02.05	DSI International Management Inc.	Sale	620	677.50
03.03.05	DSI International Management Inc.	Sale	2,847	633.88
03.03.05	DSI International Management Inc.	Sale	15,549	633.88
17.03.05	DSI International Management Inc.	Purchase	3,169	612.88
22.03.05	DSI International Management Inc.	Purchase	395	614.50
07.04.05	DSI International Management Inc.	Sale	2,634	619.50

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Boots Shares</u>	<u>Price per Boots Share pence</u>
07.04.05	DSI International Management Inc.	Sale	15,147	619.50
25.04.05	DSI International Management Inc.	Purchase	272	622.44
06.06.05	DSI International Management Inc.	Sale	4,676	586.07
06.06.05	DSI International Management Inc.	Sale	3,179	586.07
06.06.05	DSI International Management Inc.	Sale	9,598	586.07
06.06.05	DSI International Management Inc.	Sale	2,016	586.07
07.06.05	DSI International Management Inc.	Sale	1,556	585.00
07.06.05	DSI International Management Inc.	Sale	12,927	585.00
04.08.05	DSI International Management Inc.	Sale	490	594.00
24.08.05	DSI International Management Inc.	Sale	91	617.00
05.10.05	DSI International Management Inc.	Sale	268	622.81
05.10.05	DSI International Management Inc.	Sale	1,028	622.81
06.01.06	DSI International Management Inc.	Purchase	12,843	618.50
06.01.06	DSI International Management Inc.	Purchase	80,068	618.50
06.01.06	DSI International Management Inc.	Purchase	3,088	618.50
06.01.06	DSI International Management Inc.	Purchase	11,856	618.50
06.01.06	DSI International Management Inc.	Purchase	7,996	618.50
09.01.06	DSI International Management Inc.	Purchase	7,665	622.50
09.01.06	DSI International Management Inc.	Purchase	4,517	622.50
09.01.06	DSI International Management Inc.	Purchase	9,087	622.50
07.02.06	DSI International Management Inc.	Sale	8,360	675.00
07.02.06	DSI International Management Inc.	Sale	52,084	675.00
07.02.06	DSI International Management Inc.	Sale	2,022	675.00
07.02.06	DSI International Management Inc.	Sale	7,734	675.00
07.02.06	DSI International Management Inc.	Sale	5,219	675.00
07.03.06	DSI International Management Inc.	Purchase	559	718.50
07.03.06	DSI International Management Inc.	Purchase	382	718.50
07.03.06	DSI International Management Inc.	Purchase	1,154	718.50
28.03.06	DSI International Management Inc.	Sale	9,164	712.00
06.04.06	DSI International Management Inc.	Sale	5,713	719.00
06.04.06	DSI International Management Inc.	Sale	3,419	719.00
06.04.06	DSI International Management Inc.	Sale	7,264	719.00
03.05.06	DSI International Management Inc.	Sale	3,014	702.50
03.05.06	DSI International Management Inc.	Sale	9,652	702.50
03.05.06	DSI International Management Inc.	Sale	716	702.50
03.05.06	DSI International Management Inc.	Sale	2,771	702.50
03.05.06	DSI International Management Inc.	Sale	1,867	702.50

(xvi) During the Offer Period, the following dealings for value in Boots Shares by Merrill Lynch and persons controlling, controlled by or under the same control as Merrill Lynch have taken place:

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Boots Shares</u>	<u>Price of Boots Share pence</u>
03.10.05	Merrill Lynch International	Purchase	147	639.5
03.10.05	Merrill Lynch International	Purchase	8,175	638.0
03.10.05	Merrill Lynch International	Purchase	7,444	637.0
03.10.05	Merrill Lynch International	Purchase	6,279	633.5
03.10.05	Merrill Lynch International	Purchase	24,494	636.0
04.10.06	Merrill Lynch International	Purchase	1,178	627.0
04.10.06	Merrill Lynch International	Purchase	3,195	627.5
04.10.06	Merrill Lynch International	Purchase	6,928	628.0
04.10.06	Merrill Lynch International	Purchase	3,996	628.5
04.10.06	Merrill Lynch International	Purchase	29,364	629.0
04.10.06	Merrill Lynch International	Purchase	1,792	629.5
04.10.06	Merrill Lynch International	Purchase	86	631.0

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Boots Shares</u>	<u>Price of Boots Share US\$</u>
16.02.06	Merrill Lynch, Pierce, Fenner & Smith	Sale	11	10.9

- (xvii) During the Offer Period, the following dealings for value in Boots Shares by Credit Suisse and persons controlling, controlled by or under the same control as Credit Suisse have taken place:

<u>Period</u>	<u>Transaction</u>	<u>No. of Boots Shares</u>	<u>Highest price paid pence</u>	<u>Lowest price paid pence</u>
10.2005	Purchase	19,694,193	657.5	599.5
	Sale	22,036,264	656.5	596.8
11.2005	Purchase	8,987,316	617.0	597.5
	Sale	7,781,071	616.5	599.0
12.2005	Purchase	6,815,021	614.5	588.0
	Sale	10,837,997	612.5	588.0
01.2006	Purchase	22,964,008	652.0	606.0
	Sale	19,599,717	663.2	603.6
02.2006	Purchase	3,651,284	719.5	634.0
	Sale	3,521,033	719.5	636.5
03.2006	Purchase	15,379,540	741.5	632.0
	Sale	11,248,941	742.0	632.0
04.2006	Purchase	1,699,829	719.0	681.0
	Sale	2,253,487	721.0	684.0
05.2006	Purchase	17,806,422	743.0	696.0
	Sale	12,385,687	741.5	695.0

(c) Interests and Dealings in Alliance UniChem

- (i) As at the last day of the disclosure period, neither Boots nor any Boots Director held any interests or short positions in Alliance UniChem Shares.
- (ii) As at the last day of the disclosure period, UBS AG and persons controlling, controlled by or under the same control as UBS AG held the following interest in Alliance UniChem Shares:

<u>Party</u>	<u>No. of Alliance UniChem Shares</u>
DSI International Management Inc.	18,868

- (iii) As at the last day of the disclosure period, the interests and short positions of the Alliance UniChem Directors and members of their immediate families and related trusts in Alliance UniChem Shares (excluding any interests held through outstanding options, awards or allocations granted under the Alliance UniChem Share Schemes), all of which are beneficial, as shown in the register required to be kept under the provisions of section 325 of the Companies Act or which have been notified to Alliance UniChem pursuant to section 324 and 328 of the Companies Act, or which are interests of persons connected with an Alliance UniChem Director within the meaning of section 346 of the Companies Act, were as follows:

<u>Name</u>	<u>No. of Alliance UniChem Shares</u>
P. Scaroni	13,000
I. Meakins	33,625
S. Pessina ⁽¹⁾	108,818,474
G. Fairweather	2,000
O. Barra	370,244
S. Duncan	19,340
K. Clarke	6,873
N. Cross	5,000
W. Loader	6,126
P. Ponsolle	500
M. Stach	—
E. Jornod	1,150
Total	109,276,332

(1) 108,671,029 shares of the interest of Stefano Pessina are held by Alliance Santé Participations S.A. Stefano Pessina indirectly owns the entire issued share capital of Alliance Santé Participations S.A., which is registered in Luxembourg, and its directors include Stefano Pessina and Ornella Barra. The other interests of Ornella Barra in the fully paid shares of the Company are as detailed above.

- (iv) As at the last day of the disclosure period, the following options and awards over Alliance UniChem Shares had been granted to the Alliance UniChem Directors, their immediate families, related trusts and (so far as the Alliance UniChem Directors are aware) connected persons under the terms of the Alliance UniChem Share Schemes and remained outstanding:

<u>Name</u>	<u>No. of Alliance UniChem Shares under option</u>	<u>Exercise price pence</u>	<u>Exercise period</u>
S. Duncan ^(a)	3,715	440	01.07.09 to 31.12.09
G. Fairweather ^(a)	2,804	337	01.07.06 to 31.12.06
G. Fairweather ^(b)	16,419	0.01	16.05.05 to 15.05.15
G. Fairweather ^(b)	21,687	0.01	07.03.06 to 06.03.16
I. Meakins ^(c)	119,946	0.01	01.12.05 to 01.12.14
Total	164,571		

(a) Alliance UniChem Saving Related Share Option Scheme 1990

(b) Alliance UniChem Share Incentive Plan

(c) Ian Meakins Share Incentive Scheme

- (v) As at the last day of the disclosure period, the Alliance UniChem Directors, their immediate families, related trusts and (so far as the Alliance UniChem Directors are aware) connected persons had the following allocations outstanding under the Alliance UniChem Share Incentive Plan:

<u>Name</u>	<u>2004 allocation maximum amount £</u>	<u>Performance period applicable to 2004 allocation</u>	<u>2005 allocation maximum amount £</u>	<u>Performance period applicable to 2005 allocation</u>
S. Pessina	300,000	01.01.04-31.12.06	485,000	01.01.05-31.12.07
G. Fairweather	233,333	01.01.04-31.12.06	375,000	01.01.05-31.12.07
O. Barra	193,333	01.01.04-31.12.06	310,000	01.01.05-31.12.07
S. Duncan	186,666	01.01.2004-31.12.2006	315,000	01.01.2005-31.12.2007
I. Meakins	400,000	01.01.2004-31.12.2006	625,000	01.01.2005-31.12.2007

- (vi) As at the last day of the disclosure period, the UniChem 1992 Employee Trust held 8,249,770 Alliance UniChem Shares and the Alliance UniChem 2004 Employee Trust held 119,946 Alliance UniChem Shares.

- (vii) By virtue of being members of the class of potential beneficiaries under the UniChem 1992 Employee Trust and the Alliance UniChem 2004 Employee Trust, each of Ian Meakins, Stefano Pessina, George Fairweather, Ornella Barra and Steven Duncan (together with other employees of the Alliance UniChem Group) is deemed to be interested in 8,249,770 and 119,946 Alliance UniChem Shares held by the UniChem 1992 Employee Trust and the Alliance UniChem 2004 Employee Trust, respectively.

- (viii) As at the last day of the disclosure period, Credit Suisse and persons controlling, controlled by or under the same control as Credit Suisse held the following interest in Alliance UniChem Shares:

<u>Party</u>	<u>No. of Alliance UniChem Shares</u>
Credit Suisse Securities (Europe) Limited	1,571,891

- (ix) During the disclosure period, the following dealings for value in Alliance Unichem Shares by Boots Directors have taken place:

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Alliance UniChem Shares</u>	<u>Alliance UniChem Share price pence</u>
24.09.04	Richard Baker	Purchase	772	661.6
18.03.05	Richard Baker	Sale	772	744.1

- (x) During the disclosure period, the following dealings for value in Alliance UniChem Shares by UBS AG and persons controlling, controlled by or under the same control as UBS AG have taken place:

<u>Trade Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Alliance UniChem Shares</u>	<u>Price per Alliance UniChem Share pence</u>
13.10.04	DSI International Management Inc.	Sale	5,787	650.23
13.10.04	DSI International Management Inc.	Sale	2,993	650.23
13.10.04	DSI International Management Inc.	Sale	2,820	650.23
13.10.04	DSI International Management Inc.	Sale	7,434	650.23
13.10.04	DSI International Management Inc.	Sale	2,097	650.23
04.11.04	DSI International Management Inc.	Sale	17,600	680.62
07.12.04	DSI International Management Inc.	Purchase	1,684	731.05
17.03.05	DSI International Management Inc.	Purchase	505	762.48
07.04.05	DSI International Management Inc.	Purchase	2,763	784.00
07.04.05	DSI International Management Inc.	Purchase	2,147	784.00
07.04.05	DSI International Management Inc.	Purchase	1,651	784.00
07.04.05	DSI International Management Inc.	Purchase	5,669	784.00
07.04.05	DSI International Management Inc.	Purchase	1,208	784.00
25.04.05	DSI International Management Inc.	Purchase	192	786.11
16.06.05	DSI International Management Inc.	Purchase	587	867.00
28.06.05	DSI International Management Inc.	Purchase	211	837.85
16.08.05	DSI International Management Inc.	Purchase	145	816.50
24.08.05	DSI International Management Inc.	Sale	717	818.50
07.09.05	DSI International Management Inc.	Sale	3,451	818.73
07.09.05	DSI International Management Inc.	Sale	1,995	818.73
07.09.05	DSI International Management Inc.	Sale	7,639	818.73
16.09.05	DSI International Management Inc.	Purchase	221	813.95
16.09.05	DSI International Management Inc.	Purchase	1,660	813.95
22.09.05	DSI International Management Inc.	Purchase	143	823.00
05.10.05	DSI International Management Inc.	Sale	204	823.66
05.10.05	DSI International Management Inc.	Sale	119	823.66
05.10.05	DSI International Management Inc.	Sale	460	823.66
06.10.05	DSI International Management Inc.	Sale	1,829	820.56
06.10.05	DSI International Management Inc.	Sale	11,400	820.56
06.10.05	DSI International Management Inc.	Sale	364	820.56
06.10.05	DSI International Management Inc.	Sale	1,660	820.56
06.04.06	DSI International Management Inc.	Purchase	17,272	908.50
10.05.06	DSI International Management Inc.	Sale	423	883.50
19.05.06	DSI International Management Inc.	Purchase	1,940	899.50
23.05.06	DSI International Management Inc.	Purchase	79	901.00

- (xi) During the Offer Period, the following dealings for value in Alliance UniChem Shares by Alliance UniChem Directors, their immediate families, related trusts or connected persons have taken place:

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Alliance UniChem Shares</u>	<u>Alliance UniChem Share price pence</u>
28.10.05	S. Pessina	Share option exercise	24,959	0.01
16.03.06	S. Pessina	Share option exercise	23,001	0.01
10.05.06	S. Pessina	DRIP election	322,814	925.2424
15.03.06	O. Barra	Share option exercise	17,743	0.01
10.05.06	O. Barra	DRIP election	5,056	925.2424
15.03.06	S. Duncan	Share option exercise	15,443	0.01
15.03.06	S. Duncan	Sale	6,364	907.00
11.11.05	E. Jornod	Purchase	1,150	778.00

- (xii) During the Offer Period, the following dealings for value in Alliance UniChem Shares by the UniChem 1992 Employee Trust have taken place:

<u>Date</u>	<u>Transaction</u>	<u>No. of Alliance UniChem Shares</u>	<u>Alliance UniChem Share price pence</u>
11.10.05	Purchase	350,000	799.242
12.10.05	Purchase	600,000	795.110
13.10.05	Purchase	600,000	785.6551
14.10.05	Purchase	600,000	790.9188
17.10.05	Purchase	600,000	793.95
18.10.05	Purchase	600,000	794.01
26.10.05	Purchase	600,000	755.050
27.10.05	Purchase	600,000	756.549
27.10.05	Purchase	600,000	763.750
16.03.06	Purchase	300,000	931.012
21.03.06	Purchase	300,000	919.030
22.03.06	Purchase	300,000	910.590
23.03.06	Purchase	300,000	901.990
27.03.06	Purchase	300,000	910.746
28.03.06	Purchase	300,000	905.711
06.04.06	Purchase	300,000	908.310
07.04.06	Purchase	300,000	906.831
10.04.06	Purchase	300,000	896.720
26.04.06	Purchase	300,000	890.231
27.04.06	Purchase	300,000	890.3374
25.05.06	Purchase	300,000	908.6667
26.05.06	Purchase	205,000	925.5464

- (xiii) During the Offer Period, the following dealings for value in Alliance UniChem Shares by Credit Suisse and persons controlling, controlled by or under the same control as Credit Suisse have taken place:

<u>Period</u>	<u>Transaction</u>	<u>No. of Alliance UniChem Shares</u>	<u>Highest price paid pence</u>	<u>Lowest price paid pence</u>
10.05	Purchase	6,643,319	903.0	744.5
	Sale	6,819,525	904.4	743.0
11.05	Purchase	3,036,999	784.0	744.0
	Sale	2,349,751	784.0	744.0
12.05	Purchase	1,083,342	813.0	744.0
	Sale	999,421	810.0	736.5
01.06	Purchase	4,307,032	873.0	792.0
	Sale	3,315,976	854.0	796.0
02.06	Purchase	261,986	884.5	832.0
	Sale	608,618	891.0	836.5
03.06	Purchase	4,346,595	937.0	875.9
	Sale	4,510,231	936.5	870.0
04.06	Purchase	663,691	910.0	832.0
	Sale	2,757,733	909.5	858.5
05.06	Purchase	3,310,935	937.0	871.0
	Sale	1,411,328	938.5	873.9

- (xiv) During the Offer Period, the following dealings for value in Alliance UniChem Shares by Merrill Lynch and persons controlling, controlled by or under the same control as Merrill Lynch have taken place:

<u>Date</u>	<u>Party</u>	<u>Transaction</u>	<u>No. of Alliance UniChem Shares</u>	<u>Alliance UniChem Share price pence</u>
03.10.05	Merrill Lynch	Purchase	1,875	873.5
03.10.05	Merrill Lynch	Purchase	660	874.5

(d) General

Save as disclosed in this paragraph 4:

- (i) as at the last day of the disclosure period, neither Boots, nor any other member of the Boots Group, nor the Boots Directors, nor (in the case of the Boots Directors) any member of their respective immediate families or related trusts, nor any person acting in concert with Boots, nor any person with whom Boots had an arrangement of any kind referred to in paragraph 4(a)(i) above or had any right to subscribe for, or had any short position in relation to, or was interested in, directly or indirectly, any relevant securities of Alliance UniChem or Boots, as appropriate, and nor had any such person dealt for value therein during the disclosure period.
- (ii) as at the last day of the disclosure period, none of the Alliance UniChem Directors nor any members of their respective immediate families, related trusts or other connected persons was interested in nor had any right to subscribe for, or any short position in relation to, any relevant securities of Alliance UniChem, and nor had any such person dealt for value therein during the Offer Period.
- (iii) as at the last day of the disclosure period, neither Alliance UniChem nor any of the Alliance UniChem Directors, nor any of their immediate families or related trusts, owned or controlled or (in the case of Alliance UniChem Directors, their immediate families or related trusts) was interested in, directly or indirectly, nor had any right to

subscribe for, or any short position in relation to, any relevant securities of Boots, and nor had any such person dealt for value therein during the Offer Period.

- (iv) no relevant associate, nor any pension fund of Alliance UniChem or of any company which is a relevant associate, nor any employee benefit trust of Alliance UniChem or of any company which is a relevant associate, nor any connected adviser or any person controlling, controlled by or under the same control as any such adviser (except for an exempt principal trader or an exempt fund manager) had an interest in or a right to subscribe for, or any short position in relation to, relevant securities of Alliance UniChem or of Boots as at the last practicable date prior to publication of this document, has engaged in any dealing in relevant securities of Alliance UniChem or Boots during the Offer Period.
- (v) neither Alliance UniChem, Boots nor any person acting or presumed to be acting in concert with the Alliance UniChem Directors or with Boots had borrowed or lent any relevant securities in Alliance UniChem (save for any borrowed shares which have been either on-lent or sold) during the disclosure period.
- (vi) there is no arrangement of the kind referred to in Note 6(b) on Rule 8 of the Code which exists between Boots or any person acting, or presumed to be acting, in concert with Boots and any other person nor between Alliance UniChem or any associate of Alliance UniChem and any other person.

5. Service Contracts

Save as disclosed below, there are no service contracts in force between any Alliance UniChem Director, or any proposed Alliance UniChem Director, and Alliance UniChem or any of its subsidiaries and no such contract has been entered into or amended during the six months preceding the date of publication of this document.

(a) Executive Alliance UniChem Directors

Service contracts have been entered into with each of the executive Alliance UniChem Directors, the particulars of which are set out below:

<u>Name</u>	<u>Date of Agreement</u>	<u>Expiry Terms</u>	<u>Basic Salary £</u>
Stefano Pessina	10.12.02	Indefinite term: terminable on 12 months' notice by Alliance UniChem or six months' notice by Stefano Pessina	510,000
George Fairweather	28.03.02	Indefinite term: terminable on 12 months' notice by either party	390,000
Ornella Barra	10.12.02	Indefinite term: terminable on 12 months' notice by Alliance UniChem or six months' notice by Ornella Barra	330,000
Steven Duncan	29.12.95	Indefinite term: terminable on 12 months' notice by either party	330,000
Ian Meakins	16.09.04	Indefinite term: terminable on 12 months' notice by either party	670,000

Each of the service contracts referred to above provides that termination of the relevant Director's employment may be made by making a payment in lieu of notice to the relevant Director, in lieu of the notice period.

Each of the executive Alliance UniChem Directors is entitled to participate in the Alliance UniChem annual performance bonus scheme, subject to the rules of such programme as amended from time to time. Bonus is based on achievement of a budgeted performance target established by the Board at the end of the previous year. The maximum bonus an executive Alliance UniChem Director could receive in 2005 was 100% of basic salary; 80% of the bonus is based on adjusted profit for the year attributable to equity shareholders and

20% of the bonus is based on personal performance. For those executive Alliance UniChem Directors with specific business responsibilities (Steve Duncan and Ornella Barra), half of their financial performance target was based on the results of the Alliance UniChem Group as a whole and half on the combined performance of the business area for which they have specific responsibility.

The executive Alliance UniChem Directors also participate in the Alliance UniChem Share Incentive Plan under which allocations may be made to certain executive directors of Alliance UniChem (and other employees of the Alliance UniChem Group) with the aim of rewarding them for creating shareholder value. Each allocation takes the form of a non-binding statement of intent to make an award over a specified number of Alliance UniChem Shares following the end of a specified performance period. The allocation is determined as a percentage of basic salary in the year that the performance period starts.

Pending Completion, the executive Alliance UniChem Directors were not awarded allocations under the Alliance UniChem Share Incentive Plan for 2006. It is currently intended (subject to the removal of the general prohibition on the grant of awards more than four months after the start of the performance period) to grant the executive Alliance UniChem Directors who will become Boots Directors in connection with the Merger awards under the Boots Performance Share Plan following Completion subject to suitable performance targets.

In addition to the Alliance UniChem Share Incentive Plan, Alliance UniChem also operates the Alliance UniChem Savings Related Share Option Scheme 1990, which is open to all UK employees of the Alliance UniChem Group including executive Alliance UniChem Directors.

For further information on the proposals which have been agreed with Boots for options and allocations held by Alliance UniChem Directors under the Alliance UniChem Share Schemes, please refer to paragraph 10 of Part 2 (*Explanatory Statement*) of this document and paragraph 6 of this Part 8.

The executive Alliance UniChem Directors had accrued entitlements under defined benefit pension schemes as at 31 December 2005 as follows:

<u>Name</u>	<u>Accrued pension at 31 December 2005 £000</u>	<u>Transfer Value as at 31 December 2005 £000</u>
Steve Duncan	106	1,683
George Fairweather	13	149

From 6 April 2006, Steve Duncan, who is a member of the Alliance UniChem Group UK Pension Scheme, ceased to accrue pension benefits in respect of future service. His accrued pension benefits remain linked to final pensionable salary (as defined in the Alliance UniChem 1993 Pension Scheme. From 6 April 2006, Mr. Duncan receives a supplementary payment set at 40% of his basic salary.

George Fairweather is a deferred member of the Alliance UniChem 1993 Pension Scheme, which is a funded unapproved retirement benefit scheme. This is a money purchase arrangement which aims to provide limited targeted benefits on basic salary in excess of the earnings cap. An actuarial review identified a funding deficit under the Alliance UniChem 1993 Pension Scheme in relation to service by George Fairweather up until 31 December 2005 of approximately £108,000 which has now been eliminated. The detailed pension arrangements of Mr. Fairweather following 6 April 2006 are in the process of being finalised.

Ornella Barra is a member of a tax approved pension scheme to which defined contributions are made. Subject to Ornella Barra only selecting investments offered by the scheme, a certain level of benefits payable at retirement is guaranteed.

In addition to his basic salary, George Fairweather is entitled by way of benefits to contributions by Alliance UniChem to Alliance UniChem's pension scheme. Ian Meakins has no pension benefit, but receives a cash payment for long-term financial provision at the rate

of £247,920 per annum. Steve Duncan has no pension benefit having opted out of Alliance UniChem's pension scheme as of 5 April 2006. He now receives a cash payment of 40% of basic salary per annum. Stefano Pessina has no pension benefits.

Each of the executive Alliance UniChem Directors is also entitled to the provision of company cars or a car allowance, private medical insurance, and, for Stefano Pessina and Ornella Barra, the cost of travel to and from work, accommodation and subsistence while working for the Alliance UniChem Group in the UK. Where an executive Alliance UniChem Director is entitled to a benefit but chooses not to take that benefit, a cash supplement is paid in lieu of that benefit.

(b) Non-Executive Alliance UniChem Directors

Paolo Scaroni, the non-executive Chairman of Alliance UniChem, is entitled to a fee of £175,000 per annum.

Kenneth Clarke, Deputy Chairman and senior independent non-executive Director, earned a total fee of £125,000 in the year ended 31 December 2005, including £5,000 for chairing the remuneration committee.

All the other non-executive Alliance UniChem Directors are entitled to a basic fee of £45,000 per annum. The fees paid reflect the time non-executive Alliance UniChem Directors are required to commit to their duties and amounts paid to non-executives in comparable companies. Neil Cross received a total fee of £65,000 for the year ended 31 December 2005, including £10,000 for chairing and serving on the Board of Alliance UniChem Pension Trustee Limited and £10,000 for chairing and serving on the audit committee. Other members of the audit committee were paid an additional fee of £5,000.

Each non-executive Alliance UniChem Director has a written letter of appointment with Alliance UniChem terminable by either party on one month's notice.

Each non-executive Alliance UniChem Director derives no other benefit from his office and is not eligible to participate in Alliance UniChem's pension arrangements.

6. Alliance UniChem Share Schemes

(a) Introduction

Alliance UniChem operates four employee share schemes, being the Alliance UniChem 1997 Share Option Scheme, the Alliance UniChem Share Incentive Plan, the Alliance UniChem Savings Related Share Option Scheme 1990 and the Ian Meakins Share Incentive Plan.

Alliance UniChem Shares held by the trustee of the UniChem 1992 Employee Trust (the **Trust**) will be applied to meet option exercises which are satisfied before the Scheme Record Time. New Alliance UniChem Shares will be issued in respect of exercises of options over Alliance UniChem Shares which are satisfied after the Scheme Record Time as the trustee of the Trust, as a Scheme Shareholder, will participate in the Scheme and will not be able to transfer any Alliance UniChem Shares that it holds after the Scheme Record Time. Accordingly, participants under the Alliance UniChem Share Schemes who acquire Alliance UniChem Shares from the Trust before the Scheme Record Time will participate in the Scheme on the same basis as other Scheme Shareholders. Any Alliance UniChem Shares issued to participants after the Scheme Record Time will not be bound by the Scheme but will be automatically acquired by Boots on the same terms as under the Scheme pursuant to an amendment to Alliance UniChem's Articles of Association to be proposed at the Alliance UniChem Extraordinary General Meeting, as set out in the notice of the Alliance UniChem Extraordinary General Meeting in Part 11 (*Notice of Alliance UniChem Extraordinary General Meeting*) of this document. Participants in the 1990 Scheme (see paragraph 6(d) below) who exchange their options over Alliance UniChem Shares for options over New Boots Shares and any continuing optionholders under the 1997 Scheme (see paragraph 6(b) below) may receive New Boots Shares from the Trust or have New Boots Shares issued to them by Boots when they exercise their options after the Scheme becomes effective.

Following Completion, there will be no further grants under the Alliance UniChem Share Schemes. The effect of the Scheme on each of the Alliance UniChem Share Schemes is set out below.

(b) The Alliance UniChem 1997 Share Option Scheme (the 1997 Scheme)

As at 31 May 2006 (being the last practicable date prior to publication of this document), options over 4,850,512 Alliance UniChem Shares were outstanding under the 1997 Scheme.

The outstanding options are currently subject to performance conditions. However, options under the 1997 Scheme can be exercised free of these performance conditions from the date the Court sanctions the Scheme.

Outstanding UK HM Revenue & Customs approved options will lapse six months after the date the Court sanctions the Scheme, but cannot be exercised after the Effective Date. Outstanding unapproved options (other than certain options held by optionholders resident in France) will lapse after the Effective Date. The terms of options held for less than four years by optionholders resident in France will be amended so that they will not lapse on the Effective Date but will remain outstanding and exercisable until they lapse at the end of the six month period starting on the fourth anniversary of the date of grant of the options. This will allow those options to continue to qualify for beneficial tax treatment.

(c) The Alliance UniChem Share Incentive Plan (the SIP)

As at 31 May 2006 (being the last practicable date prior to publication of this document), awards over 38,106 Alliance UniChem Shares were outstanding under the SIP. Allocations (non-binding statements of intention to make an award under the SIP) were also outstanding over 369,890 Alliance UniChem Shares. Only Alliance UniChem Directors participate in the SIP.

Allocations outstanding under the SIP will vest subject to the attainment of the performance targets on the date the Court sanctions the Scheme. Awards outstanding under the SIP will be exercisable within three months of the date the Court sanctions the Scheme and will then lapse.

Alliance UniChem's remuneration committee has determined that all of the applicable performance targets would be met in full at the time of the Merger, and so the allocations will vest in full. Accordingly, following the sanction of the Scheme by the Court, the Alliance UniChem Directors who hold allocations under the SIP will receive from the Trust all of the Alliance UniChem Shares subject to their respective allocations. Sufficient of the Alliance UniChem Shares to which each Alliance UniChem Director is entitled will be sold on their behalf to meet any tax liability that arises on vesting. The remainder of the Alliance UniChem Shares acquired by each Alliance UniChem Director will be subject to the Scheme. Each Alliance UniChem Director who participates in the SIP has agreed to continue to hold the New Boots Shares ultimately acquired in respect of the Alliance UniChem Shares received under the SIP until the earlier of the date he would have been able to realise the value of his allocation under the SIP if the Merger had not occurred or the date he ceases to be employed by the Enlarged Group.

George Fairweather, the only Alliance UniChem Director who holds vested awards under the SIP (details of which are set out at paragraph 4(c)(iv) of this Part 8) will exercise options granted pursuant to those awards immediately following the sanction of the Scheme by the Court and will participate in the Scheme on the same basis as other Scheme Shareholders.

(d) The Alliance UniChem Savings Related Share Option Scheme 1990 (the 1990 Scheme)

As at 31 May 2006 (being the last practicable date prior to publication of this document), options over 2,974,427 Alliance UniChem Shares were outstanding under the 1990 Scheme.

Optionholders will be entitled to exercise their options within the period of six months from the date the Court sanctions the Scheme or, if earlier, within six months of the next bonus

date following the posting of this document on which optionholders will be entitled to a bonus under their respective savings contracts. Options can be exercised to the extent possible with the amount repaid under their related savings contract.

Boots will make a proposal to optionholders under the 1990 Scheme inviting them to exchange their options for equivalent options over New Boots Shares. Options can be exchanged within a period of six months from the date the Court sanctions the Scheme. Options not exchanged or exercised within this six month period will lapse. Options which are exchanged will be exercisable in accordance with the rules of the 1990 Scheme.

(e) Ian Meakins Share Incentive Plan

Mr Meakins holds an option over 119,946 Alliance UniChem Shares. This option can be exercised at any time up until 1 December 2014, when it will lapse.

Mr Meakins is also entitled to receive an award of up to a maximum of 153,571 Alliance UniChem Shares in March 2008, subject to the satisfaction of certain performance conditions. To qualify for this further award, Mr Meakins must (a) not sell, dispose of or otherwise alienate the Alliance UniChem Shares comprised in his option at any time before the end of Alliance UniChem's 2007 financial year; (b) retain a personal investment of 33,625 Alliance UniChem Shares; and (c) remain employed by Alliance UniChem until the end of Alliance UniChem's 2007 financial year. The performance condition relating to this award is based on Alliance UniChem's Total Shareholder Return when compared to the companies in the FTSE 100 for the period covering Alliance UniChem's 2005, 2006 and 2007 financial years. Alliance UniChem may agree with Mr Meakins that he will receive a cash payment equal to the value of these entitlements, after taking into account the extent to which the performance conditions have been satisfied as at the date of the Merger, and to cancel them at that time.

7. Material Contracts

The following are summaries of the principal contents of each material contract (not being a contract entered into in the ordinary course of business) that has been entered into by members of the Alliance UniChem Group and members of the Boots Group in the period from 3 October 2003 (the date two years prior to the commencement of the Offer Period) to 31 May 2006 (the last practicable date prior to publication of this document).

Alliance UniChem

- (a) On 3 October 2005, Boots and Alliance UniChem entered into the Framework Agreement in connection with the Merger. The Framework Agreement was amended on 2 June 2006. The parties each undertook to take all steps as are:
- (i) reasonably necessary or desirable for the purposes of satisfying the pre-conditions and conditions to the Merger; and
 - (ii) within its power and both reasonable and necessary to implement the Merger following receipt of clearance from the competition regulatory authorities.

Each of the parties agreed that, prior to the Merger becoming effective or prior to termination of the Framework Agreement (whichever is earlier), it will not, subject to the fiduciary duties of the directors of such party and to the prior consent of the other party (such consent not to be unreasonably withheld or delayed):

- (i) carry on business other than in the ordinary course and consistent in all material respects with past practice;
- (ii) engage in any act or omission which would require shareholder consent pursuant to Rule 21.1 of the City Code (in the case of Boots, as if such provisions applied to it) or the Listing Rules; or

- (iii) alter the nature or scope of its business in any way which is material in the context of the business of either party or of the Merger.

Each of the parties has agreed, subject to certain limited exceptions, not to solicit any competing proposal to the Merger. Boots has agreed to pay Alliance UniChem a break fee of £43 million (inclusive of any amounts in respect of VAT) if:

- (i) an offer (howsoever structured) is announced for Boots and the Boots Directors recommend such offer;
- (ii) an offer (howsoever structured) is announced for Boots and such offer becomes or is declared wholly unconditional;
- (iii) the recommendation by the Boots Directors to Boots Shareholders to vote in favour of the Merger Resolutions is withdrawn, qualified or adversely modified; or
- (iv) the Boots Shareholders fail to pass any of the Merger Resolutions.

Alliance UniChem has agreed to pay Boots a break fee of £31 million (inclusive of any amounts in respect of VAT) if, following the announcement of a firm intention to make an offer (howsoever structured) for Boots by a person with a direct or indirect controlling interest in a business, the principal activity of which is national pharmaceutical wholesale or pharmacy activity in the United Kingdom:

- (i) an offer (howsoever structured) is announced for Alliance UniChem and the Alliance UniChem Directors recommend such offer;
- (ii) an offer (howsoever structured) is announced for Alliance UniChem and such offer becomes or is declared wholly unconditional;
- (iii) the recommendation by the Alliance UniChem Directors to the Alliance UniChem Shareholders to accept the offer made by Boots or, as the case may be, vote in favour of the resolutions necessary to implement the Scheme is withdrawn, qualified or adversely modified; and
- (iv) if the Merger is effected by way of an offer by Boots, on day 60 of the offer (or such earlier or later date on which such offer closes), acceptances have been received for 50% or less of the Alliance UniChem Shares or, if the Merger is effected by way of the Scheme, the Alliance UniChem Shareholders fail to pass the resolutions necessary to implement the Merger.

The agreement may be terminated by either party in certain circumstances, including where the Court declines or refuses to sanction the Scheme, the Board of either Boots or Alliance UniChem withdraws, qualifies or adversely modifies its recommendation of the Merger, the Boots Shareholders fail to pass any of the Merger Resolutions, the Alliance UniChem Shareholders fail to pass any of the resolutions to be proposed at the Court Meeting or at the Alliance UniChem Extraordinary General Meeting respectively.

- (b) On 22 November 1999, Alliance UniChem entered into an agreement with a Swiss company, Galenica Holding Limited (**Galenica**), pursuant to which Alliance UniChem and Galenica established joint venture companies (including GaleniCare Holding AG (**GaleniCare**)) to develop common business opportunities within Switzerland and the rest of Europe, notably in the fields of pre-wholesaling, retail trading, OTC businesses and distribution. Pursuant to a shareholders' agreement dated 14 December 2001 between Alliance UniChem, Prewos 1, a wholly owned subsidiary of Alliance UniChem registered in Luxembourg, and Galenica, Alloga AG (**Alloga**) was established to manage the pre-wholesaling of healthcare products side of this business. On 1 February 2005, Alliance UniChem, Alliance UniChem Group Limited (**AUG**), a wholly owned subsidiary of Alliance UniChem registered in England, and Galenica entered into an agreement to restructure their respective holdings in Alloga and GaleniCare (the **Restructuring Agreement**). As a result,

Alliance UniChem gained 100% ownership of Alloga's subsidiaries outside Switzerland, including entities in Italy, Spain, Portugal and the Netherlands, as well as holdings in UniDrug Distribution Group Limited and Loxxess GmbH all held via Alloga Luxembourg S.A (**Alloga Luxembourg**) and divested all its interests in GaleniCare and Alloga (renamed Alloga Switzerland) to Galenica. Alliance UniChem and Galenica also agreed to enter into a strategic partnership agreement whereby Alloga Luxembourg and Alloga Switzerland would be exclusive partners for the provision of pre-wholesaling services outside of their respective territories.

Following this restructuring, Galenica remains a 25.5% owned associate of Alliance UniChem, making Alliance UniChem the largest shareholder of Galenica. Alliance UniChem is prohibited by the Restructuring Agreement from acquiring shares representing more than 25.99% of the share capital of Galenica. For so long as Alliance UniChem remains a shareholder of Galenica, Alliance UniChem is entitled to appoint one director to its board. The director so appointed is entitled to be included in the official proposals for election of the Galenica board to be sent to Galenica shareholders for annual general meetings. Galenica does not have the right of representation on the Alliance UniChem Board (although, at present, Etienne Jornod continues to be a non-executive director having initially been nominated by Galenica).

Alliance UniChem has a right of first refusal over the shares in GaleniCare and Alloga Switzerland owned by Galenica and on any transfer of a significant part of the assets of GaleniCare and Alloga Switzerland. Galenica has an equivalent right of first refusal over the shares in Alloga Luxembourg owned by Alliance UniChem and on any transfer of a significant part of the assets of Alloga Luxembourg.

Alliance UniChem and Galenica entered into non-competition provisions for a duration of three years post completion of the Restructuring Agreement. Pursuant to these, the Alliance UniChem Group cannot engage in any pre-wholesaling, wholesaling or retailing activities in Switzerland which Alloga Switzerland carried on in the two years prior to completion of the restructuring and Galenica and its group cannot engage in pharmaceutical pre-wholesaling in markets outside of Switzerland where Alloga Luxembourg and its subsidiaries carried on business in the two years prior to completion.

Pursuant to the Restructuring Agreement, Alliance UniChem and Galenica formed a strategic and supervisory committee composed of three directors from each company. The committee meets twice a year to discuss strategy.

- (c) On 1 December 2000, Alliance UniChem entered into an agreement with Hedef Holding AS (**Hedef**), a company incorporated in Turkey, and seventeen Hedef shareholders (the **Principal Shareholders**), pursuant to which the Alliance UniChem Group acquired 25% of the share capital of Hedef from the Principal Shareholders. On 30 June 2002, Alliance UniChem exercised its option to acquire a further 25% of the share capital of Hedef, increasing its ownership to 50%.

Through this strategic partnership, the Alliance UniChem Group used Turkey as a gateway to new regions in which to expand its existing wholesale pharmaceutical business. The name of Hedef was changed to Hedef Alliance Holdings A.S. and Alliance UniChem is entitled to appoint three of the eight directors of the board of Hedef. In addition, for so long as Alliance UniChem and its affiliates hold at least 20% of the issued share capital of Hedef (or, in certain circumstances, at least 25%) then a number of matters require either the prior approval of at least one Alliance UniChem nominated director or the positive vote of the majority of the shares held by Alliance UniChem and its affiliates at general meeting (as appropriate). These matters include any material change to Hedef's business, the approval or amendment of Hedef's business plan, entering into material transactions (including acquisitions and disposals and borrowings), declaration of dividends, changes to accounting policies or auditors, engaging in material litigation, entering transactions outside the ordinary course or business or with persons holding a five percentage or greater shareholding in Hedef or their affiliates and appointing or dismissing any managing director or chief executive officer of Hedef.

Other than on certain permitted transfers (including intra-group transfers) pre-emption rights in favour of other shareholders apply on the proposed transfer of shares in Hedef.

Alliance UniChem and the Principal Shareholders have given undertakings not to be interested in any business which competes with Hedef in Turkey while a shareholder in Hedef or for 2 years subsequent to ceasing to be a shareholder.

There is a provision in the agreement which states that, save in relation to a merger of equals, if a person or persons acting together acquire shares carrying more than 50% of the voting rights in Alliance UniChem pursuant to a takeover offer and within six months of such acquisition a majority of the management team of Alliance UniChem prior to such takeover offer cease to be employed by the Alliance UniChem Group, Alliance UniChem shall no longer have any veto rights. Boots and Alliance UniChem believe that the merger of equals exception applies to the Merger and so that this provision is therefore not applicable. In any event, it is not intended that within six months of the Merger a majority of Alliance UniChem's management team prior to the Merger will cease to be employed by the Alliance UniChem Group.

- (d) On 28 June 2005, Alliance Santé Europe S.A. (**ASE**) entered into an agreement with Farmindústria-Investimentos, Participações e Gestão S.A. (**Farmindústria**), a company registered in Portugal and a subsidiary of Associação Nacional das Farmácias, the national association of Portuguese pharmacies, and José de Mello Participações II SGPS S.A (**JM**) a company registered in Portugal. Farmindústria acquired 49%, and JM 2%, of ASE's holding in Alliance UniChem Farmacéutica S.A. (**Farmacéutica**).

The objective of this joint venture was to accelerate the development of Alliance UniChem's Portuguese wholesale business through Farmacéutica's exclusive position in representing Portuguese pharmacies.

The board of Farmacéutica is comprised of two ASE appointees, two Farmindústria appointees and one JM appointee. So long as ASE or Farmindústria hold at least one third of the issued share capital of Farmacéutica, certain matters require the prior approval of at least one of the directors appointed by them. These matters include certain material transactions (including acquisitions and disposals and borrowings), making a material change in the nature or geographic area of the business, approval of business plans, entering into transactions outside the ordinary course of business, change in auditors, commencement of material litigation, appointment of a managing director and certain actions relating to Farmacéutica's share capital.

On a deadlock occurring which is not then resolved, the deadlock is referred to the chairmen of ASE and Farmindústria. If the deadlock is still not resolved then the proposed action to which the deadlock relates shall not proceed. However, in the event of an unresolved deadlock, either ASE or Farmindústria may serve a notice on the other specifying a price at which it offers to sell all its shares and offering to purchase all the other party's shares at the same price. The other party must either accept the offer to sell or the offer to purchase at the given price.

ASE, Farmindústria and JM have given undertakings not to be interested in any business which competes with Farmacéutica and/or its subsidiaries wholesale business in Portugal (including the Azores and Madeira) while a shareholder or for five years subsequent to ceasing to be a shareholder. These covenants do not apply to Alloga Portugal (a subsidiary of Alliance UniChem), which operates a pre-wholesale business or to Farmindústria's central purchasing warehouse.

As the identity and reputation of ASE was an essential consideration in Farmindústria and JM becoming shareholders of Farmacéutica, ASE agreed to retain one third of the share capital of Farmacéutica for a period of seven years from the date of the agreement. In addition, other than certain permitted transfers (including intra-group transfers), a proposed transfer of shares is subject to a pre-emption right in favour of the other shareholders.

- (e) In connection with a securitisation of loans to pharmacies, on 17 November 2004, Alliance UniChem and UniChem Limited entered into a sub-participation agreement and a standing offer to purchase agreement with, among others, a participant and a syndicate of banks pursuant to which Alliance UniChem and UniChem Limited provided, among other things,

certain representations and covenants. Under such agreements, UniChem Limited has the right to purchase the underlying pharmacy loans and/or related facilities provided that the relevant notice has been given. To provide further support to the securitisation (a) Alliance UniChem and UniChem Limited entered into a fee letter and a deed of covenant in relation to the first loss letter of credit facility and the excess concentration letter of credit facility and (b) Alliance UniChem entered into a deed of guarantee in relation to a revolving credit facility. Alliance UniChem, under both deeds, and UniChem Limited, under the deed of covenant, have provided certain representations and covenants in connection with the underlying pharmacy loans. Alliance UniChem and UniChem Limited have the benefit of, and are subject to (including priority of payment and limited recourse), the provisions of a deed of charge. As the Merger could, prima facie, constitute an event of default or potential event of default in connection with this securitisation, Alliance UniChem has obtained waiver letters from all relevant parties of any potential default caused by the Merger.

Boots

- (a) An agreement dated 29 July 2005 made between various subsidiaries of Boots and various subsidiaries of REIT Asset Management (**REIT**) pursuant to which REIT acquired 312 Boots high street stores for a consideration of £298 million and agreed to lease them back to Boots for a period of 15 years at an initial rental of £16 million per annum, with fixed annual uplifts of 1.5%. Boots negotiated a degree of flexibility to exit properties early and may vacate a certain number of properties, without penalty, by giving not less than 12 months' notice.
- (b) On 3 October 2005, Boots entered into an agreement with Stefano Pessina and a Luxembourg company controlled by him (which are together referred to as the **Covenantors**) pursuant to which the Covenantors irrevocably undertook, subject as provided below, to accept the offer made by Boots or, if the Merger is to be effected by way of the Scheme, to vote in favour of the resolutions necessary to implement the Scheme. The agreement was amended on 2 June 2006.

The Covenantors are, together, the registered and beneficial owners of 108,818,474 Alliance UniChem Shares, representing approximately 30% of the entire issued share capital of Alliance UniChem.

The undertakings given by the Covenantors will cease to have any force or effect in the event that (amongst other things):

- (i) the pre-conditions to the Merger are not satisfied by 13 months after the submission of the form CO or form RS (as the case may be) to the European Commission;
- (ii) a competition authority irrevocably blocks the Merger;
- (iii) the offer made by Boots is withdrawn or lapses;
- (iv) the Boots Shareholders fail to pass the Merger Resolutions;
- (v) if the Merger is to be effected by way of the Scheme, the Alliance UniChem Shareholders do not pass the resolutions necessary to implement the Merger or the Court refuses or declines to sanction the Scheme;
- (vi) Stefano Pessina dies or becomes permanently incapacitated;
- (vii) an offer (howsoever structured) for Boots is announced which is recommended by the Boots Directors;
- (viii) an offer for Boots (howsoever structured), which is not, or has not been, recommended by the Boots Directors, becomes wholly unconditional;
- (ix) the Boots Directors withdraw, qualify or adversely amend their recommendation of the Merger to the Boots Shareholders;

- (x) an offer (howsoever structured) is made for Alliance UniChem and acceptances are received for such offer in respect of in aggregate more than 45% of the Alliance UniChem shares at that time;
 - (xi) an offer (howsoever structured) is announced for Boots by a person with a direct or indirect controlling interest in a business, the principal activity of which is national pharmaceutical wholesale or pharmacy activity in the United Kingdom; and
 - (xii) a third party or group of third parties acting in concert acquires shares, or rights over shares, carrying 25% or more of the voting rights exercisable at a general meeting of Boots.
- (c) On 7 October 2005, Boots and The Boots Company PLC entered into a business and share sale agreement (**BSPA**) to sell BHI and certain related assets to Reckitt Benckiser plc for an aggregate consideration, on a debt and cash free basis, of £1.93 billion in cash subject to a completion working capital and current asset adjustment. As at 31 May 2006, the latest practicable date prior to the publication of this document, the working capital and current asset adjustment had not been finalised, although Boots does not expect the adjustment, once finalised, to be material in the context of the BHI transaction. Pursuant to the BSPA, Boots and The Boots Company PLC gave certain warranties which Boots regards as customary for a transaction of this nature and also entered into a tax covenant. Boots and The Boots Company PLC's maximum aggregate liability under each of the warranties and the tax covenant is capped at an amount equal to the adjusted gross purchase price for BHI and the related assets. Pursuant to the BSPA, Boots and The Boots Company PLC also entered into an environmental covenant (subject to, save for claims in relation to the manufacturing sites, a maximum aggregate liability of £10 million) and an asbestos covenant (subject to a maximum aggregate liability of £1 million).
- (d) In connection with the Merger, Boots has entered into a £1.1 billion revolving credit facility (the **New Facility**) which is to mature on the earlier of the date which is 12 months after the Effective Date and 29 March 2008. Boots has an option, at its sole discretion, to extend this facility by 12 months from the earlier of those two dates. Drawings under the New Facility are to be used:
- (i) to refinance certain of Alliance UniChem Group's debt arrangements in connection with the Merger; and
 - (ii) for the general corporate purposes of the Enlarged Group.

The New Facility contains covenants that are usual for this type of funding for an investment grade borrower.

- (e) An engagement letter between Boots and Goldman Sachs dated 3 October 2005 (as amended on the date of publication of this document) pursuant to which Goldman Sachs agreed to act as sponsor and financial adviser to Boots in connection with the Merger. This letter contains certain indemnities given by Boots to Goldman Sachs in connection therewith.

8. Material Change

- (a) Save as disclosed in this document, the Alliance UniChem Directors are not aware of any material change in the financial or trading position of Alliance UniChem since 31 December 2005, being the date to which the last published audited accounts of Alliance UniChem were prepared.
- (b) Save as disclosed in this document, the Boots Directors are not aware of any material change in the financial or trading position of Boots since 31 March 2006, being the date to which the last published audited results of Boots were prepared.

9. Sources and Bases of Selected Financial Information

In this document:

- (a) unless otherwise stated:
 - (i) financial information relating to Alliance UniChem and the Alliance UniChem Group has been extracted, without material adjustment, from the audited consolidated financial statements of Alliance UniChem for the relevant financial year; and
 - (ii) financial information relating to Boots and the Boots Group has been extracted, without material adjustment, from the audited consolidated financial statements of Boots for the relevant financial year;
- (b) unless otherwise stated, all prices quoted for Alliance UniChem Shares are closing mid-market prices and are derived from the Daily Official List;
- (c) all share prices are expressed in pence; and
- (d) the information relating to the Boots Group has been provided by the Boots Directors.

10. Other Information

- (a) Merrill Lynch has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which it appears.
- (b) Credit Suisse has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which it appears.
- (c) There is no agreement, arrangement or understanding whereby the beneficial ownership of any of the Alliance UniChem Shares to be acquired by Boots pursuant to the Scheme will be transferred to any other person, save that Boots reserves the right to transfer any such Alliance UniChem Shares to any other member of the Boots Group.
- (d) Save as disclosed in this document, no agreement, arrangement or understanding (including compensation arrangement) exists between Boots or any person acting in concert with it for the purposes of the Merger and any of the directors, recent directors, shareholders or recent shareholders of Alliance UniChem having any connection with or dependence upon the Merger.
- (e) Save as disclosed in the Prospectus, it is currently intended that the total emoluments of the Boots Directors will not be affected by the Merger.
- (f) Neither Boots nor Alliance UniChem will invoke any Condition so as to cause the Merger not to proceed unless the circumstances giving rise to the right to invoke the Condition are of material significance to Boots or Alliance UniChem (as the case may be) in the context of the Merger. This does not apply to the Conditions contained in paragraphs 1 and 2(c) of Part 4 (*Conditions to the Implementation of the Scheme and the Merger*) of this document.

11. Documents Available for Inspection

Copies of the following documents will be available for inspection at the offices of Allen & Overy LLP, One New Change, London EC4M 9QQ during usual business hours on any Business Day prior to the Effective Date:

- (a) the current memorandum and articles of association of Alliance UniChem;
- (b) the memorandum and articles of association of Alliance UniChem, marked to show the changes set out in the Special Resolution to be proposed at the Alliance UniChem Extraordinary General Meeting;

- (c) the memorandum and articles of association of Boots;
- (d) the audited consolidated financial statements of Alliance UniChem for the financial years ended 31 December 2004 and 2005;
- (e) the audited consolidated financial statements of Boots for the financial years ended 31 March 2005 and 2006;
- (f) a full list of any dealings aggregated in paragraph 4 above;
- (g) copies of the service contracts and letters of appointment of the Alliance UniChem Directors referred to in paragraph 5 above;
- (h) the irrevocable undertaking to vote in favour of the Scheme given by the persons referred to in paragraph 7 above;
- (i) copies of the material contracts referred to in paragraph 7 above;
- (j) copies of the written consents referred to in paragraph 10 above;
- (k) a copy of the press announcement dated 3 October 2005 relating to the Merger; and
- (l) this document, the Prospectus and the Forms of Proxy.

PART 9

DEFINITIONS

In this document (with the exception of Parts 3 (*The Scheme of Arrangement*) and 6 (*Financial Information on the Boots Group*)), the following words and expressions have the following meanings, unless the context otherwise requires:

acting in concert	has the meaning given by the City Code
Admission	the admission of the New Boots Shares to the Official List and to trading on the London Stock Exchange's market for listed securities and Admission becoming effective means it becoming effective in accordance with paragraph 3.2.7 of the Listing Rules and the Admission and Disclosure Standards published by the London Stock Exchange
Alliance UniChem or the Company	Alliance UniChem Plc, a company incorporated in England and Wales with registered number 2517178
Alliance UniChem's Articles	the articles of association of Alliance UniChem in force from time to time
Alliance UniChem Board	the board of directors of Alliance UniChem
Alliance UniChem Directors or Directors	the directors of Alliance UniChem, whose names are set out in paragraph 2(a) of Part 8 (<i>Additional Information</i>) of this document
Alliance UniChem Extraordinary General Meeting	the extraordinary general meeting of Alliance UniChem to be held at 10:45 a.m. on 4 July 2006 (or as soon thereafter as the Court Meeting shall have concluded or been adjourned), notice of which is set out in Part 11 (<i>Notice of Alliance UniChem Extraordinary General Meeting</i>) of this document, including any adjournment thereof
Alliance UniChem Group	Alliance UniChem and its subsidiary undertakings
Alliance UniChem Merger Dividend	the interim dividend which is proposed to be paid to Alliance UniChem Shareholders on the register of members of Alliance UniChem at the close of business on the Business Day prior to the Effective Date, as described in paragraph 12 of Part 2 (<i>Explanatory Statement</i>) of this document
Alliance UniChem Share Schemes	the Alliance UniChem 1997 Share Option Scheme, the Alliance UniChem Share Incentive Plan, the Alliance UniChem Savings Related Share Option Scheme 1990 and the Ian Meakins Share Incentive Scheme

Alliance UniChem Shareholders	holders of Alliance UniChem Shares, as appearing in the register of members of Alliance UniChem from time to time
Alliance UniChem Shares or Shares or Ordinary Shares	the existing unconditionally allotted or issued and fully paid ordinary shares of 10 pence each in the capital of Alliance UniChem and any further such shares which are unconditionally allotted or issued prior to the Scheme Record Time
BHI	the Boots Healthcare International division of the Boots Group which was disposed of on 31 January 2006
Board	the board of directors of Alliance UniChem or Boots or, as the case may be, the Enlarged Group, as constituted from time to time
Boots	Boots Group PLC, a company incorporated in England and Wales with registered number 04452715
Boots Board	the board of directors of Boots
Boots Directors	the directors of Boots, whose names are set out in paragraph 2(c) of Part 8 (<i>Additional Information</i>) of this document
Boots Extraordinary General Meeting	the extraordinary general meeting of Boots convened by the notice set out in the circular sent to Boots Shareholders on the date of this document, including any adjournment thereof
Boots Group	Boots and its subsidiary undertakings
Boots Merger Dividend	the interim dividend which is proposed to be paid to Boots Shareholders on the register of members of Boots at the close of business on the Business Day prior to the Effective Date, as described in paragraph 12 of Part 2 (<i>Explanatory Statement</i>) of this document
Boots Pension Scheme	the pension scheme known as Boots Pension Scheme, constituted by a second definitive Trust Deed and Rules dated 17 October 1994, as amended from time to time or, if the context so requires, the trustees of that scheme
Boots Shareholders	holders of Boots Shares as appearing on the register of members of Boots from time to time
Boots Shares	the existing unconditionally allotted or issued and fully paid ordinary shares of 37 ⁷ / ₃₉ pence each in the capital of Boots
BRI	the Boots Retail International division of the Boots Group
BTC	the Boots The Chemist division of the Boots Group

Business Day	any day (other than a Saturday or Sunday or public holiday) on which banks are generally open for business in London
CAT	Competition Appeal Tribunal
certificated form or in certificated form	a share which is not in uncertificated form (that is, not in CREST)
City Code	the City Code on Takeovers and Mergers
Companies Act	the Companies Act 1985 (as amended)
Company's Registrars or Lloyds TSB Registrars	Lloyds TSB Registrars of The Causeway, Worthing, West Sussex BN99 6DA
Competition Commission	the independent public body established by the Competition Act 1998
Completion	the Scheme becoming effective
Conditions	the conditions to the implementation of the Scheme and the Merger, which are set out in Part 4 (<i>Conditions to Implementation of the Scheme and the Merger</i>) of this document
Court	the High Court of Justice in England and Wales
Court Meeting	the meeting of Alliance UniChem Shareholders convened by order of the Court pursuant to section 425 of the Companies Act to be held at 10:30 a.m. on 4 July 2006 to consider and, if thought fit, approve the Scheme, notice of which is set out in Part 10 (<i>Notice of Court Meeting</i>) of this document, including any adjournment thereof
Court Orders	the Reduction Court Order and the Scheme Court Order
Credit Suisse	Credit Suisse Securities (Europe) Limited
CREST	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
CRESTCo	CRESTCo. Limited
Daily Official List	the daily official list of the London Stock Exchange
Director	a director of Alliance UniChem or Boots, as the case may be
Effective Date	the date on which the Scheme becomes effective in accordance with Clause 6 of the Scheme

Enlarged Group	the Alliance UniChem Group and the Boots Group following completion of the Merger
Forms of Proxy	as the context may require, either or both of (i) the blue form of proxy for use at the Court Meeting and (ii) the white form of proxy for use at the Alliance UniChem Extraordinary General Meeting, both of which accompany this document
Framework Agreement	the agreement relating to the Merger between Alliance UniChem and Boots dated 3 October 2005 and amended on 2 June 2006
FSA	the UK Financial Services Authority
FSMA	the Financial Services and Markets Act 2000, as amended
holder	includes any person entitled by transmission
Independent Competing Offer	an offer or scheme of arrangement or recapitalisation or other transaction involving a possible change of control of Alliance UniChem or Boots which, if accepted in full, would result in the offeror holding shares carrying over 50% of the voting rights of Boots or Alliance UniChem (as the case may be) and which is made by or with a party which is not acting in concert with Alliance UniChem or Boots
Listing Rules	the rules and regulations made by the Financial Services Authority (in its capacity as the UKLA) under the Financial Services and Markets Act 2000 and contained in the UKLA's publication of the same name, as amended from time to time
London Stock Exchange	London Stock Exchange plc
Meetings	the Court Meeting and the Alliance UniChem Extraordinary General Meeting and Meeting means either of them
Merger	the proposed merger of Alliance UniChem and Boots
Merger Resolutions	the following resolutions to be proposed at the Boots Extraordinary General Meeting: <ul style="list-style-type: none"> (a) the ordinary resolution to approve the Merger, to increase Boots' authorised share capital and to grant the Boots Directors authority to allot the New Boots Shares; (b) the ordinary resolutions to appoint each of the Proposed Directors (other than Scott Wheway) as a Director of Boots subject to the Merger becoming effective (except any such resolution which is not passed as a result of the death or incapacity of the person named in such resolution or as a result of the person named in such resolution ceasing to be willing or able to be nominated as a director of Boots); and

(c) the special resolution to change Boots' articles of association to remove the requirement for a Director who reaches the age of 65 to vacate the office of Director at the next annual general meeting subject to the Merger becoming effective

Merrill Lynch	Merrill Lynch International
New Alliance UniChem Shares	the new ordinary shares of 10 pence each in the capital of Alliance UniChem to be issued credited as fully paid pursuant to the Scheme
New Boots Shares	up to 481,846,975 new Boots Shares to be issued fully paid pursuant to the Scheme
Offer Period	the period commencing on 3 October 2005 and ending on the Effective Date
Official List	the Official List of the UKLA
OFT	the Office of Fair Trading
Overseas Persons	Scheme Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom
Panel	the Panel on Takeovers and Mergers
pounds or £	UK pounds sterling, the lawful currency of the UK
Proposed Directors	the persons each of whom is proposed to be appointed as a director of Boots with effect from Completion, as described in the Prospectus
Prospectus	the prospectus relating to Boots accompanying this document prepared in accordance with the Prospectus Rules made under section 84 of FSMA
Prospectus Rules	the prospectus rules brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004
Reduction of Capital	the reduction of Alliance UniChem's share capital associated with the cancellation and extinguishing of the Scheme Shares provided for by the Scheme under section 137 of the Companies Act
Reduction Court Hearing	the hearing by the Court of the petition to confirm the Reduction of Capital
Reduction Court Hearing Date	the date of the Reduction Court Hearing
Reduction Court Order	the order of the Court confirming the Reduction of Capital under section 137 of the Companies Act

Registrar of Companies	the Registrar of Companies in England and Wales
Regulation	Article 6(1)(b) or 8(2) of Council Regulation (EC) 139/2004
Regulatory Information Service	means any of the services set out in schedule 12 of the Listing Rules
Restricted Jurisdiction	Australia and Japan and any other jurisdiction where the New Boots Shares cannot be made available without breaching any applicable law
Scheme or Scheme of Arrangement	the scheme of arrangement proposed to be made under section 425 of the Companies Act between Alliance UniChem and the holders of Scheme Shares as set out in Part 3 (<i>The Scheme of Arrangement</i>) of this document, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Alliance UniChem and Boots
Scheme Court Hearing	the hearing by the Court of the petition to sanction the Scheme
Scheme Court Hearing Date	the date of the Scheme Court Hearing
Scheme Court Order	the Order of the Court sanctioning the Scheme under section 425 of the Companies Act
Scheme Record Time	6:00 p.m. on the Business Day immediately preceding the Effective Date
Scheme Shareholders	holders of Scheme Shares
Scheme Shares	<ul style="list-style-type: none"> (a) the Alliance UniChem Shares in issue at the date of this document; (b) any Alliance UniChem Shares issued after the date of this document and before the Voting Record Time; and (c) any Alliance UniChem Shares issued at or after the Voting Record Time and before 6:00 p.m. on the Business Day prior to the confirmation by the Court of the Reduction of Capital provided for by the Scheme in respect of which the original or any subsequent holders thereof are, or shall have agreed in writing to be, bound by the Scheme
SEC	US Securities Exchange Commission
Shareholder	a holder of Alliance UniChem Shares up to the Effective Date or a holder of New Boots Shares thereafter

Special Resolution	the special resolution to be proposed at the Alliance UniChem Extraordinary General Meeting
subsidiary or subsidiary undertaking	have the meanings given by the Companies Act
UKLA	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA
uncertificated or in uncertificated form	recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
US or USA or United States	the United States of America, its territories and possessions, any state in the United States of America and the District of Columbia
US Securities Act	the United States Securities Act of 1933, as amended
US Securities Exchange Act	the United States Securities Exchange Act of 1934, as amended
Voting Record Time	6:00 p.m. on the day which is two days before the date of the Court Meeting or, if such Court Meeting is adjourned, 6:00 p.m. on the second day before the day of such adjourned meeting

PART 10

NOTICE OF COURT MEETING

**IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
REGISTRAR RAWSON**

No. 3737 of 2006

IN THE MATTER OF ALLIANCE UNICHEM PLC

- and -

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated 2 June 2006 made in the above matters the Court has directed a meeting to be convened of the holders of the ordinary shares of 10 pence each in the capital of Alliance UniChem Plc (the **Company**) (the **Ordinary Shares**), for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement (the **Scheme of Arrangement**) proposed to be made between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) and that such meeting will be held at Armourer's Hall, 81 Coleman Street, London EC2R 5BJ at 10:30 a.m. on 4 July 2006, at which place and time all holders of the said shares are requested to attend.

A copy of the Scheme of Arrangement and a copy of the explanatory statement required to be furnished pursuant to section 426 of the Companies Act 1985 are incorporated in the document of which this notice forms part.

Holders of Ordinary Shares may vote in person at the said meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A blue Form of Proxy for use at the said meeting is enclosed with this notice.

Completion of the Form of Proxy will not prevent a holder of Ordinary Shares attending and voting at the said meeting.

It is requested that the blue Form of Proxy (together with any power of attorney or other authority under which it is signed, or a notarially certified copy of such power or authority) be lodged with the Company's Registrars, Lloyds TSB Registrars of The Causeway, Worthing, West Sussex BN99 6AT not less than 48 hours before the time appointed for the said meeting but, if forms are not so lodged, they may be handed to the Chairman before the start of the meeting.

If you would like to submit your proxy vote electronically, you can do so by visiting www.sharevote.co.uk. You will need your personal voting reference number (this is a series of 24 numbers printed under your name on the appointment form). Alternatively, if you have already registered with Lloyds TSB Registrars' on-line portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk (click on "Company Meetings"). Full instructions are given on both websites. The deadline for receipt of electronic proxies is 48 hours before the Meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

Entitlement to attend and vote at the meeting or any adjournment thereof and the number of votes which may be cast thereat will be determined by reference to the register of members of the Company at 6:00 p.m. on the day which is two days before the date of the meeting or adjourned meeting (as the case may be). In each case, changes to the register of members of the Company after such time shall be disregarded.

By the said Order, the Court has appointed Paolo Scaroni or, failing him, Stefano Pessina or, failing him, Ian Meakins to act as chairman of the said meeting and has directed the chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent sanction of the Court.

Dated 5 June 2006

Allen & Overy LLP
One New Change
London EC4M 9QQ
Solicitors for the Company

PART 11

NOTICE OF ALLIANCE UNICHEM EXTRAORDINARY GENERAL MEETING

Alliance UniChem Plc

(the **Company**)

(Registered in England and Wales No. 2517178)

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at Armourer's Hall, 81 Coleman Street, London EC2R 5BJ on 4 July 2006 at 10:45 a.m. (or as soon thereafter as the Court Meeting (as defined in the document of which this notice forms part) shall have concluded or been adjourned) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution:

SPECIAL RESOLUTION

THAT

for the purpose of giving effect to the scheme of arrangement dated 5 June 2006 between the Company and the holders of its Scheme Shares (as defined in the said scheme), a print of which has been produced to this meeting and for the purposes of identification signed by the Chairman of the meeting in its original form or subject to such modification, addition or condition approved or imposed by the Court and agreed to by Boots Group PLC and the Company (the **Scheme**):

- (a) the Scheme be approved and the directors of the Company be authorised to take all such actions as they may consider necessary or appropriate for carrying the Scheme into effect;
- (b) the share capital of the Company be reduced by cancelling and extinguishing all the Scheme Shares (as defined in the Scheme);
- (c) subject to and forthwith upon the said reduction of capital (the **Reduction of Capital**) taking effect and notwithstanding anything to the contrary in the articles of association of the Company:
 - (i) the share capital of the Company be increased to its former amount by the creation of such number of new ordinary shares of 10 pence each as shall be equal to the number of Scheme Shares cancelled pursuant to paragraph (b) above;
 - (ii) the reserve arising in the books of account of the Company as a result of the Reduction of Capital be capitalised and applied in paying up in full at par the new ordinary shares so created, such ordinary shares to be allotted and issued credited as fully paid to Boots and/or its nominee(s); and
 - (iii) the directors of the Company be generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to allot the new ordinary shares referred to in sub-paragraph (c)(i) above, provided that: (1) the maximum aggregate nominal amount of the shares which may be allotted under this authority shall be the aggregate nominal amount of the new ordinary shares created pursuant to sub-paragraph (c)(i) above; (2) this authority shall expire on the fifth anniversary of this resolution; and (3) this authority shall be in addition and without prejudice to any other authority under the said section 80 previously granted and in force on the date on which this resolution is passed;
- (d) subject to and with effect from the passing of this resolution, the articles of association of the Company be amended by the adoption and inclusion of the following new article as article 9A:

"9A Scheme of Arrangement

- (i) In this Article, the **Scheme** means the scheme of arrangement dated 5 June 2006 between the Company and the holders of its Scheme Shares (as defined in the Scheme)

under section 425 of the Companies Act 1985 in its original form or with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Boots Group PLC (**Boots**) and the Company and (save as defined in this Article) expressions defined in the Scheme shall have the same meanings in this Article.

- (ii) Notwithstanding any other provision of these Articles, if the Company allots and issues any Ordinary Shares to any person (other than to Boots or its nominee(s)) at or after the date of adoption of this article and before 6:00 p.m. on the Business Day prior to the confirmation by the Court of the Reduction of Capital, those Ordinary Shares will be issued subject to the terms of the Scheme (and shall be **Scheme Shares** for the purposes thereof) and the holders of those Ordinary Shares will be bound by the Scheme accordingly.
- (iii) Notwithstanding any other provision of these Articles and subject to the Scheme becoming effective and paragraph (iv) of this Article, if the Company allots and issues any Ordinary Shares to any person (a **New Member**) (other than under the Scheme or to Boots or its nominee(s)) at or after 6:00 p.m. on the Business Day prior to the confirmation by the Court of the Reduction of Capital (the **Post-Scheme Shares**), such Post-Scheme Shares will be immediately transferred to Boots and/or its nominee(s) in consideration of Boots issuing or procuring the transfer to the New Member of that number of Boots Shares as that New Member would have been entitled to had each Ordinary Share transferred to Boots hereunder been a Scheme Share at the Scheme Record Time, provided that no New Member will be entitled to a fraction of a Boots Share or any cash sum in lieu thereof and the number of Boots Shares that a New Member will receive shall be rounded down to the nearest whole number.
- (iv) On any reorganisation of, or material alteration to, the share capital of the Company and/or the share capital of Boots (including, without limitation, any subdivision and/or consolidation), the number of Boots Shares to be issued or transferred under paragraph (iii) of this Article will be adjusted by the Directors in such manner as the auditors of the Company may determine to be appropriate to reflect such reorganisation or alteration.
- (v) To give effect to any transfer required by paragraph (iii) of this Article, the Company may appoint any person as attorney and/or agent for the New Member to transfer the Post-Scheme Shares to Boots and/or its nominee(s) and do all such other things and execute and deliver all such documents as may in the opinion of the attorney and/or agent be necessary or desirable to vest the Post-Scheme Shares in Boots and/or its nominee(s) and, pending such vesting, to exercise all rights attaching to the Post-Scheme Shares as Boots may direct. If an attorney and/or agent is so appointed, the New Member shall not thereafter (except to the extent that the attorney and/or agent fails to act in accordance with the directions of Boots) be entitled to exercise any rights attaching to the Post-Scheme Shares unless so agreed by Boots. The Company shall not be obliged to issue a certificate to the New Member for the Post-Scheme Shares."

By order of the Board
Marco Pagni
Company Secretary

Registered office:
2 The Heights, Brooklands
Weybridge
Surrey
KT13 0NY

5 June 2006

Notes:

- (1) A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company but must attend the meeting in person.
- (2) A white Form of Proxy is enclosed with this notice for members who are unable to attend the meeting. Instructions for use are shown on the form. Lodging a form of proxy will not prevent the shareholder from attending and voting in person.
- (3) To be valid, the white Form of Proxy (together with any power of attorney or authority under which it is signed, or a notarially certified copy of such power or authority) must be received at the offices of the Company's Registrars, Lloyds TSB Registrars of The Causeway, Worthing, West Sussex BN99 6AT, not less than 48 hours before the time appointed for the meeting or, as the case may be, the adjourned meeting.

- (4) You may, if you wish, appoint your proxy electronically at www.sharevote.co.uk. You will need your personal voting reference number (this is a series of 24 numbers printed under your name on the appointment form). Alternatively, if you have already registered with Lloyds TSB Registrars' on-line portfolio service, Shareview, you can submit your proxy form at www.shareview.co.uk (click on "Company Meetings"). Full instructions are given on both websites. The deadline for receipt of electronic proxies is 48 hours before the meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.
- (5) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- (6) To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes that can be cast), members must be entered on the Company's register of members at 6:00 p.m. on 2 July 2006 (the **Specified Time**). If the meeting is adjourned to a time not more than 48 hours after the Specified Time applicable to the original meeting, the Specified Time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period of time then, to be so entitled, members must be entered on the Company's register of members at 6:00 p.m. on the day which is two days before the date fixed for the adjourned meeting or, if the Company gives notice of this adjourned meeting and an entitlement time is specified in that notice, at the time specified in that notice.
- (7) A shareholder which is a company (a corporation) and which wishes to be represented at the meeting by a person with authority to speak, vote on a show of hands and vote on a poll (a **corporate representative**) must appoint such a person by resolution of its directors. A suitable personalised form of resolution is printed on the appointment form accompanying this document. A corporate representative has the same powers on behalf of the corporation he/she represents as that corporation could exercise if it were an individual member of the Company.
- (8) In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority will be determined by the order in which the names stand in the Company's register of members in respect of the joint holding.
- (9) If you own shares through Lloyds TSB Registrars (Corporate) Nominee Limited, you are able to vote by completing a voting form and depositing it with Lloyds TSB Registrars not less than 48 hours before the time appointed for the meeting or, as the case may be, the adjourned meeting.
- (10) Copies of the Company's Articles of Association, as proposed to be amended by the special resolution set out in the notice of meeting, are available for inspection at the offices of Allen & Overy LLP at One New Change, London EC4M 9QQ during normal business hours on a weekday until the time when the Scheme becomes effective in accordance with its terms and will also be available for inspection at the place of the meeting for at least 15 minutes prior to and during the meeting.
- (11) Any question relevant to the business of the meeting may be asked at the meeting by anyone permitted to speak at the meeting. You may alternatively submit your question in advance by way of a letter addressed to the Company Secretary at the registered office.

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