BofA Finance LLC
Form 424B2
July 28, 2017

| Subject to Completion Preliminary Term Sheet dated July 27, 2017 | Filed Pursuant to Rule 424(b)(2) Registration Statement No. 333-213265 (To Prospectus dated November 4, 2016, Prospectus Supplement dated November 4, 2016 and Product Supplement EQUITY INDICES LIRN-1 dated November 28, 2016) |
|---|---|

| | | | |
|---|---|---|---|
| Units | | Pricing Date* | August , 2017 |
| $10 principal amount per unit | | Settlement Date* | August , 2017 |
| CUSIP No. | | Maturity Date* | August , 2022 |

*Subject to change based on the actual date the notes are priced for initial sale to the public (the pricing date )

**BofA Finance LLC**
**Leveraged Index Return Notes® Linked to the Dow Jones Industrial Average℠**
**Fully and Unconditionally Guaranteed by Bank of America Corporation**

Maturity of approximately five years

[102% to 122%] leveraged upside exposure to increases in the Index

1-to-1 downside exposure to decreases in the Index beyond a 20% decline, with up to 80% of your principal at risk

All payments occur at maturity and are subject to the credit risk of BofA Finance LLC, as issuer of the notes, and the credit risk of Bank of America Corporation, as guarantor of the notes

No periodic interest payments

In addition to the underwriting discount set forth below, the notes include a hedging-related charge of $0.075 per unit. See Structuring the Notes

Limited secondary market liquidity, with no exchange listing

**The notes are being issued by BofA Finance LLC ( BofA Finance ) and are fully and unconditionally guaranteed by Bank of America Corporation ( BAC ). There are important differences between the notes and a conventional debt security, including different investment risks and certain additional costs. See Risk Factors beginning on page TS-6 of this term sheet, page PS-7 of product supplement EQUITY INDICES LIRN-1, page S-4 of the accompanying Series A MTN prospectus supplement and page 7 of the accompanying prospectus.**

**The initial estimated value of the notes as of the pricing date is expected to be between $9.44 and $9.75 per unit, which is less than the public offering price listed below.** See Summary on the following page, Risk Factors beginning on page TS-6 of this term sheet and Structuring the Notes on page TS-10 of this term sheet for additional information. The actual value of your notes at any time will reflect many factors and cannot be predicted with accuracy.

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None of the Securities and Exchange Commission (the SEC ), any state securities commission, or any other regulatory body has approved or disapproved of these securities or determined if this Note Prospectus (as defined below) is truthful or complete. Any representation to the contrary is a criminal offense.

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| | Per Unit | Total |
|---|---|---|

| | | |
|---|---|---|
| Public offering price(1) | $10.00 | $ |
| Underwriting discount(1) | $0.25 | $ |
| Proceeds, before expenses, to BofA Finance | $9.75 | $ |

(1) For any purchase of 500,000 units or more in a single transaction by an individual investor or in combined transactions with the investor's household in this offering, the public offering price and the underwriting discount will be $9.95 per unit and $0.20 per unit, respectively. See Supplement to the Plan of Distribution; Conflicts of Interest below.

**The notes and the related guarantee:**

| | | |
|---|---|---|
| **Are Not FDIC Insured** | **Are Not Bank Guaranteed** | **May Lose Value** |

**Merrill Lynch & Co.**

August , 2017

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average℠ , due August , 2022
Summary

The Leveraged Index Return Notes® Linked to the Dow Jones Industrial Average℠, due August , 2022 (the notes ) are our senior unsecured debt securities. Payments on the notes are fully and unconditionally guaranteed by BAC. The notes and the related guarantee are not insured by the Federal Deposit Insurance Corporation or secured by collateral. **The notes will rank equally with all of BofA Finance's other unsecured and unsubordinated debt, and the related guarantee will rank equally with all of BAC's other unsecured and unsubordinated obligations. Any payments due on the notes, including any repayment of principal, will be subject to the credit risk of BofA Finance, as issuer, and BAC, as guarantor.** The notes provide you a leveraged return if the Ending Value of the Market Measure, which is the Dow Jones Industrial Average℠ (the Index ), is greater than the Starting Value. If the Ending Value of the Index is equal to or less than the Starting Value but greater than or equal to the Threshold Value, you will receive the principal amount of your notes. If the Ending Value is less than the Threshold Value, you will lose a portion, which could be significant, of the principal amount of your notes. Payments on the notes, including the amount you receive at maturity, will be calculated based on the $10 principal amount per unit and will depend on the performance of the Index, subject to our and BAC's credit risk. See Terms of the Notes below.

The economic terms of the notes (including the Participation Rate) are based on BAC's internal funding rate, which is the rate it would pay to borrow funds through the issuance of market-linked notes and the economic terms of certain related hedging arrangements. BAC's internal funding rate is typically lower than the rate it would pay when it issues conventional fixed or floating rate debt securities. This difference in funding rate, as well as the underwriting discount and the hedging related charge described below, will reduce the economic terms of the notes to you and the initial estimated value of the notes on the pricing date. Due to these factors, the public offering price you pay to purchase the notes will be greater than the initial estimated value of the notes.

On the cover page of this term sheet, we have provided the initial estimated value range for the notes. This initial estimated value range was determined based on our, BAC's and our other affiliates' pricing models, which take into consideration BAC's internal funding rate and the market prices for the hedging arrangements related to the notes. The initial estimated value of the notes calculated on the pricing date will be set forth in the final term sheet made available to investors in the notes. For more information about the initial estimated value and the structuring of the notes, see Structuring the Notes on page TS-10.

Terms of the Notes

| | |
|---|---|
| **Issuer:** | BofA Finance LLC ( BofA Finance ) |
| **Guarantor:** | Bank of America Corporation ( BAC ) |
| **Principal Amount:** | $10.00 per unit |
| **Term:** | Approximately five years |
| **Market Measure:** | The Dow Jones Industrial Average℠ (Bloomberg symbol: INDU ), a price return index |
| **Starting Value:** | The closing level of the Market Measure on the pricing date |
| **Ending Value:** | The average of the closing levels of the Market Measure on each scheduled calculation day occurring during the Maturity Valuation Period. The calculation days are |

Redemption Amount Determination

On the maturity date, you will receive a cash payment per unit determined as follows:

| | |
|---|---|
| | subject to postponement in the event of Market Disruption Events, as described beginning on page PS-20 of product supplement EQUITY INDICES LIRN-1. |
| **Threshold Value:** | 80% of the Starting Value, rounded to two decimal places. |
| **Participation Rate:** | [102% to 122%]. The actual Participation Rate will be determined on the pricing date. |
| **Maturity Valuation Period:** | Five scheduled calculation days shortly before the maturity date. |
| **Fees and Charges:** | The underwriting discount of $0.25 per unit listed on the cover page and the hedging related charge of $0.075 per unit described in Structuring the Notes on page TS-10. |
| **Calculation Agent:** | Merrill Lynch, Pierce, Fenner & Smith Incorporated ( MLPF&S ), an affiliate of BofA Finance. |

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average℠ , due August , 2022

The terms and risks of the notes are contained in this term sheet and in the following:

Product supplement EQUITY INDICES LIRN-1 dated November 28, 2016:
http://www.sec.gov/Archives/edgar/data/70858/000119312516778251/d301984d424b5.htm

Series A MTN prospectus supplement dated November 4, 2016 and prospectus dated November 4, 2016:
http://www.sec.gov/Archives/edgar/data/70858/000119312516760144/d266649d424b3.htm

These documents (together, the Note Prospectus ) have been filed as part of a registration statement with the SEC, which may, without cost, be accessed on the SEC website as indicated above or obtained from MLPF&S by calling 1-800-294-1322. Before you invest, you should read the Note Prospectus, including this term sheet, for information about us, BAC and this offering. Any prior or contemporaneous oral statements and any other written materials you may have received are superseded by the Note Prospectus. Capitalized terms used but not defined in this term sheet have the meanings set forth in product supplement EQUITY INDICES LIRN-1. Unless otherwise indicated or unless the context requires otherwise, all references in this document to we, us, our, or similar references are to BofA Finance, and not to BAC.

Investor Considerations

| **You may wish to consider an investment in the notes if:** | **The notes may not be an appropriate investment for you if:** |
|---|---|
| You anticipate that the Index will increase from the Starting Value to the Ending Value. | You believe that the Index will decrease from the Starting Value to the Ending Value or that it will not increase sufficiently over the term of the notes to provide you with your desired return. |
| You are willing to risk a loss of principal and return if the Index decreases from the Starting Value to an Ending Value that is below the Threshold Value. | You seek 100% principal repayment or preservation of capital. |
| You are willing to forgo the interest payments that are paid on conventional interest bearing debt securities. | You seek interest payments or other current income on your investment. |
| You are willing to forgo dividends or other benefits of owning the stocks included in the Index. | You want to receive dividends or other distributions paid on the stocks included in the Index. |
| You are willing to accept a limited or no market for sales prior to maturity, and understand that the market prices for the notes, if any, will be affected by various factors, including our and BAC's actual and perceived creditworthiness, BAC's internal funding rate and fees and charges on the notes. | You seek an investment for which there will be a liquid secondary market. |
| You are willing to assume our credit risk, as issuer of the notes, and BAC's credit risk, as guarantor of the notes, for all payments under the notes, including the Redemption Amount. | You are unwilling or are unable to take market risk on the notes to take our credit risk as issuer of the notes or to take BAC's credit risk, as guarantor of the notes. |

We urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes.

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average℠ , due August , 2022

Hypothetical Payout Profile and Examples of Payments at Maturity

The below graph is based on **hypothetical** numbers and values.

**Leveraged Index Return Notes®**

This graph reflects the returns on the notes, based on a Participation Rate of 112% (the midpoint of the Participation Rate range of [102% to 122%]) and a Threshold Value of 80% of the Starting Value. The green line reflects the returns on the notes, while the dotted gray line reflects the returns of a direct investment in the stocks included in the Index, excluding dividends.

This graph has been prepared for purposes of illustration only.

The following table and examples are for purposes of illustration only. They are based on hypothetical values and show hypothetical returns on the notes. They illustrate the calculation of the Redemption Amount and total rate of return based on a hypothetical Starting Value of 100, a Threshold Value of 80, a Participation Rate of 112% and a range of hypothetical Ending Values. **The actual amount you receive and the resulting total rate of return will depend on the actual Starting Value, Threshold Value, Participation Rate, Ending Value, and whether you hold the notes to maturity.** The following examples do not take into account any tax consequences from investing in the notes.

For recent actual levels of the Market Measure, see The Index section below. The Index is a price return index and as such the Ending Value will not include any income generated by dividends paid on the stocks included in the Index, which you would otherwise be entitled to receive if you invested in those stocks directly. In addition, all payments on the notes are subject to issuer and guarantor credit risk.

| **Ending Value** | **Percentage Change from the Starting Value to the Ending Value** | **Redemption Amount per Unit(1)** | **Total Rate of Return on the Notes** |
|---|---|---|---|
| 0.00 | -100.00% | $2.000 | -80.00% |
| 50.00 | -50.00% | $7.000 | -30.00% |
| 70.00 | -30.00% | $9.000 | -10.00% |
| 80.00(2) | -20.00% | $10.000 | 0.00% |
| 90.00 | -10.00% | $10.000 | 0.00% |
| 94.00 | -6.00% | $10.000 | 0.00% |
| 97.00 | -3.00% | $10.000 | 0.00% |
| 100.00(3) | 0.00% | $10.000 | 0.00% |
| 102.00 | 2.00% | $10.224 | 2.24% |
| 105.00 | 5.00% | $10.560 | 5.60% |
| 110.00 | 10.00% | $11.120 | 11.20% |
| 120.00 | 20.00% | $12.240 | 22.40% |
| 130.00 | 30.00% | $13.360 | 33.60% |
| 140.00 | 40.00% | $14.480 | 44.80% |
| 150.00 | 50.00% | $15.600 | 56.00% |
| 160.00 | 60.00% | $16.720 | 67.20% |

(1) The Redemption Amount per unit is based on the **hypothetical** Participation Rate.

(2) This is the **hypothetical** Threshold Value.

(3) The **hypothetical** Starting Value of 100 used in these examples has been chosen for illustrative purposes only, and does not represent a likely actual Starting Value for the Market Measure.

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average$^{SM}$ , due August , 2022

**Redemption Amount Calculation Examples**

**Example 1**

The Ending Value is 70.00, or 70.00% of the Starting Value:

Starting Value: 100.00
Threshold Value: 80.00
Ending Value: 70.00

Redemption Amount per unit

**Example 2**

The Ending Value is 90.00, or 90.00% of the Starting Value:

Starting Value: 100.00
Threshold Value: 80.00
Ending Value: 90.00

Redemption Amount (per unit) **= $10.00**, the principal amount, since the Ending Value is less than the Starting Value but equal to or greater than the Threshold Value.

**Example 3**

The Ending Value is 150.00, or 150.00% of the Starting Value:

Starting Value: 100.00
Ending Value: 150.00

**= $15.60** Redemption Amount per unit

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average$^{SM}$, due August , 2022
Risk Factors

*There are important differences between the notes and a conventional debt security. An investment in the notes involves significant risks, including those listed below. You should carefully review the more detailed explanation of risks relating to the notes in the Risk Factors sections beginning on page PS-7 of product supplement EQUITY INDICES LIRN-1, page S-4 of the Series A MTN prospectus supplement, and page 7 of the prospectus identified above. We also urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes.*

Depending on the performance of the Index as measured shortly before the maturity date, your investment may result in a loss; there is no guaranteed return of principal.

Your return on the notes may be less than the yield you could earn by owning a conventional fixed or floating rate debt security of comparable maturity.

Payments on the notes are subject to our credit risk, and the credit risk of BAC, and actual or perceived changes in our or BAC's creditworthiness are expected to affect the value of the notes. If we and BAC become insolvent or are unable to pay our respective obligations, you may lose your entire investment.

Your investment return may be less than a comparable investment directly in the stocks included in the Index.

We are a finance subsidiary and, as such, will have limited assets and operations.

BAC's obligations under its guarantee of the notes will be structurally subordinated to liabilities of its subsidiaries.

The notes issued by us will not have the benefit of any cross-default or cross-acceleration with other indebtedness of BofA Finance or BAC: events of bankruptcy or insolvency or resolution proceedings relating to BAC and covenant breach by BAC will not constitute an event of default with respect to the notes.

The initial estimated value of the notes considers certain assumptions and variables and relies in part on certain forecasts about future events, which may prove to be incorrect. The initial estimated value of the notes is an estimate only, determined as of a particular point in time by reference to our and our affiliates' pricing models. These pricing models consider certain assumptions and variables, including our credit spreads, and those of BAC, BAC's internal funding rate on the pricing date, mid-market terms on hedging transactions, expectations on interest rates and volatility, price-sensitivity analysis, and the expected term of the notes. These pricing models rely in part on certain forecasts about future events, which may prove to be incorrect.

The public offering price you pay for the notes will exceed the initial estimated value. If you attempt to sell the notes prior to maturity, their market value may be lower than the price you paid for them and lower than the initial estimated value. This is due to, among other things, changes in the level of the Index, BAC's internal funding rate, and the inclusion in the public offering price of the underwriting discount and the hedging related charge, all as further described in Structuring the Notes beginning on page TS-10. These factors, together with various credit, market and economic factors over the term of the notes, are expected to reduce the price at which you may be able to sell the notes in any secondary market and will affect the value of the notes in complex and unpredictable ways.

The initial estimated value does not represent a minimum or maximum price at which we, BAC, MLPF&S or any of our other affiliates would be willing to purchase your notes in any secondary market (if any exists) at any time. The value of your notes at any time after issuance will vary based on many factors that cannot be predicted with accuracy, including the performance of the Index, our and BAC's creditworthiness and changes in market conditions.

A trading market is not expected to develop for the notes. None of us, BAC or MLPF&S is obligated to make a market for, or to repurchase, the notes. There is no assurance that any party will be willing to purchase your notes at any price in any secondary market.

BAC and its affiliates' hedging and trading activities (including trades in shares of companies included in the Index) and any hedging and trading activities BAC or its affiliates engage in that are not for your account or on your behalf, may affect the market value and return of the notes and may create conflicts of interest with you.

The Index sponsor may adjust the Index in a way that affects its level, and has no obligation to consider your interests.

You will have no rights of a holder of the securities represented by the Index, and you will not be entitled to receive securities or dividends or other distributions by the issuers of those securities.

While BAC and our other affiliates may from time to time own securities of companies included in the Index, we, BAC and our other affiliates do not control any company included in the Index, and have not verified any disclosure made by any other company.

There may be potential conflicts of interest involving the calculation agent, which is an affiliate of ours. We have the right to appoint and remove the calculation agent.

The U.S. federal income tax consequences of the notes are uncertain, and may be adverse to a holder of the notes. See Summary Tax Consequences below and U.S. Federal Income Tax Summary beginning on page PS-27 of product supplement EQUITY INDICES LIRN-1.

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average℠ , due August , 2022

The Index
All disclosures contained in this term sheet regarding the Index, including, without limitation, its make-up, method of calculation, and changes in its components, have been derived from publicly available sources. The information reflects the policies of Dow Jones Indexes, the marketing name of CME Group Index Services LLC ( CME Indexes , the Index sponsor ), and is subject to change by Dow Jones Indexes. Dow Jones Indexes has no obligation to continue to publish, and may discontinue publication of, the Index. The consequences of Dow Jones Indexes discontinuing publication of the Index are discussed in the section entitled Description of LIRNs—Discontinuance of an Index beginning on page PS-21 of product supplement EQUITY INDICES LIRN-1. None of us, BAC, the calculation agent or MLPF&S accepts any responsibility for the calculation, maintenance or publication of the Index or any successor index.

**Publication of the Index**

Unless otherwise stated, all information on the Index provided in this term sheet is derived from Dow Jones Indexes, the marketing name and a licensed trademark of CME Indexes. The Index is a price-weighted index, which means an underlying stock's weight in the Index is based on its price per share rather than the total market capitalization of the issuer. The Index is designed to provide an indication of the composite performance of 30 common stocks of corporations representing a broad cross-section of U.S. industry. The corporations represented in the Index tend to be market leaders in their respective industries and their stocks are typically widely held by individuals and institutional investors.

The Index is maintained by an Averages Committee comprised of the Managing Editor of The Wall Street Journal ( WSJ ), the head of Dow Jones Indexes research and the head of CME Group Inc. research. The Averages Committee was created in March 2010, when Dow Jones Indexes became part of CME Group Index Services, LLC, a joint venture company owned 90% by CME Group Inc. and 10% by Dow Jones & Company. Generally, composition changes occur only after mergers, corporate acquisitions or other dramatic shifts in a component's core business. When such an event necessitates that one component be replaced, the entire Index is reviewed. As a result, when changes are made they typically involve more than one component. While there are no rules for component selection, a stock typically is added only if it has an excellent reputation, demonstrates sustained growth, is of interest to a large number of investors and accurately represents the sector(s) covered by the average.

Changes in the composition of the Index are made entirely by the Averages Committee without consultation with the corporations represented in the Index, any stock exchange, any official agency or us. Unlike most other indices, which are reconstituted according to a fixed review schedule, constituents of the Index are reviewed on an as-needed basis. Changes to the common stocks included in the Index tend to be made infrequently, and the underlying stocks of the Index may be changed at any time for any reason. The companies currently represented in the Index are incorporated in the United States and its territories and their stocks are listed on the New York Stock Exchange and NASDAQ.

The Index initially consisted of 12 common stocks and was first published in the WSJ in 1896. The Index was increased to include 20 common stocks in 1916 and to 30 common stocks in 1928. The number of common stocks in the Index has remained at 30 since 1928, and, in an effort to maintain continuity, the constituent corporations represented in the Index have been changed on a relatively infrequent basis. Nine main groups of companies constitute the Index, with the approximate sector weights of the Index as of June 30, 2017 indicated in parentheses: Technology (16.9%); Industrials (21.3%); Financials (16.8%); Consumer Services (6.7%); Healthcare (13.3%); Oil & Gas (5.9%); Consumer Goods (15.1%); Telecommunications (1.4%); and Basic Materials (2.6%).

**Computation of the Index**

The level of the Index is the sum of the primary exchange prices of each of the 30 component stocks included in the Index, divided by a divisor that is designed to provide a meaningful continuity in the level of the Index. Because the Index is price-weighted, stock splits or changes in the component stocks could result in distortions in the Index level. In order to prevent these distortions related to extrinsic factors, the divisor is periodically changed in accordance with a mathematical formula that reflects adjusted proportions within the Index. The current divisor of the Index is published daily in the WSJ and other publications. In addition, other statistics based on the Index may be found in a variety of publicly available sources.

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average℠ , due August  , 2022

The following table presents the listing symbol, industry group, price per share, and component stock weight for each of the top 10 component stocks in the Index based on publicly available information on June 30, 2017.

| Issuer of Component Stock | Symbol | Industry | Component Stock Weight |
|---|---|---|---|
| The Goldman Sachs Group, Inc. | GS | Investment Services | 221.90% |
| 3M Company | MMM | Diversified Industrials | 208.19% |
| The Boeing Company | BA | Aerospace | 197.75% |
| UnitedHealth Group Incorporated | UNH | Health Care Providers | 185.42% |
| International Business Machines Corporation | IBM | Computer Services | 153.83% |
| The Home Depot, Inc. | HD | Home Improvement Retailers | 153.40% |
| McDonald's Corporation | MCD | Restaurants & Bars | 153.16% |
| Apple Inc. | AAPL | Computer Hardware | 144.02% |
| Johnson & Johnson | JNJ | Pharmaceuticals | 132.29% |
| The Travelers Companies, Inc. | TRV | Property & Casualty Insurance | 126.53% |

***The following graph shows the daily historical performance of the Index in the period from January 1, 2008 through July 20, 2017. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On July 20, 2017, the closing level of the Index was 21,611.78.***

**Historical Performance of the Index**

***This historical data on the Index is not necessarily indicative of the future performance of the Index or what the value of the notes may be. Any historical upward or downward trend in the level of the Index during any period set forth above is not an indication that the level of the Index is more or less likely to increase or decrease at any time over the term of the notes.***

Before investing in the notes, you should consult publicly available sources for the levels of the Index.

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average℠ , due August , 2022

**License Agreement**

S&P® is a registered trademark of Standard & Poor's Financial Services LLC ( S&P ) and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ( Dow Jones ). These trademarks have been licensed for use by S&P Dow Jones Indices LLC. Standard & Poor's®, S&P 500® and S&P® are trademarks of S&P. These trademarks have been sublicensed for certain purposes by our affiliate, MLPF&S. The Index is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by MLPF&S.

The notes are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Dow Jones, S&P or any of their respective affiliates (collectively, S&P Dow Jones Indices ). S&P Dow Jones Indices make no representation or warranty, express or implied, to the holders of the notes or any member of the public regarding the advisability of investing in securities generally or in the notes particularly or the ability of the Index to track general market performance. S&P Dow Jones Indices' only relationship to MLPF&S with respect to the Index is the licensing of the Index and certain trademarks, service marks and/or trade names of S&P Dow Jones Indices and/or its third party licensors. The Index is determined, composed and calculated by S&P Dow Jones Indices without regard to us, MLPF&S, or the notes. S&P Dow Jones Indices have no obligation to take our needs, BAC's needs or the needs of MLPF&S or holders of the notes into consideration in determining, composing or calculating the Index. S&P Dow Jones Indices are not responsible for and have not participated in the determination of the prices, and amount of the notes or the timing of the issuance or sale of the notes or in the determination or calculation of the equation by which the notes are to be converted into cash. S&P Dow Jones Indices have no obligation or liability in connection with the administration, marketing or trading of the notes. There is no assurance that investment products based on the Index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC and its subsidiaries are not investment advisors. Inclusion of a security or futures contract within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security or futures contract, nor is it considered to be investment advice. Notwithstanding the foregoing, CME Group Inc. and its affiliates may independently issue and/or sponsor financial products unrelated to the notes currently being issued by us, but which may be similar to and competitive with the notes. In addition, CME Group Inc. and its affiliates may trade financial products which are linked to the performance of the Index. It is possible that this trading activity will affect the value of the notes.

S&P DOW JONES INDICES DO NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE INDEX OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY US, BAC, MLPF&S, HOLDERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE INDEX OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND MLPF&S, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

Supplement to the Plan of Distribution; Conflicts of Interest

Under our distribution agreement with MLPF&S, MLPF&S will purchase the notes from us as principal at the public offering price indicated on the cover of this term sheet, less the indicated underwriting discount.

MLPF&S, a broker-dealer subsidiary of BAC, is a member of the Financial Industry Regulatory Authority, Inc.

( FINRA ) and will participate as selling agent in the distribution of the notes. Accordingly, offerings of the notes will conform to the requirements of Rule 5121 applicable to FINRA members. MLPF&S may not make sales in this offering to any of its discretionary accounts without the prior written approval of the account holder.

We may deliver the notes against payment therefor in New York, New York on a date that is greater than three business days following the pricing date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, if the initial settlement of the notes occurs more than three business days from the pricing date, purchasers who wish to trade the notes more than three business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The notes will not be listed on any securities exchange. In the original offering of the notes, the notes will be sold in minimum investment amounts of 100 units. If you place an order to purchase the notes, you are consenting to MLPF&S acting as a principal in effecting the transaction for your account.

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average℠ , due August , 2022

MLPF&S may repurchase and resell the notes, with repurchases and resales being made at prices related to then-prevailing market prices or at negotiated prices, and these will include MLPF&S's trading commissions and mark-ups. MLPF&S may act as principal or agent in these market-making transactions; however, it is not obligated to engage in any such transactions. At MLPF&S's discretion, for a short, undetermined initial period after the issuance of the notes, MLPF&S may offer to buy the notes in the secondary market at a price that may exceed the initial estimated value of the notes. Any price offered by MLPF&S for the notes will be based on then-prevailing market conditions and other considerations, including the performance of the Index and the remaining term of the notes. However, neither we nor any of our affiliates is obligated to purchase your notes at any price, or at any time, and we cannot assure you that we or any of our affiliates will purchase your notes at a price that equals or exceeds the initial estimated value of the notes.

The value of the notes shown on your account statement will be based on MLPF&S's estimate of the value of the notes if MLPF&S or another of our affiliates were to make a market in the notes, which it is not obligated to do. That estimate will be based upon the price that MLPF&S may pay for the notes in light of then-prevailing market conditions and other considerations, as mentioned above, and will include transaction costs. At certain times, this price may be higher than or lower than the initial estimated value of the notes.

An investor's household, as referenced on the cover of this term sheet, will generally include accounts held by any of the following, as determined by MLPF&S in its discretion and acting in good faith based upon information then available to MLPF&S:

- the investor's spouse (including a domestic partner), siblings, parents, grandparents, spouse's parents, children and grandchildren, but excluding accounts held by aunts, uncles, cousins, nieces, nephews or any other family relationship not directly above or below the individual investor;
- a family investment vehicle, including foundations, limited partnerships and personal holding companies, but only if the beneficial owners of the vehicle consist solely of the investor or members of the investor's household as described above; and
- a trust where the grantors and/or beneficiaries of the trust consist solely of the investor or members of the investor's household as described above; provided that, purchases of the notes by a trust generally cannot be aggregated together with any purchases made by a trustee's personal account.

Purchases in retirement accounts will not be considered part of the same household as an individual investor's personal or other non-retirement account, except for individual retirement accounts ( IRAs ), simplified employee pension plans ( SEPs ), savings incentive match plan for employees ( SIMPLEs ), and single-participant or owners only accounts (i.e., retirement accounts held by self-employed individuals, business owners or partners with no employees other than their spouses).

Please contact your Merrill Lynch financial advisor if you have any questions about the application of these provisions to your specific circumstances or think you are eligible.

## Structuring the Notes

The notes are our debt securities, the return on which is linked to the performance of the Index. The related guarantees are BAC's obligations. As is the case for all of our and BAC's respective debt securities, including our market-linked notes, the economic terms of the notes reflect our and BAC's actual or perceived creditworthiness at the time of pricing. In addition, because market-linked notes result in increased operational, funding and liability management costs to us and BAC, BAC typically borrows the funds under these types of notes at a rate that is more favorable to BAC than the rate that it might pay for a conventional fixed or floating rate debt security. This rate, which we refer to in this term sheet as BAC's internal funding rate, is typically lower than the rate BAC would pay when it issues conventional fixed or floating rate debt securities. This generally relatively lower internal funding rate, which is reflected in the economic terms of the notes, along with the fees and charges associated with market-linked notes, typically results in the initial estimated value of the notes on the pricing date being less than their public offering price.

At maturity, we are required to pay the Redemption Amount to holders of the notes, which will be calculated based on the performance of the Index and the $10 per unit principal amount. In order to meet these payment obligations, at the time we issue the notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) with MLPF&S or one of our other affiliates. The terms of these hedging arrangements are determined by seeking bids from market participants, including MLPF&S and its affiliates, and take into account a number of factors, including our and BAC's creditworthiness, interest rate movements, the volatility of the Index, the tenor of the notes and the tenor of the hedging arrangements. The economic terms of the notes and their initial estimated value depend in part on the terms of these hedging arrangements.

MLPF&S has advised us that the hedging arrangements will include a hedging related charge of approximately $0.075 per unit, reflecting an estimated profit to be credited to MLPF&S from these transactions. Since hedging entails risk and may be influenced by unpredictable market forces, additional profits and losses from these hedging arrangements may be realized by MLPF&S or any third party hedge providers.

For further information, see Risk Factors—General Risks Relating to LIRNs beginning on page PS-7 and Use of Proceeds on page PS-17 of product supplement EQUITY INDICES LIRN-1.

Leveraged Index Return Notes®
Linked to the Dow Jones Industrial Average℠ , due August , 2022

Summary Tax Consequences

You should consider the U.S. federal income tax consequences of an investment in the notes, including the following:

- There is no statutory, judicial, or administrative authority directly addressing the characterization of the notes.
- You agree with us (in the absence of an administrative determination, or judicial ruling to the contrary) to characterize and treat the notes for all tax purposes as a single financial contract with respect to the Index.
- Under this characterization and tax treatment of the notes, a U.S. Holder (as defined beginning on page 50 of the prospectus) generally will recognize capital gain or loss upon maturity or upon a sale or exchange of the notes prior to maturity. This capital gain or loss generally will be long-term capital gain or loss if you held the notes for more than one year.
- No assurance can be given that the IRS or any court will agree with this characterization and tax treatment.
- U.S. Treasury regulations provide that withholding on dividend equivalent payments (as discussed in the product supplement), if any, will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2018.

**You should consult your own tax advisor concerning the U.S. federal income tax consequences to you of acquiring, owning, and disposing of the notes, as well as any tax consequences arising under the laws of any state, local, foreign, or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws. You should review carefully the discussion (including the opinion of our counsel, Morrison & Foerster LLP) under the section entitled U.S. Federal Income Tax Summary beginning on page PS-27 of product supplement EQUITY INDICES LIRN-1.**

Where You Can Find More Information

We and BAC have filed a registration statement (including a product supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents relating to this offering that we and BAC have filed with the SEC, for more complete information about us, BAC and this offering. You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market-Linked Investments Classification

*MLPF&S classifies certain market-linked investments (the Market-Linked Investments ) into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Enhanced Return Market-Linked Investment or guarantee any performance.*

Enhanced Return Market-Linked Investments are short- to medium-term investments that offer you a way to enhance exposure to a particular market view without taking on a similarly enhanced level of market downside risk. They can be especially effective in a flat to moderately positive market (or, in the case of bearish investments, a flat to moderately negative market). In exchange for the potential to receive better-than market returns on the linked asset, you must generally accept market downside risk and capped upside potential. As these investments are not market downside protected, and do not assure full repayment of principal at maturity, you need to be prepared for the possibility that you may lose all or part of your investment.

Leveraged Index Return Notes® and LIRNs® are BAC's registered service marks.

e="Times New Roman" style="font-size:10.0pt;">There are no material transactions between the Company and any related party. There are no loans outstanding from the Company to any related party.

## ITEM 8. FINANCIAL INFORMATION

### CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The Consolidated Financial Statements are set forth under Item 17. Financial Statements .

### Legal Proceedings

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their operations. While any litigation has an element of uncertainty, the Company does not expect that the outcome of such proceedings, either individually or in the aggregate, will have a material adverse effect upon the Group s financial condition or results of operations.

### SIGNIFICANT CHANGES

No significant changes have occurred since the date of the Consolidated Financial Statements included herein.

## ITEM 9. LISTING DETAILS

### MARKET PRICE INFORMATION

The Company s share capital consists of one class of ordinary shares. The trading market for the ordinary shares is the London Stock Exchange Limited (the London Stock Exchange ) in London, England. The ADSs, each representing five ordinary shares of the Company, have been listed on the New York Stock Exchange, Inc. (the NYSE ) since October 29, 1998. The Bank of New York is the Company s depositary (the Depositary ) issuing ADRs evidencing the ADSs.

39

The following table sets forth, for the periods indicated, the highest and lowest middle market quotations for the ordinary shares, as derived from the Daily Official List of the London Stock Exchange, and high and low closing prices of the ADSs on the NYSE.

| | London Stock Exchange | | NYSE | |
|---|---|---|---|---|
| | High | Low | High | Low |
| | (pence per ordinary share) | | (US$ per ADR) | |
| **Annual High and Low Market Prices** | | | | |
| 2001 | 488 | 408 | 35.35 | 29.90 |
| 2002 | 547 | 368 | 39.80 | 29.35 |
| 2003 | 482 | 345 | 40.70 | 28.98 |
| 2004 | 486 | 405 | 44.99 | 37.96 |
| 2005 | 643 | 443 | 55.00 | 42.06 |
| **Quarterly High and Low Market Prices** | | | | |
| **2004** | | | | |
| First quarter | 477 | 405 | 44.99 | 37.96 |
| Second quarter | 486 | 448 | 44.14 | 41.25 |
| Third quarter | 457 | 416 | 43.24 | 37.75 |
| Fourth quarter | 457 | 413 | 44.37 | 38.45 |
| **2005** | | | | |
| First quarter | 535 | 443 | 52.43 | 42.06 |
| Second quarter | 545 | 498 | 51.68 | 46.60 |
| Third quarter | 575 | 514 | 55.00 | 45.31 |
| Fourth quarter | 643 | 540 | 55.00 | 48.00 |
| **2006** | | | | |
| First quarter | 694 | 596 | 61.71 | 52.63 |
| **Monthly High and Low Market Prices** | | | | |
| **2005** | | | | |
| October | 583 | 540 | 51.78 | 48.00 |
| November | 602 | 573 | 52.41 | 50.50 |
| December | 644 | 593 | 55.00 | 52.33 |
| **2006** | | | | |
| January | 647 | 596 | 56.50 | 52.63 |
| February | 640 | 601 | 56.99 | 53.72 |
| March | 694 | 643 | 61.71 | 57.40 |

Fluctuations between the pound sterling and the US dollar will affect the dollar equivalent of the price of the ordinary shares on the London Stock Exchange and the price of the ADSs on the NYSE. On April 11, 2006 the Noon Buying Rate was $1.75 to £1.00.

ADRs evidencing ADSs are issuable by The Bank of New York, as depositary, pursuant to the Deposit Agreement dated as of October 29, 1998 among the Company, the Depositary and the registered holders and holders from time to time of the ADRs. The Deposit Agreement and the form of ADR are exhibits to this Annual Report, respectively, having been incorporated by reference to Exhibit A of the Company s Registration Statement on Form F-6 (File No. 333-9536) filed with the SEC on October 20, 1998 and filed herewith. Additional copies of the Deposit Agreement are available for inspection at the Corporate Trust Office of the Depositary currently located at 101 Barclay Street, New York, NY 10286, and the principal office in London of the agent of the Depositary at 1 Canada Square, London E14 5AL. The Depositary s principal executive office is located at One Wall Street, New York, NY 10286.

**ITEM 10.** ADDITIONAL INFORMATION

**MEMORANDUM AND ARTICLES OF ASSOCIATION**

The Company s Memorandum and Articles of Association are incorporated by reference to Item 10 Additional Information Memorandum of Articles of Association , as Exhibit 1.1 hereto.

**MATERIAL CONTRACTS**

Management does not believe the Company, or any member of the Group, has been a party to any material contract in the last two years, other than contracts entered into in the ordinary course of business and the agreement referred to below relating to the demerger of the Filtrona business ( the Demerger Agreement ).

The Demerger Agreement was entered into on May 16, 2005 between Bunzl and Filtrona plc to effect the demerger and govern the relationship between the Group and the Filtrona Group following the demerger.

Bunzl and Filtrona plc agreed pursuant to the Demerger Agreement that Bunzl would transfer the Filtrona business to Filtrona plc and that Filtrona plc would issue shares in Filtrona plc to the Bunzl shareholders as of June 6, 2005.

The Demerger Agreement contains mutual indemnities under which Filtrona plc indemnifies the Group against liabilities arising in respect of the Filtrona business and Bunzl indemnifies the Filtrona Group against liabilities arising in respect of the business carried on by the Group other than the Filtrona Group. These mutual indemnities are unlimited in terms of amount or duration and are customary for an agreement of this type.

The Demerger Agreement sets out how guarantees, indemnities or other assurances given by Group companies for the benefit of Filtrona Group companies (or vice versa) will be dealt with following the demerger. Where relevant the beneficiary of such a guarantee must try to obtain the guarantor s release form the guarantor s obligations thereunder and, pending release, indemnify the guarantor against all amounts paid by it under the guarantee and ensure that the guarantor s exposure under the guarantee is not increased.

Both the Group and the Filtrona Group will be permitted access to each other s records for a period of six years following the Demerger. Reasonable endeavours are to be used to ensure that contracts in the name of one group member whereby a member of the other group is deriving the benefit of that contract are novated to the relevant member of the other group, pending which the contracting party shall hold the benefit of that contract on trust for the relevant member of the other group. The parties have covenanted for a period of 12 months not to employ, solicit or entice away certain employees engaged in skilled or managerial worked employed by the other party s group. Both groups have agreed to keep certain information on the other group confidential, subject to certain exemptions (for instance if disclosure is required by law).

The Demerger Agreement contains detailed provisions relating to the discharge of indebtedness due from Filtrona Group companies to the Group, the establishment by Filtrona plc of its pension schemes and the transfer of assets to them and the allocation of tax liabilities.

The Demerger Agreement also contains indemnities relating to taxation. Subject to certain exceptions, Bunzl indemnifies the Filtrona Group against tax liabilities arising as a result of the demerger or certain pre-demerger reorganisation steps. Bunzl also indemnifies the Filtrona Group against certain tax liabilities which are properly liabilities of the Group being imposed on a member of the Filtrona Group and Filtrona plc indemnifies the Group against certain tax liabilities which are properly liabilities of the Filtrona Group being imposed on a member of the Group. All of these indemnities are unlimited in terms of amount but do not cover liabilities which arise more than seven years after the demerger or which have not been notified by the indemnified party to the indemnifying party within seven years and 30 days after the demerger.

**EXCHANGE CONTROLS**

There are currently no UK foreign exchange control restrictions on remittances of dividends on the ordinary shares or the ADSs or on the conduct of the Group s operations. There are no limitations under English law or the Memorandum and Articles prohibiting persons who are neither residents nor nationals of the UK from freely holding, voting and transferring shares in the same manner as UK residents or nationals.

**TAXATION**

The following discussion is a summary of material UK tax and US federal income tax consequences of the acquisition, ownership and disposition of ordinary shares or ADSs by a US Holder (as defined below). This summary is not a complete analysis or description of all the possible tax consequences of such purchase, ownership or disposal. It deals only with ordinary shares or ADSs held as capital assets by US Holders and does not address the tax consequences applicable to all categories of US Holders, some of which may be subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers or certain traders in securities or foreign currencies;
- US Holders holding ordinary shares or ADSs as part of a hedge, straddle, conversion or other integrated transaction;
- US Holders whose functional currency is not the US dollar;
- US Holders liable for the alternative minimum tax;
- US Holders who acquired ordinary shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation;
- partnerships or other entities classified as partnerships for US federal income tax purposes;
- tax-exempt organizations; or
- US Holders that own or are deemed to own 10% or more of the Company s voting stock.

This summary is based in part on representations of the Depositary and assumes that each obligation in the Deposit Agreement, and any related document, will be performed in accordance with its terms. The US Treasury has expressed concern that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by US Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate US Holders. Accordingly, the analysis of the availability of the reduced tax rate for dividends received by certain non-corporate US Holders, described below, could be affected by actions that may be taken by parties to whom ADSs are pre-released.

This summary is intended as a general guide only and is based on UK legislation and HM Revenue and Customs practice, and laws and practices of the US currently in force (including the Internal Revenue Code of 1986, as amended to the date hereof (the Code ), judicial decisions and final, temporary and proposed Treasury Regulations), as well as the US-UK double taxation convention relating to income and gains which entered into force on March 31, 2003 (the Income Tax Convention ) and the US-UK double

taxation convention relating to estate and gift taxes (the Estate and Gift Tax Convention ), changes to any of which may affect the tax consequences described herein, possibly with retroactive effect. **US Holders of ordinary shares or ADSs are advised to consult their own tax advisors with respect to the tax consequences of the purchase, ownership or disposal of their ordinary shares or ADSs, including specifically the consequences under US state and local tax laws and the tax laws of any non-US taxing jurisdiction**.

As used herein, the term US Holder means a beneficial owner of ordinary shares or ADSs that is, for US federal income tax purposes:

- a citizen or resident of the US;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the US or of any political subdivision thereof; or
- an estate or trust the income of which is subject to US federal income taxation regardless of its source.

For US federal income tax purposes and for the purposes of the Income Tax Convention and the Estate and Gift Tax Convention, US Holders of ADSs will generally be treated as the owners of the underlying ordinary shares. Accordingly, no gain or loss will be recognized if a US Holder exchanges ADSs for the underlying ordinary shares represented by those ADSs.

*UK Taxation of Distributions*

Under current UK law dividends received by a US Holder from the Company will not be subject to UK withholding tax.

*US Taxation of Distributions*

For US federal income tax purposes, distributions paid with respect to ordinary shares or ADSs (other than certain pro rata distributions of ordinary shares or rights to subscribe for ordinary shares) will be treated as a foreign-source dividend to the extent paid out of the Company s current or accumulated earnings and profits (as determined under US federal income tax principles). Such dividends will not be eligible for the dividends-received deduction generally allowed to corporate US Holders under the Code. The amount of the distribution will equal the US dollar value of the pounds sterling received, calculated by reference to the exchange rate in effect on the date such distribution is received (which for US Holders of ADSs will be the date such distribution is received by the Depositary), whether or not the Depositary or the US Holder in fact converts the pounds sterling received into US dollars on the date of receipt. Any gains or losses resulting from the conversion of pounds sterling into US dollars will be treated as US-source ordinary income or loss.

Subject to applicable limitations that vary depending upon a US Holder s individual circumstances and the discussion above regarding concerns expressed by the US Treasury, dividends paid to certain non-corporate US Holders in taxable years beginning before January 1, 2009 will be taxable at a maximum tax rate of 15%. Non-corporate US Holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at these favorable rates.

*UK Taxation of Capital Gains*

Holders of ADSs or ordinary shares who are US resident individuals or US corporations, and who are not resident or ordinarily resident in the UK for UK tax purposes, will not normally be subject to UK taxation on capital gains realized on the disposal of their ordinary shares or ADSs, unless the ordinary shares or ADSs are, or have been, used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or a UK permanent establishment, at the time of the disposal.

*US Taxation of Capital Gains*

For US federal income tax purposes, a US Holder will realize capital gain or loss on the sale or other disposition of ordinary shares or ADSs in an amount equal to the difference between the amount realized and the US Holder s tax basis in such ordinary shares or ADSs. The gain or loss, if any, will generally be US-source and will be long term capital gain or loss if the ordinary shares or ADSs were held for more than one year. US Holders should consult their own tax advisors regarding the US federal income tax treatment of capital gains, which may be taxed at lower rates than ordinary income for individuals, and capital losses, the deductibility of which is subject to limitations.

*UK Inheritance Tax*

Provided that any gift or estate tax due in the US is paid, the Estate and Gift Tax Convention generally relieves from UK inheritance tax (being a tax charge, broadly, on the value of an individual s estate at his/her death and upon certain transfers of value (e.g., gifts) made by an individual during his/her lifetime (generally within seven years of death)) the transfer of ordinary shares or of ADSs where the holder of the ordinary shares or ADSs making the transfer is domiciled, for the purposes of the Estate and Gift Tax Convention, in the US and is not a national of the UK, for the purposes of the Estate and Gift Tax Convention. This will not apply if the ordinary shares or ADSs are part of the business property of an individual s permanent establishment of an enterprise in the UK or pertain to the fixed base in the UK of a person providing independent personal services. In the unusual case where ordinary shares or ADSs are subject to both UK inheritance tax and US estate or gift tax, the Estate and Gift Tax Convention generally provides for tax paid in the UK to be credited against tax payable in the US or for tax paid in the US to be credited against tax payable in the UK based on priority rules set forth in the Estate and Gift Tax Convention.

*UK Stamp Duty and Stamp Duty Reserve Tax ( SDRT )*

No stamp duty will be payable on an instrument transferring an ADS or on a written agreement to transfer an ADS, provided that the instrument or written agreement of transfer remains at all times outside the UK and that the instrument or written agreement of transfer is not executed in the UK. No SDRT will be payable in respect of an agreement to transfer an ADS (whether made in or outside the UK). Stamp duty or SDRT is, however, generally payable at the rate of 1.5% of the amount or value of the consideration or, in some circumstances, the market value of the ordinary shares, where ordinary shares are issued or transferred to a person whose business is or includes issuing depositary receipts, or to a nominee for such a person.

A transfer of, or an agreement to transfer, for value the underlying ordinary shares will generally be subject to either stamp duty or SDRT, normally at the rate of 0.5% of the amount or value of the consideration. A transfer of ordinary shares from a nominee to its beneficial owner (including the transfer of underlying ordinary shares from the Depositary or its nominee to an ADS holder) under which no beneficial interest passes is subject to stamp duty at the fixed rate of £5 per instrument of transfer.

*US Backup Withholding and Information Reporting*

Payments of dividends and sales proceeds may be subject to information reporting requirements of the Code. Under US federal income tax law, such dividends and sales proceeds may also be subject to backup withholding unless the US Holder is a corporation or comes within certain exempt categories and, when required, demonstrates this fact, or provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Any amount withheld under these rules will be creditable against a US Holder s US federal income tax liability and may entitle the US Holder to a refund, provided that the required information is furnished to the Internal Revenue Service. A US Holder who does not provide a correct taxpayer identification number may be subject to certain penalties.

**DOCUMENTS ON DISPLAY**

The documents concerning Bunzl which are referred to herein may be inspected at the SEC. You may read and copy any document filed or furnished by Bunzl at the SEC s public reference rooms in Washington D.C., New York and Chicago. Please call the SEC at +1-800-SEC-0330 (+1-800-732-0330) for further information on the reference rooms. Documents filed or furnished made by Bunzl via EDGAR are available at the SEC s website, http://www.sec.gov.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Bunzl has a centralized treasury department to control external borrowings and manage the exchange rate risk and interest rate risk. Treasury policies are approved by the Board of Directors and cover the nature of the exposure to be hedged, the types of financial instruments that may be employed and the criteria for investing and borrowing cash. The Group uses derivatives only to manage its foreign currency and interest rate risks arising from underlying business activities. No transactions of a speculative nature are undertaken. The treasury department is subject to periodic reviews by the internal audit department. Underlying policy assumptions and activities are reviewed by the executive directors. Controls over exposure changes and transaction authenticity are in place and dealings are restricted to those banks with the relevant combination of geographic presence and suitable credit rating. The Group continually monitors the credit ratings of its counterparties and credit exposure to each counter party.

**Interest Rate Risk**

The Group s principal exposure to interest rate risk relates to changes in US dollar, euro and sterling interest rates. The Group s gross borrowings as at December 31, 2005 after taking into account the impact of foreign exchange swaps were denominated as follows:

| | **Total** | **Euro** | **US Dollars** | **Sterling** | **Other** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Gross Borrowings | | | | | |
| 2005 | 409.2 | 286.9 | 280.4 | (262.2) | 104.1 |
| 2004 | 512.9 | 337.0 | 281.4 | (195.4) | 89.9 |

At December 31, 2005, after interest rate swaps, £29.1m of US dollar gross borrowings maturing within one year have a fixed interest rate of 6.4%. All other borrowings are at floating rates. The Group manages its interest rate risk by reference to its forecast net borrowings. A portfolio of interest rate caps fixing at three month intervals over a rolling 18 month period is used to reduce the impact of adverse movements. Financial liabilities with a notional principal of £211.1m were capped at December 31, 2005 (£178.2m at December 31, 2004).

The amount and nature of interest rate instruments utilized by the Group is determined by management upon an analysis of the composition of the Group s assets and liabilities and related interest rate characteristics, as well as prevailing market conditions and expectations.

**Foreign Currency Risk**

The Group publishes its financial statements in sterling but conducts its business in many foreign currencies. The majority of Bunzl s assets, liabilities, revenues and expenses are denominated in US dollars and other non-sterling currencies. As a result the Group is subject to foreign currency exchange rate risk due to exchange rate movements which will affect the translation of the Group s results and net assets. The Group continually assesses foreign currency risks and monitors the foreign exchange markets. The Group s policy is to limit the translation exposure and resulting impact on shareholders funds by borrowing in those currencies in which the Group has significant net assets and by using forward foreign exchange contracts. The Group does not hedge the translation effect on the income statement. The Group s operating profit is affected by the movement in sterling due to translation exposure. For example, the impact on the Group s operating profit of a 1% movement of sterling against the US dollar would be approximately £1 million.

The Group uses derivative financial instruments, such as forward foreign exchange contracts, to manage foreign currency risk arising from its underlying business activities. The majority of the Group s transactions are carried out in the functional currency of the Group s operations and so transaction exposures are of limited significance.

**Credit Risk**

Credit risk arises from the possibility that counterparties to agreements entered into for financial instruments may default on their obligations. The amount of credit risk associated with derivatives is normally measured by the positive market value, or replacement cost, of any given instrument. Bunzl has no reason to expect non performance by any of the counterparties to its contracts involving financial instruments. Counterparties are approved internally at Bunzl according to certain criteria, including geographic presence and suitable credit rating.

**Quantitative Disclosure of Market Risk**

The analysis below summarizes the sensitivity of the fair value of the Group s financial instruments to selected changes in market rates and prices. Fair value represents the present value of future cash flows based on market rates and prices at the valuation date of December 31, 2005.

***Foreign Currency Risk***

The sensitivity analysis assumes an instantaneous 10% change in foreign currency exchange rates from those as at December 31, 2005 with all other variables held constant. The plus 10% case assumes a strengthening of sterling and the minus 10% case a weakening of sterling against all other currencies.

| | Fair value as at December 31 | | Fair value due to exchange rate movements of | |
|---|---|---|---|---|
| | **2005** | **2004** | **Plus 10%** | **Minus 10%** |
| | **£m** | **£m** | **£m** | **£m** |
| Foreign exchange forward contracts | (5.9) | (6.5) | 58.1 | (39.8) |
| Long term debt fixed rate | (29.1) | (26.0) | (26.4) | (32.0) |
| Long term debt floating rate | (333.2) | (426.6) | (325.3) | (341.9) |
| Other financial net assets | 258.9 | 276.2 | 237.8 | 282.0 |

46

***Interest Rate Risks***

The Group s US dollar private placement issued in 2001 has three tranches of $75 million, $100 million and $50 million bearing interest rates of 6.4%, 6.7% and 7.1% and which will become due on July 2, 2006, July 2, 2008 and July 2, 2011, respectively. The seven and ten year tranches together with $25 million of the five year tranche were swapped to floating rates of interest based on the three month US LIBOR. The impact on the Group s profit before tax of an increase in interest rates of 1% would be an expense of approximately £4 million.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

47

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Chief Executive and the Finance Director, after evaluating the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded that as of December 31, 2005, the Company s disclosure controls and procedures were effective and designed to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities to allow timely decisions of required disclosures.

**Changes in Internal Controls over Financial Reporting**

There were no changes in the Company s internal controls over financial reporting that occurred during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Directors has determined that J.F. Harris, who serves on Bunzl s Audit Committee, is its Audit Committee financial expert.

**ITEM 16B. CODE OF ETHICS**

Bunzl has adopted a code of ethics applicable to its Chairman, Chief Executive, Finance Director and Financial Controller and to all other Group employees. The text of this code is available on the Company s website, www.bunzl.com.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table summarizes the aggregate amounts paid to the Company s auditors for the years ended December 31, 2005 and 2004.

| | **2005** | **2004** |
|---|---|---|
| | **£m** | **£m** |
| Audit fees | 1.5 | 1.9 |
| Audit related fees | 4.1 | 1.5 |
| Tax services | 1.9 | 1.2 |
| | 7.5 | 4.6 |

Audit fees include fees in respect of the Group. Audit related fees principally relate to the review of the listing particulars and circular to shareholders required for the demerger of Filtrona, fees in respect of the Interim Report and Form 20-F, accounting advice and due diligence and other duties carried out in relation to the acquisition of businesses. Tax services consist of tax compliance services and tax advice.

**Audit Committee Pre-approval Policy**

The Audit Committee has pre-approved assignments not exceeding £100,000 for pre-acquisition due diligence and for certain tax services. In the event any of these services is expected to exceed the specified limit, and for all other non-prohibited services regardless of the expected fee, the Chairman of the Audit Committee or, in his absence, another member of the Committee, must specifically authorise the appointment of Bunzl s independent auditors to perform such services. Any such appointment must thereafter be ratified at the subsequent Audit Committee meeting. None of the services described above were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES**

At each of the 2005 and 2004 Annual General Meetings the directors were granted authority by the shareholders to purchase up to 10% of the Company s ordinary share capital in issue at that time. The 2005 authority was subsequently amended at the Company s Extraordinary General Meeting held on June 2, 2005.

At the Annual General Meeting held on May 19, 2004 authority was granted to purchase up to 44,850,000 shares. This authority expired at the conclusion of the Annual General Meeting held on May 18, 2005. The Board exercised part of this authority in relation to 13,035,000 shares during 2004.

At the Annual General Meeting held on May 18, 2005 the shareholders gave the directors a similar authority to purchase up to 46,595,000 shares and at the Extraordinary General Meeting held on June 2, 2005 this authority was replaced as a result of the share consolidation to give the directors authority to purchase up to 34,067,000 shares. This authority will expire on May 17, 2006. The Board has not exercised either of these authorities.

| | Total number of shares purchased | | Average price per share | Total number of shares purchased under the shareholder repurchase authorities | Maximum number of shares that may have been purchased under the shareholder repurchase authorities |
|---|---|---|---|---|---|
| **Month ended** | **Number(1)** | | **Price(p)** | **Number** | **Number** |
| January 31, 2005 | | | | | 31,815,000 |
| February 29, 2005 | | | | | 31,815,000 |
| March 31, 2005 | 689,700 | (2) | 512 | | 31,815,000 |
| April 30, 2005 | | | | | 31,815,000 |
| May 31, 2005 | | | | | 43,785,000 |
| June 30, 2005 | | | | | 34,067,000 |
| July 31, 2005 | | | | | 34,067,000 |
| August 31, 2005 | | | | | 34,067,000 |
| September 30, 2005 | 1,521,401 | | 572 | | 34,067,000 |
| October 31, 2005 | 119,816 | | 572 | | 34,067,000 |
| November 30, 2005 | 332,662 | | 571 | | 34,067,000 |
| December 31, 2005 | | | | | 34,067,000 |
| | 2,663,579 | | 556 | | |

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(1) Open-market purchases of 2,663,579 shares were made in 2005 by Bunzl Employee Trustees Ltd, a subsidiary of the Company, in relation to employee compensation plans and were not purchased pursuant to the shareholder authorities referred to above.

49

(2) The purchase of 689,700 shares in March 2005 related to ordinary shares of 25p each. All of the other purchases made in 2005 related to ordinary shares of 32 1/7p each.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Reference is made to pages F-1 to F-51 of this Annual Report.

| Index to Consolidated Financial Statements | Page |
|---|---|


**ITEM 18. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 19. EXHIBITS**

| | |
|---|---|
| 1.1 | Memorandum and Articles of Association of the Company (filed herewith). |
| 2.1 | Form of Deposit Agreement dated as of October 29, 1998 among the Company, The Bank of New York and the holders from time to time of the American Depositary Receipts issued thereunder. (Incorporated by reference to Exhibit A of the Company s Registration Statement on Form F-6 (File No. 333-9536) filed on October 20, 1998.) |
| 2.2 | Form of American Depositary Receipt attached as Exhibit A to the Form of Deposit Agreement (filed herewith). |
| 4.1. | Service Agreement as of January 1, 2005 between Bunzl USA, Inc. and P.L. Larmon. (Incorporated by reference to the Company s Form 20-F (File No. 001-14868) filed on May 27, 2005.) |
| 4.2 | Service Agreement as of November 1, 2005 between the Company and M.J. Roney (filed herewith). |
| 4.3 | Service Agreement as of January 1, 2006 between the Company and B.M. May (filed herewith). |
| 12.1 | Certification of M.J. Roney filed pursuant to Securities Exchange Act of 1934, as amended ( Exchange Act ) Rule 13a-14(a). |
| 12.2 | Certification of B.M. May filed pursuant to Exchange Act Rule 13a-14(a). |
| 13.1 | Certification of M.J. Roney and B.M. May furnished pursuant to Exchange Act Rule 13a-14(b). |
| 14.1 | Consent of KPMG Audit Plc to the incorporation by reference of their report dated February 27, 2006, except as to Note 31, which is as of April 28, 2006 under Item 3 of Part II of the Company s Registration Statement on Form S-8 (File No. 333-93615) filed on December 27, 1999. |

**SIGNATURE**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | | | |
|---|---|---|---|
| **BUNZL PLC** | | | |
| By: | /s/ B.M. MAY | | |
| | Name: | B.M. May | |
| | Title: | Finance Director | |

London, England
Dated: April 28, 2006

**Report of Independent Registered Public Accounting Firm to the Shareholders and Board of Bunzl plc**

We have audited the accompanying Consolidated Balance Sheet of Bunzl plc and subsidiaries (the Group ) as of December 31, 2005 and 2004 and the related Consolidated Income Statement, Consolidated Statement of Recognized Income and Expense and Consolidated Cash Flow Statement for each of the years in the two year period ended December 31, 2005 (together the Consolidated Financial Statements ). The Consolidated Financial Statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2005 in conformity with International Financial Reporting Standards ( IFRS ) as adopted by the European Union ( EU ).

As referred to in Note 1 to the Consolidated Financial Statements, the Group has changed its method of accounting for certain financial instruments with effect from January 1, 2005, upon the adoption of International Accounting Standards 32 and 39.

IFRS as adopted by the EU vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 31 to the Consolidated Financial Statements.

KPMG Audit Plc
London, England
February 27, 2006
Except as to Note 31, which is dated April 28, 2006

**Consolidated Income Statement**

| | Notes | for the year ended December 31 2005 £m | 2004 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | | | |
| Existing businesses | | 2,808.3 | 2,438.5 |
| Acquisitions | | 116.1 | |
| | 3 | 2,924.4 | 2,438.5 |
| **Operating profit** | 3 | 187.5 | 161.1 |
| Finance income | 5 | 22.0 | 17.0 |
| Finance cost | 5 | (32.8) | (19.9) |
| **Profit before income tax** | | 176.7 | 158.2 |
| Income tax | 6 | (56.7) | (52.5) |
| **Profit for the year** | | 120.0 | 105.7 |
| **Discontinued operations** | | | |
| Profit for the year | 7 | 4.2 | 35.7 |
| **Total profit for the year** | | 124.2 | 141.4 |
| **Attributable to:** | | | |
| Equity holders of the Company | | 123.6 | 140.2 |
| Minority interests | | 0.6 | 1.2 |
| **Total profit for the year** | | 124.2 | 141.4 |
| **Earnings per share of the total profit for the year attributable to the Company s equity holders** | | | |
| Basic | | 36.5p | 40.7p |
| Diluted | | 36.3p | 40.5p |
| **Earnings per share of the profit for the year from continuing operations attributable to the Company s equity holders** | | | |
| Basic | 8 | 35.4p | 30.7p |
| Diluted | 8 | 35.2p | 30.5p |

The Accounting Policies and Notes on pages F-7 to F-51 form part of these Consolidated Financial Statements.

**Consolidated Statement of Recognized Income and Expense**

| | Notes | for the year ended December 31 2005 £m | 2004 £m |
|---|---|---|---|
| **Profit for the year** | | 124.2 | 141.4 |
| Actuarial loss on pension schemes | 22 | (27.3) | (13.3) |
| Deferred taxation on actuarial loss | | 8.4 | 4.0 |
| Currency translation differences arising in year* | | 8.1 | 0.4 |
| Movement of cash flow hedging reserve | | 1.6 | |
| Net expense recognized directly in equity | | (9.2) | (8.9) |
| **Total recognized income for the year** | | 115.0 | 132.5 |
| Adoption of IAS 32 and IAS 39 | 2c | (1.3) | |
| | | 113.7 | 132.5 |
| **Attributable to:** | | | |
| Equity holders of the Company | | 114.1 | 131.6 |
| Minority interests | | 0.9 | 0.9 |
| **Total recognized income for the year** | | 115.0 | 132.5 |

* Currency translation differences for 2005 of £8.1m are net of losses of £15.7m taken to equity as a result of designated effective net investment hedges.

IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement were adopted by the Group on January 1, 2005 resulting in a cash flow hedging reserve of £(1.3)m being recognized in the opening balance sheet. As at December 31, 2005 the amount recognized in equity was £0.3m and the movement in the year was £1.6m.

The Accounting Policies and Notes on pages F-7 to F-51 form part of these Consolidated Financial Statements.

**Consolidated Balance Sheet**

| | Notes | at December 31 2005 £m | 2004 £m |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 9 | 69.8 | 218.4 |
| Intangible assets | 10 | 695.5 | 636.1 |
| Derivative assets | | 4.8 | |
| Deferred tax assets | 16 | 22.2 | 14.8 |
| **Total non-current assets** | | 792.3 | 869.3 |
| Inventories | 11 | 272.3 | 275.2 |
| Income tax receivable | | 2.5 | 3.1 |
| Trade and other receivables | 12 | 470.7 | 465.4 |
| Derivative assets | | 0.9 | |
| Cash and cash equivalents | | 53.7 | 107.7 |
| **Total current assets** | | 800.1 | 851.4 |
| **Total assets** | | 1,592.4 | 1,720.7 |
| **Equity** | | | |
| Share capital | 17 | 111.4 | 112.5 |
| Share premium | 19 | 112.8 | 88.3 |
| Merger reserve | 19 | 2.5 | |
| Capital redemption reserve | 19 | 8.6 | 5.3 |
| Cash flow hedging reserve | 19 | 0.3 | |
| Translation reserve | 19 | 8.5 | 0.7 |
| Retained earnings | 19 | 216.3 | 278.1 |
| **Total equity attributable to the Company s equity holders** | | 460.4 | 484.9 |
| **Minority interests** | | | 3.9 |
| **Total equity** | | 460.4 | 488.8 |
| **Liabilities** | | | |
| Interest bearing loans and borrowings | 26 | 339.7 | 290.2 |
| Retirement benefit obligations | 22 | 60.0 | 70.5 |
| Other payables | | 1.5 | 7.6 |
| Provisions | 15 | 38.3 | 30.3 |
| Deferred tax liabilities | 16 | 79.3 | 79.8 |
| **Total non-current liabilities** | | 518.8 | 478.4 |
| Bank overdrafts | 26 | 17.0 | 43.2 |
| Interest bearing loans and borrowings | 26 | 52.5 | 179.5 |
| Income tax payable | | 40.8 | 54.4 |
| Trade and other payables | 13 | 497.6 | 469.3 |
| Provisions | 15 | 5.3 | 7.1 |
| **Total current liabilities** | | 613.2 | 753.5 |
| **Total liabilities** | | 1,132.0 | 1,231.9 |
| **Total equity and liabilities** | | 1,592.4 | 1,720.7 |

The Accounting Policies and Notes on pages F-7 to F-51 form part of these Consolidated Financial Statements.

**Consolidated Cash Flow Statement**

| | Notes | for the year ended December 31 2005 £m | 2004 £m |
|---|---|---|---|
| **Cash flow from operating activities of continuing operations** | | | |
| Profit before income tax | | 176.7 | 158.2 |
| Adjustments for non-cash items: | | | |
| Depreciation | | 13.6 | 12.9 |
| Intangible amortisation | | 15.9 | 7.8 |
| Share option charge | | 3.6 | 2.8 |
| Other | | 0.9 | (0.7) |
| Working capital movement | | (11.4) | (11.0) |
| Finance income | | (22.0) | (17.0) |
| Finance cost | | 32.8 | 19.9 |
| Special pension contribution | | (3.3) | |
| Employee trust shares | | (2.7) | (9.8) |
| Other cash movements | | (6.4) | (7.2) |
| **Cash inflow from operating activities of continuing operations** | | 197.7 | 155.9 |
| Cash inflow from operating activities of discontinued operations | 7 | 2.2 | 64.1 |
| **Income tax paid of continuing operations** | | (56.7) | (50.3) |
| Income tax paid of discontinued operations | 7 | (2.8) | (14.9) |
| **Cash inflow from operating activities** | | 140.4 | 154.8 |
| **Investing activities of continuing operations** | | | |
| Interest received | | 11.8 | 7.1 |
| Purchase of property, plant and equipment | | (11.4) | (11.4) |
| Sale of property, plant and equipment | | 0.8 | 3.2 |
| Purchase of businesses | | (124.4) | (234.2) |
| Disposal of businesses | | | 8.0 |
| Demerger of business | | 115.4 | |
| Other investment cash flows | | 0.7 | 1.9 |
| **Cash outflow from investing activities of continuing operations** | | (7.1) | (225.4) |
| Cash outflow from investing activities of discontinued operations | 7 | (12.3) | (56.0) |
| **Cash outflow from investing activities** | | (19.4) | (281.4) |
| **Financing activities of continuing operations** | | | |
| Interest paid | | (20.2) | (9.7) |
| Dividends paid | | (57.8) | (54.4) |
| (Decrease)/increase in short term loans | | (102.2) | 135.2 |
| Increase in long term loans | | 37.8 | 24.6 |
| Decrease in finance leases | | (0.3) | (0.2) |
| Shares issued for cash | | 26.6 | 4.9 |
| Purchase of own shares | | | (58.6) |
| **Cash (outflow)/inflow from financing activities of continuing operations** | | (116.1) | 41.8 |
| Cash (outflow)/inflow from financing activities of discontinued operations | 7 | (35.1) | 11.9 |
| **Cash (outflow)/inflow from financing activities** | | (151.2) | 53.7 |

**Consolidated Cash Flow Statement (continued)**

| | Notes | for the year ended December 31 2005 £m | 2004 £m |
|---|---|---|---|
| **Exchange gain/(loss) on cash and cash equivalents of continuing operations** | | 2.1 | (1.3) |
| Exchange gain on cash and cash equivalents of discontinued operations | 7 | 0.3 | 0.4 |
| **Net exchange gain/(loss) on cash and cash equivalents** | | 2.4 | (0.9) |
| **Decrease in cash and cash equivalents** | | (27.8) | (73.8) |
| Cash and cash equivalents at start of year | | 64.5 | 138.3 |
| **Increase/(decrease) in cash and cash equivalents of continuing operations** | | 19.9 | (79.3) |
| (Decrease)/increase in cash and cash equivalents of discontinued operations | 7 | (47.7) | 5.5 |
| **Cash and cash equivalents at end of year** | 26 | 36.7 | 64.5 |

The Accounting Policies and Notes on pages F-7 to F-51 form part of these Consolidated Financial Statements.

**Notes to the Consolidated Financial Statements**

***1. Basis of Preparation***

The Group has adopted International Financial Reporting Standards ( IFRS ) as adopted for use in the EU in its consolidated financial statements for accounting periods from January 1, 2005. The consolidated financial statements for the year ended December 31, 2005 have been prepared in accordance with all adopted IFRSs including the interpretations issued by the International Accounting Standards Board ( IASB ). These are the Group s first consolidated financial statements under IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied (see Note 29).

In preparing the financial statements the Group has decided to adopt early the amendment issued in December 2004 to International Accounting Standards ( IAS ) 19 Employee Benefits Actuarial Gains and Losses, Group Plans and Disclosure .

With effect from January 1, 2005 the Group adopted IAS 39 Financial Instruments: Recognition and Measurement . The effect of adopting IAS 39 as at January 1, 2005 is presented as a movement in the Group s consolidated statement of recognized income and expense for 2005.

The financial information for the year ended December 31, 2004 has been prepared on the same basis with the exception of IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 which have been applied from January 1, 2005. The comparative figures for financial assets and liabilities are accounted for under UK GAAP.

In general, as a first time adopter of IFRS, the Group has applied the standards retrospectively. However there are a number of exceptions available under IFRS 1 and details of these are set out in Note 29.

IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standard Board ( IASB ). However, the Consolidated Financial Statements for the periods presented would be no different had the Company applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

Under the IFRS transition provisions within the SEC Form 20-F requirements, the group is permitted to provide two years of comparable financial information under IFRS and reconciliations to US GAAP for the periods presented.

***2. Accounting policies***

***a. Basis of consolidation***

*(i) Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of the acquisition is measured as the fair value of the consideration plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

**Notes to the Consolidated Financial Statements (Continued)**

## 2. *Accounting policies (Continued)*

***a. Basis of consolidation (Continued)***

*(ii) Transactions eliminated on consolidation*

Intragroup balances and any unrealized gains and losses or income and expense arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

***b. Foreign currency***

*(i) Foreign currency transactions*

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognized in the income statement.

*(ii) Financial statements of foreign operations*

Assets and liabilities of foreign operations, including goodwill, intangibles and fair value adjustments arising on consolidation, are translated at the exchange rate prevailing at the balance sheet date. Income and expenses of foreign operations are translated at average exchange rates. Exchange differences arising on retranslation are recognized in the translation reserve.

*(iii) Net investment in foreign operations*

Exchange differences arising from the translation at the net investment in foreign operations and related hedges are taken to the translation reserve and released to the income statement on disposal. In respect of all foreign operations, differences that have arisen since January 1, 2004, the date of transition to IFRS, are presented as a separate component of equity.

***c. Financial instruments***

The financial statements for the year ended December 31, 2004 have been prepared using the accounting policies previously applied for financial instruments under UK GAAP as the Group has adopted the IFRS 1 exemption not to apply IAS 32 and IAS 39 to the comparative period. Under UK GAAP forward foreign exchange contracts hedging transaction exposures were revalued at year end exchange rates with net unrealised gains and losses being deferred to match the maturity of the underlying exposure. The accounting policies described below for financial instruments are applicable from January 1, 2005. The effect of adopting these standards was to recognize a net derivative liability of £1.3m in the opening balance sheet.

Under IAS 39, financial instruments are initially measured at fair value with subsequent measurement depending upon the classification of the instrument. Financial assets classified as available for sale and financial assets or liabilities classified as at fair value through profit or loss (including derivatives) are held at fair value. Other financial assets and liabilities are held at amortized cost, unless they are in a fair value hedging relationship. Derivative financial instruments are used to hedge exposures to foreign exchange and interest rate risks.

**Notes to the Consolidated Financial Statements (Continued)**

## 2. *Accounting policies (Continued)*

***c. Financial instruments (Continued)***

*(i) Fair value hedge*

Where a derivative financial instrument is designated as a hedge of variability in fair value of a recognized asset or liability, all changes in the fair value of the derivative are recognized immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged.

*(ii) Cash flow hedge*

Where derivatives that are designated and qualify as a hedge are used to hedge forecast transactions, any effective portion of the change in fair value is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the period when the hedged item will affect profit.

*(iii) Hedge of net investment in foreign operations*

Gains or losses on instruments used to hedge net investment in foreign operations that are effective hedges are recognized in equity. Ineffective hedges or portions thereof are recognized in the income statement.

***d. Property, plant and equipment***

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. The revalued amounts of previously revalued properties were treated as deemed cost upon transition to IFRS.

***e. Depreciation***

Depreciation is normally provided on a straight line basis to write off cost over the estimated remaining useful lives. This is at the following annual rates applied to cost or deemed cost less estimated residual value:

| | |
|---|---|
| Buildings | 2% or life of lease if shorter |
| Plant and machinery | 10  20% |
| Fixtures, fittings and equipment | 10  33% |
| Freehold land | Not depreciated |

The assets  residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

***f. Intangible assets***

*(i) Goodwill*

Acquisitions are accounted for using the purchase method. As permitted by IFRS 1 the Group has chosen to apply IFRS 3 Business Combinations from January 1, 2004 and has elected not to restate previous business combinations. For acquisitions that have occurred on or after January 1, 2004, goodwill

**Notes to the Consolidated Financial Statements (Continued)**

## 2. *Accounting policies (Continued)*

***f. Intangible assets (Continued)***

represents the difference between the fair value of consideration given and the fair value of net identifiable assets. For acquisitions made before January 1, 2004, goodwill is included on the basis of deemed cost, which represents the amount previously recorded under UK GAAP. Goodwill is stated at cost less any impairment losses. Goodwill is allocated to cash generating units and is not amortized but tested annually for impairment. Negative goodwill arising on acquisition is recognized in the income statement.

### *(ii)* Other intangible assets

Intangible assets acquired in a business combination are recognized on acquisition and recorded at fair value. To date these have principally been related to customer lists and relationships. Amortization is charged to the income statement on a straight line basis over the estimated useful economic lives (15 to 18 years). Other intangible assets are stated at cost less accumulated amortization and any impairment losses.

***g. Leases***

Operating lease rentals and any incentives receivable are recognized in the income statement on a straight line basis over the term of the relevant lease. Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased assets are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings.

***h. Impairment***

The carrying amounts of the Group s long term assets, other than inventory and deferred tax assets, are reviewed at each balance sheet date to determine if there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. Impairment losses are recognized when the carrying amount of an asset or its cash generating unit exceeds its recoverable amount, with impairment losses being recognized in the income statement. For goodwill the recoverable amount is estimated at each balance sheet date. The recoverable amount is the greater of net selling price and value in use. In assessing value in use estimated future cash flows are discounted to present value using a pre-tax discount rate which reflects the current market assessment of the time value of money and the risks specific to the asset.

***i. Inventories***

Inventories are valued at the lower of cost (on a first in, first out basis) and net realisable value.

***j. Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and fixed term investments with maturities of three months or less from the date of acquisition. In preparing the consolidated cash flow statement, cash and cash equivalents also comprise bank overdrafts.

***k. Trade and other receivables***

Trade and other receivables are stated at cost less any impairment losses.

***l. Trade and other payables***

Trade and other payables are stated at cost.

**Notes to the Consolidated Financial Statements (Continued)**

## 2. *Accounting policies (Continued)*

***m. Income tax***

Income tax in the income statement comprises current and deferred tax. Income tax is recognized in the income statement except when it relates to items reflected in equity when it is recognized in equity.

Current tax reflects tax payable on taxable income for the year using rates enacted or substantively enacted at the balance sheet date and any adjustments in respect of prior years.

Deferred tax is provided using the balance sheet liability method providing for certain temporary differences arising between tax bases and carrying amounts in the financial statements. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which any asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

***n. Revenue***

Revenue from the sale of goods is recognized in the income statement when significant risks and rewards of ownership have been transferred to the buyer. Revenue is not recognized if there is significant uncertainty regarding recovery of the consideration due, nor is it recognized if there is significant uncertainty concerning the return of goods.

***o. Employee benefits***

*(i) Defined contribution plans*

Obligations for contributions to defined contribution pension schemes are charged as an expense to the income statement as incurred.

*(ii) Defined benefit plans*

IAS 19 has been applied to the Group s defined benefit schemes. Accordingly all actuarial gains and losses at January 1, 2004, the date of transition to IFRS, were recognized. Actuarial gains and losses arising on or after January 1, 2004 are recognized in full in the consolidated statement of recognized income and expense.

Pension liabilities are recognized in the consolidated balance sheet and represent the difference between the market value of scheme assets and the present value of scheme liabilities. Scheme liabilities are determined on an actuarial basis using the projected unit method and discounted using a rate of AA rated bonds that have a similar maturity to the scheme liabilities.

Current service cost, past service cost and gains and losses on any settlement and curtailments are charged to the income statement. The expected increase in the present value of scheme liabilities arising during the year is included within finance cost and the expected return generated during the year on scheme assets is included within finance income.

***p. Share based payments***

The Group operates equity settled, share based compensation plans. The total expected expense based on the fair value at grant date of options and other share based incentives is calculated using a valuation model at the date of grant and spread over the expected vesting period. The corresponding credit entry is taken to equity. Details of these plans are outlined in the Directors Remuneration Report on pages A-1 to A-13.

**Notes to the Consolidated Financial Statements (Continued)**

## *2. Accounting policies (Continued)*

***q. Provisions***

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and where it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract.

***r. Net debt***

Net debt is defined as cash and cash equivalents, net of interest bearing loans and borrowings.

***s. Discontinued operations***

Discontinued operations represent a component of the Group that has either been disposed of or is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations . The profit or loss after tax of the discontinued component is disclosed as a single line on the income statement. The cash flows of the discontinued component are also disclosed as a single line in each of the categories in the cash flow statement.

***Critical accounting policies***

The following provides information on those policies that management considers critical because of the level of judgement and estimation involved which often involve assumptions regarding future events which can vary from what is anticipated. The directors believe that the financial statements reflect appropriate judgements and estimations and provide a true and fair view of the Group s performance and financial position.

***a. Pensions***

The Group accounts for its defined benefit pension schemes in accordance with IAS 19 Employee Benefits . The application of IAS 19 requires the exercise of judgement in relation to the assumptions used (see Note 22) and for each assumption there is a range of possible outcomes. In consultation with the Group s actuaries management decides the point within those ranges that most appropriately reflects the Group s circumstances. Small changes to these assumptions can have a significant impact on valuations.

***b. Intangible assets***

IFRS 3 requires the identification of acquired intangible assets as part of a business combination. The methods used to value such intangible assets require the use of estimates. Future results are impacted by the amortization periods adopted and changes to the estimated useful lives would result in different effects on the income statement.

Goodwill is not amortized but is tested annually for impairment. Tests for impairment are based on discounted cash flows and assumptions (including discount rates, timing and growth prospects) which are inherently subjective.

**Notes to the Consolidated Financial Statements (Continued)**

## *2. Accounting policies (Continued)*

***c. Revenue recognition***

Revenue represents sales to third parties for goods sold and are valued at invoiced amount, excluding sales taxes, less estimated provisions for returns and volume and early settlement discounts where relevant. Returns provisions are based on experience over an appropriate period whereas volume and early settlement discounts are based on agreements with customers.

***d. Acquisitions***

Acquisitions are accounted for using the purchase method based upon the fair value of the consideration paid. Assets and liabilities are measured at fair value and the purchase price is allocated to assets and liabilities based upon these fair values.

Determining the fair values of assets and liabilities acquired involved the use of significant estimates and assumptions (such as discount rates, asset lives and recoverability). Assets and liabilities are measured at fair value and freehold properties are typically determined by valuation on an open market existing use basis by qualified valuers.

Management believes that estimates made in previous years have been accurate as any change made in the 12 month period following acquisition to finalize provisional fair value adjustments made in the year of acquisition have not been material.

**Notes to the Consolidated Financial Statements (Continued)**

## 3. *Segment analysis*

| | Year ended December 31, 2005 | | | | | |
|---|---|---|---|---|---|---|
| | North America | UK & Ireland | Continental Europe | Australasia | Corporate | Total |
| | £m | £m | £m | £m | £m | £m |
| **Continuing operations** | | | | | | |
| **Revenue** | 1,665.2 | 664.2 | 490.0 | 105.0 | | 2,924.4 |
| **Operating profit/(loss)** | 113.6 | 55.8 | 25.3 | 7.8 | (15.0) | 187.5 |
| Finance income | | | | | | 22.0 |
| Finance cost | | | | | | (32.8) |
| **Profit before income tax** | | | | | | 176.7 |
| Income tax | | | | | | (56.7) |
| **Profit for the year** | | | | | | 120.0 |
| Capital expenditure | 3.9 | 3.9 | 2.8 | 0.7 | 0.1 | 11.4 |
| Depreciation | 4.9 | 4.9 | 3.2 | 0.5 | 0.1 | 13.6 |
| Assets | 375.3 | 214.3 | 182.9 | 31.1 | 15.2 | 818.8 |
| Liabilities | 191.2 | 143.0 | 131.6 | 12.6 | 37.1 | 515.5 |

| | Year ended December 31, 2004 | | | | | |
|---|---|---|---|---|---|---|
| | North America | UK & Ireland | Continental Europe | Australasia | Corporate | Total |
| | £m | £m | £m | £m | £m | £m |
| **Continuing operations** | | | | | | |
| **Revenue** | 1,412.9 | 638.9 | 308.3 | 78.4 | | 2,438.5 |
| **Operating profit/(loss)** | 104.7 | 51.0 | 13.0 | 6.3 | (13.9) | 161.1 |
| Finance income | | | | | | 17.0 |
| Finance cost | | | | | | (19.9) |
| **Profit before income tax** | | | | | | 158.2 |
| Income tax | | | | | | (52.5) |
| **Profit for the year** | | | | | | 105.7 |
| Capital expenditure | 4.3 | 5.2 | 1.3 | 0.6 | | 11.4 |
| Depreciation | 4.8 | 5.3 | 2.3 | 0.4 | 0.1 | 12.9 |
| Assets | 272.0 | 214.8 | 162.4 | 26.7 | 8.8 | 684.7 |
| Liabilities | 141.6 | 129.7 | 108.9 | 11.8 | 19.0 | 411.0 |

The directors consider the secondary segment as defined in IAS 14   Segment Reporting   to relate to the Group   s continuing operations. Accordingly the total amounts shown above relate to this reportable segment.

The revenue presented above relates to external customers having eliminated intra segment sales (which are immaterial).

**Notes to the Consolidated Financial Statements (Continued)**

## *4. Analysis of operating income and expenses*

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| Changes in inventories of finished goods and work-in-progress | (103.6) | (53.9) |
| Purchase of goods | 2,296.9 | 1,880.3 |
| Employee costs (see Note 23) | 296.9 | 250.8 |
| Depreciation and other amounts written off property, plant and equipment and intangible fixed assets | 29.5 | 20.7 |
| Other operating expenses | 217.2 | 179.5 |
| **Net operating expenses** | 2,736.9 | 2,277.4 |
| Hire of plant and machinery rentals payable under operating leases | 15.2 | 13.7 |

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| Remuneration of the Group s principal auditors for statutory reporting | 1.5 | 1.9 |

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | UK | Overseas | Total | UK | Overseas | Total |
| | £m | £m | £m | £m | £m | £m |
| **Analysis of non-audit fees** | | | | | | |
| **Audit services** | | | | | | |
| Statutory audit related | 0.3 | | 0.3 | 0.2 | | 0.2 |
| **Further assurance services** | | | | | | |
| Advice on accounting matters | 0.1 | | 0.1 | 0.2 | | 0.2 |
| Due diligence | 0.3 | 0.4 | 0.7 | 0.6 | 0.5 | 1.1 |
| **Tax services** | | | | | | |
| Advisory | 0.1 | 0.3 | 0.4 | 0.7 | 0.3 | 1.0 |
| Compliance | | 0.2 | 0.2 | | 0.2 | 0.2 |
| **Services related to demerger** | 4.3 | | 4.3 | | | |
| | 5.1 | 0.9 | 6.0 | 1.7 | 1.0 | 2.7 |

Statutory audit related services include the work on the Form 20-F US filing and the Interim Report of the Group. The fees for further assurance services principally related to due diligence and other duties carried out in respect of the acquisition of businesses. The Group believes that, given their detailed knowledge of the Group s operations, its structure and accounting policies and the importance of carrying out detailed due diligence as part of the acquisition process, it is appropriate for this additional work to be carried out by the Group s auditors rather than another firm of accountants.

The Audit Committee, which consists entirely of independent non-executive directors, reviews and approves the level and type of non-audit work which the auditors perform, including the fees paid for such work, to ensure that the auditors objectivity and independence is not compromised.

**Notes to the Consolidated Financial Statements (Continued)**

## 5. *Finance income/(cost)*

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| Deposits | 11.8 | 8.2 |
| Expected return on pension scheme assets | 10.2 | 8.8 |
| **Finance income** | 22.0 | 17.0 |
| Loans and overdrafts | (22.5) | (10.4) |
| Interest charge on pension scheme liabilities | (10.3) | (9.5) |
| **Finance cost** | (32.8) | (19.9) |

## 6. *Income tax*

A taxation charge of 32.0% (2004: 33.3%) has been provided on the profit on underlying operations excluding the impact of intangible amortization of £15.9m (2004: £7.8m) and related deferred tax of £4.9m (2004: £2.8m). Including the impact of intangible amortization and related deferred tax the overall rate is 32.1% (2004: 33.2%).

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| Current tax on profit from continuing operations | | |
| current year | 67.3 | 129.3 |
| prior years | (4.0) | (3.5) |
| double tax relief | (4.3) | (74.2) |
| | 59.0 | 51.6 |
| Deferred tax on profit from continuing operations current year | (2.3) | 0.9 |
| **Income tax on profit from continuing operations** | 56.7 | 52.5 |
| Current tax on profit from discontinued operations | | |
| current year | 7.2 | 19.1 |
| prior years | (4.4) | (1.0) |
| double tax relief | | (0.6) |
| | 2.8 | 17.5 |
| Deferred tax on profit from discontinued operations current year | (0.3) | (1.3) |
| **Income tax on profit from discontinued operations** | 2.5 | 16.2 |

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| **Taxation credited to equity** | | |
| Current tax credit on exchange movements offset in reserves | (5.5) | (0.1) |
| Deferred tax credit on share option charge and pension liability | (10.0) | (4.2) |

**Notes to the Consolidated Financial Statements (Continued)**

## 6. *Income tax (Continued)*

**Factors affecting taxation charge for the year**

The Group operates across the world and is subject to income tax in many different jurisdictions. The Group calculates its average expected tax rate as a weighted average of the national tax rates in the tax jurisdiction in which the Group operates. The differences are as follows:

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| Profit before income tax | 176.7 | 158.2 |
| Taxation charge at weighted average | 57.6 | 53.9 |
| Effects of: | | |
| overseas state and local taxes | 2.2 | 1.7 |
| adjustment to taxation charge in respect of prior years | (4.2) | (2.4) |
| permanent differences | 1.8 | (0.6) |
| (utilization of)/unrelieved tax losses | (0.3) | 0.7 |
| other items | (0.4) | (0.8) |
| **Income tax on profit from continuing operations** | 56.7 | 52.5 |

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| **Deferred tax in the income statement** | | |
| Accelerated capital allowances | (0.1) | 0.2 |
| Pension liabilities | 3.3 | 2.8 |
| Intangible assets | (4.9) | (2.8) |
| Revalued properties | (0.1) | (0.6) |
| Other | (0.5) | 1.3 |
| **Deferred tax on profit from continuing operations** | (2.3) | 0.9 |

**Notes to the Consolidated Financial Statements (Continued)**

*7. Discontinued operations*

Following the demerger of Filtrona on June 6, 2005, this business has been presented as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations . There is no impact on the prior period financial statements other than a change in the presentation of Filtrona s results and cash flows as discontinued operations.

**Income statement**

| | 2005* | 2004 |
|---|---|---|
| | £m | £m |
| **Revenue** | 209.9 | 477.5 |
| **Operating profit** | 8.1 | 53.8 |
| Finance income | 3.4 | 8.0 |
| Finance cost | (4.8) | (9.9) |
| **Profit before income tax** | 6.7 | 51.9 |
| Income tax | (2.5) | (16.2) |
| **Profit for the year** | 4.2 | 35.7 |

* Represents the five months trading under the Company s ownership.

Profit from discontinued operations for the period to June 6, 2005 of £4.2m (year ended December 31, 2004: £35.7m) comprised North America £8.2m (2004: £14.6m), UK & Ireland £2.2m (2004: £7.9m), Continental Europe £4.1m (2004: £3.2m) and rest of the world £4.9m (2004: £10.0m). In the period to June 6, 2005, £15.2m (net of tax) of demerger costs were also incurred.

**Cash Flow Statement**

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| **Profit before income tax** | 6.7 | 51.9 |
| Adjustments for non-cash items: | | |
| depreciation | 8.9 | 20.1 |
| intangible amortization | 0.4 | 0.7 |
| share option charge | 0.5 | 1.1 |
| other | (0.5) | 4.8 |
| Working capital movement | (11.7) | (14.2) |
| Finance income | (3.4) | (8.0) |
| Finance cost | 4.8 | 9.9 |
| Special pension contribution | (1.5) | |
| Other cash movements | (2.0) | (2.2) |
| **Cash inflow from operating activities** | 2.2 | 64.1 |
| Income tax paid | (2.8) | (14.9) |
| **Net cash (outflow)/inflow from operating activities** | (0.6) | 49.2 |
| **Net cash outflow from investing activities** | (12.3) | (56.0) |
| **Net cash (outflow)/inflow from financing activities** | (35.1) | 11.9 |
| **Exchange gain on cash and cash equivalents** | 0.3 | 0.4 |
| **Net (decrease)/increase in cash and cash equivalents** | (47.7) | 5.5 |

The cash flow presented for discontinued operations includes demerger costs of £17.3m.

**Notes to the Consolidated Financial Statements (Continued)**

*7. Discontinued operations (Continued)*

The net assets of Filtrona that were demerged were £122.4m. As the divestment was accounted for as a demerger in the form of a dividend in specie, there was no gain or loss recognized in the income statement.

***8. Earnings per share***

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | £m | | £m | |
| **Continuing operations** | | | | |
| Profit for the year attributable to the Company | 120.0 | | 105.7 | |
| **Discontinued operations** | | | | |
| Profit for the year attributable to discontinued operations (net of minority interests) | 3.6 | | 34.5 | |
| Basic weighted average ordinary shares in issue (million)* | 338.8 | | 344.6 | |
| Dilutive effect of employee share plans (million)* | 1.7 | | 1.3 | |
| Diluted weighted average ordinary shares (million)* | 340.5 | | 345.9 | |
| **Continuing operations** | | | | |
| Basic earnings per share | 35.4 | p | 30.7 | p |
| Diluted basic earnings per share | 35.2 | p | 30.5 | p |
| **Discontinued operations** | | | | |
| Basic earnings per share | 1.1 | p | 10.0 | p |
| Diluted basic earnings per share | 1.1 | p | 10.0 | p |

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* The weighted average number of shares has been adjusted for the share consolidation on June 6, 2005, as approved by shareholders at an Extraordinary General Meeting on June 2, 2005, when the ordinary shares of 25p were consolidated on a seven for nine basis into ordinary shares of 32 1⁄7p. Figures for the prior year have been restated accordingly.

F-19

**Notes to the Consolidated Financial Statements (Continued)**

***9. Property, plant and equipment***

| | Land and buildings | Plant and machinery | Fixtures, fittings and equipment | 2005 Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cost** | | | | |
| Beginning of year | 83.3 | 271.7 | 87.1 | 442.1 |
| Acquisitions | 3.2 | 0.2 | 2.0 | 5.4 |
| Additions | 1.1 | 15.9 | 6.5 | 23.5 |
| Disposals | (1.3) | (3.3) | (2.5) | (7.1) |
| Demerger of business | (40.5) | (246.2) | (45.2) | (331.9) |
| Currency translation | 3.1 | 10.0 | 3.7 | 16.8 |
| End of year | 48.9 | 48.3 | 51.6 | 148.8 |
| **Depreciation** | | | | |
| Beginning of year | 17.9 | 156.5 | 49.3 | 223.7 |
| Charge in year | 2.3 | 13.6 | 6.6 | 22.5 |
| Disposals | (1.2) | (2.5) | (2.5) | (6.2) |
| Demerger of business | (7.7) | (142.6) | (19.3) | (169.6) |
| Currency translation | 0.8 | 4.1 | 3.7 | 8.6 |
| End of year | 12.1 | 29.1 | 37.8 | 79.0 |
| **Net book value at December 31, 2005** | 36.8 | 19.2 | 13.8 | 69.8 |

| | Land and buildings | Plant and machinery | Fixtures, fittings and equipment | 2004 Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cost** | | | | |
| Beginning of year | 75.3 | 256.9 | 80.1 | 412.3 |
| Acquisitions | 10.9 | 7.5 | 1.7 | 20.1 |
| Additions | 4.1 | 28.7 | 13.4 | 46.2 |
| Disposals | (3.6) | (12.3) | (6.0) | (21.9) |
| Currency translation | (3.4) | (9.1) | (2.1) | (14.6) |
| End of year | 83.3 | 271.7 | 87.1 | 442.1 |
| **Depreciation** | | | | |
| Beginning of year | 16.2 | 151.7 | 47.9 | 215.8 |
| Charge in year | 3.2 | 21.2 | 8.6 | 33.0 |
| Disposals | (0.7) | (11.5) | (5.8) | (18.0) |
| Currency translation | (0.8) | (4.9) | (1.4) | (7.1) |
| End of year | 17.9 | 156.5 | 49.3 | 223.7 |
| **Net book value at December 31, 2004** | 65.4 | 115.2 | 37.8 | 218.4 |
| **Net book value at January 1, 2004** | 59.1 | 105.2 | 32.2 | 196.5 |

The net book value of property, plant and equipment includes assets held under finance leases and hire purchase contracts totalling £5.9m (2004: £6.2m). Accumulated depreciation of these assets amounts to £0.9m (2004: £0.8m). Future capital expenditure at December 31, 2005 consisted of commitments not provided for of £0.8m (2004: £0.3m).

**Notes to the Consolidated Financial Statements (Continued)**

***10. Intangible assets***

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| **Goodwill** | | |
| **Net book value** | | |
| Beginning of year | 407.8 | 290.9 |
| Additions | 41.8 | 118.7 |
| Demerger of business | (37.2) | |
| Currency translation | 8.7 | (1.8) |
| End of year | 421.1 | 407.8 |
| **Customer lists** | | |
| **Cost** | | |
| Beginning of year | 236.9 | |
| Additions | 82.8 | 230.8 |
| Demerger of business | (21.1) | |
| Currency translation | (0.5) | 6.1 |
| End of year | 298.1 | 236.9 |
| **Amortisation** | | |
| Beginning of year | 8.6 | |
| Charge in year | 16.3 | 8.5 |
| Demerger of business | (0.9) | |
| Currency translation | (0.3) | 0.1 |
| End of year | 23.7 | 8.6 |
| **Net book value at December 31** | 274.4 | 228.3 |
| **Total net book value of intangible assets at December 31** | 695.5 | 636.1 |

Both goodwill and customer lists have been acquired as part of business combinations. Customer lists are amortized over their estimated useful lives which range from 15 to 18 years.

***11. Inventories***

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| Raw materials and consumables | | 22.1 |
| Work-in-progress | | 3.1 |
| Finished goods and goods for resale | 272.3 | 250.0 |
| | 272.3 | 275.2 |

£7.4m was written off inventory balances during the year (2004: £1.3m). The inventory provision at December 31, 2005 was £21.7m (2004: £25.9m).

**Notes to the Consolidated Financial Statements (Continued)**

***12. Trade and other receivables***

| | 2005 £m | 2004 £m |
|---|---|---|
| Trade receivables | 370.4 | 374.4 |
| Other receivables | 77.4 | 60.9 |
| Prepayments and accrued income | 22.9 | 30.1 |
| | 470.7 | 465.4 |

£3.2m was written off in respect of doubtful trade receivables during the year (2004: £2.6m). The provision for doubtful trade receivables at December 31, 2005 was £13.7m (2004: £13.5m).

***13. Trade and other payables current***

| | 2005 £m | 2004 £m |
|---|---|---|
| Trade payables | 341.4 | 307.6 |
| Dividends | 16.5 | 18.5 |
| Other taxation and social security contributions | 11.1 | 12.6 |
| Other payables | 39.6 | 43.3 |
| Accruals and deferred income | 89.0 | 87.3 |
| | 497.6 | 469.3 |

***14. Financial instruments***

**Treasury policies and controls**

Bunzl has a centralized treasury department to control external borrowings and manage exchange rate risk and interest rate risk. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of financial instruments that may be employed and the criteria for investing and borrowing cash. The Group uses derivatives only to manage its foreign currency and interest rate risks arising from underlying business activities. No transactions of a speculative nature are undertaken. The treasury department is subject to periodic independent reviews by the internal audit department. Underlying policy assumptions and activities are reviewed by the executive directors. Controls over exposure changes and transaction authenticity are in place and dealings are restricted to those banks with the relevant combination of geographic presence and suitable credit rating. The Group continually monitors the credit ratings of its counterparties and credit exposure to each counterparty.

**Liquidity risk**

The Group s objective is to maintain a balance between continuity of funding and flexibility. The Group is funded by a US dollar bond and multi-currency credit facilities from the Group s bankers. The US dollar bond, originally issued during 2001, is in three tranches, five years, seven years and 10 years with maturities between 2006 and 2011, for a total of $225 million at fixed rates of interest. The bank facilities have tenures ranging from six months to five years and mature between 2006 and 2010. At December 31, 2005, the available bank facilities totaled £687 million of which £246 million was drawn down. In addition the Group maintains overdraft and uncommitted facilities to provide short-term flexibility.

**Notes to the Consolidated Financial Statements (Continued)**

*14. Financial instruments (Continued)*

**Foreign currency risk**

The majority of the Group s net assets are in currencies other than sterling. The Group s policy is to limit the translation exposure and resulting impact on shareholders equity by borrowing and/or using forward foreign exchange contracts to hedge the translation exposure in those currencies in which the Group has significant net assets. At December 31, 2005 there were no material currency exposures after accounting for the effect of the hedging transactions. Throughout the year, the Group s borrowings were primarily held in sterling and US dollars. The Group does not hedge the translation effect of exchange rate movements on the income statement.

The majority of the Group s transactions are carried out in the respective functional currency of each of the Group s operations and so transaction exposures are limited. However where they do occur the Group s policy is to hedge significant exposures as soon as they are committed using forward foreign exchange contracts.

**Interest rate risk**

The Group s strategy is to ensure with a reasonable amount of certainty that the overall Group interest charge is protected against material adverse movements in interest rates. The majority of the US dollar bond was swapped to floating rates during 2001. Interest rate caps are in place to reduce the Group s floating rate exposure to movements in LIBOR.

**Credit risk**

The Group s principal financial assets are cash and receivables which represent the Group s maximum exposure to credit risk in relation to financial assets.

The Group s credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group s management based on prior experience and their assessment of the current economic environment.

The credit risk on cash and derivative financial instruments is limited because the Group restricts its dealings to counterparties with high credit ratings. The credit risk policy specifies the maximum permitted exposure to each counterparty.

At the balance sheet date there were no significant concentrations of credit risk.

The financial statements for the year ended December 31, 2004 have been prepared using the accounting policies previously applied under UK GAAP for financial instruments as the Group has adopted the IFRS 1 exemption not to apply IAS 32 and IAS 39 to the comparative period.

**Notes to the Consolidated Financial Statements (Continued)**

## *14. Financial instruments (Continued)*

The adoption of IAS 32 and IAS 39 had the following impact on the balance sheet at January 1, 2005:

| | Non-current derivative assets £m | Current derivative assets £m | Current derivative liabilities £m | Non-current interest bearing loans and borrowings £m | Current interest bearing loans and borrowings £m | Equity £m |
|---|---|---|---|---|---|---|
| **At December 31, 2004 under IFRS excluding IAS 32 and IAS 39** | | | | 290.2 | 179.5 | 488.8 |
| IAS 32 and IAS 39 fair value adjustments: | | | | | | |
| US dollar bond hedged portion | | | | 8.3 | 0.4 | (8.7) |
| Interest rate swaps | 8.3 | 0.4 | | | | 8.7 |
| Foreign exchange contracts cash flow hedge | | | 1.3 | | | (1.3) |
| **At January 1, 2005 under IFRS including IAS 32 and IAS 39** | 8.3 | 0.4 | 1.3 | 298.5 | 179.9 | 487.5 |

**Fair value of financial assets and liabilities**

| | Book value 2005 £m | Fair value 2005 £m | Book value 2004 £m | Fair value 2004 £m |
|---|---|---|---|---|
| Primary financial instruments: | | | | |
| US dollar bond | 136.0 | 136.7 | 117.2 | 126.7 |
| Loans | 246.0 | 246.0 | 335.9 | 335.9 |
| Interest rate swaps | (5.2) | (5.2) | | (8.7) |
| Interest rate caps | (0.2) | (0.2) | | |
| Foreign exchange contracts cash flow hedge | (0.3) | (0.3) | | 1.3 |
| Foreign exchange contracts net investment hedge | 5.9 | 5.9 | 6.5 | 6.5 |
| | 382.2 | 382.9 | 459.6 | 461.7 |

Fair values of other financial assets and liabilities are approximately equal to book values. The unrealized gain on the interest rate derivatives at December 31, 2004 was £8.7m, of which £2.2m related to the year ended December 31, 2005 and £6.5m thereafter. Fair values have been calculated by discounting cash flows at the prevailing interest rates. The US dollar bond tranches comprise:

| | Maturity date | Fixed interest rate | £m |
|---|---|---|---|
| Tranche 1 | 2006 | 6.36 % | 43.9 |
| Tranche 2 | 2008 | 6.66 % | 60.7 |
| Tranche 3 | 2011 | 7.10 % | 31.4 |
| | | | 136.0 |

**Notes to the Consolidated Financial Statements (Continued)**

## *14. Financial instruments (Continued)*

**Maturity of financial liabilities**

The maturity of the Group s financial liabilities at December 31 was as follows:

| | 2005<br>£m | 2004<br>£m |
|---|---|---|
| Within one year | 69.5 | 222.7 |
| After one year but within two years | 1.0 | 71.4 |
| After two years but within three years | 60.7 | 48.4 |
| After three years but within four years | | 117.6 |
| After four years but within five years | 246.6 | 26.5 |
| After five years | 31.4 | 26.3 |
| | 409.2 | 512.9 |

The loans are drawn for various periods and at interest rates linked to LIBOR. Loans have been drawn under committed facilities and can be refinanced on maturity from these same facilities. Accordingly they have been aged based on the maturity dates of the underlying facilities. At December 31, 2005 there were no loans (2004: £0.5m) secured by either fixed or floating charges on various assets of the relevant companies.

The Group had available undrawn committed facilities at December 31, as follows:

| | 2005<br>£m | 2004<br>£m |
|---|---|---|
| Expiring within one year | 29.7 | 86.9 |
| Expiring after one year but within two years | | 20.9 |
| Expiring after two years | 411.5 | 398.4 |
| | 441.2 | 506.2 |

**Derivative financial instruments**

The Group uses derivative financial instruments as part of its risk management strategies in relation to interest rate and foreign exchange risk as detailed below. All of these financial instruments are carried at fair value.

**Interest rate risk**

Interest rate swaps with a notional principal of £101.7m were outstanding at December 31, 2005 (2004: £91.1m). The interest rate swaps have swapped $175m of the $225m US dollar bond from fixed to floating rates. The interest rate is based on US dollar LIBOR repricing every three months. Financial liabilities with a notional principal of £211.1m were capped at December 31, 2005 (2004: £178.2m). Interest rate caps manage the interest rate risk of floating rate liabilities. The interest rate is based on US dollar and euro LIBOR and the LIBOR fixings are every three months. Hedge accounting is not applied to interest rate caps under IAS 39.

**Notes to the Consolidated Financial Statements (Continued)**

## *14. Financial instruments (Continued)*

**Hedge of net investment in foreign entity**

The Group has dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the US. The book value of these dollar borrowings at December 31, 2005 was £136.0m (2004: £117.2m). The foreign exchange loss of £13.6m (2004: £8.5m gain) on translation of the borrowings into sterling has been recognized in a separate component of equity. The Group also has foreign currency forward contracts which it has designated as a hedge of the net investments in its subsidiaries primarily relating to the euro. The fair value of these contracts at December 31, 2005 was a liability of £5.9m (2004: £6.5m).

**Currency profile of financial assets and liabilities**

In the following tables short term debtors and creditors are excluded from the 2004 comparatives as permitted by FRS 13 Derivatives and Other Financial Instruments: Disclosures.

The interest rate and currency profile of the Group s financial assets at December 31, was:

| Currency | Floating rate 2005 | Monetary working capital* 2005 | Total 2005 | Floating rate and total 2004 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Sterling | 15.1 | 122.4 | 137.5 | 20.9 |
| US dollar | 24.4 | 174.9 | 199.3 | 38.4 |
| Euro | 10.1 | 104.2 | 114.3 | 35.9 |
| Other | 10.4 | 48.1 | 58.5 | 18.5 |
| | 60.0 | 449.6 | 509.6 | 113.7 |

* Monetary working capital reflects financial amounts on which no interest is paid.

After taking into account interest rate swaps and foreign exchange swaps, the interest rate and currency profile of the Group s financial liabilities at December 31, was:

| **Currency** | **Floating rate 2005** | **Fixed rate 2005** | **Monetary working capital* 2005** | **Impact of foreign exchange swaps 2005** | **Total 2005** | **Floating rate 2004** | **Fixed rate 2004** | **Impact of foreign exchange swaps 2004** | **Total 2004** |
|---|---|---|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Sterling | 262.2 | | 160.9 | (524.4) | (101.3) | 261.9 | | (457.3) | (195.4) |
| US dollar | 106.5 | 29.1 | 166.5 | 144.8 | 446.9 | 197.6 | 26.0 | 57.8 | 281.4 |
| Euro | 2.6 | | 81.8 | 284.3 | 368.7 | 19.6 | | 317.4 | 337.0 |
| Other | 2.9 | | 47.8 | 101.2 | 151.9 | 1.3 | | 88.6 | 89.9 |
| | 374.2 | 29.1 | 457.0 | 5.9 | 866.2 | 480.4 | 26.0 | 6.5 | 512.9 |

* Monetary working capital reflects financial amounts on which no interest is paid.

**Notes to the Consolidated Financial Statements (Continued)**

## *15. Provisions*

| | 2005 £m | 2004 £m |
|---|---|---|
| Current | 5.3 | 7.1 |
| Non-current | 38.3 | 30.3 |
| | 43.6 | 37.4 |

| | Properties 2005 £m | Legal and environmental 2005 £m | Total 2005 £m | Properties 2004 £m | Legal and environmental 2004 £m | Total 2004 £m |
|---|---|---|---|---|---|---|
| **Movements** | | | | | | |
| Beginning of year | 14.8 | 22.6 | 37.4 | 14.6 | 10.2 | 24.8 |
| Charge | 6.7 | | 6.7 | 0.1 | 1.4 | 1.5 |
| Acquisitions | 0.2 | 11.2 | 11.4 | 4.5 | 15.5 | 20.0 |
| Demerger of business | (0.1 ) | (4.5 ) | (4.6 ) | | | |
| Utilised | (5.6 ) | (1.4 ) | (7.0 ) | (4.4 ) | (4.9 ) | (9.3 ) |
| Currency translation | 0.3 | (0.6 ) | (0.3 ) | | 0.4 | 0.4 |
| End of year | 16.3 | 27.3 | 43.6 | 14.8 | 22.6 | 37.4 |

The properties provision includes vacant properties where amounts are held against onerous lease commitments, repairs and dilapidations. These provisions cover the length of the lease agreements which typically extend for one to 10 years.

The Group holds provisions for expected legal, environmental and other claims that it expects to incur within the next one to five years. These costs are based on detailed plans and other known factors and to take account of past experience based on similar items.

The Group is a defendant in a number of legal proceedings incidental to its operations. While any litigation has an element of uncertainty, the Group does not expect that the outcome of such proceedings, either individually or in the aggregate, will have a material adverse effect upon the Group s financial condition or result of operations.

## *16. Deferred tax*

| | 2005 Asset £m | 2005 Liability £m | 2005 Net £m | 2004 Asset £m | 2004 Liability £m | 2004 Net £m |
|---|---|---|---|---|---|---|
| Accelerated capital allowances | 1.2 | (3.5 ) | (2.3 ) | 1.7 | (13.1 ) | (11.4 ) |
| Pension liabilities | 18.7 | | 18.7 | 21.5 | | 21.5 |
| Intangible assets | | (82.4 ) | (82.4 ) | | (75.5 ) | (75.5 ) |
| Revalued properties | | (2.8 ) | (2.8 ) | | (4.4 ) | (4.4 ) |
| Other | 21.4 | (9.7 ) | 11.7 | 24.8 | (20.0 ) | 4.8 |
| Deferred tax asset/(liability) | 41.3 | (98.4 ) | (57.1 ) | 48.0 | (113.0 ) | (65.0 ) |
| Set-off of tax | (19.1 ) | 19.1 | | (33.2 ) | 33.2 | |
| Net deferred tax asset/(liability) | 22.2 | (79.3 ) | (57.1 ) | 14.8 | (79.8 ) | (65.0 ) |

Deferred tax has been accounted for in respect of future remittances of the accumulated reserves of overseas subsidiary undertakings only to the extent that such distributions are accrued as receivable.

**Notes to the Consolidated Financial Statements (Continued)**

## ***16.*** *Deferred tax (Continued)*

Deferred tax assets have only been recognized in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. A deferred tax asset of £30.1m (2004: £33.9m) has not been recognized in respect of capital losses as the realisation of this deferred tax asset is not considered likely.

No deferred tax is recognized on the unremitted earnings of overseas subsidiaries as it is not expected that the distribution of overseas earnings will give rise to a tax liability.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of the country of operation.

The movement on the net deferred tax liability is shown below.

| | **2005** | | **2004** | |
|---|---|---|---|---|
| | **£m** | | **£m** | |
| Beginning of year | 65.0 | | (1.3 | ) |
| Acquisitions | 12.7 | | 71.8 | |
| Charge to income statement | (2.6 | ) | (0.4 | ) |
| Charge to equity | (10.0 | ) | (4.2 | ) |
| Demerger of business | (8.7 | ) | | |
| Other | 0.7 | | (0.9 | ) |
| End of year | 57.1 | | 65.0 | |

## **17.** *Share capital*

| | **2005** | | **2004** | |
|---|---|---|---|---|
| | **£m** | | **£m** | |
| Authorised: 529 million ordinary shares of 321⁄7 p each (2004: 680 million ordinary shares of 25p each) | 170.0 | | 170.0 | |
| **Issued and fully paid ordinary shares of 321⁄7 p each** | 111.4 | | 112.5 | |
| **Number of ordinary shares in issue and fully paid** | | | | |
| Beginning of year | 349,966,186 | * | 348,712,350 | * |
| Issued on option exercises | | | | |
| January 1, 2004 December 31, 2004 | | | 1,253,836 | * |
| January 1, 2005 June 5, 2005 | 1,347,152 | * | | |
| June 6, 2005 December 31, 2005 | 4,916,148 | | | |
| Issued on acquisition of Sanicare Pty Ltd | 492,966 | | | |
| Cancellation of own shares | (10,138,322 | )* | | |
| End of year | 346,584,130 | | 349,966,186 | |

* The 2004 comparative information and 2005 prior to June 6, 2005 has been restated for the Bunzl plc share consolidation following the demerger of Filtrona on June 6, 2005 (using a ratio of seven new Bunzl shares of 321/7p each for nine old Bunzl shares of 25p each).

F-28

**Notes to the Consolidated Financial Statements (Continued)**

## *17. Share capital (Continued)*

Details of share options which have been granted and exercised and those which have lapsed during 2005 and those outstanding at December 31, 2005, in each case in respect of options and awards over new issue shares, under the Company s Sharesave Scheme (1991), Sharesave Scheme (2001), International Sharesave Plan, 1994 Executive Share Option Scheme and Long Term Incentive Plan Part A and Part B are set out in the following table:

| | **Options outstanding at 1.1.05** | **Grants/ awards 2005** | | **Exercises 2005** | | **Lapses 2005** | **Options outstanding at 12.31.05** | | **Options available to exercise at 12.31.05** |
|---|---|---|---|---|---|---|---|---|---|
| | **Number** | **Number** | **Price (p)** | **Number** | **Price (p)** | **Number** | **Number** | **Price (p)** | **Number** |
| Sharesave Scheme (1991) | 454,264 | | | 324,421 | 224-365 | 63,737 | 66,106 | 308-365 | 21,907 |
| Sharesave Scheme (2001) | 2,689,263 | 288,178 | 437 | 744,732 | 296-389 | 736,615 | 1,496,094 | 296-437 | 10,817 |
| International Sharesave Plan | 218,562 | | | 98,087 | 296-389 | 51,366 | 69,109 | 296-389 | |
| 1994 Executive Scheme | 8,992,263 | | | 5,205,460 | 212-461 | 191,500 | 3,595,503 | 229-461 | 2,329,503 |
| LTIP Part A | 1,429,000 | 82,500 | 568 | 275,500 | 428.75 | 56,500 | 1,179,500 | 428.75-568 | 83,500 |
| LTIP Part B | 206,250 | | | | | | 206,250 | | |
| | 13,989,602 | 370,678 | | 6,648,200 | | 1,099,718 | 6,612,562 | | 2,445,727 |

| | **Weighted average fair value of options granted (£)** | **Weighted average remaining contractual life (years)** |
|---|---|---|
| Sharesave Scheme (2001) | 1.61 | 3.75 |
| LTIP Part A | 0.74 | 2.39 |
| LTIP Part B | 3.57 | 2.39 |

The outstanding options and awards are exercisable at various dates up to September 2015.

## *18. Dividends*

| ` | **Per share** | | **Total** | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | | | **£m** | **£m** |
| 2003 final | | 8.25 p | | 37.0 |
| 2004 interim | | 4.15 p | | 18.5 |
| 2004 final | 9.15 p | | 39.3 | |
| 2005 interim | 4.9 p | | 16.5 | |
| | 14.05 p | 12.4 p | 55.8 | 55.5 |

The 2005 final dividend of 10.8p will be paid on July 3, 2006 to shareholders on the register on May 5, 2006.

**Total dividends for the year to which they relate are:**

| | **Per share** | |
|---|---|---|
| | **2005** | **2004** |
| Interim | 4.9 p | 4.15 p |
| Final | 10.8 p | 9.15 p |

| | | | | | |
|---|---|---|---|---|---|
| | | 15.7 | p | 13.3 | p |

F-29

**Notes to the Consolidated Financial Statements (Continued)**

***19. Movement in reserves***

| | Share capital | Share premium | Merger reserve | Capital redemption reserve | Cash flow hedging reserve | Translation reserve | Retained earnings | Total equity | Minority interests | Total equity including minority interests |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **At January 1, 2005** | 112.5 | 88.3 | | 5.3 | | 0.7 | 278.1 | 484.9 | 3.9 | 488.8 |
| Adoption of IAS 32 and IAS 39 cash flow hedging reserve | | | | | (1.3) | | | (1.3) | | (1.3) |
| **At January 1, 2005** | 112.5 | 88.3 | | 5.3 | (1.3) | 0.7 | 278.1 | 483.6 | 3.9 | 487.5 |
| Currency translation differences | | | | | | 7.8 | | 7.8 | 0.3 | 8.1 |
| Movement of cash flow hedging position | | | | | 1.6 | | | 1.6 | | 1.6 |
| Actuarial loss on pension schemes | | | | | | | (27.3) | (27.3) | | (27.3) |
| Deferred taxation on actuarial loss | | | | | | | 8.4 | 8.4 | | 8.4 |
| Net profit for the year | | | | | | | 123.6 | 123.6 | 0.6 | 124.2 |
| Total recognized income and expenses for the year | | | | | 1.6 | 7.8 | 104.7 | 114.1 | 0.9 | 115.0 |
| 2004 final dividend | | | | | | | (39.3) | (39.3) | | (39.3) |
| 2005 interim dividend | | | | | | | (16.5) | (16.5) | | (16.5) |
| Issue of share capital | 2.2 | 24.5 | 2.5 | | | | | 29.2 | | 29.2 |
| Cancellation of own shares | (3.3) | | | 3.3 | | | | | | |
| Purchase of employee trust shares | | | | | | | (2.7) | (2.7) | | (2.7) |
| Amortization of employee trust shares | | | | | | | 1.6 | 1.6 | | 1.6 |
| Share based payments | | | | | | | 3.6 | 3.6 | | 3.6 |
| Tax on share based payments | | | | | | | 4.4 | 4.4 | | 4.4 |
| Demerger of business* | | | | | | | (117.6) | (117.6) | (4.8) | (122.4) |
| **At December 31, 2005** | 111.4 | 112.8 | 2.5 | 8.6 | 0.3 | 8.5 | 216.3 | 460.4 | | 460.4 |
| **At January 1, 2004** | 112.1 | 83.8 | | 5.3 | | | 266.9 | 468.1 | 3.0 | 471.1 |
| Currency translation differences | | | | | | 0.7 | | 0.7 | (0.3) | 0.4 |
| Actuarial loss on pension schemes | | | | | | | (13.3) | (13.3) | | (13.3) |
| Deferred taxation on actuarial loss | | | | | | | 4.0 | 4.0 | | 4.0 |
| Net profit for the year | | | | | | | 140.2 | 140.2 | 1.2 | 141.4 |
| Total recognized income and expenses for the year | | | | | | 0.7 | 130.9 | 131.6 | 0.9 | 132.5 |
| 2003 final dividend | | | | | | | (37.0) | (37.0) | | (37.0) |
| 2004 interim dividend | | | | | | | (18.9) | (18.9) | | (18.9) |
| Issue of share capital | 0.4 | 4.5 | | | | | | 4.9 | | 4.9 |
| Purchase of own shares | | | | | | | (58.6) | (58.6) | | (58.6) |
| Purchase of employee trust shares | | | | | | | (9.8) | (9.8) | | (9.8) |
| Amortization of employee trust shares | | | | | | | 0.8 | 0.8 | | 0.8 |
| Share based payments | | | | | | | 3.9 | 3.9 | | 3.9 |
| Movement in pension asset revaluation | | | | | | | (0.1) | (0.1) | | (0.1) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **At December 31, 2004** | 112.5 | 88.3 | 5.3 | 0.7 | 278.1 | 484.9 | 3.9 | 488.8 | |

* The demerger of business has been effected by a divestment in the form of a dividend in specie.

**Notes to the Consolidated Financial Statements (Continued)**

## *19.* Movement in reserves (Continued)

Within retained earnings are ordinary shares of the Company held by the Group in an employee benefit trust. The principal purpose of this trust is to hold shares in the Company for subsequent transfer to certain senior employees and executive directors relating to options granted and awards made in respect of market purchase shares under the Long Term Incentive Plan, the Deferred Annual Share Bonus Scheme and the 1994 Executive Share Option Scheme. Details of such plans and schemes are set out in Note 24 and in the Directors Remuneration Report on pages A-1 to A-13. The assets, liabilities and expenditure of the trust have been incorporated in the Group s financial statements. At December 31, 2005 the trust held 8,121,342 (2004: 6,951,506 ) shares, upon which dividends have been waived, with an aggregate nominal value of £2.6m (2004: £2.2m) and market value of £51.8m (2004: £39.7m).

Restated for the Bunzl plc share consolidation following the demerger of Filtrona on June 6, 2005 (using a ratio of seven new Bunzl shares of 32 1⁄7p each for nine old Bunzl shares of 25p each).

## *20.* Contingent liabilities

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| Bank guarantees | 0.2 | 1.4 |
| Other items | 0.7 | 1.7 |
| | 0.9 | 3.1 |

Other items principally comprise trade and other guarantees entered into in the normal course of business. Provision is made for any amounts that the directors consider may become payable under such arrangements.

## *21. Directors ordinary share interests*

The interests of the directors at December 31 in the share capital of the Company according to the register of directors interests were:

| | 12.31.05 | 1.1.05* |
|---|---|---|
| A.J. Habgood | **123,577** | 248,577 |
| M.J. Roney | **13,888** | 3,888 |
| D.M. Williams | **98,104** | 97,199 |
| J.F. Harris | **2,625** | 2,544 |
| C.A. Banks | **3,888** | 3,888 |
| U. Wolters | **5,000** | 2,333 |
| P.L. Larmon | **11,835** | 3,888 |
| | **258,917** | 362,317 |

* The comparative information has been restated for the share consolidation following the demerger of Filtrona (using a ratio of seven new Bunzl shares of 32 1⁄7p for nine old Bunzl shares of 25p).

The share interests shown above include the non-beneficial interests of Mr. A.J. Habgood in 16,644 ordinary shares and Mr. D.M. Williams in 12,359 ordinary shares. Details of directors options over ordinary shares and awards made under Company s Long Term Incentive Plan and Deferred Annual Share Bonus Scheme are set out in the Directors Remuneration Report on pages A-1 to A-13. Since December 31, 2005 Mr. J.F. Harris and Mr. P.L. Larmon have acquired interests in 19 and 71 ordinary

**Notes to the Consolidated Financial Statements (Continued)**

## *21. Directors ordinary share interests (Continued)*

shares respectively as a result of their electing to participate in the dividend reinvestment plan in respect of the interim dividend which was paid on January 3, 2006 and Mr. P.L. Larmon has acquired an interest in 287 ordinary shares (in the form of 57.4 American Depository Receipts) pursuant to the Company s U.S. Stock Purchase Plan and dividend reinvestment plan. No other changes to the directors ordinary share interests shown in this Note and the Directors Remuneration Report on Pages A-1 to A-13 have taken place between December 31, 2005 and February 27, 2006.

## *22. Pensions*

The Group accounts for pension costs in accordance with IAS 19. The Group operates both defined benefit and defined contribution pension schemes. The funds of the principal schemes are administered by trustees and are held independently from the Group. Pension costs of defined benefit schemes are assessed in accordance with the advice of independent professionally qualified actuaries. Full triennial actuarial valuations were carried out on the principal European defined benefit schemes in April 2003 and annual actuarial valuations are performed on the principal US defined benefit schemes. Contributions to all schemes are determined in line with actuarial advice, local conditions and practices. The most recent actuarial valuations have incorporated the requirements of IAS 19 in assessing scheme liabilities at December 31, 2005. Scheme assets for the purpose of IAS 19 are stated at their bid value.

The amounts included in the financial statements are as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | £m | | £m | |
| **Amounts charged to the income statement Group** | | | | |
| Defined contribution schemes | 7.0 | | 8.6 | |
| Defined benefit schemes service cost | 6.2 | | 7.4 | |
| Total operating charge | 13.2 | | 16.0 | |
| **Amounts included as other finance costs** | | | | |
| Expected return on pension scheme assets | (13.5 | ) | (16.0 | ) |
| Interest charge on pension scheme liabilities | 13.5 | | 16.6 | |
| Net financial return | | | 0.6 | |
| **Total charge** | 13.2 | | 16.6 | |

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | £m | | £m | |
| **Amounts recognized in the statement of recognized income and expense** | | | | |
| Actual return less expected return on scheme assets | 15.8 | | 7.8 | |
| Experience gain/(loss) on scheme liabilities | 0.4 | | (3.6 | ) |
| Impact of changes in assumptions relating to the present value of scheme liabilities | (43.5 | ) | (17.5 | ) |
| Actuarial loss recognized in the statement of recognized income and expense | (27.3 | ) | (13.3 | ) |

The cumulative amount of actuarial losses recognized in the statement of recognized income and expense at the end of the year was £40.6m (2004: £13.3m).

**Notes to the Consolidated Financial Statements (Continued)**

*22. Pensions (Continued)*

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 were:

| | 2005 | 2004 |
|---|---|---|
| **Europe** | | |
| Longevity at age 65 for current pensioners (years) | 18.5 | 17.5 |
| Longevity at age 65 for future pensioners (years) | 20.0 | 19.0 |

The mortality assumptions used by the actuaries for the US pension schemes have been taken from Group Annuity Mortality tables.

| | Europe | | | US | | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| Rate of increase in salaries | 3.75 % | 3.75 % | 3.75 % | 4.0 % | 4.0 % | 5.0 % |
| Rate of increase in pensions | 2.75 % | 2.75 % | 2.75 % | | | |
| Discount rate | 4.8 % | 5.3 % | 5.5 % | 5.75 % | 6.0 % | 6.25 % |
| Inflation rate | 2.75 % | 2.75 % | 2.75 % | 2.5 % | 2.5 % | 2.5 % |

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The market value of the scheme assets, which are not intended to be realized in the short term and may be subject to significant change before they are realised, and the present value of the obligations, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are:

| | Europe* 2005 | | US 2005 | | Total 2005 |
|---|---|---|---|---|---|
| | Long term rate of return | Value | Long term rate of return | Value | Value |
| | | £m | | £m | £m |
| Equities | 6.6 % | 91.3 | 9.7 % | 29.7 | 121.0 |
| Bonds | 4.4 % | 44.9 | 5.7 % | 12.0 | 56.9 |
| Other | 4.1 % | 0.8 | 4.5 % | 0.3 | 1.1 |
| Blended rate of return on assets | 5.9 % | | 8.5 % | | |
| Total market value | | 137.0 | | 42.0 | 179.0 |
| Present value of funded obligations | | (181.7) | | (54.2) | (235.9) |
| Present value of unfunded obligation | | (3.1) | | | (3.1) |
| Present value of funded and unfunded obligations | | (184.8) | | (54.2) | (239.0) |
| Deficit | | (47.8) | | (12.2) | (60.0) |
| Deferred taxation | | 14.4 | | 4.3 | 18.7 |
| Pension liabilities | | (33.4) | | (7.9) | (41.3) |

* The European returns on assets are based on the weighted average across all European pension schemes.

**Notes to the Consolidated Financial Statements (Continued)**

***22. Pensions (Continued)***

| | Europe* 2004 | | US 2004 | | Total 2004 |
|---|---|---|---|---|---|
| | Long term rate of return | Value £m | Long term rate of return | Value £m | Value £m |
| Equities | 7.0 % | 127.1 | 9.8 % | 43.3 | 170.4 |
| Bonds | 4.8 % | 65.2 | 5.8 % | 17.4 | 82.6 |
| Other | 4.4 % | 5.0 | | | 5.0 |
| Blended rate of return on assets | 6.2 % | | 8.7 % | | |
| Total market value | | 197.3 | | 60.7 | 258.0 |
| Present value of funded obligations | | (252.5) | | (73.0) | (325.5) |
| Present value of unfunded obligations | | (3.0) | | | (3.0) |
| Present value of funded and unfunded obligations | | (255.5) | | (73.0) | (328.5) |
| Deficit | | (58.2) | | (12.3) | (70.5) |
| Deferred taxation | | 17.2 | | 4.3 | 21.5 |
| Pension liabilities | | (41.0) | | (8.0) | (49.0) |

| | Europe* 2003 | | US 2003 | | Total 2003 |
|---|---|---|---|---|---|
| | Long term rate of return | Value £m | Long term rate of return | Value £m | Value £m |
| Equities | 7.3 % | 114.4 | 9.7 % | 42.1 | 156.5 |
| Bonds | 5.2 % | 48.8 | 5.6 % | 16.3 | 65.1 |
| Other | 3.8 % | 4.9 | | | 4.9 |
| Blended rate of return on assets | 6.6 % | | 8.6 % | | |
| Total market value | | 168.1 | | 58.4 | 226.5 |
| Present value of funded obligations | | (216.2) | | (69.4) | (285.6) |
| Deficit | | (48.1) | | (11.0) | (59.1) |
| Deferred taxation | | 14.4 | | 3.9 | 18.3 |
| Pension liabilities | | (33.7) | | (7.1) | (40.8) |

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* The European returns on assets are based on the weighted average across all European pension schemes.

The 2003 market value of scheme assets and the present value of the obligations are stated under UK GAAP. The closing net deficit for 2003 of £59.1m when revalued under IFRS is £59.8m.

**Notes to the Consolidated Financial Statements (Continued)**

***22. Pensions (Continued)***

**Movement in deficit during the year**

| | 2005 | 2004 |
|---|---|---|
| | £m | £m |
| Beginning of year | (70.5) | (59.8) |
| Current service cost | (6.2) | (7.4) |
| Contributions | 11.6 | 13.0 |
| Demerger of business | 32.4 | |
| Net financial return | | (0.6) |
| Actuarial loss | (27.3) | (13.3) |
| Currency translation | | (2.4) |
| **End of year** | (60.0) | (70.5) |

**Changes in the present value of the defined benefit obligation**

| | | |
|---|---|---|
| | £m | £m |
| Beginning of year | 328.5 | 285.6 |
| Current service cost | 6.2 | 7.4 |
| Interest on scheme liabilities | 13.5 | 16.6 |
| Contributions by employees | 1.5 | 2.4 |
| Actuarial losses | 43.1 | 21.1 |
| Benefits paid | (5.7) | (10.2) |
| Demerger of business | (153.7) | |
| Currency translation | 5.6 | 5.6 |
| **End of year** | 239.0 | 328.5 |

**Changes in the fair value of plan assets**

| | | |
|---|---|---|
| | £m | £m |
| Beginning of year | 258.0 | 225.8 |
| Expected return of scheme assets | 13.5 | 16.0 |
| Actuarial gain | 15.8 | 7.8 |
| Contributions by employer | 11.6 | 13.0 |
| Contributions by employees | 1.5 | 2.4 |
| Benefits paid | (5.7) | (10.2) |
| Demerger of business | (121.3) | |
| Currency translation | 5.6 | 3.2 |
| **Fair value of the plan assets at end of year** | 179.0 | 258.0 |

The actual return on plan assets was £29.3m (2004: £23.8m).

A triennial valuation of the UK defined benefit pension scheme is planned for 2006. Subject to the results of the valuation the Company estimates that the contributions to the scheme in 2006 will not be materially different from those in 2005.

**Notes to the Consolidated Financial Statements (Continued)**

***23. Directors and employees***

| Continuing operations | 2005 Year end | 2005 Average | 2004 Year end | 2004 Average |
|---|---|---|---|---|
| The number of persons employed by the Group at December 31 and the average number employed during the year were: | | | | |
| North America | 3,454 | 3,058 | 2,802 | 2,735 |
| UK & Ireland | 3,780 | 3,819 | 3,742 | 3,286 |
| Continental Europe | 2,794 | 2,567 | 2,476 | 2,175 |
| Australasia | 438 | 402 | 373 | 327 |
| | 10,466 | 9,846 | 9,393 | 8,523 |
| Corporate | 60 | 61 | 62 | 63 |
| | 10,526 | 9,907 | 9,455 | 8,586 |

| Employee costs | Total 2005 £m | Total 2004 £m |
|---|---|---|
| Wages and salaries | 253.1 | 215.8 |
| Social security costs | 29.2 | 21.7 |
| Share based payments | 3.6 | 2.8 |
| Pension costs | 11.0 | 10.5 |
| | 296.9 | 250.8 |

| Key management remuneration | 2005 £m | 2004 £m |
|---|---|---|
| Salaries and short term employee benefits | 5.0 | 4.9 |
| Post-employment benefits | 0.8 | 0.9 |
| Share based payments | 1.7 | 1.3 |
| | 7.5 | 7.1 |

The Group considers key management personnel as defined in IAS 24 Related Party Disclosures to be the directors of the Company and those members of the Executive Committee and the Managing Directors of the major operating segments who are not directors. The amounts disclosed are on the same basis as those used to determine the relevant amounts disclosed in the Directors Remuneration Report on pages A-1 to A-13.

| Directors emoluments | 2005 £m | 2004 £m |
|---|---|---|
| Total emoluments of the directors of the Company were: | | |
| Non-executive directors | 0.3 | 0.3 |
| Executive directors: | | |
| remuneration excluding performance related elements | 3.1 | 2.4 |
| annual cash bonus | 1.0 | 0.9 |
| | 4.4 | 3.6 |

More detailed information concerning directors emoluments and long term incentives is set out in the Directors Remuneration Report on pages A-1 to A-13. The aggregate amount of gains made by directors on the exercise of share options during the year was £3.9m (2004: £0.3m). The aggregate market value of awards exercised by directors under long term incentive schemes during the year was £0.7m (2004: £0.4m).

**Notes to the Consolidated Financial Statements (Continued)**

## *24. Share based payments*

The Company operates the following share schemes and plans for the benefit of its employees relating to the acquisition of shares from the Company.

**Sharesave Schemes (1991) ( Sharesave Scheme )**

The Sharesave Scheme, approved by shareholders at the 1991 Annual General Meeting, is approved by the UK Inland Revenue and was open to all UK employees, including the UK based executive directors, who had completed at least one year of continuous service. No further options have been granted under the Sharesave Scheme since it expired in May 2001. It is linked to a contract for monthly savings of up to £250 per month over a period of either three or five years. Under the Sharesave Scheme options were granted to participating employees at a discount of up to 20% to the market price prevailing on the day immediately preceding the date of invitation to apply for the option. Options are normally exercisable either three or five years after they have been granted.

**Sharesave Scheme (2001) ( 2001 Sharesave Scheme )**

The 2001 Sharesave Scheme was approved by shareholders at the 2001 Annual General Meeting and has replaced the Sharesave Scheme. The 2001 Sharesave Scheme is also approved by the UK Inland Revenue. It operates on a similar basis to the Sharesave Scheme as summarized above.

**International Sharesave Plan ( International Sharesave Plan )**

The International Sharesave Plan was introduced following the approval of the 2001 Sharesave Scheme by shareholders. It operates on a similar basis to the 2001 Sharesave Scheme save that it is linked to a contract for monthly savings of up to 400 per month (or equivalent in other currencies) over a period of three years and options are granted to participating employees at a discount of up to 20% to the market price prevailing five days before the date of invitation to apply for the option.

**1994 Executive Share Option Scheme ( 1994 Scheme )**

The 1994 Scheme was approved by shareholders at the 1994 Annual General Meeting. No further options have been granted under the 1994 Scheme since it expired in May 2004. A performance condition, based on the Company s adjusted earnings per share growth relative to UK inflation over three years, has to be satisfied before options may normally be exercised.

**Long Term Incentive Plan ( LTIP )**

The LTIP was approved by shareholders at the 2004 Annual General Meeting and replaces the 1994 Scheme. The LTIP is divided into two parts.

Part A allows the Board to grant share options. In normal circumstances options granted are only exercisable if the relevant performance condition has been satisfied. Share options granted to date have a performance condition attached based on the Company s adjusted earnings per share growth relative to UK inflation over three years.

Part B of the LTIP allows the Board to award performance shares which is a conditional right to receive shares in the Company for no or nominal consideration. A performance share award will normally vest (i.e. become exercisable) on the third anniversary of its grant to the extent that the applicable performance condition has been satisfied. The extent to which performance share awards vest will be

**Notes to the Consolidated Financial Statements (Continued)**

## *24. Share based payments (Continued)*

subject to the Company s total shareholder return ( TSR ) performance over a three year period relative to the TSR performance of a specified peer group of companies.

Details of the share schemes and plans operated by the Company are set out in the Directors Remuneration Report on pages A-1 to A-13.

Options have been valued using the Black Scholes valuation model. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

| | 2005 | 2004 |
|---|---|---|
| Grant date | 03.01.05-11.01.05 | 03.03.04-10.12.04 |
| Share price at grant date (£) | 5.00-5.69 | 4.25-4.61 |
| Exercise price (£) | nil-5.69 | nil-4.61 |
| Shares granted during the year | 4,301,156 | 4,196,071 |
| Vesting period (years) | 3-5 | 3-5 |
| Expected volatility (%) | 22-24 | 24-28 |
| Option life (years) | 3-10 | 3-10 |
| Expected life (years) | 3.0-3.9 | 3.0-3.8 |
| Risk free rate of return (%) | 4.1-4.7 | 4.7-5.0 |
| Expected dividends expressed as a dividend yield (%) | 2.6-3.0 | 3.0-3.2 |
| Possibility of options lapsing (%) | 26-49 | 27-49 |
| Fair value per option (£) | 0.72-1.95 | 0.56-1.38 |

The expected volatility is based on historical volatility over the last three to five years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life.

The weighted average share price for options exercised over the year was £5.35 (2004: £4.44). The total charge for the year for continuing operations relating to employee share based payments was £3.6m (2004: £2.8m), all of which related to equity settled share based payments. After deferred tax the total charge for continuing operations was £1.7m (2004: £2.8m).

## *25. Operating lease commitments minimum lease payments*

| | Land & buildings 2005 | Other 2005 | Land & buildings 2004 | Other 2004 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| At December 31 the Group had the following commitments under non-cancellable operating leases: | | | | |
| expiring within one year | 19.3 | 8.1 | 22.2 | 9.4 |
| expiring between one and five years | 60.6 | 12.6 | 63.3 | 13.2 |
| expiring after five years | 43.5 | 0.3 | 45.9 | 0.3 |
| | 123.4 | 21.0 | 131.4 | 22.9 |

F-38

**Notes to the Consolidated Financial Statements (Continued)**

## *26. Cash and cash equivalents and net debt*

| | 2005 £m | 2004 £m |
|---|---|---|
| Cash at bank and in hand | 48.4 | 78.4 |
| Short term deposits repayable on demand | | 8.8 |
| Bank overdrafts | (17.0 ) | (43.2 ) |
| Cash | 31.4 | 44.0 |
| Short term deposits repayable in less than three months | 5.3 | 20.5 |
| **Cash and cash equivalents** | 36.7 | 64.5 |
| Current liabilities interest bearing loans and borrowings | (52.5 ) | (179.5 ) |
| Non-current liabilities interest bearing loans and borrowings | (339.7 ) | (290.2 ) |
| **Net debt** | (355.5 ) | (405.2 ) |

## *27. Acquisitions*

The principal acquisitions made during the year were Gelpa, Tecep, Sanicare, SOFCO, A W Mendenhall, Retail Resources and Weiss Brothers. Gelpa, a distributor principally supplying the retail and food processor sectors in the Netherlands with packaging and consumables, was purchased on January 28. Tecep, a French holding company with operations primarily serving retail, foodservice, catering and food processing markets in Central Europe with packaging supplies and food processing equipment, was purchased on July 1. Sanicare, a supplier of disposal products principally into the healthcare sector across Australia and New Zealand, was purchased on July 29. SOFCO, a distributor to a number of sectors in the US including grocery, foodservice and healthcare, was purchased on September 3. A W Mendenhall, a supplier of foodservice, janitorial, industrial packaging and disposal products in the US, was purchased on September 26. Retail Resources, a provider of distribution services to non-food retail stores across the US, was purchased on October 7. Weiss Brothers, a supplier of goods not for resale to supermarkets as well as a distributor to the food processor sector in the US, was purchased on October 14.

During the period between December 31, 2005 and February 27, 2006, two further acquisitions have taken place. Master Craft Packaging, a company serving the redistribution and food service sectors in the US, was acquired on January 25, 2006. The Midshires Group, a business principally engaged in the operation and sale of vending machines and associated services throughout Central England, was acquired on January 31, 2006.

Acquisitions have been accounted for under the acquisition method of accounting and contributed £4.4m to operating profit in 2005. All 2005 acquisitions, as well as the two reported 2006 acquisitions, involved the purchase of 100% of the acquiree s share capital or, as the case may be, all of the relevant assets of the businesses acquired. On acquisition the assets and liabilities of the businesses acquired were adjusted to reflect their fair values to the Group. This has included the separate identification of intangible assets in accordance with IFRS 3. As permitted under IFRS 3 these provisional fair values will be finalised within the 12 month period from the relevant date of acquisition.

The provisional fair values applied in the prior year to the acquisitions made in 2004 have been finalised during 2005. Adjustments were made to provisions to reflect more accurately the conditions at the date of acquisition based on information and knowledge which came to light during the 12 month post acquisition period. Adjustments have also been made to reflect the associated taxation effects. The net impact on acquired net assets reported in 2004 from these adjustments was £8.8m.

**Notes to the Consolidated Financial Statements (Continued)**

## *27. Acquisitions (Continued)*

When assessing the fair value of assets acquired, the Group has made adjustments to property, plant and equipment, inventories, receivables and payables to reflect the estimated realizable or settlement value. To date the Company has recognized customers lists and relationships as separately identifiable intangible assets. Finally, adjustments have been made to accruals and provisions to include amounts in respect of onerous contracts and other commitments that existed at the acquisition date. The accounting policies of the acquired businesses have been brought into line with those of the Group with adjustments made where necessary. All of the provisional fair value adjustments have been made net of any relevant tax effects.

The purchase price for the acquisitions has been allocated against the identified net assets, with the balance recorded as goodwill. The acquisitions provide opportunities for further development of the Group s activities and in most cases create enhanced returns. Such opportunities and the workforces inherent in each of the acquired businesses do not translate to separately identifiable intangible assets but do represent much of the assessed value that supports the recognized goodwill.

| | Provisional fair value adjustments | | | |
|---|---|---|---|---|
| | **Book value at acquisition £m** | **Revaluation £m** | **Consistency of accounting policy £m** | **Fair value of assets acquired £m** |
| **A summary of the effect of acquisitions is detailed below:** | | | | |
| Intangible assets | | 82.8 | | 82.8 |
| Property, plant and equipment | 3.2 | 2.2 | | 5.4 |
| Inventories | 22.4 | (1.4 ) | (0.9 ) | 20.1 |
| Trade and other receivables | 33.6 | 0.4 | (0.9 ) | 33.1 |
| Trade and other payables | (25.7 ) | (1.2 ) | | (26.9 ) |
| Net bank overdrafts | (6.2 ) | | | (6.2 ) |
| Provisions for liabilities and charges | (2.0 ) | (9.4 ) | | (11.4 ) |
| Deferred taxation | 0.6 | (14.0 ) | 0.7 | (12.7 ) |
| Taxation | (0.3 ) | (3.0 ) | | (3.3 ) |
| | 25.6 | 56.4 | (1.1 ) | 80.9 |
| Goodwill | | | | 41.8 |
| Consideration | | | | 122.7 |
| Satisfied by: | | | | |
| Cash consideration | | | | 118.2 |
| Share issue* | | | | 2.6 |
| Deferred consideration | | | | 1.9 |
| | | | | 122.7 |
| **The net cash outflow in the year in respect of acquisitions comprised:** | | | | |
| Cash consideration | | | | 118.2 |
| Net bank overdrafts acquired | | | | 6.2 |
| Net cash outflow in respect of acquisitions | | | | 124.4 |

* The fair value of the shares issued as consideration as part of the Sanicare acquisitions consisted of 492,966 Bunzl plc shares at the quoted mid-market price of 518.83p per share at the time of the transaction.

**Notes to the Consolidated Financial Statements (Continued)**

## *27. Acquisitions (Continued)*

The estimated results of operations, as if the principal acquisitions had been made at the beginning of the year are as follows:

| | 2005 |
|---|---|
| | £m |
| **Group** | |
| Revenue | 270.0 |
| Operating profit | 5.7 |

## *28. Related party disclosures*

The Group has identified the directors of the Company, its key management and the Group pension schemes as related parties for the purpose of IAS 24 Related Party Disclosures . Details of the relevant relationships are disclosed in the Directors Remuneration Report on pages A-1 to A-13, Note 23 and Note 22, respectively.

## *29. Reconciliation of UK GAAP profit to IFRS profit for the year ended December 31, 2004*

As stated in Note 1 these are the Group s first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2005, the comparative information for the year ended December 31, 2004 and the opening IFRS balance sheet at January 1, 2004.

In preparing the IFRS balance sheet the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group s financial position and financial performance is set out in the following tables and the notes that accompany the tables.

| | Continuing operations £m | Discontinued operations £m | Total £m |
|---|---|---|---|
| Profit for the year ended December 31, 2004 under UK GAAP | 91.4 | 37.2 | 128.6 |
| Net impact of amortization on goodwill and intangibles | 14.3 | 2.3 | 16.6 |
| Recognition of fair value adjustments outside investigative period | | (2.2 ) | (2.2 ) |
| Deferred tax on previously revalued land and buildings | | 0.7 | 0.7 |
| Release of deferred tax recognized on intangibles | 2.6 | 0.2 | 2.8 |
| Share based payments (net of taxation) | (2.6 ) | (1.2 ) | (3.8 ) |
| Impairment of previously revalued land and buildings | | (1.3 ) | (1.3 ) |
| Profit for the year ended December 31, 2004 under IFRS | 105.7 | 35.7 | 141.4 |

**Notes to the Consolidated Financial Statements (Continued)**

***Reconciliation of UK GAAP equity to IFRS equity***

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Translation reserve £m | Revaluation reserve £m | Retained earnings £m | Total equity £m | Minority interests £m | Total equity including minority interests £m |
|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2004 under UK GAAP** | 112.1 | 83.8 | 5.3 | | 1.3 | 229.5 | 432.0 | 2.8 | 434.8 |
| IFRS adjustments | | | | | | | | | |
| reclassification of opening fair value reserve | | | | | (1.3) | 1.3 | | | |
| pension asset revaluation | | | | | | (0.6) | (0.6) | | (0.6) |
| deferred tax liabilities on property revaluations | | | | | | (1.9) | (1.9) | | (1.9) |
| deferred tax asset on share options | | | | | | 1.8 | 1.8 | | 1.8 |
| undeclared dividends | | | | | | 36.8 | 36.8 | 0.2 | 37.0 |
| **At January 1, 2004 under IFRS** | 112.1 | 83.8 | 5.3 | | | 266.9 | 468.1 | 3.0 | 471.1 |
| **At December 31, 2004 under UK GAAP** | 112.5 | 88.3 | 5.3 | | | 222.0 | 428.1 | 3.7 | 431.8 |
| IFRS adjustments | | | | | | | | | |
| net impact of amortization on goodwill and intangibles | | | | | | 16.6 | 16.6 | | 16.6 |
| recognition of fair value adjustments outside investigative period | | | | | | (2.2) | (2.2) | | (2.2) |
| pension asset revaluation | | | | | | (0.7) | (0.7) | | (0.7) |
| deferred tax liabilities on property revaluations | | | | | | (1.3) | (1.3) | | (1.3) |
| deferred tax asset on share options | | | | | | 1.9 | 1.9 | | 1.9 |
| deferred tax liabilities on business | | | | | | | | | |
| combination intangibles | | | | | | 2.8 | 2.8 | | 2.8 |
| undeclared dividends | | | | | | 39.7 | 39.7 | 0.2 | 39.9 |
| reclassification of opening translation reserve | | | | 0.7 | | (0.7) | | | |
| **At December 31, 2004 under IFRS** | 112.5 | 88.3 | 5.3 | 0.7 | | 278.1 | 484.9 | 3.9 | 488.8 |

***Explanation of transition** to IFRS*

The following sets out significant accounting policy changes and adjustments arising from the transition to IFRS from UK GAAP.

**(a) Business combinations, goodwill and customer** lists and relationships

IFRS 3 Business Combinations requires that goodwill arising from business combinations should not be amortized and will be tested annually for impairment. In addition certain intangible assets which were previously recognized as part of goodwill under UK GAAP are now required to be recognized separately and amortized over their estimated useful lives.

As permitted by IFRS 1 the Group has chosen to apply IFRS 3 from January 1, 2004 and has elected not to restate previous business combinations. The acquisition accounting for acquisitions made during 2004 has been restated in accordance with IFRS 3 and IAS 38 Intangible Assets , which has resulted in the recognition of certain intangible assets relating to customer lists and relationships. As such, £230.8m has been transferred from goodwill to intangible assets in the consolidated balance sheet at December 31, 2004.

These intangible assets are being amortized over their estimated useful lives. As a result, amortization relating to goodwill on the balance sheet at the date of transition (net of the amortization charged on intangible assets) has been reversed, resulting in a credit to income of £16.6m for the year ended December 31, 2004.

**Notes to the Consolidated Financial Statements (Continued)**

***Explanation of transition to IFRS (Continued)***

Under UK GAAP the Group was permitted to make adjustments to the fair values of assets acquired in business combinations for a period up to the end of the financial year following the date of acquisition (the investigative period ). Under IFRS the investigative period covers one calendar year from the date of acquisition. During the year ended December 31, 2004 adjustments were made to the fair values of assets and liabilities acquired in business combinations since the date of transition, the timing of which were within the investigative period for UK GAAP but fell outside the investigative period under IFRS. As a result, £2.2m of fair value adjustments which were recognized in goodwill under UK GAAP were charged to the consolidated income statement under IFRS for the year ended December 31, 2004.

**(b) Post employment benefits**

Due to the Group having previously adopted FRS 17 Retirement Benefits under UK GAAP, there are no significant differences arising upon transition to IAS 19 Employee Benefits . A credit adjustment of £0.7m has been made to the pension liabilities in the consolidated balance sheet at December 31, 2004 to take account of the different valuation methodologies for pension scheme assets under IAS 19. The full actuarial deficit has been recognized rather than the corridor approach that can be adopted under IAS 19.

The disclosure requirements of IAS 19 require pension assets or liabilities recognized on the balance sheet to be stated gross of deferred tax, rather than being stated net of deferred tax as required by FRS 17. Accordingly £21.5m of deferred tax relating to pension liabilities has been reclassified as deferred tax assets within the IFRS consolidated balance sheet at December 31, 2004.

**(c) Deferred and current taxes**

The scope of IAS 12 Income Taxes is wider than the corresponding UK GAAP standards and requires deferred tax to be provided on all temporary differences rather than just certain taxable timing differences under UK GAAP.

As a result a deferred tax liability of £1.3m relating to previously revalued fixed assets has been included in the consolidated balance sheet at December 31, 2004. In addition, a deferred tax asset of £1.9m resulting from the recognition of an expense for share based payments has been included in the consolidated balance sheet at December 31, 2004.

IAS 12 also requires a deferred tax liability to be recognized in the consolidated balance sheet upon recognition of intangible assets other than goodwill as part of a business combination. This deferred tax liability is unwound through the consolidated income statement in line with the amortization profile of the intangible assets acquired. Accordingly £75.5m has been recognized on the consolidated balance sheet as deferred tax at December 31, 2004 with £2.8m of the deferred tax being credited to the consolidated income statement for the year ended December 31, 2004.

**(d) Share based payments**

IFRS 2 Share Based Payments requires that an expense for all equity instruments granted is recognized based on the fair value at the date of grant. This expense, which is in relation to option and performance share schemes, is recognized over the vesting period of the relevant scheme. The Group has adopted a valuation model for the purposes of computing fair value under IFRS as at the date of grant.

**Notes to the Consolidated Financial Statements (Continued)**

***Explanation of transition to IFRS (Continued)***

The additional pre-tax expense arising from the adoption of IFRS 2 on the Group s consolidated income statement is £3.9m for the year ended December 31, 2004.

**(e) Post balance sheet events**

IAS 10 Events after the Balance Sheet Date requires that dividends declared after the balance sheet date should not be recognized as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37 Provisions, Contingent Liabilities and Contingent Assets .

The final dividend in respect of the year ended December 31, 2003 of £37.0m has been reversed in the IFRS opening balance sheet at January 1, 2004 and charged in the consolidated statement of changes in shareholders equity for the year ended December 31, 2004.

The final dividend for the year ended December 31, 2004 of £39.9m has been reversed in the IFRS balance sheet at December 31, 2004 and has been charged in the consolidated statement of changes in shareholders equity for the year ended December 31, 2005.

**(f) Previously revalued properties**

Upon transition to IFRS, the Group elected to treat the UK GAAP value of all previously revalued properties as deemed cost. During the year ended December 31, 2004 one previously revalued property was deemed impaired, with the impairment loss of £1.3m being charged against the revaluation reserve under UK GAAP. Under IFRS, as the revaluation reserve was transferred to retained earnings upon transition as permitted by IFRS 1, the impairment loss has been taken to the consolidated income statement.

**(g) Financial instruments**

IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement address the accounting for, and reporting of, financial instruments. IAS 39 sets out detailed accounting requirements in relation to financial assets and liabilities. As outlined in Note 1, this was applied for the first time for the year ended December 31, 2005.

All derivative financial instruments are accounted for at fair value whilst other financial instruments are accounted for either at amortized cost or at fair value depending on their classification. Subject to stringent criteria, derivative financial instruments, financial assets and financial liabilities may be designated as forming hedge relationships as a result of which fair value changes are offset in the income statement or charged/credited to equity depending on the nature of the hedge relationship.

From January 1, 2005 hedge accounting has been adopted for the Group s forward currency contracts which are taken out to hedge the cost of foreign currency debtors and creditors, thereby reducing potential volatility in the income statement. Hedge accounting has also been adopted for the Group s interest rate swaps and underlying capital market debt, thereby reducing potential volatility in the income statement.

**(h) Other disclosure changes**

Under UK GAAP the deferred tax position of the Group is shown net on the consolidated balance sheet. Under IFRS the assets and liabilities are required to be shown separately (net of any allowable offsets) and, as such, £8.6m has been reclassified as deferred tax assets and liabilities in the consolidated balance sheet at December 31, 2004.

**Notes to the Consolidated Financial Statements (Continued)**

***Explanation of transition to IFRS (Continued)***

Under UK GAAP provisions are not disclosed according to their expected usage date. IFRS requires that provisions should be classified into current liabilities and non-current liabilities. As a result, £7.1m of provisions has been reclassified as current liabilities in the consolidated balance sheet at December 31, 2004.

***30. Companies Act 1985***

The Consolidated Financial Statements do not constitute statutory accounts within the meaning of the Companies Act 1985 of Great Britain for any of the periods presented. Statutory accounts for the year ended December 31, 2004 have been filed with the Registrar of Companies for England and Wales. The statutory accounts for the year ended December 31, 2005 will be delivered to the Registrar of Companies following the Company s Annual General Meeting. The auditors have reported on these accounts. The reports were unqualified and did not contain statements under Section 237(2) or (3) of the Act.

These Consolidated Financial Statements exclude certain parent company statements and other information required by the Companies Act 1985. However they include all material disclosures required by IFRS including those Companies Act 1985 disclosures relating to the statements of income and balance sheet items.

***31. Summary of significant differences between IFRS and US GAAP***

The Group s Consolidated Financial Statements are prepared in accordance with IFRS as adopted for use in the EU which differ in certain significant respects from US GAAP. Set out below is a summary of the significant differences, a reconciliation of profit from IFRS to US GAAP, a statement of comprehensive income, details of earnings per share in accordance with US GAAP, a reconciliation of equity shareholders funds from IFRS to US GAAP and a consolidated summary cash flow statement on a US GAAP basis.

**(a) Goodwill and other intangible assets**

The Group has exercised the exemption available under IFRS 1 First-time Adoption of International Financial Reporting Standards not to restate business combinations prior to the date of transition to IFRS (January 1, 2004). Therefore on transition to IFRS the amount of unamortized goodwill brought forward under UK GAAP at December 31, 2003 was taken as deemed cost at January 1, 2004. Goodwill arising on acquisitions before January 1, 1998 remains eliminated against reserves. Between January 1, 1998 to December 31, 2003, goodwill arising on acquisitions was capitalized and amortized over its useful life. Under IFRS goodwill arising on acquisitions after January 1, 2004 is capitalized in accordance with IFRS 3 Business Combinations . Goodwill is not amortized but is subject to annual impairment tests. Other intangible assets acquired in a business combination are recognized on acquisition and recorded at fair value. These assets are amortized through the income statement over their estimated useful economic lives.

Under US GAAP, goodwill arising on acquisitions is capitalized in accordance with SFAS 141 Business Combinations . Goodwill is not amortized but is subject to annual impairment tests. Goodwill arising on acquisitions before June 30, 2001 was amortized over the useful economic life of the asset until December 31, 2001. In accordance with SFAS 141 and SFAS 142 Goodwill and Other Intangible Assets , other identifiable intangible assets are capitalized and amortized over their useful economic lives.

**Notes to the Consolidated Financial Statements (Continued)**

## *31. Summary of significant differences between IFRS and US GAAP (Continued)*

In the period from July 1, 2001 to December 31, 2003 separately identifiable intangible assets acquired in business combinations are recognized for US GAAP purposes but not for IFRS following the transition exemption described in Note 29(a) above. Such intangible assets were not recognized under UK GAAP. Accordingly an additional charge for amortization of such intangible assets which are recognized for US GAAP purposes is included in the US GAAP reconciliation. Adjustments are also required to recognize the goodwill eliminated against reserves on acquisitions prior to January 1, 1998 and to reverse the amortization charge for goodwill between July 1, 2001 and December 31, 2003 which was amortized under UK GAAP but was not amortized under US GAAP. No adjustment is required in relation to acquisitions occurring after January 1, 2004.

**(b) Pension costs**

Under IFRS pension schemes are accounted for in accordance with IAS 19 Employee Benefits . Under US GAAP they are accounted for under SFAS 87 Employers Accounting for Pensions and SFAS 88 Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits .

Under IFRS, actuarial gains and losses are recognized in full in the year in which they arise in the consolidated statement of recognized income and expense. Under US GAAP actuarial gains and losses which exceed 10% of the value of the assets or liabilities at the start of the accounting period are amortized through the income statement over the remaining lives of the scheme members. Under IFRS the charge to the income statement is based on the fair market value of the assets. US GAAP uses a smoothed market-related value of the assets that recognizes changes to the fair value over a period of five years. US GAAP also requires the recognition of an additional minimum liability through a charge to other comprehensive income when the plan is in deficit based on its accumulated benefit obligation.

**(c) Share based payments**

Under IFRS the total expected expense based on the fair value at grant date of options and other share based incentives using a valuation model is calculated at the date of grant and spread over the expected vesting period. Under US GAAP the same approach is applied except that those share options that have performance conditions linked to the Retail Price Index are remeasured at fair value at each period end and are classified as liabilities.

**(d) Derivative instruments**

The Group has US dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the US. Under both US GAAP and IFRS, the foreign exchange gains and losses on these borrowings are taken to reserves. The Group also has foreign currency forward contracts which it uses to hedge net investments in foreign subsidiaries, primarily relating to the euro. Under IFRS the Group applies hedge accounting for these contracts which are recorded at fair value with gains and losses on the effective portion being taken to reserves whilst the ineffective portion, if any, is recorded in the income statement. Under US GAAP the Group does not apply net investment hedge accounting for these contracts and all gains and losses are therefore recorded in the income statement.

**Notes to the Consolidated Financial Statements (Continued)**

## *31. Summary of significant differences between IFRS and US GAAP (Continued)*

### (e) Deferred taxation

Under IFRS, full provision for deferred taxation is made although there are a number of different bases under US GAAP on which this calculation is made.

### (f) Cash flows

The presentation of the cash flow statement under IFRS and US GAAP is broadly the same with individual cash flows being classified as either operating, financing or investing. US GAAP is however more prescriptive in the required classification of certain items whereas IFRS gives a choice of classification for certain items. The effect of the demerger of Filtrona is classified as a financing activity under US GAAP. Under IFRS interest received is classified as an investing activity and interest paid is classified as a financing activity. Under US GAAP interest received and paid are classified as operating activities.

Under IFRS cash and cash equivalents comprise cash balances, overdrafts and fixed term investments with maturities of three months or less from the date of acquisition. US GAAP excludes overdrafts from the definition of cash and cash equivalents and classifies overdrafts as a financing activity.

### (g) Statement of comprehensive income

Under IFRS the statement of recognized income and expense is similar to the statement of comprehensive income under US GAAP.

| | | for the year ended December 31 | |
|---|---|---|---|
| | Note | 2005 | 2004 |
| **Profit** | | **£m** | **£m** |
| Continuing operations | | 120.0 | 105.7 |
| Discontinued operations | | 3.6 | 34.5 |
| **Profit for the financial year in accordance with IFRS** | | 123.6 | 140.2 |
| US GAAP adjustments: | | | |
| Amortization of intangible assets | (a) | (4.8) | (4.1) |
| Pension costs | (b) | 0.9 | (0.9) |
| Share based payments | (c) | (0.1) | (1.0) |
| Derivative instruments | (d) | (2.1) | (6.9) |
| Taxation on above adjustments | | 0.3 | 6.9 |
| **Net income before cumulative effect of change in accounting policy on adoption of SFAS 123R** | | 117.8 | 134.2 |
| Cumulative effect of change in accounting policy net of tax on adoption of SFAS 123R | | | (2.5) |
| **Net income for the financial year in accordance with US GAAP** | | 117.8 | 131.7 |
| Continuing operations | | 112.1 | 101.2 |
| Discontinued operations | | 5.7 | 33.0 |
| Cumulative effect of change in accounting policy net of tax on adoption of SFAS 123R | | | (2.5) |
| **Net income for the financial year in accordance with US GAAP** | | 117.8 | 131.7 |

**Notes to the Consolidated Financial Statements (Continued)**

*31. Summary of significant differences between IFRS and US GAAP (Continued)*

**Statement of comprehensive income**

| | for the year ended December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | £m | £m |
| **Net income for the financial year in accordance with US GAAP** | 117.8 | 131.7 |
| Other comprehensive income: | | |
| Additional minimum pension liability net of income tax(1) | 15.4 | (5.4) |
| Currency translation net of income tax(2) | 13.5 | (2.2) |
| Movement in cash flow hedge reserve net of income tax(3) | 0.3 | |
| **Comprehensive income in accordance with US GAAP** | 147.0 | 124.1 |

(1) Income tax charge on additional minimum pension liability for 2005 was £7.1m (2004: credit of £2.7m).

(2) Income tax charge on currency translation for 2005 was £3.0m (2004: £1.9m).

(3) Income tax charge on the movement in cash flow hedge reserve for 2005 was £0.1m.

**Earnings per share in accordance with US GAAP**

| | for the year ended December 31 | |
|---|---|---|
| | 2005 | 2004* |
| Continuing operations | 33.1p | 29.4p |
| Discontinued operations | 1.7p | 9.5p |
| Cumulative effect of change in accounting policy net of tax on adoption of SFAS 123R | | (0.7)p |
| **Earnings per share in accordance with US GAAP** | 34.8p | 38.2p |

**Diluted earnings per share in accordance with US GAAP**

| | for the year ended December 31 | |
|---|---|---|
| | 2005 | 2004* |
| Continuing operations | 32.9p | 29.0p |
| Discontinued operations | 1.7p | 9.4p |
| Cumulative effect of change in accounting policy net of tax on adoption of SFAS 123R | | (0.7)p |
| **Diluted earnings per share in accordance with US GAAP** | 34.6p | 37.7p |

* The weighted average number of shares used in calculating the above earnings per share for 2004 has been adjusted for the share consolidation on June 6, 2005, as approved by shareholders at an Extraordinary General Meeting on June 2, 2005, when the ordinary shares of 25p each were consolidated on a seven for nine basis into ordinary shares of 32 1/7 p each.

F-48

**Notes to the Consolidated Financial Statements (Continued)**

*31. Summary of significant differences between IFRS and US GAAP (Continued)*

**Equity shareholders funds**

| | Note | at December 31 2005 £m | 2004 £m |
|---|---|---|---|
| **Equity shareholders funds in accordance with IFRS** | | 460.4 | 484.9 |
| US GAAP adjustments: | | | |
| Goodwill and other intangible assets | (a) | 129.5 | 218.4 |
| Pensions | (b) | 18.2 | 20.8 |
| Share based payments | (c) | (3.6) | (7.9) |
| Deferred taxation | (e) | 1.8 | 1.8 |
| Taxation on above adjustments | | (2.9) | (1.3) |
| **Equity shareholders funds in accordance with US GAAP** | | 603.4 | 716.7 |

**Consolidated cash flow statement**

| | for the year ended December 31 2005 £m | 2004 £m |
|---|---|---|
| Net cash inflow from operating activities | 132.0 | 151.4 |
| Net cash outflow from investing activities | (146.6) | (290.3) |
| Net cash (outflow)/inflow from financing activities | (41.2) | 88.4 |
| Net decrease in cash and cash equivalents per US GAAP | (55.8) | (50.5) |
| Exchange movements | 1.8 | (0.6) |
| Cash and cash equivalents at beginning of year per US GAAP | 107.7 | 158.8 |
| **Cash and cash equivalents at end of year per US GAAP** | 53.7 | 107.7 |

**Supplementary information with respect to valuation and qualifying accounts**

| | Balance at beginning of year £m | Charged to costs and expenses £m | Utilised £m | Other movements* £m | Balance at end of year £m |
|---|---|---|---|---|---|
| **For the year ended December 31, 2005** | | | | | |
| Reserve for doubtful trade receivables | 13.5 | 2.3 | (3.2) | 1.1 | 13.7 |
| Inventory reserve | 25.9 | 3.2 | (7.4) | | 21.7 |
| **For the year ended December 31, 2004** | | | | | |
| Reserve for doubtful trade receivables | 9.4 | 3.1 | (2.6) | 3.6 | 13.5 |
| Inventory reserve | 16.1 | 4.9 | (1.3) | 6.2 | 25.9 |

* Other movements primarily relate to acquisitions and divestments.

**Notes to the Consolidated Financial Statements (Continued)**

## *31. Summary of significant differences between IFRS and US GAAP (Continued)*

**Recent Financial Accounting Standards Board ( FASB ) pronouncements**

In March 2005 the FASB published FASB Staff Position (FSP) FIN 47, Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143 which clarifies the application of SFAS 143 Accounting for Obligations Associated with the Retirement of Long-Lived Assets in respect of conditional asset retirement obligations. The FSP is effective in the first reporting period ended after December 15, 2005. The FSP has not had a material impact on the Group s consolidated financial position, results of operations or cash flows under US GAAP.

In June 2005 the Emerging Issues Task Force ( EITF ) reached consensus on Issue 05-6, Determining the Amortisation Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination . EITF 05-6 requires leasehold improvements acquired in a business combination to be amortized over the shorter of the useful lives of the assets or a term that includes required lease periods and renewals deemed to be reasonably assured at the date of acquisition. Additionally, the Issue requires improvements placed in service significantly after and not contemplated at or near the beginning of the lease term to be amortized over the shorter of the useful lives of the assets or a term that includes required lease periods and renewals deemed to be reasonably assured at the date the leasehold improvements are purchased. EITF 05-6 is effective immediately. The adoption of EITF 05-6 has not had a material impact on the Group s consolidated financial position, results of operations or cash flows under US GAAP.

In March 2005 the FASB issued FASB Staff Position (FSP) FIN 46(R)-5, Implicit Variable Interests under FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities . The FSP requires a reporting enterprise to consider whether it holds an implicit variable interest in the VIE or potential VIE. The determination of whether an implicit variable interest exists involves determining whether an enterprise may be indirectly absorbing or receiving the variability of the entity. The FSP is effective in the first reporting period beginning after March 3, 2005. The Group has not identified any material variable interest entities or interests in variable interest entities under FIN 46R and hence the issue of the FSP is not expected to have an impact on the Group s consolidated financial position, results of operations or cash flows under US GAAP.

In December 2004 the FASB issued SFAS 153, Exchanges of Non-monetary Assets - an amendment of APB Opinion 29 , which amends APB Opinion 29, Accounting for Non-monetary Transactions to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal years beginning after June 15, 2005. In November 2005 the FASB issued FSP 115-1 and FSP 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments which nullify certain requirements of EITF 03-1 and supersede EITF D-44. The FSPs provide guidance for identifying impaired investments and new disclosure requirements for investments that are deemed to be temporarily impaired. The FSPs are effective for fiscal years beginning after December 15, 2005. The adoption of the above pronouncements is not expected to have a material impact on the Group s consolidated financial position, results of operations or cash flows under US GAAP.

**Notes to the Consolidated Financial Statements (Continued)**

## *31. Summary of significant differences between IFRS and US GAAP (Continued)*

In May 2005 SFAS 154, Accounting Changes and Error Corrections replacement of APB Opinion 20 and SFAS 3, was issued. SFAS 154 changes the accounting for and reporting of a change in accounting principle by requiring retrospective application to prior periods financial statements of changes in accounting principle unless impracticable. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Group cannot determine the impact of SFAS 154 as it depends in part upon future changes to US accounting principles.

**ANNEX A**

**Directors Remuneration Report**
**for the year ended 31 December 2005**

**Terms of reference of the Remuneration Committee**

The terms of reference of the Remuneration Committee (the Committee ), as approved by the Board, embody the purpose of the Committee as ensuring that the Company s executive directors and senior executives are properly incentivised and fairly rewarded for their individual contributions to the Group s overall performance having due regard to the interests of the shareholders and to the financial and commercial health of the Group.

**Membership**

All members of the Committee, who are identified on pages 17 and 18 of the Annual Review and Summary Financial Statement, are independent non-executive directors. The Committee is chaired by Mr C A Banks. Members of the Committee do not have any personal financial interest (other than as shareholders) in matters decided by the Committee, nor do they have any potential conflict of interest arising from cross-directorships or day-to-day involvement in running the Group s business. The Committee meets at least three times during the year and at other times as may be required. While neither the Chairman of the Company, Mr A J Habgood, nor the Chief Executive, Mr M J Roney, are members of the Committee, they normally attend meetings except when the Committee is considering matters concerning themselves. The Director of Group Human Resources acts as Secretary to the Committee.

**Audit**

The directors remuneration in 2005 and the details of the directors interests in the Company s ordinary shares disclosed on pages A-3 to A-13 have been audited by the Company s independent external auditor.

**Remuneration policy**

The Company s current remuneration policy for 2005 and beyond is designed to help ensure the recruitment, retention and motivation of the executive directors by providing fair reward for the responsibilities they undertake and the performance they achieve on behalf of shareholders. In this context, the Committee s policy is to set the overall remuneration package at a competitive level and in a form that permits significant additional remuneration to be earned for high performance over a sustained period. This is normally achieved by benchmarking base pay against comparator companies taking into account a range of factors including performance, and by providing, in addition, short and long term incentives geared to performance.

In assessing the balance of performance related and non-performance related elements of remuneration, base pay and benefits are treated as non-performance related, whereas annual bonus (including awards under the Deferred Annual Share Bonus Scheme) (the DASBS ) and long term incentives are treated as performance related. For this purpose, share options and performance shares are valued at an appropriate proportion of their face value on grant or award. On this basis, the Committee sets the remuneration package such that about half the total target remuneration package is derived from the performance related elements.

Both the overall competitiveness of the remuneration package and the balance between performance and non-performance related elements are kept under regular review in the light of market practice and the needs of the Company. The Committee commissions reports and receives advice on directors remuneration from independent remuneration and benefits consultants, namely Monks Partnership and

New Bridge Street Consultants, who may from time to time also provide other services to the Company on remuneration and benefit matters that are not the subject of review by the Committee. Further details of the remuneration policy and how it is currently applied to the various aspects of remuneration is provided in the relevant sections below.

With regard to external pay survey data, the Committee reviews each year, prior to the annual review of base pay in January, information on remuneration and benefit levels based on an external survey conducted on its behalf by Monks Partnership. The Committee seeks to maintain, wherever possible, a consistent and appropriate basis for comparison year-on-year in terms of the survey methodology and, in particular, the use of comparator groups on which the survey is based. There are three comparator groups that the Committee uses. These are related to revenue, profit before tax and market capitalisation. In each case the comparator group consists of 20 non-financial UK based companies that have substantial operations overseas. 10 of the companies in each comparator group are the next highest and 10 are the next lowest compared to Bunzl. The results from each of the comparator groups are blended by Monks Partnership to provide an overall assessed market position as at 1 January of the year of the review. Neither Monks Partnership nor New Bridge Street Consultants provide specific recommendations to the Committee on remuneration or benefit levels for the executive directors. The Committee does, however, review survey information provided by them in the light of its established remuneration policy before making its decisions. All decisions of the Committee were implemented in full.

**Base pay**

The base pay of each executive director is set to reflect the size and scope of that director s responsibilities undertaken on behalf of the Board, the level of overall performance achieved and experience in the post. As stated above, it is benchmarked against comparator companies and the actual pay level is set after taking account of performance, relevant external survey data and the general movement of base pay within the Group.

**Annual bonus plan**

The executive directors participate in an annual bonus plan intended to support the Company s overall remuneration policy. The bonus plan for each executive director contains meaningful targets that seek to focus attention on one or two key measures of short to medium term achievement. Bonus awards are not pensionable. In 2005, the target for the annual bonus for Mr A J Habgood, Mr M J Roney and Mr D M Williams (who retired from the Board on 31 January 2006) was linked to the Group s achievement of earnings per share after certain specified adjustments ( eps ). Detailed terms of the plan were determined by the Committee and provided for a bonus to be awarded if the Group achieved, in 2005, a threshold eps level. No bonus was to be awarded for eps achievement below the threshold level. The bonus plan provided for an increase in the bonus award pro rata for eps achievement above the threshold up to a target level of eps and for above target achievement. Half of this annual bonus will be paid in cash to a maximum level of 60% of annual base pay and the balance (but with the total aggregate amount capped at 100% of base pay) is deferred under the rules of the DASBS, details of which are set out below.

For Mr C P Sander (who resigned from the Board on 13 July 2005) and Mr P L Larmon their bonus plans for 2005 were based on the profit and return on average capital employed achieved in the businesses for which they were directly responsible. Mr P L Larmon also has a portion of his bonus based on Group performance. Half of Mr P L Larmon s annual bonus is normally paid in cash to a maximum level of 60% of annual base pay and the balance (but with the total aggregate amount capped at 100% of base pay) is deferred under the rules of the DASBS. Mr C P Sander did not qualify for an award under the DASBS in respect of the 2005 financial year.

Under the DASBS, eligible executives, including the executive directors, receive the deferred element of their annual bonus as an award of ordinary shares. The ordinary shares are purchased in the market and deposited with the Bunzl Group General Employee Benefit Trust (the Trust ) until 1 March in the third year after the year in which the award is made, following which they are transferred to the executive provided normally that the executive has remained in the employment of the Group throughout that period or until their normal retirement date. The DASBS forms a part of the annual bonus plan so as to provide, in total, an annual bonus opportunity linked to the overall performance of the Group, with a significant portion of any bonus award held in shares for a three year period. The Committee believes this supports the overall remuneration policy and contributes to the alignment of executives and shareholders interests.

The table below shows the number of shares held by the executive directors under the DASBS.

| | Shares held at 1 January 2005 | Shares awarded during 2005 | Shares transferred during 2005 | Shares held at 31 December 2005 or date ceased to be a director |
|---|---|---|---|---|
| A J Habgood | 162,758 | 73,668 | (45,061 ) | **191,365** |
| D M Williams | 87,792 | 38,843 | (24,578 ) | **102,057** |
| P L Larmon | 21,563 | 16,641 | (10,618 ) | **27,586** |
| C P Sander | 74,471 | 23,882 | (17,616 ) | **80,737** |
| M J Harper | 45,232 | 19,427 | (10,538 ) | **54,121** |

**Notes**

a) All awards of shares are made in respect of bonus performance in the previous year.

b) The market values of the shares at the date of transfer in 2005 were as follows: Mr A J Habgood £230,555; Mr D M Williams £125,754; Mr P L Larmon £54,327, Mr C P Sander £90,133 and Mr M J Harper £53,918.

c) All awards held by Mr C P Sander on the date he ceased to be a director lapsed on 10 January 2006. All shares held by Mr M J Harper on the date he ceased to be a director were transferred to him on 7 June 2005 following the demerger of Filtrona at a market value of £289,283.

The Committee also reviews and authorises the outline structure of annual bonus plans for other senior executives within the Group. These plans are based on performance targets relevant to individual businesses or areas of responsibility and are compatible with the principles of the bonus plans approved for the executive directors.

**Share based incentives**

The Committee believes that the long term performance of the Group is an important consideration for shareholders and that share based incentives are an important part of helping to align the interests of shareholders and those employed by the Group. A formal share ownership guideline is in place under which executive directors are expected to retain a shareholding worth at least equal to their basic salaries. A period of three years is allowed for executives who are promoted from within the Company to achieve this shareholding with an additional two years permitted in the case of external appointments.

The Long Term Incentive Plan (the LTIP ) was approved by shareholders at the Company s Annual General Meeting in May 2004 under which the executive directors and other senior executives in the Group may be granted share options and awards in respect of performance shares. Participation in the LTIP is at the discretion of the Committee. The Committee periodically reviews the level of grant, taking account of each executive s performance and job responsibilities. No further options will be granted under the 1994 Executive Share Option Scheme (the 1994 Scheme ) which is now closed with the exception of

A-3

any outstanding options. Options were granted and performance shares awarded under the LTIP to the executive directors in 2005 in respect of market purchased shares some of which are held through the Trust. The LTIP is divided into two parts. Part A allows the Board to grant share options. Annual grants may not exceed an amount equal to three times base salary. In normal circumstances options granted are exercisable, subject to satisfaction of the relevant performance conditions as referred to below, not earlier than three years and not later than 10 years after the date of grant. Share options granted to date have a performance condition attached based on the Company s eps growth (adjusted to exclude items which do not reflect the Company s underlying financial performance and intangible amortisation) relative to UK inflation over three years. The performance conditions for options granted operate on the following sliding scale:

| **Face value of annual share options grant as a proportion of salary** | **Total margin over UK inflation after 3 years** |
|---|---|
| First 150% of salary | 9% |
| Next 75% of salary | 12% |
| Next 75% of salary | 19% |

The performance condition is tested after three years, with no provision for retesting. Accordingly, to the extent the performance condition has not been met after three financial years, the relevant share options will lapse. The Committee can set different performance conditions from those described above for future options, provided that the new conditions are no less challenging. Similarly the Committee can adjust the performance conditions of existing options to take account of technical changes, for example changes in accounting standards or in the event of a rights issue. The amended condition will be no less challenging as a result of the change.

The table below shows the number of share options held by executive directors under the executive share options schemes.

| | Exercise price (p) | Options exercisable between | | Options at 31 December 2005 or date ceased to be a director | Options at 1 January 2005 |
|---|---|---|---|---|---|
| A J Habgood | 246 | 09.03.02 | 08.03.09 | | 406,504 |
| | 289 | 01.03.03 | 28.02.10 | | 150,000 |
| | 384 | 30.08.03 | 29.08.10 | | 125,000 |
| | 455.5 | 27.02.04 | 26.02.11 | **135,000** | 135,000 |
| | 450 | 29.08.04 | 28.08.11 | **145,000** | 145,000 |
| | 482 | 28.02.05 | 27.02.12 | **155,000** | 155,000 |
| | 461 | 29.08.05 | 28.08.12 | **190,000** | 190,000 |
| | 372.25 | 25.02.06 | 24.02.13 | **305,000** | 305,000 |
| | 446.25 | 27.08.06 | 26.08.13 | **305,000** | 305,000 |
| | 451.5 | 03.03.07 | 02.03.14 | **305,000** | 305,000 |
| | 500.25 | 01.03.08 | 28.02.15 | **152,500** | |
| | 568 | 09.09.08 | 08.09.15 | **143,029** | |
| M J Roney | 565 | 01.11.08 | 30.10.15 | **180,530** | |
| D M Williams | 246 | 09.03.02 | 08.03.09 | | 145,782 |
| | 245 | 30.03.02 | 29.03.09 | | 29,275 |
| | 289 | 01.03.03 | 28.02.10 | | 80,000 |
| | 384 | 30.08.03 | 29.08.10 | | 65,000 |
| | 455.5 | 27.02.04 | 26.02.11 | | 65,000 |
| | 450 | 29.08.04 | 28.08.11 | | 70,000 |
| | 482 | 28.02.05 | 27.02.12 | | 75,000 |
| | 461 | 29.08.05 | 28.08.12 | | 90,000 |
| | 372.25 | 25.02.06 | 24.02.13 | **125,000** | 125,000 |
| | 446.25 | 27.08.06 | 26.08.13 | **125,000** | 125,000 |
| | 460.5 | 26.05.07 | 25.05.14 | **125,000** | 125,000 |
| | 500.25 | 01.03.08 | 28.02.15 | **65,500** | |
| P L Larmon | 328 | 01.09.02 | 31.08.09 | **15,000** | 15,000 |
| | 384 | 30.08.03 | 29.08.10 | **20,000** | 20,000 |
| | 455.5 | 27.02.04 | 26.02.11 | **20,000** | 20,000 |
| | 450 | 29.08.04 | 28.08.11 | **20,000** | 20,000 |
| | 482 | 28.02.05 | 27.02.12 | **20,000** | 20,000 |
| | 461 | 29.08.05 | 28.08.12 | **20,000** | 20,000 |
| | 372.25 | 25.02.06 | 24.02.13 | **30,000** | 30,000 |
| | 446.25 | 27.08.06 | 26.08.13 | **30,000** | 30,000 |
| | 451.5 | 03.03.07 | 02.03.14 | **60,000** | 60,000 |
| | 500.25 | 01.03.08 | 28.02.15 | **53,200** | |
| | 568 | 09.09.08 | 08.09.15 | **48,411** | |
| C P Sander | 455.5 | 27.02.04 | 26.02.11 | | 25,000 |
| | 450 | 29.08.04 | 28.08.11 | | 25,000 |
| | 482 | 28.02.05 | 27.02.12 | | 25,000 |
| | 461 | 29.08.05 | 28.08.12 | **40,000** | 40,000 |
| | 372.25 | 25.02.06 | 24.02.13 | **60,000** | 60,000 |
| | 446.25 | 27.08.06 | 26.08.13 | **60,000** | 60,000 |
| | 451.5 | 03.03.07 | 02.03.14 | **60,000** | 60,000 |
| | 500.25 | 01.03.08 | 28.02.15 | **54,300** | |
| M J Harper | 289 | 01.03.03 | 28.02.10 | **30,000** | 30,000 |
| | 384 | 30.08.03 | 29.08.10 | **30,000** | 30,000 |
| | 455.5 | 27.02.04 | 26.02.11 | **25,000** | 25,000 |
| | 450 | 29.08.04 | 28.08.11 | **25,000** | 25,000 |
| | 482 | 28.02.05 | 27.02.12 | **25,000** | 25,000 |
| | 461 | 29.08.05 | 28.08.12 | **40,000** | 40,000 |
| | 372.25 | 25.02.06 | 24.02.13 | **60,000** | 60,000 |
| | 446.25 | 27.08.06 | 26.08.13 | **60,000** | 60,000 |
| | 451.5 | 03.03.07 | 02.03.14 | **60,000** | 60,000 |

**Notes**

a) The following executive share options were exercised during 2005 by:

(i) Mr A J Habgood on 7 September 2005 in respect of 406,504 ordinary shares at an exercise price of 246p and 150,000 ordinary shares at an exercise price of 289p (market price 572p) and on 10 November 2005 in respect of 125,000 ordinary shares at an exercise price of 384p (market price 594p);

(ii) Mr D M Williams on 12 September 2005 in respect of 145,782 ordinary shares at an exercise price of 246p, 29,275 ordinary shares at an exercise price of 245p and 80,000 ordinary shares at an exercise price of 289p (market price 575p) and on 15 November 2005 in respect of 65,000 ordinary shares at an exercise price of 384p, 65,000 ordinary shares at an exercise price of 455.5p, 70,000 ordinary shares at an exercise price of 450p, 75,000 ordinary shares at an exercise price of 482p and 90,000 ordinary shares at an exercise price of 461p (market price 593p);

(iii) Mr C P Sander on 29 June 2005 in respect of 25,000 ordinary shares at an exercise price of 455.5p, 25,000 ordinary shares at an exercise price of 450p and 25,000 ordinary shares at an exercise price of 482p (market price 509.5p) and on 12 December 2005 in respect of 40,000 ordinary shares at an exercise price of 461p (market price 600p); all remaining options lapsed when Mr C P Sander left the Company on 10 January 2006;

(iv) Mr M J Harper on 7 June 2005 following the demerger of Filtrona in respect of all of the ordinary shares listed above (market price 534.5p).

b) The exercise price of executive share options is the market price prevailing at or immediately prior to the date of grant of the option.

c) The mid-market price of an ordinary share on 31 December 2005 was 638p and the range during 2005 was 443p to 643p.

d) The performance condition for options granted under the 1994 Scheme is that they may not be exercised unless the growth in eps over a period of three consecutive financial years exceeds the growth in the UK retail price index over the same period by at least 6%.

e) All options granted prior to 25 May 2004 are under the 1994 Scheme. Options granted since then have been made under the LTIP.

The UK based executive directors may also participate in a Sharesave Scheme which was approved by shareholders in 2001, is approved by the Inland Revenue and is open to all UK employees who have completed at least one year of continuous service. It is linked to a contract for monthly savings of up to £250 per month over a period of either three or five years. Under the Sharesave Scheme options are granted to participating employees at a discount of up to 20% to the market price prevailing on the day immediately preceding the date of invitation to apply for the option. Options are normally exercisable either three or five years after they have been granted. The following table sets out the number of share options held under the Sharesave Scheme by the UK based executive directors.

| | **Exercise price (p)** | **Options exercisable between** | | **Options at 31 December 2005 or date ceased to be a director** | **Options at 1 January 2005** |
|---|---|---|---|---|---|
| A J Habgood | 296 | 01.05.06 | 01.11.06 | **3,192** | 3,192 |
| D M Williams | 358 | 01.11.06 | 30.04.07 | **2,576** | 2,576 |
| C P Sander | 231 | 01.06.05 | 30.11.05 | **7,305** | 7,305 |
| M J Harper | 296 | 01.05.08 | 31.10.08 | **5,548** | 5,548 |

**Notes**

a) Mr C P Sander exercised 7,305 options under the Sharesave Scheme (1991) on 13 July 2005 at an exercise price of 231p (market price 527p).

b) Mr M J Harper exercised 2,772 options under the Sharesave Scheme (2001) on 5 December 2005 at an exercise price of 296p (market price 606.5p). All of his remaining options lapsed on this date.

US based executive directors may participate in the Bunzl Employee Stock Purchase Plan (US). This Plan provides an opportunity for employees in the US to purchase the Company s shares in the form of American Depositary Receipts ( ADRs ) at a 15% discount to the market price, up to an annual maximum of 10% of remuneration or $25,000 worth of ADRs, whichever is lower. The purchase of the ADRs is funded by after-tax payroll deductions from the employee with the employing company contributing the 15% discount.

Based on the authority obtained at the 2001 Annual General Meeting, the Company introduced the International Sharesave Plan during 2002. This operates on a similar basis to the Sharesave Scheme (2001) except that options are normally exercisable three years after they have been granted. None of the executive directors are eligible to participate in this Plan.

Part B of the LTIP allows the Board to award performance shares which is a conditional right to receive shares in the Company for no or nominal consideration. Annual awards may not exceed an amount equal to two times base salary. A performance share award will normally vest (i.e. become exercisable) on the third anniversary of its grant to the extent that the applicable performance condition has been satisfied and will remain capable of being exercised for the three year period following the date on which it vests. The extent to which performance share awards vest will be subject to the Company s total shareholder return ( TSR ) performance over a three year period relative to the TSR performance of a specified group of companies (the Peer Group ). The process for identifying the Peer Group is the same as that used for identifying the comparator group for the setting of base pay as described under Remuneration policy on pages A-1 and A-2. The companies currently within the Peer Group for any awards to be made in 2006 are:

| | | |
|---|---|---|
| ARM Holdings | GKN | Reuters |
| BBA Group | Hanson | Rexam |
| BG Group | ICI | Rolls-Royce Group |
| British Airways | IMI | Ryanair |
| Cairn Energy | Inchcape | Sage Group |
| Cobham | Johnson Matthey | Signet Group |
| Compass Group | Kesa Electricals | Smiths Group |
| Cookson Group | LogicaCMG | Tate & Lyle |
| Corus Group | Lonmin | Tomkins |
| Dimensions Data Hldgs | Meggitt | United Business Media |
| Electrocomponents | Pearson | Xstrata |
| EMI Group | Reed Elsevier | |
| FKI | Rentokil Initial | |

A-7

A performance share award will vest in full only if the Company s TSR performance is ranked at upper quartile or above within the Peer Group and the following vesting schedule will apply:

| TSR | Proportion of performance share award exercisable |
|---|---|
| Below median | 0 |
| Median | 25% |
| Median to upper quartile | 25% 100% (pro rata, on a straight line basis) |
| Upper quartile | 100% |

The performance condition will be tested after three years and there is no provision for retesting. Accordingly, to the extent the performance condition has not been met after three years, the relevant performance share awards will lapse. As with the share option grants, the Committee reviews the performance condition each time performance share awards are made in order to ensure that they remain challenging and may impose different conditions on performance share awards made in subsequent years provided that any new conditions are no less challenging.

The table below shows the number of performance share awards allocated to the executive directors under the LTIP and its predecessor plan which is now closed, all for no consideration.

| | Awards (shares) held at 1 January 2005 | Conditional shares awarded during 2005 | Awards (shares) vested during 2005 | Awards (shares) held at 31 December 2005 or date ceased to be a director |
|---|---|---|---|---|
| A J Habgood | 228,750 | 221,647 | | 450,397 |
| M J Roney | | 120,353 | | 120,353 |
| D M Williams | 93,750 | 46,875 | | 140,625 |
| P L Larmon | 60,000 | 76,208 | | 136,208 |
| C P Sander | 160,000 | 40,800 | | 100,800 |
| M J Harper | 60,000 | | | 60,000 |

**Notes**

a) In addition to the conditional shares awarded under the LTIP to Mr M J Roney in 2005 as listed above, a further 175,000 conditional shares were awarded on 1 November 2005 as an exceptional discretionary benefit to implement the terms agreed on the recruitment of Mr M J Roney as Chief Executive in order to compensate him for the loss of existing entitlements from his previous employer. This award will vest if Mr M J Roney remains employed by the Company until 31 October 2008, or earlier if the Company terminates Mr Roney s employment prior to this date for any reason other than gross misconduct or if his employment terminates due to death, disability, sickness or a change of control of the Company.

b) An award of 100,000 shares, which vested prior to his appointment as a director, was exercised by Mr C P Sander on 28 June 2005 giving a total market value on exercise of £506,600. The awards relating to the remaining 100,800 shares held by Mr C P Sander lapsed on 10 January 2006 when he left the Company.

c) Half of the award held by Mr M J Harper became exercisable in respect of 30,000 shares on 7 June 2005 giving a total market value on exercise of £160,353. The balance of the award in respect of the remaining 30,000 shares lapsed on 6 June 2005 following the demerger of Filtrona.

Any shares required to fulfill entitlements under the share based incentive schemes in respect of options and awards over market purchased shares will be provided by the Trust. Mr A J Habgood, Mr D M Williams, Mr M J Roney and Mr P L Larmon are deemed by virtue of the Companies Act 1985 to be interested in all the shares held by the Trust, which at 31 December 2005 amounted to 8,121,342 ordinary shares, because they are potential beneficiaries under the Trust together with all other directors and employees of the Group. These interests do not reflect the awards actually made to them individually through the Trust that are summarised above.

The Company s TSR over the last five years compared to that of the FTSE Support Services Sector is shown in the graph on page 23 of the Annual Review and Summary Financial Statement.

**Retirement benefits**

As stated in the Accounting Policies section of the financial statements and elaborated upon in Note 22, the Group utilises both defined benefit and defined contribution pension schemes throughout the world. All principal defined benefit schemes are now closed to new entrants who are offered a defined contribution arrangement.

In the UK the Group has historically operated as its main contributory scheme for senior executives the Bunzl Senior Pension Scheme ( BSPS ). BSPS provides for members contributions currently at the rate of 9% of pensionable salary (which is basic salary) with the Group being responsible for the balance of the cost of providing the benefit as determined from time to time by the consulting actuaries to BSPS. Subject to Inland Revenue limits, BSPS members are eligible for a pension which accrues at a maximum rate of 3% per annum up to two thirds of pensionable salary, with a normal retirement age of 60 years. BSPS also provides for payment of certain benefits in the event of death or disability. Because of the cap on pensionable salary introduced in the Finance Act 1989, the amount of direct contribution by the Company to pension schemes for some of the UK executive directors is limited and arrangements have therefore been made to provide the executive directors with an allowance of 30% of base salary above the cap which permits them to make provision, of their choice, in respect of that part of their salary which exceeds the cap. Alternatively the executive director may choose to opt for a pension allowance of 30% of base salary, part of which could be paid directly into a private pension scheme. Currently any UK executive director newly appointed to the Group is offered a pension allowance of 30% of base salary and has the choice of joining the defined contribution section of the Bunzl Pension Plan or to opt for a private pension scheme or other investment vehicle. The Company also contributes to lump sum life assurance cover equivalent to that provided under BSPS for those executive directors receiving allowances.

In the US the main scheme for employees is the non-contributory Bunzl USA, Inc Retirement Plan (the US Plan ). Subject to IRS limits, members of the US Plan earn a lifetime pension which accrues at a rate of 1.67% per annum, up to 50% of the five year average pensionable salary less the primary social security benefit, with a normal retirement age of 65 years. Pensionable salary in the US Plan is capped at $140,000. The US Plan also provides for certain benefits in the event of death or disability. On closure of the US Plan to new entrants all existing participating employees had the choice to continue in the existing scheme or freeze their benefit and join a defined contribution plan, the Retirement Saving Benefit (the RSB ). Contributions to the RSB are fully funded by the employer on a sliding scale that is age related. The contributions are a percentage of base salary (maximum 5%), which is capped at $200,000 per annum. Because of the cap on pensionable salary under the US Plan and the RSB, the pensions of senior US executives are limited and arrangements have been made to provide certain executives with supplementary pensions through a Senior Executive Retirement Agreement ( SERA ). Mr P L Larmon s SERA provides for a lifetime pension of $100,000 per annum, payable upon retirement.

A-9

**Executive directors service contracts**

It is the Company s policy that executive directors are normally employed on contracts that provide for 12 months notice from the Company and six months notice from the executive. However on appointment, Mr M J Roney, due to his relocation and move from his previous company after 24 years service, was provided with 24 months notice which during the first 12 months of employment reduces on a quarterly basis by one month for each quarter. During the period of months 13 to 24 of employment, the notice period continues to reduce quarterly but by two months each quarter so that after 24 months service the Company will provide Mr M J Roney with 12 months notice. For the UK executive directors, the only circumstance in which there is predetermined compensation for termination of these contracts is where there is a change of control of the Company. Mr P L Larmon s contract provides that on termination by the Company without cause he is entitled to receive payment of 12 months base salary plus health insurance coverage, reduced by any interim earnings. There are no provisions for any of the directors for predetermined compensation in excess of one year s remuneration and benefits in kind. Mr M J Roney, for the first three years of service in limited circumstances only, is also entitled to receive a repatriation payment to cover relocation and school fees that have been incurred. The date of each service contract is noted in the table below.

| | Date of service contract |
|---|---|
| A J Habgood | 16 January 1996 |
| M J Roney | 1 September 2005 |
| D M Williams | 16 January 1996 |
| P L Larmon | 1 January 2005 |

Mr A J Habgood s service contract ended on 31 December 2005 and was replaced with a letter of appointment relating to his ongoing role as Chairman. Mr M J Harper s service contract ended on 6 June 2005 following the demerger of Filtrona. Mr C P Sander resigned as a director on 13 July 2005 and his service contract ended on 10 January 2006. Mr D M Williams retired as Finance Director on 31 December 2005 and retired from the Board and from the Company on 31 January 2006. Mr B M May was appointed as Finance Director with effect from 1 January 2006. His service contract is dated 9 December 2005.

With the specific approval of the Board in each case, executive directors may accept external appointments as non-executive directors of other companies and retain any related fees paid to them. Mr A J Habgood served as Chairman Designate of Whitbread Group PLC from 1 May 2005 and Chairman from 1 August 2005 and retained the fees paid for this service of £166,667. Further, Mr A J Habgood served as a non-executive director of SVG Capital plc throughout 2005 and retained the fees of £36,250. He also served as a non-executive director of Marks and Spencer Group plc until 30 August 2005 and retained the fees of £33,333. Mr D M Williams served as a non-executive director of George Wimpey Plc throughout 2005 and retained the fees of £49,583. In addition he served as a non-executive director of Peninsular & Oriental Steam Navigation Company from 1 March 2005 and retained the fees of £43,169.

**Other principal benefits for executive directors**

In common with many senior executives in the Group, the executive directors are eligible for certain benefits which include the provision of a company car and payment of its operating expenses including fuel, or a cash allowance in lieu thereof, in line with prevailing Group policies, and, in the case of Mr A J Habgood, Mr D M Williams and Mr M J Roney, private medical plan coverage under the Company s prevailing UK healthcare plan. Mr P L Larmon participates in welfare benefit plans made available to all US employees of the Group covering life insurance, medical, dental and disability cover. In addition Mr M J Roney has received a relocation package consisting of reimbursement of travel costs, temporary accommodation, legal and professional fees for securing accommodation and tax advice and a disturbance allowance.

**Non-executive directors**

The non-executive directors are paid an annual fee for their services. In addition, where relevant, they are paid a fee for chairing the Audit and Remuneration Committees of the Board. The non-executive directors do not have service contracts, are not eligible for pension scheme membership or other employee benefits and do not participate in any of the Group s bonus, share option or long term incentive plans. The non-executive directors pay is reviewed annually, based on external market survey data, and is determined by the Board.

**Directors remuneration**

The following table gives details of each director s remuneration for the year.

| | **Salary/fees 2005** | **Annual cash bonus 2005** | **Pension allowance 2005** | **Benefits 2005** | **Total 2005** | **Total 2004** |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** | £000 |
| **Executive** | | | | | | |
| A J Habgood | 875.0 | 426.1 | 262.5 | 29.9 | **1,593.5** | 1,461.3 |
| M J Roney | 152.2 | 55.2 | 34.0 | 76.7 | **318.1** | 38.1 |
| D M Williams | 460.0 | 224.0 | 106.5 | 23.7 | **814.2** | 752.6 |
| P L Larmon | 400.5 | 209.1 | | 19.9 | **629.5** | 29.9 |
| C P Sander | 410.8 | 60.0 | 60.6 | 12.4 | **543.8** | 247.8 |
| M J Harper | 145.6 | | | 5.6 | **151.2** | 27.7 |
| **Non-executive** | | | | | | |
| A P Dyer | 70.9 | | | | **70.9** | 86.7 |
| J F Harris | 70.0 | | | | **70.0** | 62.7 |
| C A Banks | 54.8 | | | | **54.8** | 48.0 |
| U Wolters | 45.5 | | | | **45.5** | 22.8 |
| P Heiden | 17.8 | | | | **17.8** | 39.4 |

**Notes**

a) The remuneration for Mr A P Dyer and Mr P L Larmon is paid or determined in US dollars and has been translated at the average exchange rates for the year of £1: $1.81 in respect of 2005 and £1: $1.82 in respect of 2004.

b) The remuneration of Mr M J Roney relates to the period from 1 January 2005 until 31 October 2005, when he held the role of non-executive director and received fees of £38,917, and the period 1 November 2005 until 31 December 2005, when he held the role of Chief Executive Officer and received base salary of £113,333 as well as a bonus, pension allowance and benefits as detailed in the above table. The benefits received include £74,343 of relocation related expenses.

c) The remuneration of Mr C P Sander for 2005 relates to the period from 1 January 2005 until 10 January 2006 when his service contract terminated. His remuneration for 2004 relates to the period from 21 July 2004 (the date of his appointment to the Board) to 31 December 2004. For the period from 1 January 2005 until 13 July 2005 Mr C P Sander was an executive director and during this period received base salary of £212,308, a bonus of £60,000, a pension allowance of £31,075 and benefits of £6,323. Following Mr C P Sander s resignation from the Board he remained employed by the Company until 10 January 2006. For the period 14 July 2005 until 31 December 2005 he received

base salary of £187,692, a pension allowance of £27,927 and benefits of £5,682 and for the period 1 January 2006 until 10 January 2006 he received base salary of £10,769, a pension allowance of £1,585 and benefits of £398. Life cover (to the value of £721) continues until 31 March 2006 when all obligations cease. No termination payments were made.

d) The remuneration of Mr M J Harper and Mr P Heiden for 2005 relate to the period from 1 January 2005 until 6 June 2005, the date of their retirement from the Board following the demerger of Filtrona.

e) The remuneration of Mr M J Harper and Mr P L Larmon for 2004 relates to the period from 8 December 2004 (the date of their appointment to the Board) to 31 December 2004. The remuneration of Mr U Wolters for 2004 relates to the period from 1 July 2004 (the date of his appointment to the Board) to 31 December 2004.

f) Mr B M May was appointed to the Board on 1 January 2006 to replace Mr D M Williams who retired from the Board on 31 January 2006. His base salary is £375,000 per annum and his bonus and benefits are in line with those applied to other UK based executive directors.

g) Benefits incorporate all taxable benefits arising from employment by the Company and principally relate to the provision of a company car or cash allowance in lieu thereof.

h) The figures above represent remuneration earned as directors during the relevant financial year including, in the case of the executive directors, the cash element of the bonus, which is paid in the year following that in which it is earned. The deferred element of the bonus is conditionally allocated as shares as described on page 46 and is not included in the table above. Shares relating to the 2004 bonus were allocated in 2005 as shown in the table on page 48 and for the 2005 bonus will be allocated in 2006.

i) Neither Mr A J Habgood nor Mr M J Roney are members of the Company pension schemes and therefore they received a pension allowance of 30% of base salary as shown in the above table. Mr A J Habgood s entitlement to this allowance ceased on 31 December 2005. The values of the pension benefits for the other executive directors are shown in the following table and are not included in the directors remuneration table above. In addition the Company paid all necessary contributions, on actuarial advice, to a SERA for Mr P L Larmon which in 2005 amounted to £44,975 (2004: £3,309).

| | **Accrued benefits at 31.12.04** | **Accrued benefits at 31.12.05 or date of termination whichever is the earlier** | **Transfer value of accrued benefits at 31.12.04** | **Change in transfer value of accrued benefits during the year, after deducting contributions made by the director during the year** | **Transfer value of accrued benefits at 31.12.05 or date of termination whichever is the earlier** |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| D M Williams | 40,545 | 45,144 | 783,971 | 176,363 | 969,787 |
| P L Larmon* | 13,607 | 15,190 | 58,285 | 14,256 | 72,541 |
| C P Sander | 26,730 | 30,133 | 266,928 | 73,362 | 349,713 |
| M J Harper | 116,219 | 141,785 | 1,413,706 | 360,889 | 1,787,345 |

* Excluding SERA entitlements.

**Notes**

a) Of the additional benefits accrued since 1 January 2005, the increases attributable to factors other than inflation were £3,504 for Mr D M Williams, £nil for Mr P L Larmon, £2,682 for Mr C P Sander and £25,566 for Mr M J Harper.

A-12

b) The above figures do not take account of any Additional Voluntary Contributions that all members of BSPS have the option to make.

c) The transfer values of accrued benefits have been calculated on the basis of actuarial advice in accordance with any relevant actuarial legislation and, in the case of Mr D M Williams, Mr C P Sander and Mr M J Harper, are net of their contributions.

d) Mr P L Larmon s benefits under the US Plan are frozen. Mr P L Larmon is now a member of the RSB to which the Company has made contributions in 2005 of £5,525 (2004: £nil).

e) In addition Mr P L Larmon participates in the Bunzl USA, Inc Deferred Savings (401k) Plan. The Company makes matching contributions to this Plan. During 2005 such contributions for Mr P L Larmon amounted to £5,097 (2004: £nil).

A-13

**EXHIBIT INDEX**

| | |
|---|---|
| 1.1 | Memorandum and Articles of Association of the Company (filed herewith). |
| 2.1 | Form of Deposit Agreement dated as of October 29, 1998 among the Company, The Bank of New York and the holders from time to time of the American Depositary Receipts issued thereunder. (Incorporated by reference to Exhibit A of the Company s Registration Statement on Form F-6 (File No. 333-9536) filed on October 20, 1998.) |
| 2.2 | Form of American Depositary Receipt attached as Exhibit A to the Form of Deposit Agreement (filed herewith). |
| 4.1. | Service Agreement as of January 1, 2005 between Bunzl USA, Inc. and P.L. Larmon. (Incorporated by reference to the Company s Form 20-F (File No. 001-14868) filed on May 27, 2005.) |
| 4.2 | Service Agreement as of November 1, 2005 between the Company and M.J. Roney (filed herewith). |
| 4.3 | Service Agreement as of January 1, 2006 between the Company and B.M. May (filed herewith). |
| 12.1 | Certification of M.J. Roney filed pursuant to Securities Exchange Act of 1934, as amended ( Exchange Act ) Rule 13a-14(a). |
| 12.2 | Certification of B.M. May filed pursuant to Exchange Act Rule 13a-14(a). |
| 13.1 | Certification of M.J. Roney and B.M. May furnished pursuant to Exchange Act Rule 13a-14(b). |
| 14.1 | Consent of KPMG Audit Plc to the incorporation by reference of their report dated February 27, 2006, except as to Note 31, which is as of April 28, 2006 under Item 3 of Part II of the Company s Registration Statement on Form S-8 (File No. 333-93615) filed on December 27, 1999. |