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Financial Highlights

Continuing investment underpins multi-channel growth strategy to meet our customers' needs

Overall retail sales performance demonstrates global strength of The Body Shop® brand

Adrian Bellamy, Executive Chairman, and Peter Saunders, Chief Executive Officer (left)

"The Body Shop is celebrating 30 years of trading this year, having grown over that period into a substantial global branded retailer operating in 54 countries."

Overview

Our overall retail sales performance demonstrates the global strength of The Body Shop® brand. We continued to achieve a robust sales performance in Asia Pacific and Europe, Middle East and Africa. As we reported in our Christmas Trading Update, the US and UK regions did not achieve the targeted rate of growth during the important Christmas period and this impacted the group's profit outcome for the year. We achieved a 6% increase in operating profit, in line with the forecast we made in January.

The roll out of our new store format has progressed during the year and we have continued to grow The Body Shop At Home™ and e-commerce channels in line with our multi-channel strategy. Our investment programme in SAP is now largely complete. We have also expanded into new markets, with store openings taking place in both Russia and Jordan during the year.

Since the year end, a recommended cash offer has been made by L'Oréal to acquire the entire issued share capital of The Body Shop for 300 pence per share. We believe that L'Oréal's significant strengths in the management and development of global brands, combined with our skills as a global retailer with strong values and commitments, will be a powerful combination in the cosmetics and personal care market place.

The Body Shop is celebrating 30 years of trading this year, having grown over that period into a substantial global branded retailer operating in 54 countries. Over the last four years, operating profit and earnings per share have improved substantially and we continue to manage the business for sustainable long-term performance.

Results Summary

We achieved positive growth in both total retail sales and comparable store sales in three of our four regions and in most of our markets. Overall, total retail sales were up 7% to £772.0 million and comparable store sales grew by 4%. Worldwide, a net 88 new stores were opened in the year, bringing the total to 2,133. Sales through The Body Shop At Home™ were up 14%, whilst our e-commerce channel in the USA more than doubled sales.

In the Americas region, total retail sales growth of 4% was enhanced by positive growth in The Body Shop At Home™ and e-commerce. Comparable store sales of -1% reflect a decline of 2% in the USA, together with an improvement to +1% in Canada from -3% in the previous year. As we reported in January, retail sales in the Americas region underperformed expectations during the Christmas period. This was driven in part by lower traffic levels in the shopping malls, compounded by execution issues in our inventory supply chain that led to some out-of-stock positions. A special task force was put in place last autumn to resolve these execution issues. Good progress has now been made and we expect the situation to be fully resolved over the next three months.

Asia Pacific continued to achieve strong sales growth during the year, with total retail sales up 11% and comparable store sales up 6%. The benefits of strong brand positioning and in-store execution were helped by generally improving economies in the region. Countries achieving particularly strong comparable store sales growth included Malaysia (+17%), Indonesia (+17%), Taiwan (+11%), Singapore (+9%), Japan (+7%) and Hong Kong (+6%). Korea showed an improvement to +2% from -8% in the previous year. In Australia, comparable store sales were flat but strong growth continued to be achieved in The Body Shop At Home™.

Europe, Middle East & Africa performed

Our new store design continues to be rolled out across our four regions.

More and more guests are enjoying The Body Shop At Home™ parties.

Our Christmas special edition Cranberry range proved very popular with customers.

well with both total retail sales and comparable store sales growing by 7%. Highlights included continuing strong comparable store sales growth in the Middle East (+11%) and the Nordic region (+12%). In Western and Southern Europe, good positive growth was achieved in France (+11%), Spain (+6%), Holland (+6%) and Germany (+3%), whilst the trend continued to improve in Italy (-2%). Our store base in Eastern Europe, although small, is performing well. Stores were opened in two new franchised markets in the region during the year: Jordan and Russia. We now have six stores in major Russian cities, with another 11 openings planned for the current year. This market offers The Body Shop an exciting development opportunity as one of the world's fastest growing cosmetics markets.

In the UK and Republic of Ireland, total retail sales grew by 3%, with comparable store sales up 2%. The comparable store sales performance reflects growth of 3% in the UK, with a decline of 1% in the Republic of Ireland. The growth in the UK was achieved despite a challenging trading environment during the Christmas period. The Body Shop At Home™ performed well, with growth of 15% year on year.

Gross margins improved on the same period last year, although operating margins were somewhat lower, principally due to non-recurring costs of over £4 million. These non-recurring items comprised reorganisation and other costs that have been incurred to improve performance and reduce future operating costs. Operating profit rose 6% to £41.5 million, in line with the forecast we made in January.

We achieved operating cash flow of £71.2 million, after a reduction of £8.5 million in working capital. This includes a 12% reduction in inventory year on year, reflecting efficiencies gained from our investment in information systems. We are continuing our ongoing capital investment programme in new stores, store refurbishments and information systems, with £32.0 million having been invested during the year. This represented the second year of our 3-year £100 million investment programme announced two years ago. We ended the year with net debt of £12.7 million.

After a higher effective tax rate, earnings per share were marginally lower than in the previous year at 13.6 pence, in line with our forecast.

Following the recent recommended cash offer by L'Oréal to acquire the entire issued share capital of The Body Shop, the Board has resolved to pay a second interim dividend of 4.4 pence per share in lieu of a final dividend. Together with the first interim dividend of 2.2 pence, this makes a total of 6.6 pence, 16% higher than in the previous year.

"The roll out of our new store format has progressed during the year and we have continued to grow The Body Shop At Home™ and e-commerce channels in line with our multi-channel strategy."

Brand Position and Image

Over the last year, we have made further progress with our strategy to differentiate The Body Shop by developing a 'masstige' positioning for the brand. We seek to provide customers with a shopping experience that combines excellent service with a comprehensive range of naturally-inspired personal care products offering high performance benefits and competitive pricing.

In order to deliver this 'masstige' experience for our customers, we have continued to focus on product innovation, the roll out of our new store design and the development of improved customer service programmes for our sales associates and The Body Shop At Home™ consultants.

Our strategy in product development is to innovate across our various product ranges and categories to encourage multiple purchases and higher transaction values. New product activity during the year included a range of introductions including:

- Spa Wisdom™, a range of luxurious home spa products containing six natural ingredients sourced through our Community Trade programme;
- a Passion Fruit Bath and Body range;
- strong seasonal trend make-up collections;
- three additional new lines in our heritage Vitamin E skin care range;
- four additions to the core home fragrance range with Mango, Coconut, Papaya and Almond, together with four new seasonal oils;
- an improved holiday gift programme for Christmas, incorporating a selection of seasonal bath and body products from our limited edition Vanilla Spice, Cranberry and Candied Citrus ranges;
- a Strawberry Bath and Body range;
- six additions to our Almond Bath and Body range;
- a new Cassis Rose fragrance range.

For the current year, we are excited about the strong pipeline of new products coming through, including a major new-look make-up collection and a skin care range using Aloe Vera sourced through our Community Trade programme.

Our Love Your Body™ loyalty programme continues to grow, with more than 2.1 million cards sold in 16 countries by the year end. The programme is proving highly successful in raising average transaction values in store and

Letter to Shareholders

we are now starting to promote the use of the card through our e-commerce channel in the USA. The programme will be extended to a further 13 markets in the current year.

Store Development

Our new store design, developed to provide customers with an improved shopping experience, continues to be rolled out across our four regions. At the year end, there were 154 stores reflecting the new design, of which approximately half were new and half were refurbished stores.

"We are continuing with our expansion of The Body Shop® brand into new markets, with stores having opened in Russia and Jordan last year."

A key element of the new store design is a new make-up merchandising fixture, which is now installed in almost all stores around the world. This new fixture will support the launch of our new make-up collection, which is being accompanied by an intensive staff development programme.

We are continuing with our expansion of The Body Shop® brand into new markets, with stores having opened in Russia and Jordan last year. We have also progressed with our plans to open in India, with the first store due to open there this summer. Store openings in Pakistan and Poland are also planned for the current year.

Developing a Multi-Channel Organisation

Central to our strategy is the development of a multi-channel organisation that allows us to service our customers in dedicated stores, in our customers' homes through The Body Shop At Home™ and via the internet.

The Body Shop At Home™ continues to show positive growth in the three markets in which it currently operates: the USA, the UK and Australia. We believe this direct sales channel offers significant growth opportunities for The Body Shop in both existing and new markets. Plans are progressing for the launch of The Body Shop At Home™ in Germany during the current financial year.

Our e-commerce site in the USA (www.thebodyshop.com) has outperformed expectations since its launch in September 2004, more than doubling sales and making a contribution to profit in its first full year of operation. We are on target to launch an e-commerce site in the UK during the autumn, in time for the key Christmas trading period.

Systems Development

Our investment programme in information systems is designed to gain maximum efficiencies by leveraging one back office system across our three sales channels.

The most significant element of this investment programme is the global implementation of SAP. The implementation is now largely complete, having been successfully rolled out on budget and on time to a number of our company-owned markets. It is now in the process of being extended to the remaining company-owned markets, including the USA where an earlier version of SAP has been in place for the last six years and will be upgraded to the current version in mid 2007. We have already started to realise productivity gains from our investment programme in SAP and are confident of achieving the targeted return on investment.

Franchising and Acquisitions

Franchising continues to play an important role in the growth and development of The Body Shop, with sales through franchised stores representing 54% of total retail sales. We value the contribution that our franchisees bring to our global organisation through their significant market experience, energy and expertise.

Over the past two years, as a small number of our franchisees have wanted to pursue other interests or to retire, we have had the opportunity to make strategic acquisitions in some key markets. Following the purchase of the head franchise businesses in Hong Kong and Canada in the 2005 financial year, we acquired the companies operating The Body Shop in the Netherlands, Belgium and Luxembourg in March 2005.

All three of these acquisitions have performed ahead of our expectations and have enhanced earnings per share in the first year of ownership. We expect to gain further benefits from these acquisitions as we continue to develop the brand in these markets and achieve the additional synergies to be gained through integration with our existing regional structure.

Our Values – Making a Difference

The Group donated £1.0 million to charitable organisations last year, of which £0.7 million was donated to The Body Shop Foundation and the remaining £0.3 million to other organisations.

We have continued to actively promote our values and to improve our social and environmental performance over the past year. This includes strengthening our in-store customer communications, telling customers the stories behind our values with a particular focus on our Community Trade programme.

Global campaigns continue to raise awareness and funds to support social issues that are important to customers. The 'Stop Violence in the Home' campaign has now been launched in 40 countries and has raised

We have sold more than 2.1 million cards for our Love Your Body™ loyalty programme.

New-look Bronzing powder is now presented in a luxurious compact with a stunning embossed sun design.

Our Community Trade signs in-stores tell customers the stories behind our ingredients.

over £500,000 for domestic violence charities in the past year. In the Americas, US customers donated over 100,000 old mobile phones to raise funds for the National Coalition Against Domestic Violence (NCADV). In Canada, the campaign raised funds to support the long-standing partnership with the Canadian Women's Foundation. In Asia Pacific, The Body Shop in Singapore launched the campaign with six high profile public buses carrying the 'Stop Violence in the Home' branding. Throughout Europe, a special edition lip care stick became a best seller and customers donated thousands of products and gifts which The Body Shop staff distributed to local women's shelters. In the UK, customers donated over 60,000 mobile phones, which have been transformed into personal safety alarms for vulnerable women or recycled to raise funds for the pioneering "Fonesforsafety" initiative.

Our UK stores have also supported the Make Poverty History campaign through the sale of over 200,000 white wristbands, raising in excess of £100,000 for the campaign.

We have significantly strengthened our stakeholder engagement during the past year in areas such as violence against children, chemicals in products, fair trade, ethical trade, sustainable ingredients and Against Animal Testing. We have also published an independently verified Values Report, which contains clear targets for improvement in the areas identified as strategic priorities.

Recommended Cash Offer by L'Oréal

On 17 March 2006, the boards of The Body Shop and L'Oréal reached agreement on the terms of a recommended cash offer by L'Oréal to acquire the entire issued share capital of The Body Shop for 300 pence per share. The offer values The Body Shop at approximately £652 million. Further information is set out in the offer document, which was sent to shareholders on 12 April 2006.

On 4 May 2006 L'Oréal announced that, as at 1.00 pm on 3 May 2006, being the first closing date of the offer, valid acceptances had been received in respect of 79.4% of the existing issued ordinary share capital of The Body Shop. Together with the 22.8 million shares in The Body Shop already held by L'Oréal, L'Oréal had therefore acquired or received valid acceptances of the offer in respect of 89.9% of the existing issued share capital at this time. L'Oréal also announced that the offer would remain open for acceptance until 1.00 pm on 31 May 2006.

"Over the last four years, our operating profit and earnings per share have improved substantially and we continue to manage the business for sustainable long-term performance."

We believe that L'Oréal's significant strengths in the management and development of global brands, combined with our skills as a global retailer with strong values and commitments, will be a powerful combination in the cosmetics and personal care market place. It is intended that The Body Shop will retain its existing identity and values and operate independently within the L'Oréal group, led by the current management team.

Current Trading and Outlook

In the first eight weeks of the current year, sales trends are slightly ahead of those reported for the last full year, with total retail sales up 8% and comparable store sales up 5%.

Over the last four years, our operating profit and earnings per share have improved substantially and we continue to manage the business for sustainable long-term performance. We look forward to continuing to work together with our employees, franchisees and The Body Shop consultants to fulfil The Body Shop's potential as a global retail brand.

Adrian Bellamy
Executive Chairman

Peter Saunders
Chief Executive Officer
5 May 2006

More Markets

During the year, the first The Body Shop® stores opened in Russia and Jordan. The Body Shop now operates in 54 markets worldwide

From our first store in Brighton, England, which opened 30 years ago, The Body Shop has grown into a substantial global branded retailer with 2,133 stores in 54 countries around the world.

In the past year, The Body Shop expanded into two new markets, with six store openings in Russia and one in Jordan. A further 11 stores are planned for Russia in the current year. We have progressed our plans to open our first stores in India this summer, while Pakistan and Poland are also due to open their first stores this year.

Growing the enterprise

Expanding into new markets is a key element in our strategy to grow the enterprise. With a strong brand and great products, we see many opportunities to expand into new markets through a multi-channel strategy. Working with our franchise partners, we will carefully plan these opportunities to ensure we maximise the potential of the brand in each market.

The first six The Body Shop® stores opened in Russia during the year. For more information on our global markets see pages 17–23.

Our e-commerce channel has outperformed expectations, more than doubling sales last year

We are working hard to put the customer first in everything we do. As well as offering the customer the right product at the right price, we want customers to be able to shop with us whenever, wherever and however they wish. Our e-commerce channel, together with our *stores and The Body Shop At Home*™, offers customers that choice and convenience.

The multi-channel model is not only good for customers, it makes good business sense too. Research carried out in the USA suggests that customers who use multiple channels spend more and show greater loyalty than customers of a single channel business.

Our e-commerce channel has performed well above expectations since its launch in the USA in September 2004, more than doubling sales last year and making a contribution to profit in its first full year of operation. Modelled on the success of the US operation, we plan to launch an e-commerce operation in the UK before Christmas 2006.

Enhancing the e-commerce website

After the launch of the US e-commerce website, we listened to customer feedback and tracked customer behaviour to help us to enhance our online service. These enhancements include:

- introducing an online version of our Love Your Body™ loyalty programme
- upgrading the on-site search tool
- improving the email marketing programme.

Online Love Your Body™ programme

We now offer customers a seamless offline-online loyalty programme, which means they enjoy the benefits of the programme however they shop. By tracking behaviour both before and after the scheme was introduced online, we have established that customers who take part in the programme have become more loyal.

On-site search tool

Approximately 10% of online customers use on-site search tools to help them with their shopping. We introduced an improved search engine in October 2005, since when we have achieved a significant increase in sales.

Email marketing programme

We have improved the technology behind our email marketing programme, which has allowed us to improve customer segmentation and therefore the targeting of our email marketing. We have also improved the content and design of the emails. Following these changes, we have seen a significant increase in our weekly email revenue.

More people than ever enjoyed The Body Shop At Home™ parties with sales increasing 14% last year

The Body Shop At Home™ is our direct-selling channel that enables consultants to showcase a variety of The Body Shop® products in the comfort of a party host's living room. The atmosphere is fun and relaxed: it's a great way for customers to try before they buy. Customers can sample a range of products, depending on the theme of the party, which may be spa products or make-up, for example. Our consultants can provide a high level of personal service too, as they tell party-goers the stories behind our products and ingredients.

The Body Shop At Home™ is a great way for us to reach new customers. In the USA, customers may live too far away from their nearest store to make shopping at The Body Shop® easy. With consultants running parties in every state, The Body Shop can reach these customers with a party in their own home or the home of a friend.

A growing channel

Originally established in the UK in 1994, The Body Shop At Home™ has been extended into both the USA and Australia. Overall, The Body Shop At Home™ grew 14% last year and we see significant opportunities to expand it further, in both existing and new markets. In the current year, we plan to launch The Body Shop At Home™ in Germany.

More Innovation

Our product offer has been expanded with fresh flavours, seasonal specials and innovative formulations

Ever since The Body Shop started out 30 years ago with a selection of some 25 hand-mixed products, we have been committed to providing our customers with high-performance naturally-inspired personal care products.

Today we offer our customers a comprehensive range of more than 1,200 products. From exotic Body Butter ranges containing natural ingredients such as mango, papaya, blueberry, olive and coconut to innovative high-performance skin care ranges such as Skin Focus and a comprehensive make-up range, The Body Shop® has something for everybody.

Product innovation
We have positioned The Body Shop® as a 'masstige' brand, offering our customers a great shopping experience that combines excellent service with a range of high-performance products at competitive prices. To deliver on this brand promise we continue to focus on product innovation, creating new ways for our customers to indulge themselves.

As a global business we are conscious that our products need to meet a variety of local needs in the 54 countries in which we operate. For example, our Moisture White range was launched in Asia Pacific, where many women want their skin to have an even tone and luminosity. The range includes two active ingredients: vitamin C and liquorice. Liquorice helps to brighten and soothe the skin while Vitamin C promotes skin clarity by helping to counteract skin discoloration and balancing uneven skin tone. Moisture White™ has proved so successful we are now introducing it into other markets around the world.

Eye & Face Pearls
From our Spring 2005 Colour Collection, these two palettes of creamy, iridescent colour proved a real winner with our customers.

White Musk® Gift Bag
The Body Shop offers a range of on-trend and stylish gifts to appeal to all tastes. This mock suede White Musk® Handle Bag contains products from our very popular White Musk® range.

Spa Wisdom™
These indulgent spa products provide a luxurious, sensory *experience in the sanctuary of customers' own homes.*

Cassis Rose
Radiant rose is combined with a hint of vibrant berries to create this playful floral fragrance. The range of products encourages regime usage, allowing customers to layer the Eau de Toilette, Body Mist, Shower Gel and Body Lotion.

More Community Trade

Our deep-rooted commitment to making a difference is now more visible in our stores

Community Trade is our own fair trade programme, through which we purchase natural ingredients and accessories from disadvantaged communities around the world.

We source good quality products at a fair price that covers production and producer wages, whilst also enabling communities to invest in their future. We are committed to building and sustaining relationships with these communities. We see Community Trade as a powerful and practical expression of our commitment to social change, supporting long-term, sustainable trading relationships with communities in need.

Purchasing Community Trade products has helped children in remote north-eastern Brazil, such as Ronilda, to receive an education.

Communicating Community Trade

We buy from 30 Community Trade suppliers in 23 countries around the world. Among these suppliers, there are great stories of surviving against the odds, of improving life for thousands of people and of building a better future for the next generation. In the past year, we have increased our in-store communications on Community Trade so that our customers can read some of these powerful stories for themselves.

We have focused on the communities and families who benefit from our trade in babassu oil. Babassu oil is a wonderful natural moisturiser found in babassu nuts, which grow in the Maranhão state in north-eastern Brazil. It takes roughly one litre of Community Trade organic babassu oil to send a child to school for a month. Our trade is making a real difference to the education and life chances of these disadvantaged children.

More than half of the products sold in The Body Shop® either contain a Community Trade ingredient or, in the case of accessories, are made by a Community Trade supplier.

The Executive Team

The Executive team is responsible for driving home the business strategy to deliver value to stakeholders

The Executive Committee reviews the rolling three-year strategy every year and sets detailed plans for the year ahead. Once these plans are agreed by the Board, they form the basis for the year's business objectives and the budget.

The Executive team champions The Body Shop values and ensures that the year's business objectives also reflect our ambition to act with integrity and regard to the social and environmental impacts of our operations. This reflects a core belief that the long-term interests of the business are best served by delivering value to all of our stakeholders.

Jim Hurley (President of Americas Region), Andy King (Director of Marketing), Peter Ridler (UK & ROI Managing Director), Andrea Alvey (Director of Finance and IT) and Colin Buchanan (Regional Director Asia Pacific).

Jan Buckingham (Director of Values), Alastair Kerr (Regional Director EMEA), Sue Turner (Director of Human Resources), Paul Alvey (Director of Supply Chain and Logistics) and Paul McGreevy (Director of Product).

Overall retail sales performance demonstrates global strength of The Body Shop® brand

In this review, all comparisons between the 2006 and 2005 financial years relate to the 52 week period to 25 February 2006 and the 52 week period to 26 February 2005.

Definitions:

Total retail sales – *Sales to consumers through all stores, The Body Shop At Home™ and the internet. Retail sales figures are stated at comparable exchange rates, with prior year figures being restated where appropriate.*

Comparable store sales – *Sales by all stores which have been trading for more than one year, excluding sales through pharmacy concessions.*

Turnover – *Group revenue derived from a combination of retail sales (excluding sales taxes) through company-owned stores, The Body Shop At Home™ in company-owned markets and the internet, together with wholesale revenue and royalties from franchisees.*

Retail Sales

In the 52 weeks ended 25 February 2006, total retail sales across all channels increased by 7% to £772.0 million (2005: £724.0 million), with comparable store sales up 4%. Retail sales through The Body Shop At Home™ increased by 14% to £53.4 million (2005: £46.9 million). Sales performance by region is shown in the table at the bottom of this page.

After 88 net store openings during the year, the number of stores worldwide totalled 2,133 (2005: 2,045) at the year end, of which 815 (2005: 733) were company-owned and the remainder franchised.

Operating Performance

Group turnover increased by 16% to £485.8 million (2005: £419.0 million), with 69% (2005: 69%) representing retail sales through company-owned stores, The Body Shop At Home™ in company-owned markets and the internet. The balance of group turnover principally represents wholesale sales to franchisees.

Gross profit increased by 17% to £318.5 million (2005: £272.7 million), with gross margins increasing to 65.6% (2005: 65.1%). After deducting the direct costs associated with operating company-owned stores, The Body Shop At Home™ in company-owned markets and sales via the internet, the profit contribution rose 12% to £155.9 million (2005: £139.7 million).

Other operating expenses were £114.4 million (2005: £100.5 million). Operating expenses for the year include in excess of £4.0 million in non-recurring costs, primarily comprising: reorganisation and redundancies; costs relating to the recently acquired franchise businesses in Canada and Benelux; and exceptional inventory write-offs principally relating to the US supply chain issues. Operating margins were 8.5% compared with 9.4% in the previous year, with operating profit increasing to £41.5 million (2005: £39.2 million).

Profit before tax increased by 5% to £37.6 million (2005: £35.7 million).

Sales Performance
52 weeks to 25 February 2006

	Store Sales	The Body Shop At Home™	Total Retail Sales	Comparable Store Sales
Americas	+3%	+9%	+4%	-1%
Asia Pacific	+10%	+24%	+11%	+6%
Europe, Middle East & Africa	+7%	–	+7%	+7%
UK & Republic of Ireland	+2%	+15%	+3%	+2%
Total	**+6%**	**+14%**	**+7%**	**+4%**

Geographical Analysis

Americas

	2006	2005	
Stores at year end	**444**	429	
Store openings (net)	**15**	13	
Company-owned stores	**373**	351	
	£m	£m	Change
Store sales	**152.4**	147.9	+3%
The Body Shop At Home™	**23.4**	21.5	+9%
Total retail sales	**175.9**	169.4	+4%
Turnover	**161.0**	142.3	+13%
Operating profit	**17.4**	21.9	-20%

Total retail sales growth of 4% was enhanced by positive growth in The Body Shop At Home™ and e-commerce. Comparable store sales of -1% reflect a decline of 2% in the USA, together with an improvement to +1% in Canada from -3% in the previous year. The four stores in Mexico performed strongly.

Retail sales in the USA underperformed expectations during the Christmas trading period. This was driven in part by lower traffic levels in the shopping malls, compounded by execution issues in the inventory supply chain that lead to some out-of-stock positions. In order to resolve these issues, a special task force was put in place last autumn and good progress has now been made in rectifying the situation.

The e-commerce site in the USA (www.thebodyshop.com) has outperformed expectations since its launch in September 2004, more than doubling sales and making a contribution to profit in its first full year of operation.

The movement in operating profit reflects the additional costs incurred as a result of the supply chain execution issues experienced in the second half of last year, including provision of resources from the global centre and additional costs relating to air freight and expediting goods to stores.

Asia Pacific			
	2006	2005	
Stores at year end	**605**	554	
Store openings (net)	**51**	30	
Company-owned stores	**68**	60	
	£m	£m	Change
Store sales	**201.3**	182.3	+10%
The Body Shop At Home™	**10.4**	8.4	+24%
Total retail sales	**211.7**	190.7	+11%
Turnover	**86.1**	64.4	+34%
Operating profit	**27.2**	20.1	+35%

The Asia Pacific region continued to achieve strong sales growth, with total retail sales up 11% and comparable store sales up 6%. The benefits of strong brand positioning and in-store execution were helped by generally improving economies in the region. Countries achieving particularly strong comparable store sales growth included Malaysia (+17%), Indonesia (+17%), Taiwan (+11%), Singapore (+9%), Japan (+7%) and Hong Kong (+6%). Korea showed an improvement to +2% from -8% in the previous year. In Australia, comparable store sales were flat but strong growth continued to be achieved in The Body Shop At Home™ (+24%).

The growth in regional turnover and operating profit reflects the continuing positive trend in retail sales, together with particularly strong growth in wholesale sales and favourable product mix.

Europe, Middle East & Africa			
	2006	2005	
Stores at year end	**779**	758	
Store openings (net)	**21**	4	
Company-owned stores	**132**	94	
	£m	£m	Change
Store sales	**218.4**	203.3	+7%
The Body Shop At Home™	–	–	
Total retail sales	**218.4**	203.3	+7%
Turnover	**94.2**	74.4	+27%
Operating profit	**19.1**	16.0	+19%

Both total retail sales and comparable store sales grew by 7%. Highlights included continuing strong growth in the Middle East (+11%) and the Nordic region (+12%). In Western and Southern Europe, good positive growth was achieved in France (+11%), Spain (+6%), Holland (+6%) and Germany (+3%), whilst the trend continued to improve in Italy (-2%). The store base in Eastern Europe, although small, is performing well. Stores were opened in two new franchised markets during the year, Jordan and Russia. In Russia, there were six stores in place by the year end, with another 11 openings planned for the current year.

The increase in regional turnover and operating profit has been achieved as a result of positive underlying sales trends, strong growth in wholesale sales and the acquisition of the Benelux head franchise businesses in March 2005.

UK & Republic of Ireland			
	2006	2005	
Stores at year end*	**305**	304	
Store openings (net)	**1**	-9	
Company-owned stores	**242**	228	
	£m	£m	Change
Store sales	**146.4**	143.6	+2%
The Body Shop At Home™	**19.6**	17.0	+15%
Total retail sales	**166.0**	160.6	+3%
Turnover	**144.5**	137.9	+5%
Operating profit	**13.2**	13.3	-1%

*These store numbers exclude 138 (2005: 101) concessions in pharmacies.

Total retail sales grew by 3%, with comparable store sales up by 2%. The comparable store sales performance reflects growth of 3% in the UK, with a decline of 1% in the Republic of Ireland. The growth in the UK was achieved despite a challenging trading environment during the Christmas period.

The Body Shop At Home™ progressed well, with growth of 15% during the year. Opportunities for cross-channel marketing between the stores and The Body Shop At Home™ continue to be developed.

The movement in regional turnover reflects the growth in retail sales, with operating profit broadly level year on year.

Interest and Exchange Rates

The net interest charge of £3.9 million relates to average net debt of £26.3 million over the year (2005: £42.2 million). The balance sheet showed net debt of £12.7 million at the period end, compared with net debt of £19.8 million at the end of the previous year.

The currencies to which the Group is principally exposed are the US dollar and the Euro. In addition, there is exposure to the currencies of Singapore, Hong Kong and Canada.

The results of overseas subsidiaries have been translated at an average sterling/dollar rate of $1.80 (2005: $1.84) and an average sterling/euro rate of €1.47 (2005: €1.47). The movement in exchange rates year on year has had a minimal impact on profit before tax.

Taxation, Earnings per Share and Dividends

The tax charge for the year is £8.4 million, giving an effective rate of 22.3% (2005: 19.3%). The effective tax rate reflects continued benefit from the utilisation and recognition of brought forward operating losses and temporary differences in the US business. In line with IAS 12, these losses and temporary differences are recognised as a deferred tax asset in the period under review, which has the effect of reducing the effective tax rate.

Earnings per share were 13.6 pence (2005: 13.8 pence) on a weighted average number of shares of 210.5 million (2005: 206.6 million), which excludes the shares held by The Body Shop International Employee Share Trust.

As previously announced, the Board has resolved to pay a second interim dividend of 4.4 pence per share in lieu of a final dividend (2005: final dividend of 3.8 pence per share). This second interim dividend will be paid on 3 July 2006 to shareholders who were on the register at 24 March 2006. Together with the first interim dividend of 2.2 pence, the total for the year is 6.6 pence (2005: 5.7 pence) per share.

Cash Flow

The Group generated net cash inflow from operating activities of £71.2 million (2005: £68.7 million). Movement in working capital was helped by a £7.3 million reduction in inventory to £54.8 million (2005: £62.1 million), reflecting efficiencies gained through the investment in supply chain management systems.

Capital expenditure (excluding acquisitions) amounted to £32.0 million (2005: £20.9 million), with approximately two thirds invested in new stores and store refurbishments and the majority of the balance in information systems.

Acquisition expenditure of £4.4 million includes the purchase of the Benelux head franchise businesses in March 2005.

Profit Forecasts

In the 2005 Annual Report and Accounts, the following profit forecast was made in relation to the 2006 financial year:

"Against this background, we are planning for a 15-20% growth in operating profit in the current financial year, with a somewhat slower growth in earnings due to an increase in the effective tax rate."

In the 2005 Interim Report, the following statement was made:

"We expect a 17-22% growth in operating profit for the full year, with a somewhat slower growth in earnings due to the higher effective tax rate."

These forecasts were revised in the Christmas Trading Update as follows:

"Whilst many markets achieved the forecasted level of sales growth during the Christmas period, overall retail sales were lower than expected as the US and UK markets did not achieve the targeted rate of growth in this period of high profit leverage.

Gross margins are above the level achieved last year. However, the full year operating profit will reflect over £4 million of non-recurring items comprising reorganisation and other costs that have been incurred to improve performance and reduce future operating costs.

As a result of the somewhat lower than expected Christmas sales and non-recurring costs, we have revised our previous expectations for the full year outcome. We now expect operating profit to be level with, or marginally ahead of, last year.

Our effective tax rate in the last financial year was 19%. Previously, we were forecasting an effective rate of 24% for the current year. However, due to changes in geographical profit mix, we now anticipate a tax rate slightly lower than our previous estimate with earnings per share marginally down on last year."

In the document relating to the Recommended Cash Offer by L'Oréal, posted to shareholders on 12 April 2006, the Directors confirmed that this revised estimate remained valid.

As reported, operating profit for the 2006 financial year was £41.5 million, up 6% on the previous year. After a higher effective tax rate of 22.3% (2005: 19.3%), earnings per share were down 1% at 13.6 pence. The reasons for the variances between the actual outcome and the forecasts contained in the 2005 Annual Report and Accounts and the 2005 Interim Report are provided in the above extract from the Christmas Trading Update.

Delivering Value to Stakeholders

The Body Shop International has an established reputation as a socially and environmentally responsible company. The Directors believe that the Group's values are consistent with strong and sustained financial performance and that profits with principles must be achieved in order to sustain the long-term future of the Group.

The Body Shop is committed to maintaining high standards of social and environmental performance and to doing business with integrity and transparency. This means using the Group's ethical principles to inform the way business is done, setting clear standards of practice for The Body Shop and its business partners. It also involves engaging stakeholders with the Group's business aims and publicly reporting on performance within the overall context of the business strategy.

The strategic direction of the Group's values is reviewed annually by the Board in consultation with the Director of Global Values. The Director of Global Values is a member of the Executive Committee, reporting to the Chief Executive Officer, with overall responsibility for directing the social and environmental programme. Strategic values objectives are aligned with the business objectives as well as stakeholder perceptions and expectations. These objectives are fully embraced by the senior management team, who have collective responsibility for balancing the interests of all key stakeholder groups. Sub-committees help direct the social and environmental approach of the business. These include an Issues Management Group, which reports into the Board Risk Committee; a Corporate Health and Safety Strategy Group; an Environmental Steering Group; and an Animal Protection Steering Group.

Charitable donations continue to be channelled principally through The Body Shop Foundation, except for situations where the Group has responded to an immediate need caused by a major natural disaster.

Employees

The Body Shop is dedicated to engaging and inspiring customers to buy naturally inspired personal care products. To do this, the Group focuses on attracting and retaining employees with great skills, knowledge and creative talent. In return, The Body Shop offers a unique opportunity for employees to be part of a globally recognised brand and to play an active role in promoting social and environmental change through the Group's campaigning, volunteering and community-giving programmes.

The Body Shop has a long-established policy of promoting diversity throughout the global business. Internal and external recruitment processes are monitored to ensure there is no unintended bias. Human resource policies reflect The Body Shop's commitment to a fair and equal organisation where everyone is encouraged to succeed regardless of sex, race, sexual orientation, age or disability.

One of the key performance targets is to strengthen learning and development programmes for employees who directly serve customers. This supports one of the Group's key business objectives to embed the customer culture. A new development programme, 'Inspire the Customer', has been designed for store employees and The Body Shop At Home™ consultants.

In the current year, it is a priority for the business to upgrade the talent, development and succession-planning framework within The Body Shop in order to encourage global careers and employee retention.

The Body Shop aims to ensure that employees' pay and benefits are competitive in the marketplace. A flexible benefits programme is offered, in which employees can opt to trade certain benefits, such as additional holidays. The majority of employees are eligible for one of the Group's bonus schemes.

Communication and Dialogue

The Body Shop prides itself in ensuring all employees are aware of the Group's financial and retail performance. A mix of communication methods is used to engage and inform employees, including face-to-face communication sessions, an intranet and written publications such as 'Body Talk'.

The Body Shop formally consults employees in the UK and Europe via Consultation and Representation Committees, comprising employee-elected representatives.

Our Values – Making a Difference
The Body Shop continues to actively promote the Group's values and to improve social and environmental performance. This includes strengthening in-store customer communications, which tell customers the stories behind the values with a particular focus on the Community Trade programme. Global campaigns continue to raise awareness and funds to support social issues that are important to customers. Through 'Stop Violence in the Home' and campaigns on HIV/AIDS, The Body Shop is making a positive difference.

The Group has significantly strengthened its stakeholder engagement during the past year in areas such as violence against children, chemicals in products, fair trade, ethical trade, sustainable ingredients and Against Animal Testing. An independently verified Values Report has been published, which includes insights and challenges from various stakeholders such as NGOs, employees and a UN agency. The Values Report contains clear targets for improvements in the areas identified as strategic priorities.

All of our ethical policies and principles are also being reviewed to ensure that they continue to guide business practice and support The Body Shop's ambition to be the leading ethical retailer of cosmetics and toiletries.

Stop Violence in the Home
The 'Stop Violence in the Home' campaign has now been launched in 40 countries and raised over £500,000 in the past year. Boosted by the launch of a special edition lip care stick to raise funds for the campaign, thousands of customers supported the call to 'Stop Violence in the Home'.

In the Americas, customers donated over 100,000 old mobile phones to raise funds for the National Coalition Against Domestic Violence (NCADV). The Body Shop continued to work in partnership with Lifetime TV, who promoted the campaign through their television network. With Lifetime TV, The Body Shop participated in a "Day of Action" in Washington DC. Store staff spent the day on Capitol Hill, speaking to representatives from both houses about the campaign and urging them to take action to 'Stop Violence in the Home'. In Canada, the campaign raised funds to support the long-standing partnership with the Canadian Women's Foundation. The funds raised helped to fund the continued development of "shelternet", the online resource for women all over Canada.

In Asia Pacific, the campaign ran in every market. In Singapore, the campaign was launched with six city buses carrying the 'Stop Violence in the Home' branding. In Indonesia, where The Body Shop was instrumental in getting domestic violence recognised as a crime in law in 2004, the focus was on communicating the rights of women under the new law. The Body Shop in New Zealand, supported by over 200,000 signatures collected in store, called on the government to provide additional funding to complement the NZ$113,416 raised by The Body Shop for women affected by domestic violence. In Japan, Dame Anita Roddick launched the campaign as part of the 15th anniversary celebrations of The Body Shop in Japan. In Australia, the campaign focussed on raising awareness of the prevalence of family violence, with over 350,000 copies of the campaign booklet 'Expect Respect' being distributed to 13-18 year olds.

Throughout Europe, the special edition lip care stick became a best seller and customers donated thousands of products and gifts which The Body Shop staff distributed to local women's shelters. In France, The Body Shop partnered with a film about domestic violence called 'Ne Dis Rien', with the campaign featuring in cinema trailers across the country and leaflets distributed in cinema lobbies. In Turkey, the campaign was launched just one year after The Body Shop started trading in the market. 'Stop Violence in the Home' was also launched for the first time in Latvia and South Africa. In the Middle East, the campaign was launched in Saudi Arabia, with the campaign lip care stick being sold in stores. In the United Arab Emirates, The Body Shop worked with a local NGO, City of Hope, to raise awareness of the campaign. The NGO featured with Dame Anita Roddick in a BBC documentary, 'Dubai Dreams'.

In the UK, customers donated over 60,000 mobile phones, which have been transformed into personal safety alarms for vulnerable women or recycled to raise funds for the pioneering "Fonesforsafety" initiative, founded by The Body Shop. The "Fonesforsafety" scheme has proved so effective that it has been adopted by the UK government as part of their toolkit to provide support to women throughout the UK. The Body Shop has continued to lead the Corporate Alliance To End Domestic Violence, working to support other businesses to create responsible approaches to employees affected by domestic violence.

HIV/AIDS
The Body Shop continued to raise funds and awareness for HIV/AIDS during the year. In the Asia Pacific and Europe, Middle East, and Africa regions, The Body Shop supported World Aids Day 2005 through the sale of special red wrist bands which raised funds for national programmes. In Asia Pacific, The Body Shop partnered with MTV in seven countries, selling a special edition 'Pocket Pal' coin purse to raise funds for local HIV and Aids charities.

The Environment: Targeting Carbon Neutral
During the past year, The Body Shop has actively addressed its contribution to climate change. In addition to an ongoing commitment to use renewable energy wherever possible, the Group has recently introduced a new company car policy requiring all new cars in the fleet to be hybrid models, thereby saving fuel costs and reducing emissions. All business flights made by The Body Shop employees in 2005/6 were made on a carbon neutral basis, through offsetting investments in renewable energy programmes in Bulgaria. In addition, newly launched electrical products will come with built-in carbon offset to ensure that the use of these products will not contribute to climate change. The Body Shop has recently made a commitment to neutralise its climate change impact by ensuring that its retail operations are completely carbon neutral by 2010. The next few years will therefore see a concerted effort to reduce energy use from transport, stores and offices. In the light of this, the target to reduce electricity use in offices has been postponed until a stronger measurement and monitoring system can be established.

Suppliers and Supply Chain Management

The Body Shop is focused on meeting customer expectations for high quality products that deliver value to consumers. Suppliers to The Body Shop are vital to the success of the business and the Group is committed to building strong relationships with its key suppliers. During the last financial year, The Body Shop continued to progress a number of initiatives with suppliers to enhance performance and ensure ethical compliance in the supply chain. These included continued focus on improving the performance of key suppliers and prioritising key products which has resulted in:

- Improved on-time and in-full delivery of established products
- Reduced quality rejects
- Improved on-time and in-full delivery of new product development.

Supply Chain Performance Data

	2006	2005
Average trade creditor days	**29**	28
Direct cost of research and development	**£5.1m**	£4.6m
Value of inventory at year end	**£54.8m**	£62.1m
Community Trade:		
– Total purchases of raw materials & accessories	**£5.1m**	£5.2m
– Total number of products with Community Trade content	**765** [1]	550 [1]
– Number of supplier groups	**30**	28
– Number of countries	**23**	22
Proportion of wood products[2] purchased from FSC[3] certified sources	**65%**	49%
On-site ethical assessments of suppliers	**83**	88

1 The 2006 number relates to the total number of products with Community Trade content, which can now be reported following the implementation of SAP. This figure is a more accurate indicator of the use of Community Trade across the product categories as it includes Community Trade gifts and accessories, as well as ingredients. The comparative number for 2005 relates purely to the number of products that contain Community Trade ingredients.

2 This applies to accessory items purchased through central sourcing teams.

3 Forest Stewardship Council. Data relates to volume.

The Company has a policy with its principal suppliers to settle the terms of payment when agreeing the terms of each transaction.

Community Trade

The Body Shop's fair trade programme, called Community Trade, seeks to make a positive economic and social difference within individual communities, in return for natural ingredients and handcrafted accessories. In excess of 15,000 farmers or workers earn a fair income as a result of the Community Trade programme. Over half of the products sold originate from a Community Trade supplier, either through the inclusion of a Community Trade ingredient or as a Community Trade gift or accessory.

During the last year, a new Community Trade ingredient supplier has been established for the purchase of Aloe Vera. The Guastatoya Farmers are located in a marginalised part of Guatemala, where Aloe is making a real difference to the community. The price paid for the Aloe includes a premium that goes into a social fund, which is being used to improve the teaching aids used in local schools.

In gifts and accessories, all of the current year's summer beach bag range and many of the core hair accessories are being sourced from Community Trade suppliers in countries such as India, Nepal, Bangladesh and Mauritius. This is a challenging category for Community Trade due to the speed of change in fashion trends, but further developments are planned.

Community Trade suppliers are regularly assessed to ensure that conditions and benefits are in accordance with the Group's fair trade guidelines. During the past year, over one third of the Community Trade supply base has been assessed. In addition, producer support workshops focussing on product development, international logistics and production technology have been extended to individual suppliers.

Ethical Trade

The Body Shop Ethical Trade Programme aims to ensure that all retail and visual merchandise products are purchased from suppliers which meet recognised international labour standards.

The Body Shop continues to work in partnership with a range of stakeholders at an international and national level to ensure that its ethical trade policies are in line with best practice. The Group is an active member of both the Ethical Trade Initiative (ETI) and SEDEX (Supplier Ethical Data Exchange), through which it strives to influence national and international policy on ethical trade issues.

Last year, the Group reinforced its commitment to ethical trade by requesting all suppliers to adopt the ETI Base Code, which has been developed in partnership with non-government organisations, trade unions and other retailers. Through membership of SEDEX, The Body Shop ensures that its ethical assessments of suppliers are of the highest quality.

The monitoring of the ethical performance of suppliers has been strengthened in the past year, with 100% of all active suppliers completing a self-assessment and 70% of suppliers having on-site ethical assessments.

At The Body Shop, all buyers are responsible for sourcing ethically and training has been provided to enable them to assess supplier compliance with ETI labour standards.

Working with Stakeholders for Sustainable Ingredients

Sourcing wood products:
The Body Shop aims to support suppliers working toward Forest Stewardship Council (FSC) certification. During the last financial year, the volume of wood products sourced from FSC certified sources increased from 49% to 65%.

Promoting sustainable palm oil:
Palm oil is one of the most common ingredients in cosmetics and toiletries. Millions of people in developing countries depend on this crop. However, palm oil cultivation is a major contributor to the loss of rainforests, and human rights conditions are often poor. As part of its commitment to promoting the use of sustainable ingredients, The Body Shop has actively contributed to a global multi-stakeholder initiative 'The Roundtable on Sustainable Palm Oil', which is working to improve conditions in plantations. The Body Shop has also actively promoted the use of certified sustainable palm oil, including raising awareness of the issue among major European retailers in partnership with WWF and Friends of the Earth.

Responding to concerns over chemicals: The Body Shop is committed to applying the precautionary principle in the development of its products. Over the past year, stakeholders have raised concerns over the use of certain chemicals. In response, The Body Shop has reviewed the scientific evidence and engaged with NGOs to determine an appropriate course of action. Last year the Group committed to phasing out two chemicals from its formulations, phthalates and polycyclic musks, by the end of 2006 and 2010 respectively.

Recognitions on Leadership Against Animal Testing

The Body Shop is constantly working to improve its monitoring systems to ensure that no products or ingredients have been tested on animals. The Group continues to adhere to the BUAV-endorsed Humane Cosmetics Standard, which remains the gold standard.

In 2005, The Body Shop received the new Alternative Award from the RSPCA in recognition of its robust systems and clear leadership in this issue. The Body Shop also won the "Best Cruelty-Free Cosmetics" category in PETA's (People for the Ethical Treatment of Animals) first annual European 'Proggy' Awards. 'Proggy' Awards recognise animal-friendly achievements in commerce and culture.

During the current year, The Body Shop will relaunch its Against Animal Testing Policy, whilst also expanding it to include a policy on animal-derived ingredients. The Group has now committed to using only ingredients and raw materials that are suitable for vegetarians.

The table bottom left shows how The Body Shop is performing against its own values-related targets.

Values-Related Targets

Target date	Target	Status	Comments
2006	Reduce employee turnover[1] by 12% in the UK and by 10% in the USA	Partly completed	Turnover reduced by 14% in the UK and increased by 7% in the USA
2006	30 markets to run 'Stop Violence in the Home' campaign	Completed	40 markets running campaigns
2006	Raise awareness of 'Stop Violence in the Home' campaign to 325 million opportunities to see	N/A	Data not yet available
2006	£500,000 to be donated to domestic violence charities	Completed	£600,000 was donated
2006	Ensure a 5% reduction in total CO_2 emissions from electricity use in stores and offices	Postponed	
2006	Offset all CO_2 emissions from business travel	Completed	9,303,543 miles offset
2006	100% of first tier product suppliers to be ethically approved and reviewed	Completed	100% reviewed and approved
2006	100% of relevant members of Sourcing team to be trained in ethical audits	Completed	All relevant members trained
2006	Report annually on progress in providing sustainable palm oil	Completed	Reporting available on www.rspo.org
2006	Eliminate phthalates from all product formulations	On track	Number of products containing phthalates reduced from 27 to 2
2008	90% of company fleet to be hybrid models	On track	Policy introduced
2010	Achieve 100% wood products and shop fits from FSC-certified sources	On track	65% in 2006, up from 49% in 2005[2]
2010	Eliminate polycyclic musks from all product formulations	On track	Number of products containing polycyclic musks reduced from 28 to 19

1 Employee turnover relates to full and part time store employees and managers.
2 Percentages relate to wood products but not shop fits, as data is not yet available.

Community Engagement

The Body Shop seeks to make a positive impact on the local communities in which it operates. In both company-owned and franchised markets throughout the world, staff are actively engaged in supporting many different community-based programmes.

Community Involvement Data

	2006	2005
Participation of UK head office employees in volunteering	**38%**	23%
Group charitable donations	**£1.0m***	£1.3m*

* The amounts shown include donations of £0.7 million in 2006 (2005: £0.7 million) to The Body Shop Foundation, an independent registered charity of which some of the Directors are trustees.

At the UK global head office, employees were entitled to six days of volunteer time in the last financial year, with 38% supporting local projects and causes as individuals and as business teams (2005: 23%). For example, the global product team undertook a day of conservation work to support a conservation group based near the head office in West Sussex, whilst the global marketing team spent a day creating a play area for children at an inner city farm close to the London head office.

The Body Shop stores continue to play an active role in the local community. The Body Shop in Harlem, New York, contributes 5% of annual retail sales to local community programmes such as Project Enterprise, a peer lending programme that helps micro entrepreneurs in low income communities to become self sufficient and to increase their quality of life.

The Body Shop Worldwide

Americas
444 stores

UK & Republic of Ireland
305 stores

Europe, Middle East & Africa
779 stores

Asia Pacific
605 stores

The Americas

	Number of Shops February 2006	Number of Shops February 2005
Antigua	**1**	1
Bermuda	**1**	1
Canada	**115**	109
Cayman Islands	**1**	1
Mexico	**4**	4
USA	**322**	313
Total	**444**	429

Company shops are located as follows: Canada 52, Mexico 4, USA 317

United Kingdom & Republic of Ireland

	Number of Shops February 2006	Number of Shops February 2005
UK	**293**	293
Republic of Ireland	**12**	11
Total	**305**	304

Company shops are located as follows: UK 242

Shop numbers for the Republic of Ireland exclude 138 (2005: 101) concessions in pharmacies

Asia Pacific

	Number of Shops February 2006	Number of Shops February 2005
Australia	**72**	71
Brunei	**4**	4
Hong Kong	**32**	28
Indonesia	**45**	41
Japan	**117**	106
Korea	**79**	73
Macau	**3**	2
Malaysia	**55**	50
New Zealand	**25**	23
Philippines	**44**	40
Singapore	**33**	30
Taiwan	**59**	54
Thailand	**37**	32
Total	**605**	554

Company shops are located as follows: Hong Kong 32, Macau 3, Singapore 33

Europe, Middle East & Africa

	Number of Shops February 2006	Number of Shops February 2005
Austria	11	11
Bahrain	6	6
Belgium	17	16
Cyprus	1	–
Denmark (incl Faroes)	18	17
Estonia	3	2
Finland	30	31
France	29	29
Germany	86	91
Greece	54	54
Holland	39	41
Iceland	3	3
Italy	39	43
Jordan	1	–
Kuwait	18	16
Latvia	4	4
Lebanon	6	6
Lithuania	2	1
Luxembourg	1	1
Malta	4	4
Norway	31	30
Oman	5	4
Portugal	25	23
Qatar	5	6
Romania	6	5
Russia	6	–
Saudi Arabia	96	85
South Africa	29	26
Spain	75	77
Sweden	56	57
Switzerland	39	48
Turkey	19	11
UAE and Dubai	15	10
Total	**779**	758

Company shops are located as follows: Austria 7, Belgium 7, Denmark 10, France 22, Germany 61, Holland 25

Board of Directors

Adrian D P Bellamy
Executive Chairman, Age 64

Adrian Bellamy was appointed as Executive Chairman in February 2002, having been appointed to the Board as a Non-Executive Director in January 1997. Adrian was closely involved in running the US business from June 1998 and, along with Peter Saunders, was instrumental in its successful turnaround.

Adrian is a non-executive director of Reckitt Benckiser PLC (Chairman), The Gap Inc and Williams-Sonoma Inc. Previously, he was Chairman and CEO of DFS Group Limited for 12 years.

Peter Saunders
Chief Executive Officer, Age 58

Peter Saunders was appointed as a Director and CEO of the Company in February 2002. Peter joined The Body Shop as Chief Operating Officer and President of the US business in 1998, being promoted to Chief Executive Officer in 2000. Peter led the successful turnaround of the US business, with improvements in sales, profitability and market share having been achieved. Peter has proven experience in merchandising, marketing, strategic planning, systems implementation, new product development and new store design.

Previously, Peter was Chief Operating Officer and Chief Merchant at the T Eaton Company Limited, a Canadian department store chain. Peter's responsibilities included store operations, merchandise, logistics, human resources and marketing.

Peggy Bruzelius
Non-Executive Director, Age 56
(Appointed 18 November 2005)

Peggy Bruzelius was appointed to the Board in November 2005. She is member of the Audit Committee, the Remuneration Committee and the Nominations Committee.

Peggy is a non-executive director on the boards of a number of companies, including Axfood AB, AB Electrolux, Ratos AB, Scania AB and Syngenta AG. Peggy has a long career in the financial services industry, having spent 17 years in a variety of roles with ASEA AB and later ABB Financial Services. Since 1997, Peggy has served on the boards of a number of substantial companies, both listed and unlisted.

Jack Keenan
Non-Executive Director, Age 69

Jack Keenan was appointed to the Board in September 1999 and was appointed as Senior Independent Director in February 2004. Jack chairs the Remuneration Committee and serves as a member of the Audit Committee and the Nominations Committee.

Jack is a non-executive director of Amphora Fine Wine Fund PLC, Marks & Spencer PLC, National Angels Limited and Tomkins PLC. Jack is also the Patron of the Centre for International Business and Management at Cambridge University. Previously, Jack was a Director of Diageo plc and Deputy Chief Executive of Guinness UDV, Diageo's beer, wine and spirits division, until his retirement in October 2001. He joined International Distillers & Vintners and was appointed to the Board of GrandMet in March 1996.

Howard Mann OBE
Non-Executive Director, Age 59
(Appointed 18 November 2005)

Howard Mann was appointed to the Board in November 2005. He is a member of the Audit Committee, the Remuneration Committee and the Nominations Committee.

Howard has significant international experience in the food and retail industries. Between 1995 and 2004, Howard was President and Chief Executive of McCain Foods Limited in Canada, a global leader in frozen foods with manufacturing facilities in 13 countries and sales functions in over 80 other countries worldwide. Howard is a non-executive director on the board of Dairy Crest PLC. In addition, he serves on the board of Endurance Specialty Holdings Ltd, a specialty insurance firm.

Irene Miller
Non-Executive Director, Age 54

Irene Miller was appointed to the Board in August 2000. She chairs the Audit Committee and serves as a member of the Remuneration Committee and the Nominations Committee. Irene is Chief Executive Officer of Akim Inc, an investment management and consulting firm. She also serves as a director on the boards of Barnes & Noble, Inc., Inditex, S.A. and Coach, Inc. Until June 1997, Irene was Vice Chairman and Chief Financial Officer of Barnes & Noble, Inc. Previous to this, Irene was an investment banker specialising in emerging growth retail and consumer companies at Morgan Stanley & Co.

Dame Anita L Roddick
Non-Executive Director, Age 63

Dame Anita Roddick, founder of *The Body Shop*, is a Non-Executive Director of the Company and was Co-Chair with Gordon Roddick until February 2002. The Company has a consultancy agreement with Anita Roddick Publications Ltd through which Anita provides expertise and creativity to the central and regional product development teams.

Anita opened the first branch of The Body Shop in Brighton in 1976. She was the creative inspiration behind the Company's original style and image. Anita was awarded an OBE in 1988 and a DBE in June 2003.

T Gordon Roddick
Non-Executive Director, Age 64

Gordon Roddick is a Non-Executive Director of the Company. Gordon was Co-Chair with Anita Roddick from 1997 to February 2002. As Executive Chair from 1977, Gordon was responsible for the formative years of growth and the global expansion of the Company through franchising into more than 50 countries. Gordon is a non-executive director of Respect Ltd (Chair, a Swedish consultancy on corporate sustainability), Freeplay Limited and Day Chocolate Company Limited.

Ronald de Waal
Non-Executive Director, Age 53
(Resigned 18 November 2005)

Ronald de Waal was appointed to the Board in March 2000 and served as a Director until his resignation on 18 November 2005. He was a member of the Audit Committee, the Remuneration Committee and the Nominations Committee. Ronald is Chairman of WE International, a Dutch speciality clothing chain which operates 340 stores in Holland, Belgium, Luxembourg, Germany, France and Switzerland. He is also Vice-Chairman of Saks Inc and a director of Post Properties Inc in the USA. Ronald is a member of several private boards in Europe and the USA and also sits on the board of the Dutch National Retailers Association.

All the directors shown above served throughout the year with the exception of Peggy Bruzelius and Howard Mann, who were both appointed to the Board on 18 November 2005, and Ronald de Waal who resigned on 18 November 2005.

Directors' Report

For the 52 weeks ended 25 February 2006

The Directors submit their annual report and the audited financial statements for the 52 weeks ended 25 February 2006.

Principal Activities

The Group develops and sells skin and hair care products and related items through its own shops, franchised outlets, home sales, mail order catalogues and the internet.

Group Business Review and Future Developments

A review of the Group's business during the year is contained in the Letter from the Executive Chairman and Chief Executive Officer on pages 2 to 5, and in the Performance Review on pages 17 to 23.

Results and Dividends

Results for the year are shown in the consolidated income statement and the notes relating to it. The Directors do not recommend the payment of a final dividend (2005: 3.8 pence per share), as they have already resolved to pay a second interim dividend of 4.4 pence per share on 3 July 2006 to shareholders who were on the register on 24 March 2006. This second interim dividend, together with the first interim dividend of 2.2 pence (2005: 1.9 pence) per share, makes a total dividend for the year of 6.6 pence (2005: 5.7 pence) per share.

Directors

Details of the Directors of the Company with their current responsibilities are given on page 24.

Fixed Assets

The Directors consider that the fair value of the Group's interest in land and buildings approximates to net book value.

Supplier Payments Policy

The Company's policy with regard to payments to suppliers is detailed on page 21.

Financial Instruments

The information required by section 5A, Schedule 7, Companies Act 1985 in relation to Financial Instruments is set out in Note 25 to the Accounts on pages 71 and 72.

Share Capital

Movements in share capital during the year are set out in Note 16 to the Accounts.

Directors' Share Interests

Directors' interests in the ordinary shares of the Company are shown on page 32.

Substantial Shareholdings

At 5 May 2006, the Company had been notified of the following interests of 3% or more in its ordinary shares (excluding Directors):

	Number of ordinary shares	% of equity
L'Oréal SA	22,800,000	10.5% [1]
L'Oréal SA	92,644,486	42.6% [2]
Mr I B McGlinn	48,703,408	22.4% [3]
Fidelity International Limited	15,073,259	6.9%
Credit Suisse Securities (Europe) Limited	6,586,828	3.0%
Aeon Group	6,700,000	3.1%

1 As a result of an acquisition of ordinary shares by L'Oréal on 22 March 2006.

2 As a result of interests pursuant to a call option and irrevocable undertakings given in relation to the registered holdings of: Beaverbridge Holdings Limited, Dame Anita Roddick, Gordon Roddick, Adrian Bellamy, Peter Saunders, Morstan Nominees Limited and UBS Wealth Management.

3 The interest of Mr I B McGlinn includes a non-beneficial holding of 3,036,640 ordinary shares.

Employees and Employee Involvement

The Group's approach to employees and employee involvement is described on page 19.

Donations and Community Involvement

Please see page 22 for details of charitable contributions. No political donations were made by the Group.

Research and Development

Research and development expenditure is detailed on page 21.

Annual General Meeting

The Annual General Meeting ("AGM") will be held at 11.00am on Thursday 27 July 2006 at The Body Shop International PLC, Watersmead, Littlehampton, West Sussex, BN17 6LS. The Notice convening the meeting and an explanation of the business to be transacted is enclosed in a separate document.

In the event that the recommended offer for the entire issued and to be issued capital of the Company by L'Oréal becomes or is declared wholly unconditional before the date of the meeting, resolutions to be put to the meeting may, to the extent permitted, be put to the meeting with such amendments and alterations as shall be determined at the meeting or the meeting may be postponed or adjourned to a new date. Shareholders will be kept informed of any such changes.

Auditors

A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the AGM.

On behalf of the Board

Adrian Bellamy
Executive Chairman
5 May 2006

Corporate Governance

The Directors are committed to integrity and accountability in the stewardship of the Group's affairs. For the Company, corporate governance covers not only the Principles of Good Governance and Code of Best Practice contained within the Combined Code but also wider business practices, such as social and environmental performance and animal protection.

The Directors consider that the Company has been compliant throughout the period under review with the provisions of Section 1 of the revised Combined Code issued in July 2003.

The following statement describes how the principles set out in the Combined Code applicable during the period under review have been applied.

Board of Directors

The Board of Directors throughout the year consisted of Adrian Bellamy (Executive Chairman), Peter Saunders (Chief Executive Officer) and Non-Executive Directors as set out in the table below. The Board and its Committees met regularly throughout the year. The number of scheduled meetings and attendance of the Directors are shown in the table below:

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Meetings held in year under review	**6**	**2**	**4**	**4**
Adrian Bellamy	6	2	4 *	4 *
Peter Saunders	6	2 *	3 *	4 *
Non-Executive Directors:				
Peggy Bruzelius (appointed 18 Nov 2005)	1/2		0/1	1/1
Jack Keenan	6	2	4	4
Howard Mann OBE (appointed 18 Nov 2005)	2/2		1/1	1/1
Irene Miller	6	2	4	4
Dame Anita Roddick	6	1 *		2 *
Gordon Roddick	6	1 *		3 *
Ronald de Waal (resigned 18 Nov 2005)	3/4	1/2	1/3	1/3

* By invitation

In addition, the Board meets on an ad-hoc basis to implement routine and administrative matters that have been approved in principle at the scheduled Board meetings.

The Board has a formal schedule of matters reserved to it, which includes approving:

- The Group's long term objectives and commercial strategy;
- Acquisitions, disposals and major investments;
- Annual operating and capital budgets;
- Annual accounts and announcement of annual and interim results;
- Dividends;
- Executive appointments;
- Treasury policy and risk management.

Dame Anita and Gordon Roddick are not considered to be independent Non-Executive Directors due to their past executive service with the Company and their continuing significant shareholdings. All the other Non-Executive Directors are considered to be independent.

Jack Keenan is the Senior Independent Director. He is available to meet shareholders on request and ensures that the Board is aware of shareholder concerns not resolved through existing channels.

There is a clear division of responsibility between the Executive Chairman Adrian Bellamy, and the Chief Executive Officer Peter Saunders. If acting in an executive capacity, the Chairman agrees his specific area or functions with the Chief Executive Officer and interacts with management through him.

Responsibility for management of the Group's operations is delegated to members of the Executive Committee, which consists of the Chief Executive Officer together with the four regional heads and the seven central departmental heads. The Executive Committee responsibilities include:

- Developing the business in accordance with its Mission Statement;
- Day to day management of the business;
- Formulation and implementation of the Group's strategy and agreed plans;
- Reporting to the Board;
- Making recommendations to the Board;
- Communicating to employees on a regular basis.

Members of the Executive Committee attend the Board on a rotational basis to update the Board on their area of responsibility.

The Board receives monthly management accounts and information for Board meetings is circulated in advance.
New Directors undertake a formal induction and familiarisation programme on joining the Company, based on their need to have a general understanding of how the Group operates worldwide and of the specific information that is produced to the Board. Once appointed, Directors remain familiar with the business through the phasing of the matters considered by the Board, regular meetings with management and visits to shops and regions. The Board has started a policy of holding some meetings in markets around the world, facilitating interaction with the regional management teams and overall knowledge of the international business. Directors also benefit from the diversity of experience of the Board members. They can attend training courses if required.

The Board completed and discussed a self-evaluation questionnaire in December 2005 which covered the Board, its committees and its relationship with management. The performance of the Chairman was also subject to evaluation, led by the Senior Independent Director.

All Directors submit themselves for re-election at least once every three years. Gordon Roddick and Jack Keenan retire at this year's AGM and the Nominations Committee has recommended their re-appointment as Directors. In addition Peggy Bruzelius and Howard Mann, having been appointed as Directors during the year, will also retire at this year's AGM and offer themselves for re-appointment. The rotation for the Non-Executive Directors is set out in the Remuneration Report.

Adrian Bellamy is not a full time Executive of the Company. Details of his other directorships and those held by other Directors are set out in their biographical details on page 24.

Relations with Shareholders

The Group is committed to maintaining good communications with shareholders, ensuring that all shareholders are kept informed of significant Group developments and price sensitive information in accordance with the Listing Rules.

The Chairman, Chief Executive Officer and Director of Finance & IT hold regular meetings with the Company's principal institutional shareholders and analysts and feedback is provided to the Board on a regular basis. A full presentation is made to the investment community in conjunction with the announcement of half year and full year results. All Directors attend the Annual General Meeting and are available to answer questions from shareholders present. The details of proxy votes will be communicated to shareholders present at the Annual General Meeting in July 2006 and subsequently on the Company's web site.

Board Committees

There are three Board committees that operate within defined terms of reference: the Nominations Committee, the Remuneration Committee and the Audit Committee. The terms of reference of the committees are available from the Company.

The Nominations Committee

The Nominations Committee is chaired by Adrian Bellamy with Jack Keenan, Irene Miller, Peggy Bruzelius (appointed 18 November 2005), Howard Mann (appointed 18 November 2005) and Ronald de Waal (resigned 18 November 2005) also serving on the Committee. Additional members of the Board and external advisors can attend meetings of the Committee by invitation.

The responsibilities of the Committee include:

- Reviewing the structure, size and composition of the Board;
- Identifying and nominating for approval to the Board candidates to fill vacancies on the Board;
- Reviewing the re-election of Directors as they retire by rotation under the Company's articles of association.

The Committee was responsible for the appointment of two new Non-Executive Directors during the year. The Committee briefed an external search consultancy to assist it in identifying potential candidates based on agreed criteria, recognising the additional skills required by the Board. A number of potential candidates were short listed by the consultancy and interviewed by members of the Board before the final invitations were extended to the new Directors.

The Committee has reviewed the re-appointment of Jack Keenan and Gordon Roddick as Non-Executive Directors and confirmed that, on the basis of the continuing effective contribution made by both Directors, their re-appointment should be recommended to the Board and to shareholders.

The Audit Committee

The Audit Committee is chaired by Irene Miller with Jack Keenan, Peggy Bruzelius (appointed 18 November 2005), Howard Mann (appointed 18 November 2005) and Ronald de Waal (resigned 18 November 2005) also serving on the Committee. All the members of the Committee are independent Non-Executive Directors.

The Committee has at least one member possessing what the Smith Report describes as recent and relevant experience. Irene Miller was Chief Financial Officer of Barnes & Noble Inc until 1997. The Directors' biographical details on page 24 demonstrate that all the members of the Committee bring a wide range of experience from positions held at the highest level both in the UK and internationally.

Both the external and internal auditors are present at the meetings, and it is common for the Committee to meet the external auditors without management present. Private meetings with the internal auditor are scheduled as required. The Chairman, Chief Executive Officer and Director of Finance & IT regularly attend the Audit Committee at the invitation of the Audit Committee Chairman, and other members of management attend the Audit Committee meetings as necessary.

In accordance with its terms of reference, the Audit Committee is responsible for monitoring the integrity of the financial statements of the Group, including its annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance. The Committee is responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the Group's external auditors, and for overseeing the relationship between the Group and the external auditors, including non-audit services and associated fees. The Committee also monitors the effectiveness of the Group's internal audit function including its terms of reference, scope and resources, in the context of the Group's overall risk management system. The full terms of reference of the Committee can be obtained from the Company.

In the year under review, the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft financial statements and interim results statement prior to Board approval, together with the external auditors' detailed reports on these;
- Reviewing the appropriateness of the Group's accounting controls, policies and procedures adopted during the year. (Detail on the accounting policies adopted can be found on pages 42 to 45);
- Reviewing the Group's Christmas trading statement prior to release;
- Reviewing the Group's progress towards the implementation of International Financial Reporting Standards;
- Reviewing and approving the external audit fee and monitoring the non-audit fees payable to the external auditors;
- Reviewing and approving the external auditors' plan for the audit of the Group accounts including key risks, plus approving their terms of engagement;
- Reviewing and approving the terms of reference for Internal

Audit, its programme of work and internal audit reports as issued;
- Reviewing the risks associated with major business programmes including acquisitions and IT investment;
- Receiving regular updates on the key risk areas identified through the Risk Management Working Party and assessing the internal control framework;
- Reviewing the Committee's own terms of reference and performance as part of a wider Board exercise;
- Receiving notification of any whistle blowing incidents and ensuring there is adequate follow up to such matters.

The Audit Committee has put in place safeguards to ensure that the independence of the Group audit is not compromised. These include:

- Seeking confirmation from the auditors that, in their professional opinion, they are independent of the Company;
- Reviewing the economic importance of the Company to the external auditors and assessing whether that importance impairs, or appears to impair, their judgement or independence.

The Committee has also approved a policy governing the provision of non-audit services by the external auditors. The policy dictates that the external auditors shall only provide those services that do not conflict with the external auditors' independence or objectivity. That is to say, the Committee should not agree to the auditor providing a service if, having regard to the ethical and other guidance available and all relationships between the Company and the audit firm, the result is that:

- the external auditor audits its own firm's work;
- the external auditor makes management decisions for the Company;
- a mutuality of interest is created; or
- the external auditor is put in the role of advocate for the Company.

A list of prohibited services has been generated which is contained in the policy. In addition, a number of pre-approval limits have been set for non-audit services that are not deemed to be prohibited, but must be controlled. Any activities that may be perceived to be in conflict with the role of the external auditor or are likely to exceed the pre-approval limits must be submitted to the Committee for prior approval. (Details of the amounts paid to the external auditors during the year for audit and non-audit services are set out in the Notes to the Accounts on page 49.)

The Remuneration Committee
The Remuneration Committee is chaired by Jack Keenan with Irene Miller, Peggy Bruzelius (appointed 18 November 2005), Howard Mann (appointed 18 November 2005) and Ronald de Waal (resigned 18 November 2005) also serving on the Committee.

All the members of the Committee are independent Non-Executive Directors. Additional members of the Board, members of the Executive Committee and external advisors attend meetings of the Committee by invitation.

The responsibilities of the Committee include:

- Reviewing the ongoing appropriateness and relevance of the Remuneration Policy;
- Determining the total remuneration and employment terms of the Chairman, Chief Executive Officer and members of the executive management team;
- Approving the design, targets and annual payments under any performance related pay schemes;
- Reviewing the design of share incentive plans and approving the allocation of awards under such plans;
- Determining the policy for pension arrangements and reviewing the pension scheme annually;
- Ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company.

Further information on the responsibilities and activities of the Committee are set out in the Remuneration Report on pages 30 to 34.

Internal Control and Risk Management
The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve the Group's objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

In accordance with the guidance for directors *"Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance)*, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group; that this process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts; and that this process is regularly reviewed by the Board.

The Board has reviewed on an annual and ongoing basis the effectiveness of the system of internal control, the process for identifying and evaluating the significant risks affecting the business, together with the policies and procedures by which risks are managed. Managers are responsible for the identification and evaluation of significant risks applicable to their areas of the business, together with the design and operation of suitable controls. These risks are assessed on a continual basis and details of significant risks and how they are being managed are reported to the Risk Management Working Party.

The Risk Management Working Party reports to the Board and meets regularly to review the major risks to the Group and the system of internal control in place to manage those risks. During the year under review, the Risk Management Working Party comprised the Executive Chairman (Chair), the Director of Finance & IT and the Internal Audit Manager. The minutes of the Risk Management Working Party are circulated to all Audit Committee members.

The Risk Management Working Party monitored the following major risks during the year:

- Avian flu
- Seasonality of business
- Transaction decline
- Channel conflict
- Brand reputation (Values)
- Political and cultural instability
- Reliance on central functions
- Head franchisee relationship and succession management
- Terrorism
- Americas region stability
- Foreign exchange / currency fluctuation (impact on The Body Shop and its franchisees)
- Changing nature of gifting
- Staff retention and recruitment.

For the year under review, these risks were categorised as either: strategic; operational; financial; or compliance/reputational. Within these categories, the risks were then scored against the potential cost and probability of the risks occurring, with the actions being taken to mitigate these risks also reported and monitored.

The Risk Management Working Party, in conjunction with the Audit Committee, reviews and directs the work of Internal Audit, which provides regular audit reports to the Board in accordance with a risk-based audit plan.

Additional internal control systems are in place to ensure alignment between the Group's operational performance and its ethical policies. The Directors accept responsibility for ensuring that appropriate management systems and processes are maintained for monitoring the Group's commitment to continuous improvement in its ethical performance.

Going Concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Remuneration Report

Remuneration Committee

For the year ended 25 February 2006, the Remuneration Committee ("the Committee") consisted of the following independent Non-Executive Directors: Jack Keenan (Chairman), Irene Miller, Peggy Bruzelius (appointed 18 November 2005), Howard Mann (appointed 18 November 2005) and Ronald de Waal (resigned 18 November 2005). The Committee approves the total remuneration and employment terms of all senior executives in the Group including both annual and long-term incentive schemes.

The members of the Committee have no personal financial interest, other than as shareholders, in the matters to be decided, no potential conflicts of interest arising from cross-directorships, and no day-to-day involvement in running the business.

The Committee consults the Executive Chairman, Chief Executive Officer and Director of Human Resources of the Company in arriving at its decisions, except when the remuneration of these executives is being considered.

The Committee has been advised by Towers Perrin, who have also provided general advice to the Committee and the Company on executive remuneration, including annual and long-term incentive schemes.

Remuneration Policy for Executive Directors

The Remuneration Policy for Executive Directors and members of the Executive Committee is designed to attract and retain the management skills necessary to develop the Group's international business. The Remuneration Policy set out below is applied consistently across the group of executives and has applied throughout the year to 25 February 2006.

The Group aims to provide total remuneration arrangements that are appropriate to the nature of the business. Total remuneration is linked to both individual and Group performance, with the use of share schemes designed to encourage long-term commitment to the Group's success. This approach reflects the general basis for remuneration of all executives and managers within the Group.

Reviews have been carried out, supported by independent advice, to ensure that the range and level of remuneration continue to match current market rates. Compensation levels and packages are compared with those of executives with similar skills and experience, and with companies which can be compared to The Body Shop in terms of size, business sector, diversity and complexity of business, geographical spread of business or growth profile. Some Executive Directors have been recruited from international markets and, in these cases, the basic salaries reflect remuneration levels in the Executive Directors' home countries.

In addition to basic salary, the remuneration package of Executive Directors includes an annual incentive scheme, pension benefits, participation in share schemes, and an element of non-cash benefits.

Basic Salary

It is the Company's policy to ensure that basic salaries are appropriate and competitive for the responsibilities involved. The Company uses information from independent sources on the rates of salary for similar jobs. The basic salary for each Director for the year ended 25 February 2006 is shown in the Directors' Emoluments table set out in this report. The policy of the Company is to review their basic salary annually, or otherwise on promotion or change of responsibility, taking into account competitive market information and individual performance

Annual Incentive Scheme

The Company's Annual Incentive Scheme is designed to provide the Executive Directors with an incentive to achieve short-term performance targets. Bonus payments are non-pensionable and are subject to approval by the Committee.

The bonus arrangements in place for both the year under review and the current year enable Executive Directors to earn an annual cash bonus for performance above a minimum target, with a maximum of 100% of basic salary payable if the highest performance targets are met. Any bonus depends upon the Group achieving a minimum profit target. The Group did not meet its minimum target relating to pre-tax profit in the year ended 25 February 2006 and no bonuses are payable to Directors for the year under review.

As a result of the operation of the Annual Incentive Scheme, up to 50% of each Executive Director's total annual remuneration (disregarding benefits and pension contributions) can be performance related if the highest performance targets are met. The performance element is further enhanced if Executive Directors are able to exercise their rights under share schemes.

Share Schemes

The Company believes that share ownership by Directors, executives and other managers strengthens the link between the personal interests of those individuals and those of shareholders. Since 1984, The Body Shop has encouraged long-term share ownership through widespread use of share options. At the 2005 Annual General Meeting, a new Performance Share Scheme ("the 2005 Scheme") was introduced. In addition, share options are granted under the Inland Revenue approved share option scheme ("the 2002 Scheme").

The Committee approves all awards of shares and grants of share options. The Committee's policy is to make regular awards or grants over the ten-year life of the schemes, with annual awards or grants over shares worth up to two times annual salary. Exceptionally, executive recruitment needs and general business strategy may have necessitated larger block grants in some years.

Awards under the 2005 Scheme take the form of either a contingent right to receive ordinary shares or a nil-cost option, subject to performance conditions to be decided by the Remuneration Committee. The share awards made in 2005, following approval of the 2005 Scheme, were up to 200% of the base salary of the Executive Director or employee. The share awards or options vest after three years, subject to a performance condition that the growth in the Group's normalised compound earnings per share ("EPS") over the three financial years (commencing with the current year) exceeds 7.5% per annum. If the annual award is of 100% of base salary or greater, the vesting of the award is subject to a more stringent performance test and variable levels of vesting: if the average annual compound growth in EPS over the three financial years to February 2008 is 12.5% or more, the award will vest in full; for growth of 10% but below 12.5%, the level of vesting is 75%; and for growth of 7.5% but below 10%, the level of vesting is 50%. If any test is not met, the awards will lapse.

Options granted before the introduction of the 2005 scheme vest only if the growth in the Group's normalised earnings per share over the three, four or five financial years (commencing with the year current at the date of grant) exceeds the growth in the Retail Price Index during the same period by at least three percentage points per annum.

This form of performance test was adopted in 1995 and was selected to ensure that options do not vest unless the underlying financial performance of the Group is satisfactory. An EPS based performance condition has been chosen as it aligns the awards made under the 2005 Scheme and 2002 Scheme with the profit growth strategy of the Group. The Remuneration Committee has considered the EPS performance condition in the context of the business environment going forward and considers the variable performance test and the minimum 7.5% per annum target to be appropriate.

The Company operates a Savings Related Share Option Scheme that is open to all UK employees including Executive Directors. Options are granted at 80% of market value at the date of the invitation to participate and the maximum that can be saved each month is limited to £250.

Details of the options and performance shares held by each Director and the performance condition applicable to each grant are set out in the table headed Directors' Share Options. This includes details of the performance conditions applicable to share options outstanding under the previous 1995 scheme.

Executive Directors and members of the Executive Committee are required to build a shareholding of at least the value of their current salary within four years of joining or, for Directors and executives holding office at June 2005, within three years of this report.

Pension

Executive Directors (other than the Executive Chairman, Adrian Bellamy) are entitled to Company pension contributions at a rate of 12% of basic salary. These contributions can be paid into the Company's Inland Revenue approved money purchase scheme or into another similar pension scheme.

Service Contracts

The Executive Directors have one year rolling service contracts. These service contracts can be terminated by either the Company or the Executive Director, giving not less than 12 months notice, and ultimately expire when the Director reaches retirement age (either 60 or 65).

In the event that the Company requires the Director to leave before the expiry of the notice period, the Company is obliged to pay the basic salary for any unexpired period of notice that is not worked, together with associated benefits including pension contributions. In addition, the Executive Directors are entitled to a pro rata proportion of the Annual Incentive Scheme earned in the year up until the termination of their employment.

The information in respect of each Director with a service contract is as follows:

	Contract date	Expiry
Adrian Bellamy (Executive Chairman)	12 June 2002	Age 65 or 12 months' notice
Peter Saunders (Chief Executive Officer)	13 June 2002	Age 60 or 12 months' notice

The service contract with Adrian Bellamy requires him to work 150 days per annum for the Company.

Taxable Benefits

In the year under review, private medical insurance and a car allowance have been provided for Peter Saunders.

Non-Executive Directors

Non-Executive Directors initially serve a term that expires at the first Annual General Meeting at which they come up for re-election on a rotational basis (which cannot exceed three years after the first Annual General Meeting following their appointment). Thereafter, unless the Non-Executive Director has indicated a desire for a shorter term, they will serve until they next come up for re-election at an Annual General Meeting.

Based on these principles, the Non-Executive Directors' current terms would, unless the Offer from L'Oréal becomes wholly unconditional and L'Oréal determines otherwise, expire at the Annual General Meeting held in the years shown below:

Jack Keenan	2006
Gordon Roddick	2006
Irene Miller	2007
Dame Anita Roddick	2007
Peggy Bruzelius	2009
Howard Mann	2009

Under the terms of the irrevocable undertakings given by the Non-Executive Directors in connection with the Offer from L'Oréal, if the Offer becomes wholly unconditional all the Non-Executive Directors can be required by L'Oréal to resign from the Board as soon as all proposals to option holders have been made in accordance with the City Code on Takeovers and Mergers.

Peggy Bruzelius and Howard Mann have appointment letters, whilst the other Non-Executive Directors do not have appointment letters or contracts of service. None of the Non-Executive Directors are eligible for pension scheme membership and do not participate in the Group's share schemes or the Annual Incentive Scheme. Under the Company's Articles of Association, Non-Executive Directors are entitled to be paid in aggregate an annual sum not exceeding £500,000. In addition they are entitled to reimbursement of out-of-pocket travel and accommodation costs in connection with the performance of their duties.

Remuneration of the Non-Executive Directors is determined by the Executive Chairman and Executive Directors, on the basis of independent advice on current fee levels in similar businesses. Supplementary fees may be paid for devoting additional time and expertise for the benefit of the Group. For the year ended 25 February 2006, the Non-Executive Directors were each paid a fee at an annual rate of £40,000 per annum, with Irene Miller and Jack Keenan each receiving an additional £10,000 as chairs of Board committees.

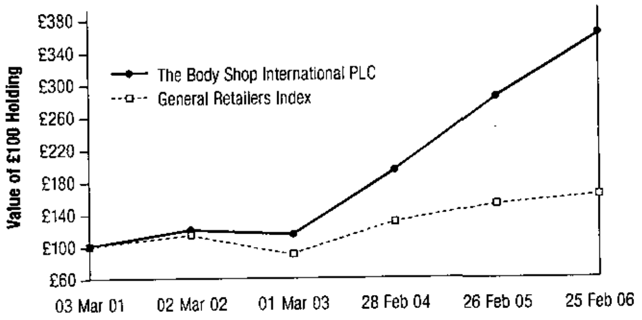
In addition to the fees paid to Dame Anita Roddick as a Non-Executive Director, Anita Roddick Publications Ltd ("ARP") provides the consultancy services of Dame Anita Roddick under an agreement that commenced on 13 March 2002. This agreement was for an initial period of two years and, thereafter, for successive periods of 12 months unless either the Company or ARP gives notice to end the agreement no less than 30 days prior to the end of any period. The annual fee payable to March 2005 was £195,000. The agreement was extended to 13 March 2006 at an annual rate of £137,500. The maximum compensation that could be payable, in certain restricted circumstances, if the contract was terminated before the end of its term, would be the balance of the fee to the end of its term.

Performance Graph

Set out below is a graph comparing the cumulative total shareholder return ("TSR") from investing in the Company's ordinary shares against a similar investment in a block of shares comprising the General Retailers' Index over the last five financial years. The General Retailers' Index is considered the most appropriate comparative index for the purposes of the performance graph as the Company is a member of that index but for other purposes, such as performance conditions for share options, there may be other more appropriate indices and measures given the nature of the business.

Total Shareholder Return

The Body Shop International PLC and General Retailers



Directors' Share Interests

The Directors who held office during the year had the following beneficial interests in the ordinary shares of the Company:

	At 25 February 2006 or date of resignation	At 27 February 2005 or date of appointment
Adrian Bellamy	**7,425,000**	7,425,000
Peter Saunders	**111,046**	100,000
Peggy Bruzelius	**–**	–
Jack Keenan	**70,000**	70,000
Howard Mann OBE	**–**	–
Irene Miller	**200,000**	200,000
Dame Anita Roddick[1]	**20,210,836**	21,466,155
Gordon Roddick[1]	**18,960,836**	20,216,155
Ronald de Waal	**–**	–

1 In addition to the holdings shown, Dame Anita and Gordon Roddick, together with another individual, are trustees of a non-beneficial holding of 3,439,552 shares. The beneficial holders of these shares are the Roddick children. For the purposes of the Companies Act 1985, Dame Anita and Gordon Roddick are deemed to be interested in each other's shareholdings.

There have been no changes in Directors' share interests between the end of the financial year and 5 May 2006 except that all the Directors have given irrevocable undertakings in relation to the ordinary shares of the Company (if any) in which they are beneficially interested to accept the Offer from L'Oréal for the entire share capital of the Company.

Audited Information

The following information within the Remuneration Report has been audited by the external auditors.

Directors' Emoluments – 52 weeks ended 25 February 2006

	Basic salary and fees £000	Other remuneration £000	Total salary and fees £000	Bonus £000	Benefits £000	**Total 2006 £000**
Executive Directors						
Adrian Bellamy[1]	203	–	203	–	–	**203**
Peter Saunders[2]	555	–	555	–	48	**603**
Non-Executive Directors						
Peggy Bruzelius	11	–	11	–	–	**11**
Jack Keenan	50	–	50	–	–	**50**
Howard Mann	11	–	11	–	–	**11**
Irene Miller	50	–	50	–	–	**50**
Dame Anita Roddick[3]	40	137	177	–	–	**177**
Gordon Roddick	40	–	40	–	–	**40**
Ronald de Waal	29	–	29	–	–	**29**
Total	989	137	1,126	–	48	**1,174**

Directors' Emoluments – 52 weeks ended 26 February 2005

	Basic salary and fees £000	Other remuneration £000	Total salary and fees £000	Bonus £000	Benefits £000	Total 2005 £000
Executive Directors						
Adrian Bellamy	100	–	100	–	–	100
Peter Saunders	525	–	525	–	36	561
Non-Executive Directors						
Jack Keenan	40	–	40	–	–	40
Irene Miller	40	–	40	–	–	40
Dame Anita Roddick[3]	30	195	225	–	–	225
Gordon Roddick	30	–	30	–	–	30
Ronald de Waal	30	–	30	–	–	30
Total	795	195	990	–	36	1,026

1 Adrian Bellamy's basic salary was increased to £200,000 from 1 March 2005.

2 Peter Saunders' basic salary was increased to £551,000 from 1 May 2005.

3 Dame Anita Roddick's other remuneration arises from an annual consultancy agreement entered into on 13 March 2002 with Anita Roddick Publications Ltd to procure the services of Dame Anita Roddick at an annual fee of £137,500 (2005 £195,000).

Benefits include such items as medical insurance and overseas allowances. For Peter Saunders, benefits include a car allowance. Peter Saunders was also granted an interest-free relocation loan of US$800,000 whilst serving as Chief Operating Officer of the US subsidiary, prior to his appointment to the Board. Details of the loan are disclosed in Note 29 to the Accounts. The loan was repaid after the end of the year under review.

The Company made the following payments during the year in respect of money purchase pension schemes for one Director (2005: one Director):

	2006 £000	2005 £000
Peter Saunders	**65**	63

Directors' Share Options / Performance Shares

	Options held at 27 Feb 2005	Awarded in year	Exercised in year	Lapsed in year	**Options/awards held at 25 Feb 2006**	Exercise Price £	Note	Option period
Adrian Bellamy	800,000	-	-	-	**800,000**	0.905	1	Mar 05 – Mar 12
	800,000	-	-	-	**800,000**			
Peter Saunders	2,232,143	-	-	-	**2,232,143**	0.89	1	Aug 04 – Aug 11
	1,202,515	-	-	-	**1,202,515**	0.905	1	Mar 05 – Mar 12
	351,723	-	-	-	**351,723**	1.07	2	Jul 05 – Jul 12
	-	356,250	-	-	**356,250**	Nil	3	Jun 2008
	11,046	-	11,046	-	-	0.86	4	Sep 05 – Feb 06
	3,797,427	356,250	11,046	-	**4,142,631**			
Total options held by Directors in office at 25 February 2006					**4,942,631**			

Notes:

Option periods given relate to the exercise of options under normal circumstances and are subject to any performance conditions having been met. If special circumstances apply (including retirement and redundancy), the exercise period may be different.

The market value of the shares at 25 February 2006 was 261p (26 February 2005: 199p). The highest price during the year was 268p and the lowest price was 165p.

On 23 February 2006 Peter Saunders exercised options over 11,046 ordinary shares at a price of £0.86 per share. The market price of the share on that date was 265p.

A total of 4,942,631 (2005: 4,586,381) awards and options were held by Directors in office at 25 February 2006 under performance criteria as follows:

1 Under the 1995 scheme, options granted are subject to the condition that the growth in the Company's normalised earnings per share over any three consecutive financial years (commencing no earlier than the year current at the date of the grant) exceeds the growth in the Retail Prices Index during the same period by at least 4 percentage points per annum.

The 4,234,658 options outstanding at 25 February 2006 under the 1995 scheme were also outstanding at 26 February 2005.

2 Under the 2002 schemes, options granted are subject to the condition that the growth in the Company's normalised earnings per share over the three, four or five financial years (commencing with the year current at the date of grant) exceeds the growth in the Retail Price Index during the same period by at least 3 percentage points per annum.

The 351,723 options outstanding at 25 February 2006 under the 2002 schemes were outstanding at 27 February 2005.

3 Under the 2005 scheme, performance shares are awarded subject to the condition that the award will vest in full if the average annual compound growth in EPS over the three years to February 2008 is 12.5% or more. For growth of 10% but below 12.5%, the level of vesting is 75%; and for growth of 7.5% but below 10%, the level of vesting is 50%.

The 356,250 performance shares outstanding at 25 February 2006 under the 2005 scheme were awarded in the year.

4 No performance criteria apply to options granted under the Company's Savings Related Option Schemes.

Annual General Meeting

A resolution is included in the notice of the Annual General Meeting approving this report.

Signed on behalf of the Board

Jack Keenan
Chairman Remuneration Committee
5 May 2006

J Keenan

Directors' Responsibility Statement

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements which comply with the requirements of the Companies Act 1985.

The Directors have elected to prepare the financial statements for the Group and Company in accordance with International Financial Reporting Standards (IFRSs).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. A fair presentation also requires the Directors to:

- select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditors' Report

To The Shareholders of The Body Shop International PLC

We have audited the group and parent company financial statements (the "financial statements") of The Body Shop International PLC for the 52 weeks ended 25 February 2006, which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the group or company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Remuneration Report, Performance Review, the Letter from Executive Chairman and Chief Executive Officer and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 25 February 2006 and of its profit for the period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 25 February 2006; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London
5 May 2006

Consolidated Income Statement

For the 52 weeks ended 25 February 2006

	Note	**Total 2006 £m**	Total 2005 £m
Revenue	2	**485.8**	419.0
Cost of sales		**(167.3)**	(146.3)
Gross profit		**318.5**	272.7
Operating expenses	3	**(277.0)**	(233.5)
Operating profit		**41.5**	39.2
Finance income	6	**1.3**	1.3
Finance costs	6	**(5.2)**	(4.8)
Profit on ordinary activities before taxation		**37.6**	35.7
Taxation	7	**(8.4)**	(6.9)
Profit for the financial period		**29.2**	28.8
Attributable to:			
Equity holders of the parent	16	**28.6**	28.5
Minority Interest	19	**0.6**	0.3
		29.2	28.8
Basic earnings per ordinary share	26	**13.6p**	13.8p
Diluted earnings per ordinary share	26	**13.2p**	13.3p

The notes on pages 42 to 83 form part of these financial statements.

Balance Sheets

At 25 February 2006

	Note	Group 25 Feb 2006 £m	Group 26 Feb 2005 £m	Company 25 Feb 2006 £m	Company 26 Feb 2005 £m
Assets					
Non-current assets					
Property, plant and equipment	9	**90.3**	73.1	**55.6**	47.2
Intangible assets	10	**9.4**	9.8	**8.4**	8.4
Goodwill	10	**53.5**	47.8	**1.5**	1.0
Investments	12	**–**	–	**149.0**	152.6
Deferred tax assets	23	**10.9**	8.6	**5.2**	5.2
Non-current receivables	14	**4.6**	4.7	**3.4**	3.7
Total non-current assets		**168.7**	144.0	**223.1**	218.1
Current assets					
Inventories	13	**54.8**	62.1	**28.4**	38.6
Trade and other receivables	14	**40.3**	32.4	**68.7**	55.0
Derivatives		**0.1**	0.2	**0.1**	0.2
Cash and cash equivalents	15	**53.8**	41.6	**21.7**	27.8
Total current assets		**149.0**	136.3	**118.9**	121.6
Total assets		**317.7**	280.3	**342.0**	339.7
Liabilities					
Current liabilities					
Trade and other payables	24	**(57.1)**	(49.7)	**(56.9)**	(45.8)
Interest-bearing loans and borrowings	21	**(51.1)**	(45.6)	**(50.8)**	(45.2)
Obligations under finance leases	21	**(2.3)**	(2.4)	**(2.3)**	(2.4)
Tax payable		**(6.9)**	(8.0)	**(4.1)**	(6.4)
Provisions	22	**(0.8)**	(0.8)	**(0.8)**	(0.8)
Total current liabilities		**(118.2)**	(106.5)	**(114.9)**	(100.6)
Non-current liabilities					
Interest-bearing loans and borrowings	21	**(0.2)**	(0.3)	**–**	–
Obligations under finance leases	21	**(12.9)**	(13.1)	**(12.9)**	(13.1)
Provisions	22	**(0.6)**	(1.4)	**(0.5)**	(1.3)
Total non-current liabilities		**(13.7)**	(14.8)	**(13.4)**	(14.4)
Total liabilities		**(131.9)**	(121.3)	**(128.3)**	(115.0)
Net assets		**185.8**	159.0	**213.7**	224.7
Equity					
Called up share capital	16	**10.9**	10.7	**10.9**	10.7
Share premium account	16	**65.9**	62.3	**65.9**	62.3
Reserve for own shares	16; 17	**(6.1)**	(6.1)	**–**	–
Translation reserve	16	**2.3**	–	**–**	–
Other reserves	17	**5.5**	1.2	**11.1**	6.5
Retained earnings	16	**105.8**	89.8	**125.8**	145.2
Equity attributable to equity holders of the parent		**184.3**	157.9	**213.7**	224.7
Minority interests	19	**1.5**	1.1	**–**	–
Total equity		**185.8**	159.0	**213.7**	224.7

These financial statements were approved and authorised for issue by the Board on 5 May 2006 and signed on its behalf by:

Adrian Bellamy, Executive Chairman

The notes on pages 42 to 83 form part of these financial statements.

Cash Flow Statements

For the 52 weeks ended 25 February 2006

	Note	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash flows from operating activities					
Operating profit		**41.5**	39.2	**7.3**	44.7
Adjustments:					
Depreciation	9	**15.0**	14.0	**6.8**	6.3
Loss (Profit) on disposal of property, plant and equipment		**1.5**	0.8	**0.6**	(0.2)
Loss on disposal of intangible assets		**-**	0.1	**0.1**	-
Amortisation	10	**2.4**	2.1	**1.5**	0.8
Impairment of assets	10	**0.2**	-	**-**	-
Share option charge		**1.4**	1.4	**1.6**	4.3
Exchange movement		**0.7**	1.0	**0.3**	1.4
Changes in working capital (excluding the effects of acquisitions):					
Decrease/(increase) in inventories		**11.7**	(0.3)	**10.2**	(1.5)
(Increase)/decrease in trade and other receivables		**(5.7)**	5.9	**(15.4)**	18.1
Increase/(decrease) in trade and other payables		**3.3**	4.7	**2.6**	(4.3)
(Decrease)/increase in provisions		**(0.8)**	(0.1)	**15.0**	(15.8)
Cash generated from operations (note 20)		**71.2**	68.8	**30.6**	53.8
Interest received	6	**1.3**	1.3	**1.4**	1.5
Interest paid	6	**(5.2)**	(4.8)	**(5.4)**	(2.3)
Income tax paid		**(9.5)**	(6.5)	**(5.1)**	(5.8)
Net cash from operating activities		**57.8**	58.8	**21.5**	47.2
Cash flows from investing activities:					
Acquisitions of subsidiaries, net of cash acquired	11	**(4.4)**	(19.3)	**(2.9)**	(26.0)
Purchase of property, plant and equipment	9	**(32.0)**	(20.9)	**(15.7)**	(12.0)
Purchase of intangible assets	10	**(2.0)**	(4.6)	**(2.1)**	(4.4)
Net cash used in investing activities		**(38.4)**	(44.8)	**(20.7)**	(42.4)
Cash flows from financing activities					
Proceeds from the issue of ordinary share capital	16	**3.8**	2.4	**3.8**	8.0
Proceeds from borrowings		**1.9**	19.9	**2.2**	20.1
Capital element of finance lease rental payments	21	**(0.3)**	(0.5)	**(0.3)**	(0.5)
Dividends paid to Company's shareholders	18	**(12.6)**	(11.7)	**(12.6)**	(10.7)
Net cash used in financing activities		**(7.2)**	10.1	**(6.9)**	16.9
Net increase/(decrease) in cash and cash equivalents		**12.2**	24.1	**(6.1)**	21.7
Cash and cash equivalents at the beginning of the period	15	**41.6**	17.5	**27.8**	6.1
Cash and cash equivalents at the end of the period	15	**53.8**	41.6	**21.7**	27.8

The notes on pages 42 to 83 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Parent						
	Share capital £m	Share premium £m	Other reserves £m	Translation reserves £m	Retained earnings £m	Minority interest £m	Total equity £m
Balance at 29 February 2004	10.4	54.7	(3.6)	–	73.0	–	134.5
Changes in equity for 2004/2005							
Employee share option scheme	–	–	4.3	–	–	–	4.3
Shares issued							
Cash	0.3	2.1	–	–	–	–	2.4
Other than cash	–	5.5	–	–	–	–	5.5
Business combination	–	–	–	–	–	0.8	0.8
Dividends (note 18)	–	–	–	–	(11.7)	–	(11.7)
Puttable minority interest	–	–	(5.6)	–	–	–	(5.6)
Net income recognised directly in equity	0.3	7.6	(1.3)	–	(11.7)	0.8	(4.3)
Profit for the period	–	–	–	–	28.5	0.3	28.8
Total recognised income and expense for the period	0.3	7.6	(1.3)	–	16.8	1.1	24.5
Balance at 26 February 2005	10.7	62.3	(4.9)	–	89.8	1.1	159.0
Balance at 27 February 2005	10.7	62.3	(4.9)	–	89.8	1.1	159.0
Changes in equity for 2005/2006							
Employee share option scheme	–	–	4.3	–	–	–	4.3
Shares issued	0.2	3.6	–	–	–	–	3.8
Dividends (note 18)	–	–	–	–	(12.6)	–	(12.6)
Currency translation differences	–	–	–	2.3	–	(0.2)	2.1
Net income recognised directly in equity	0.2	3.6	4.3	2.3	(12.6)	(0.2)	(2.4)
Profit for the period	–	–	–	–	28.6	0.6	29.2
Total recognised income and expense for the period	0.2	3.6	4.3	2.3	16.0	0.4	26.8
Balance at 25 February 2006	**10.9**	**65.9**	**(0.6)**	**2.3**	**105.8**	**1.5**	**185.8**

The notes on pages 42 to 83 form part of these financial statements.

Company Statement of Changes in Equity

	Attributable to equity holders of the Company				
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 29 February 2004	10.4	54.7	2.5	120.3	187.9
Changes in equity for 2004/2005					
Employee share option scheme	–	–	4.3	–	4.3
Shares issued	0.3	7.6	–	–	7.9
Dividends (note 18)	–	–	–	(11.7)	(11.7)
Hedging	–	–	(0.3)	–	(0.3)
Net income recognised directly in equity	0.3	7.6	4.0	(11.7)	0.2
Profit for the period	–	–	–	36.6	36.6
Total recognised income and expense for the period	0.3	7.6	4.0	24.9	36.8
Balance at 26 February 2005	10.7	62.3	6.5	145.2	224.7
Balance at 27 February 2005	10.7	62.3	6.5	145.2	224.7
Changes in equity for 2005/2006					
Employee share option scheme	–	–	4.3	–	4.3
Shares issued	0.2	3.6	–	–	3.8
Dividends (note 18)	–	–	–	(12.6)	(12.6)
Hedging	–	–	0.3	–	0.3
Net income recognised directly in equity	0.2	3.6	4.6	(12.6)	(4.2)
Profit for the period	–	–	–	(6.8)	(6.8)
Total recognised income and expense for the period	0.2	3.6	4.6	(19.4)	(11.0)
Balance at 25 February 2006	**10.9**	**65.9**	**11.1**	**125.8**	**213.7**

The notes on pages 42 to 83 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the 52 Weeks ended 25 February 2006

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB as adopted by the EU) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. This is the first time the group and company have prepared financial statements in accordance with IFRSs, having previously prepared financial statements in accordance with UK accounting standards. Details of how the transition from UK accounting standards to IFRSs has affected the group's and company's reported financial position, financial performance and cash flows are given in note 30.

First-time adoption

The following IFRS 1 exemptions have been taken:

Business combinations

IFRS 1 exempts a first-time adopter from the full retrospective application of IFRS 3 "Business Combinations". Consequently, business combinations that occurred prior to the date of transition to IFRS have not been restated.

Cumulative translation differences

IAS 21 "The Effects of Changes in Foreign Exchange Rates" requires the translation differences arising in connection with foreign operations to be classified as a separate component of equity. IFRS 1 exempts a first-time adopter from the retrospective application of IAS 21. The group has applied this exemption, with the effect that cumulative translation differences for all foreign operations as at the date of transition are deemed to be nil.

The exceptions to retrospective application required by IFRS 1 that applied to the group are as follows:

Hedge accounting

IFRS 1 prohibits the retrospective re-designation of hedging instruments of net positions enacted prior to the date of transition to IFRS. Consequently, the gain or loss on the hedging instruments enacted by the group that had not matured at the date of transition have been recognised at fair value with changes recognised in the income statement.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary undertakings. Subsidiary undertakings are all entities over which the group has the power to govern the financial and operating policies so as to obtain economic benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The group's accounting policies have been applied consistently in dealing with items that are considered material in relation to the consolidated accounts.

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The interest of minority shareholders is stated at the minority's proportion of the cost of the identifiable assets and liabilities.

All inter-company transactions and balances between group entities are eliminated on consolidation.

Use of estimates and judgements

The preparation of financial statements requires management to make estimates and judgements that affect the application of accounting policies and the reported values of assets, liabilities, incomes and expenses. Such estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates are adjusted as appropriate and the impact reflected in either just the current, or current and future periods, depending on the time frame to which the estimate relates.

Revenue

Revenue represents the fair value receivable in the ordinary course of business for goods sold and services provided. It excludes sales between group companies, discounts given, VAT and other sales taxes.

Revenue is recognised as follows:

Sale of goods: wholesale

Revenue is recognised when the group dispatches product to the customer.

Sale of goods: retail

Revenue is recognised when the product is sold to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale, including credit card fees payable for the transaction.

Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant royalty agreements.

Sale of gift vouchers

Revenue from the sale of gift vouchers is initially recognised as deferred income, with the revenue recognised as the vouchers are redeemed.

Sale of loyalty cards

Loyalty cards entitle the holder to discounted purchases and gifts for a limited period of time, in exchange for an initial fee payment. Revenues are deferred and amortised over the period of the loyalty card, matched by the associated expense, which is estimated based on previous experience.

Dividends

Dividends proposed by the Board and unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting.

Goodwill

Goodwill arising on the acquisition of a subsidiary or business is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

Goodwill arising on acquisitions prior to 28 February 1998 was set off directly against reserves. Positive goodwill arising on acquisitions from 1 March 1998 to 28 February 2004 was capitalised and amortised on a straight-line basis over its useful economic life up to a presumed maximum of 15 years.

As at 29 February 2004, amortisation of goodwill ceased and the accumulated amortisation and impairment losses previously recognised were netted off against the goodwill's original cost.

From 29 February 2004 onwards, goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets
Other intangible assets include items such as software development and website development costs. They are measured initially at cost and are then amortised on a straight-line basis over 5 years.

Impairment
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Property, plant and equipment
All property, plant and equipment is shown at cost less depreciation and provision for impairments, with the exception of freehold land which is shown net of provision for impairment.

Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, of all tangible fixed assets except freehold land over their expected useful lives. Depreciation is calculated using the following rates:

- Freehold buildings – over 50 years;
- Leasehold property – over the period of the respective leases;
- Plant and equipment – over 3 to 10 years.

Inventory
Inventories are stated at the lower of cost and net realisable value.

Cost is calculated as follows:

- Raw materials – cost of purchase on a first in, first out basis
- Work in progress and finished goods – cost of raw materials and labour together with overheads attributable to bringing the inventories to their present location and condition.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, together with short-term deposits with an initial maturity date of 3 months or less.

Provisions
A provision is recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are measured using expected future cash flows discounted 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 recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Body Shop International Employee Share Trust
The company is deemed to have control of the assets, liabilities, income and costs of The Body Shop International Employee Share Trust ("the EST"). These have therefore been included in the financial statements of the group and the company.

The ordinary shares of the company held in the EST are included within the reserve for own shares and are deducted from equity.

To facilitate the acquisition and holding of shares, loans are made on an interest-free basis by the company to the EST. Shares held by the EST do not rank for dividend and accordingly are excluded from the calculation of the earnings per ordinary share.

Foreign Currency Translation

Transactions and balances in foreign currencies
Transactions in foreign currencies are recorded at the rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates.

All foreign currency exchange differences are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investments hedges in the consolidated accounts. Tax charges and credits attributable to such exchange differences are also taken to equity.

Group entities
The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at average exchange rates as a reasonable approximation of the rates prevailing on the transaction dates.

Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in a separate component of equity (the "Translation reserve").

Research and Development
Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits;
- expenditure on the project can be measured reliably.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

Income Taxes
The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Leased Assets
Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases.

Assets held under finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding leasing commitments, net of finance charges, are included in liabilities.

Leasing payments are analysed between capital and interest components so that the interest element is charged to the income statement over the period of the lease at a constant periodic rate of interest on the remaining balance of the liability outstanding.

Depreciation on assets held under finance leases is charged to the income statement.

All other leases are treated as operating leases with annual rentals charged to the income statement on a straight-line basis over the term of the lease.

Pension Costs
Contributions to the group's defined contribution scheme are charged to the income statement in the year in which they become payable.

Share-based Payments
The group has applied the requirement of IFRS 2, Share-based Payments, to all grants of share options or share awards that were unvested as of 29 February 2004 or have been granted since that date.

The group issues equity settled share-based payments to employees in the form of share options or performance share awards. The fair value of the employee services received in exchange for the grant of options or share awards is determined at the date of grant by reference to the fair value of the options or share awards at the grant date. The fair value is expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest, which is revised at each balance sheet date.

The fair value is measured by use of the Black-Scholes pricing model. The inputs used in the model and further details of the share-based payment plans are set out in Note 17 to the accounts.

Earnings per share
The group calculates both basic and diluted earnings per share in accordance with IAS 33 "Earnings Per Share". Under IAS 33, basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of shares outstanding during the period.

Financial assets

The group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement. The group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. These assets are measured at amortised cost, with changes through the income statement.

Financial liabilities

The group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. Other than financial liabilities in a qualifying hedging relationship, the group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Other financial liabilities include trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Puttable instruments – minority interests

Where the minority has an option to sell its interest to the group for cash or another financial asset, the liability arising is initially recognised at fair value. Any subsequent changes in fair value are recognised through profit or loss.

Derivative Financial Instruments

The group uses derivative (such as forward foreign currency contracts) and non-derivative financial instruments (such as foreign currency loans) to provide commercial hedges of its net investments in foreign subsidiaries and against forecast cash flows designated in currencies other than the group's functional currency.

Derivative financial instruments are initially accounted for at cost and subsequently re-measured to fair value at each reporting date. The gains or losses on re-measurement are taken to the income statement, except where the derivative is designated as a cash flow hedge or a net investment hedge and the hedge is effective in which case the gains or losses are taken to equity until such time that the hedged transactions are recognised in the income statement, at which time the accumulated gains and losses recognised in equity will also be recognised in the income statement.

For financial instruments that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedging

In accordance with IAS 39, the group designates certain risks being hedged into three types:

- Fair value hedge;
- Cash flow hedge;
- Hedge of a net investment in a foreign entity.

The gain or loss arising from a fair value hedge is recognised immediately in profit or loss as the asset/liability being hedged is already recognised in the balance sheet.

The gain or loss arising from hedges of the exposure to variability in future cash flows relating to firm commitments or highly probable forecasted transactions are deferred in equity. Deferred gains or losses are released when the forecasted transactions occur.

Any ineffective portion of the hedge is always recognised immediately in the income statement.

In the consolidated accounts, where hedging criteria have been met, hedges of a net investment in a foreign operation are accounted for by translating the hedging instrument at the closing rate with the gain or loss on the effective hedge being taken to the translation reserve to match the gain or loss on the net assets. The ineffective portion is recognised in profit or loss.

2. SEGMENT REPORTING

a) Primary reporting segment
For management purposes, the Group is currently organised into four, geographically orientated operating divisions. These divisions are the basis on which the Group reports its primary segment information.

25 February 2006	Americas £m	Asia Pacific £m	Europe, Middle East & Africa £m	UK & Republic of Ireland £m	Group £m
Sales – by origin					
Total revenue	182.4	30.2	43.2	316.2	572.0
Inter-segment sales	(21.9)	(0.1)	–	(64.2)	(86.2)
External sales	160.5	30.1	43.2	252.0	485.8
Sales – by destination					
External sales	161.0	86.1	94.2	144.5	485.8
Result					
Segment result	17.4	27.2	19.1	13.2	76.9
Unallocated corporate expenses					(35.4)
Operating profit					41.5
Net finance costs					(3.9)
Profit before tax					37.6
Taxation					(8.4)
Profit for the financial year					29.2
Balance sheet – assets					
Segment assets	92.4	34.1	39.2	66.6	232.3
Unallocated corporate assets					85.4
Consolidated total assets					317.7
Balance sheet – liabilities					
Segment liabilities	13.0	5.0	4.7	1.5	24.2
Unallocated corporate liabilities					102.1
Consolidated total liabilities					126.3

Other information	Capital additions £m	Depreciation & amortisation £m	Impairment provisions: Trade receivables £m	Impairment provisions: Inventories £m
Americas	11.4	6.2	–	1.9
Asia Pacific	1.2	0.7	0.1	1.0
Europe, Middle East & Africa	4.5	1.4	0.3	0.7
UK & Republic of Ireland	11.9	3.7	0.8	0.8
Unallocated	5.7	5.4	1.8	0.2
Total	34.7	17.4	3.0	4.6
Note	9,10	9,10	14	13

25 February 2005	Americas £m	Asia Pacific £m	Europe, Middle East & Africa £m	UK & Republic of Ireland £m	Group £m
Sales – by origin					
Total revenue	141.9	22.0	32.1	287.8	483.8
Inter-segment sales	(4.9)	(0.3)	–	(59.6)	(64.8)
External sales	137.0	21.7	32.1	228.2	419.0
Sales – by destination					
External sales	142.3	64.4	74.4	137.9	419.0
Result					
Segment result	21.9	20.1	16.0	13.3	71.3
Unallocated corporate expenses					(32.1)
Operating profit					39.2
Finance costs					(3.5)
Profit before tax					35.7
Taxation					(6.9)
Profit for the financial year					28.8
Balance sheet – assets					
Segment assets	67.8	35.6	36.2	68.4	208.0
Unallocated corporate assets					72.3
Consolidated total assets					280.3
Balance sheet – liabilities					
Segment liabilities	11.6	2.3	4.4	3.2	21.5
Unallocated corporate liabilities					94.2
Consolidated total liabilities					115.7

Other information

	Capital additions £m	Depreciation & amortisation £m	Impairment provisions: Trade receivables £m	Impairment provisions: Inventories £m
Americas	6.4	4.7	–	2.3
Asia Pacific	1.7	1.2	1.3	0.9
Europe, Middle East & Africa	3.7	2.5	0.4	0.8
UK & Republic of Ireland	5.0	3.4	0.7	0.8
Unallocated	11.3	4.3	1.5	0.2
Total	28.1	16.1	3.9	5.0
Note	9,10	9,10	14	13

2. SEGMENT REPORTING

a) Secondary reporting segment

The group's secondary reporting format for reporting segment information is business segments.

25 February 2006	Retail £m	Wholesale £m	The Body Shop At Home £m	Unallocated £m	Group £m
Sales					
External sales	**298.7**	**148.2**	**38.9**	**-**	**485.8**
Balance sheet - assets					
Segment assets	**109.2**	**14.8**	**-**	**193.7**	**317.7**
Other information					
Capital additions	**27.9**	**-**	**-**	**6.8**	**34.7**

26 February 2005	Retail £m	Wholesale £m	The Body Shop At Home £m	Unallocated £m	Group £m
Sales					
External sales	256.4	127.8	34.8	–	419.0
Balance sheet - assets					
Segment assets	97.2	5.8	–	177.3	280.3
Other information					
Capital additions	14.1	0.1	–	13.9	28.1

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable and consistent basis. Unallocated items comprise mainly borrowings, derivatives, and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

3. OPERATING PROFIT

	Retail £m	Other £m	2006 Total £m	Retail £m	Other £m	2005 Total £m
Operating costs relating to company-owned shops, The Body Shop At Home™, mail order and the internet	**162.6**	**–**	**162.6**	133.0	–	133.0
Selling and distribution costs	**11.9**	**12.1**	**24.0**	6.8	12.6	19.4
Administrative expenses	**43.7**	**46.7**	**90.4**	40.6	40.5	81.1
	218.2	**58.8**	**277.0**	180.4	53.1	233.5

3. OPERATING PROFIT (CONTINUED)

Operating expenses

Operating expenses includes:

	2006 £m	2005 £m
Research and development	**5.1**	4.6
Impairment of intangible assets	**0.2**	–
Amortisation of intangible assets	**2.4**	2.1
Depreciation	**15.0**	14.0
Loss on disposal of property, plant and equipment	**1.5**	0.8
Loss on disposal of intangible assets	**–**	0.1
Auditors' remuneration:		
Audit services -Company £0.1 million (2005 £0.2 million)	**0.4**	0.3
Taxation services	**0.7**	0.5
Other advisory services	**0.2**	0.1

Unrecognised intangible assets

During the period the group expensed £5.1m (2005 £4.6m) relating to research and development.

4. STAFF COSTS AND NUMBERS

Costs during the year, including directors' emoluments which are disclosed in note 5, were as follows:

2006	Wages £m	Social security £m	Pension £m	Share based payments £m	Total £m
Americas	**30.0**	**2.4**	**0.2**	**0.2**	**32.8**
Asia Pacific	**6.8**	**0.1**	**0.2**	**0.1**	**7.2**
Europe, Middle East & Africa	**10.2**	**1.8**	**0.3**	**–**	**12.3**
UK & Republic of Ireland	**50.0**	**4.6**	**2.8**	**1.1**	**58.5**
	97.0	**8.9**	**3.5**	**1.4**	**110.8**

2005	Wages £m	Social security £m	Pension £m	Share based payments £m	Total £m
Americas	25.4	2.0	0.2	0.3	27.9
Asia Pacific	5.1	–	0.4	0.1	5.6
Europe, Middle East & Africa	7.4	1.5	0.1	–	9.0
UK & Republic of Ireland	41.2	4.1	2.4	1.0	48.7
	79.1	7.6	3.1	1.4	91.2

4. STAFF COSTS AND NUMBERS (CONTINUED)

Company

	2006				
	Wages £m	Social security £m	Pension £m	Share based payments £m	Total £m
UK & Republic of Ireland	**50.0**	**4.6**	**2.8**	**1.1**	**58.5**

	2005				
	Wages £m	Social security £m	Pension £m	Share based payments £m	Total £m
UK & Republic of Ireland	41.2	4.1	2.4	1.0	48.7

All share based payments are equity settled.

The group operates a number of defined contribution pension schemes for its employees in the UK, the assets of which are held in independently administered funds. The pension charge for the UK represents contributions payable to the funds and amounted to £2.8 million (2005: £2.4 million). The contributions payable in respect of the overseas pension schemes amounted to £0.7 million (2005: £0.7 million). Other creditors includes an accrual of £0.3 million (2005: £0.3 million) in respect of accrued pension contributions.

The total number of employees at the year end was 7,534 (2005: 7,050).

Group

	2006			
	Admin No.	Distribution/ manufacturing No.	Shops No.	Total No.
Americas	**234**	**128**	**2,838**	**3,200**
Asia Pacific	**123**	**8**	**396**	**527**
Europe, Middle East & Africa	**73**	**2**	**576**	**651**
UK & Republic of Ireland	**687**	**340**	**2,064**	**3,091**
	1,117	**478**	**5,874**	**7,469**

	2005			
	Admin No.	Distribution/ manufacturing No.	Shops No.	Total No.
Americas	289	68	2,780	3,137
Asia Pacific	104	5	275	384
Europe, Middle East & Africa	48	8	394	450
UK & Republic of Ireland	612	312	1,941	2,865
	1,053	393	5,390	6,836

4. STAFF COSTS AND NUMBERS (CONTINUED)

Company

	2006			
	Admin No.	**Distribution/ manufacturing No.**	**Shops No.**	**Total No.**
UK & Republic of Ireland	**687**	**340**	**2,064**	**3,091**

	2005			
	Admin No.	Distribution/ manufacturing No.	Shops No.	Total No.
UK & Republic of Ireland	612	312	1,941	2,865

5. DIRECTORS' REMUNERATION

	2006 £m	2005 £m
The total amounts for directors' remuneration were as follows:		
Emoluments	**1.1**	1.0
Money purchase pension contributions	**0.1**	0.1
	1.2	1.1

There was 1 director in the group's defined contribution pension scheme (2005: 1 director).

Further disclosures on the remuneration of each individual director are given in the Remuneration Report, of which the information on page 33 has been audited.

6. FINANCE INCOME AND EXPENSE

	2006 £m	**Group 2006 £m**	2005 £m	Group 2005 £m
Finance Income				
Interest income	**1.3**		1.3	
		1.3		1.3
Finance expense				
Interest expense:				
Bank borrowings	**3.2**		2.8	
Finance leases	**2.0**		2.0	
		5.2		4.8
		(3.9)		(3.5)

7. TAX

Analysis of charge in period

	Group 2006 £m	Group 2005 £m
Current tax:		
Prior period credit	**(3.1)**	(0.2)
Current period charge	**10.7**	9.8
	7.6	9.6
Deferred tax:		
Prior period charge	**5.4**	1.7
Current period credit	**(4.6)**	(4.4)
	0.8	(2.7)
Total tax charge	**8.4**	6.9

Taxation on items charged to equity

	Group 2006 £m	Group 2005 £m
Current tax charge on exchange movements offset in reserves	**(0.5)**	–
Deferred tax on share based payments	**(2.8)**	(3.3)
	(3.3)	(3.3)

The consolidated tax rate for the period is 22% (2005: 19%), less than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Group 2006 £m	Group 2005 £m
Profit on ordinary activities before tax	**37.6**	35.7
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 30% (2005: 30%)	**11.3**	10.7
Effects of:		
Expenses not deductible for tax purposes	**(0.4)**	0.1
Prior year adjustments	**(0.3)**	(0.2)
Current year losses on which tax relief cannot be claimed	**0.5**	0.3
Profits arising overseas taxed at different rates	**(0.2)**	–
Utilisation of prior year losses	**(3.0)**	(4.9
Profit in subsidiaries' inventory eliminated on consolidation	**–**	(0.3)
Other	**0.5**	1.2
Total taxation	**8.4**	6.9

8. PROFIT FOR THE FINANCIAL YEAR

	Group 2006 £m	Group 2005 £m
(Loss) profit after tax, dealt with in the accounts of the holding company	(6.8)	36.6

The company has elected not to disclose its income statement in accordance with Section 230 of the Companies Act 1985.

9. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold property £m	Long term leasehold property £m	Short term leasehold property £m	Plant and equipment £m	Total £m
Cost					
At 29 February 2004	5.2	16.5	71.3	64.8	157.8
Additions	0.3	–	3.0	20.2	23.5
Disposals	(0.1)	–	(1.7)	(7.7)	(9.5)
Exchange difference on overseas assets	(0.1)	–	(0.5)	(0.6)	(1.2)
At 26 February 2005	5.3	16.5	72.1	76.7	170.6
Additions	**0.3**	**–**	**2.6**	**29.8**	**32.7**
Disposals	**–**	**–**	**(3.6)**	**(17.1)**	**(20.7)**
Asset reclassification	**–**	**–**	**(0.6)**	**0.6**	**–**
Exchange difference on overseas assets	**0.4**	**–**	**2.3**	**2.1**	**4.8**
At 25 February 2006	**6.0**	**16.5**	**72.8**	**92.1**	**187.4**
Accumulated depreciation					
At 29 February 2004	2.1	6.6	36.7	48.0	93.4
Charge for the year	0.5	0.5	2.9	10.1	14.0
Disposals	–	–	(1.5)	(7.2)	(8.7)
Exchange difference on overseas assets	(0.1)	–	(0.6)	(0.5)	(1.2)
At 26 February 2005	2.5	7.1	37.5	50.4	97.5
Charge for the year	**0.2**	**0.4**	**4.3**	**10.1**	**15.0**
Disposals	**–**	**–**	**(2.9)**	**(16.3)**	**(19.2)**
Asset reclassification	**–**	**–**	**(0.5)**	**0.5**	**–**
Exchange difference on overseas assets	**0.2**	**–**	**1.9**	**1.7**	**3.8**
At 25 February 2006	**2.9**	**7.5**	**40.3**	**46.4**	**97.1**
Carrying amount carried forward					
Net book value at 25 February 2006	**3.1**	**9.0**	**32.5**	**45.7**	**90.3**
Net book value at 26 February 2005	2.8	9.4	34.6	26.3	73.1

No assets are pledged as security for the group's liabilities, nor is title to the assets restricted.
The group's total net carrying amount of long term and short term leasehold properties are held under finance leases (note 21).
Depreciation of £0.3 million (2005: £0.3 million) is included in the 'cost of goods sold' in the income statement; £12.3 million (2005: £12.8 million) in 'selling, and distribution costs'; and £2.4 million (2005: £0.9 million) in administrative expenses.

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Freehold property £m	Long term leasehold property £m	Short term leasehold property £m	Plant and equipment £m	Total £m
At 29 February 2004	–	16.5	37.3	36.6	90.4
Additio ns	–	–	0.1	11.9	12.0
Disposals	–	–	(0.1)	(6.1)	(6.2)
At 26 February 2005	–	16.5	37.3	42.4	96.2
Additions	**0.3**	**–**	**0.2**	**15.2**	**15.7**
Disposals	**–**	**–**	**(0.4)**	**(7.9)**	**(8.3)**
Intra Group transfers	**–**	**–**	**–**	**0.2**	**0.2**
At 25 February 2006	**0.3**	**16.5**	**37.1**	**49.9**	**103.8**
Accumulated depreciation					
At 29 February 2004	–	6.6	14.1	28.0	48.7
Charge for the year	–	0.5	1.1	4.7	6.3
Disposals	–	–	(0.1)	(5.9)	(6.0)
At 26 February 2005	–	7.1	15.1	26.8	49.0
Charge for the year	**–**	**0.4**	**1.1**	**5.3**	**6.8**
Disposals	**–**	**–**	**(0.3)**	**(7.4)**	**(7.7)**
Intra Group transfers	**–**	**–**	**–**	**0.1**	**0.1**
At 25 February 2006	**–**	**7.5**	**15.9**	**24.8**	**48.2**
Carrying amount carried forward					
Net book value at 25 February 2006	**0.3**	**9.0**	**21.2**	**25.1**	**55.6**
Net book value at 26 February 2005	–	9.4	22.2	15.6	47.2

No assets are pledged as security for the company's liabilities, nor is title to the assets restricted.

10. INTANGIBLE ASSETS

Group

Cost	Goodwill £m	Software and website development £m	Total £m
At 29 February 2004	46.7	12.6	59.3
Additions	16.1	4.6	20.7
Disposals	–	(0.7)	(0.7)
Exchange differences	0.1	(0.1)	–
At 26 February 2005	62.9	16.4	79.3
Additions	**4.0**	**2.0**	**6.0**
Disposals	**–**	**(0.3)**	**(0.3)**
Exchange differences	**1.8**	**0.6**	**2.4**
At 25 February 2006	**68.7**	**18.7**	**87.4**
Accumulated impairment and amortisation			
At 29 February 2004	15.1	5.2	20.3
Amortisation	–	2.1	2.1
Disposals	–	(0.6)	(0.6)
Exchange differences	–	(0.1)	(0.1)
At 26 February 2005	15.1	6.6	21.7
Amortisation	**–**	**2.4**	**2.4**
Impairment charge	**–**	**0.2**	**0.2**
Disposals	**–**	**(0.3)**	**(0.3)**
Exchange differences	**0.1**	**0.4**	**0.5**
At 25 February 2006	**15.2**	**9.3**	**24.5**
Carrying amount carried forward			
At 25 February 2006	**53.5**	**9.4**	**62.9**
At 26 February 2005	47.8	9.8	57.6

10. INTANGIBLE ASSETS (CONTINUED)

Company

Cost	**Goodwill £m**	**Software and website development £m**	**Total £m**
At 29 February 2004	0.2	7.1	7.3
Additions	0.8	3.6	4.4
Disposals	–	(0.5)	(0.5)
At 26 February 2005	1.0	10.2	11.2
Additions	**0.5**	**1.6**	**2.1**
Disposals	–	**(0.1)**	**(0.1)**
At 25 February 2006	**1.5**	**11.7**	**13.2**
Accumulated impairment and amortisation			
At 29 February 2004	–	1.5	1.5
Amortisation	–	0.8	0.8
Disposals	–	(0.5)	(0.5)
At 26 February 2005	–	1.8	1.8
Amortisation	–	**1.5**	**1.5**
At 25 February 2006	–	**3.3**	**3.3**
Carrying amount carried forward			
At 25 February 2006	**1.5**	**8.4**	**9.9**
At 26 February 2005	1.0	8.4	9.4

Impairment tests for cash-generating units containing goodwill

Goodwill with an indefinite useful life is allocated to the group's cash-generating units identified according to country of operation. A segment-level summary of the allocation of goodwill with an indefinite useful life is presented below.

	***2006* Group Goodwill £m**	2005 Group Goodwill £m
Americas	**17.4**	15.8
Asia Pacific	**9.2**	8.5
Europe, Middle East & Africa	**9.1**	6.5
UK & Republic of Ireland	**17.8**	17.0
	53.5	47.8

The recoverable amounts of the group's cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and on five-year financial budgets approved by management. Cash flows beyond the five-year period are extrapolated using between 2% and 8% (2005: between 2% and 8%) growth rate. The growth rate does not exceed the long-term average growth rate for the cosmetics and beauty products retail business in which the cash generating unit operates. A pre tax discount rate of 9.8% (2005: 9.8%) has been used in discounting the projected cash flows.

11. ACQUISITIONS

During the year the following businesses were acquired by the Group:

	2006 Cost £m
Franchisee businesses:	
- USA	**0.6**
- Canada	**0.3**
- UK	**1.1**
- Benelux	**2.9**
- Germany	**0.6**
- Denmark	**0.1**
	5.6

Fair value of consideration for acquisitions comprised:

	US franchisees £m	Canadian franchisees £m	UK franchisees £m	Benelux head franchisees £m	German franchisees £m	Denmark franchisees £m	**2006 Total £m**
Cash and cash equivalents	0.4	0.1	0.3	2.9	0.6	0.1	**4.4**
Non cash consideration	0.2	0.2	0.8	-	-	-	**1.2**
	0.6	0.3	1.1	2.9	0.6	0.1	**5.6**

Fair value of net assets acquired are as follows:

	US franchisees £m	**Canadian franchisees £m**	**UK franchisees £m**	**Benelux head franchisees £m**	**German franchisees £m**	**Denmark franchisees £m**	**2006 Total £m**
Non-current assets							
Property plant and equipment	0.1	–	0.1	0.5	–	–	**0.7**
Other intangible assets	–	–	–	1.0	–	–	**1.0**
Non-current receivables	–	–	–	0.5	–	–	**0.5**
Current assets							
Inventories	0.2	–	0.4	1.0	0.1	–	**1.7**
Trade and other receivables	–	–	–	0.9	–	–	**0.9**
Cash and cash equivalents	–	–	–	–	–	–	**–**
	0.3	–	0.5	3.9	0.1	–	**4.8**
Current liabilities							
Creditors due within one year	–	–	–	(2.2)	–	–	**(2.2)**
	0.3	–	0.5	1.7	0.1	–	**2.6**
Goodwill acquired	0.3	0.3	0.6	1.2	0.5	0.1	**3.0**
Cost of acquisitions	0.6	0.3	1.1	2.9	0.6	0.1	**5.6**
Post acquisition results:							
Turnover	2.1	0.4	0.7	5.9	0.9	–	10.0
Profit	0.8	0.1	0.1	0.7	0.4	–	2.1

On 29 March 2005 the group acquired 100% of The Netherlands and Eastwick Benelux B.V. (the head franchisee for Netherlands, Belgium and Luxembourg).

Other acquisitions shown above reflect the purchase of individual shops throughout the year.

If all the above businesses had been purchased on 27th February 2005 their revenue and profit for the period would have been £15.5m and £3.4m respectively.

12. FIXED ASSET INVESTMENTS

	Group £m	Company £m
Cost of investment in subsidiaries (less provisions)		
At 27 February 2005	–	152.6
Increase in provision against subsidiary undertakings	–	(6.5)
Additions	–	2.9
At 25 February 2006	–	149.0

The Company's principal subsidiaries at 25 February 2006 were:

	% Holding of ordinary shares	Country of incorporation and operation
Soapworks Limited	100	Great Britain
The Body Shop Canada Limited	100	Canada
Skin & Hair Care Preparations Inc	100	USA
Buth-Na-Bodhaige Inc	100	USA
The Body Shop (Singapore) Pte Limited	100	Singapore
The Body Shop International (Asia Pacific) Pte Limited	100	Singapore
The Body Shop Hong Kong Limited	100	Hong Kong
Mighty Ocean Company Limited	75	Hong Kong
The Body Shop (France) SARL	100	France
The Body Shop Beteiligungs-GmbH	100	Germany
The Body Shop Benelux B.V.	100	Netherlands

Soapworks Limited
This company's principal activity is the manufacture of soap and related products. Soapworks donates £25,000 per annum to projects designed to benefit the people of Easterhouse. Between 1989 and 2006 the group has made or provided for donations of £475,146.

The Body Shop Canada Limited
This company trades in The Body Shop® products in Canada.

Skin & Hair Care Preparations Inc
This company acts as the holding company in the USA and does not otherwise trade.

Buth-Na-Bodhaige Inc
This company trades in The Body Shop® products in the USA through retail outlets, through a home selling programme and through the internet, following it's merger with The Body Shop On-Line US General Partnership on 11 August 2005.

The Body Shop (Singapore) Pte Limited
This company operates The Body Shop® retail outlets in Singapore.

The Body Shop International (Asia Pacific) Pte Limited
This company operates the Asia Pacific region on behalf of The Body Shop International PLC.

The Body Shop Hong Kong Limited
This company acts as the holding company in Hong Kong and does not otherwise trade.

Mighty Ocean Company Limited
This company trades in The Body Shop® products in Hong Kong. It is owned 75% by the group and 25% by an unconnected third party.

The Body Shop (France) SARL
This company trades in The Body Shop products in France through its wholly owned subsidiary GW Management SARL.

The Body Shop Beteiligungs-GmbH
This company trades in The Body Shop products in Germany through its wholly owned subsidiary The Body Shop Germany GmbH.

The Body Shop Benelux B.V.
This company and it's wholly owned subsidiaries trade in The Body Shop® products in the Netherlands, Belgium and Luxembourg.

13. INVENTORIES

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Raw materials and work in progress	**0.8**	0.7	**–**	–
Finished goods	**54.0**	61.4	**28.4**	38.6
Inventories stated at lower of cost and net realisable value	**54.8**	62.1	**28.4**	38.6

14. Trade and other receivables

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Current assets				
Trade receivables	**28.2**	21.6	**24.6**	17.4
Less provision for impairment of receivables	**(3.0)**	(3.9)	**(2.6)**	(2.3)
Trade receivables - net	**25.2**	17.7	**22.0**	15.1
Amounts owed by subsidiary undertakings	**–**	–	**33.7**	25.2
Prepayments	**9.5**	8.7	**5.2**	5.3
Other receivables	**5.6**	6.0	**7.8**	9.4
	40.3	32.4	**68.7**	55.0
Non-current assets				
Loans to related parties (Note 29)	**0.3**	0.3	**0.3**	0.3
Other receivables	**4.3**	4.4	**3.1**	3.4
	4.6	4.7	**3.4**	3.7

All non-current receivables are due within five years from the balance sheet date.
The fair values of trade and other receivables are as follows:

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trade receivables	**25.2**	17.7	**22.0**	15.1
Amounts owed by subsidiary undertakings	**–**	–	**33.7**	25.2
Loans to related parties (Note 29)	**0.3**	0.3	**0.3**	0.3
Prepayments	**9.5**	8.7	**5.2**	5.3
Other receivables	**9.9**	10.4	**10.9**	12.8
	44.9	37.1	**72.1**	58.7

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 9.8%.

There is no concentration of credit risk with respect to trade receivables, as the group has a large number of customers which are internationally dispersed.

The group recognised a loss of £3.0m (2005: £3.9m) for the impairment of its trade receivables during the period. The loss has been included in 'selling and marketing costs' in the income statement.

15. CASH AND CASH EQUIVALENTS

	2006 £m	2005 £m
Cash at bank and in hand	**53.8**	41.6

Cash and cash equivalents comprise the following for the purposes of the cash flow statement:

	2006 £m	2005 £m
Cash at bank and in hand	**53.8**	41.6
Bank overdrafts	**–**	–
	53.8	41.6

Details of any credit risk to the group are as set out in note 25.

16. SHARE CAPITAL AND RESERVES

Group

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	EST £m	*Translation* reserve £m	*Other reserves* (note 17) £m	*Retained* earnings £m	Total £m
At 29 February 2004	207,596	10.4	54.7	(6.1)	–	2.5	73.0	134.5
Net proceeds from shares issued	3,531	0.2	4.8	–	–		–	5.0
Employee share scheme:								
Proceeds from shares issued	2,603	0.1	2.8	–	–		–	2.9
Retained profits for the year		–	–	–	–	4.3	16.8	21.1
Puttable minority interest		–	–	–	–	(5.6)	–	(5.6)
At 26 February 2005	213,730	10.7	62.3	(6.1)	–	1.2	89.8	157.9
Employee share scheme:								
Proceeds from shares issued	3,523	0.2	3.6	–	–	–	–	3.8
Translation of net investment		–	–	–	2.3	–	–	2.3
Retained profits for the year		–	–	–	–	4.3	16.0	20.3
At 25 February 2006	**217,253**	**10.9**	**65.9**	**(6.1)**	**2.3**	**5.5**	**105.8**	**184.3**

16. SHARE CAPITAL AND RESERVES GROUP (CONTINUED)

Company

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Other reserves (note 17) £m	Retained earnings £m	Total £m
At 29 February 2004	207,596	10.4	54.7	2.5	120.3	187.9
Net proceeds from shares issued	3,531	0.2	4.8		–	5.0
Employee share scheme:						
Proceeds from shares issued	2,603	0.1	2.8	–	–	2.9
Retained profits for the year		–	–	4.0	24.9	28.9
At 26 February 2005	213, 730	10.7	62.3	6.5	145.2	224.7
Employee share scheme:						
Proceeds from shares issued	3,523	0.2	3.6	–	–	3.8
Retained profits for the year		–	–	4.6	(19.4)	(14.8)
At 25 February 2006	**217,253**	**10.9**	**65.9**	**11.1**	**125.8**	**213.7**

The total authorised number of ordinary shares is 300 million shares with a par value of 5p per share. All issued shares are fully paid.

Share premium
This consists of amounts subscribed for share capital in excess of nominal value.

EST: Reserve for own shares
The reserve for own shares in the group and company relates solely to The Body Shop International Employee Share Trust, which was established in April 1997 to encourage and facilitate the acquisition and holding of shares by and for the benefit of the employees. Under the scheme the trustee, Barclays Private Bank & Trust (Isle of Man) Limited, purchases the company's ordinary shares on the open market using loans made by the company or other loans guaranteed by the company. The shares are used to satisfy share options granted to employees under the share option schemes.

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries, as well as from the translation of liabilities that hedge the company's net investment in a foreign subsidiary.

Retained earnings
This comprises of cumulative net gains and losses recognised in the income statement.

17. OTHER RESERVES

Group	Puttable minority interest £m	Share based payments £m	Total £m
At 29 February 2004	–	2.5	2.5
Cost of employee share scheme	–	4.3	4.3
Liability in respect of puttable minority interest	(5.6)	–	(5.6)
At 26 February 2005	(5.6)	6.8	1.2
Cost of employee share scheme	–	4.3	4.3
At 25 February 2006	**(5.6)**	**11.1**	**5.5**

Company	Share based payments £m	Hedging £m	Total £m
At 29 February 2004	2.5	–	2.5
Cost of employee share scheme	4.3	–	4.3
Cash flow hedge	–	(0.3)	(0.3)
At 26 February 2005	6.8	(0.3)	6.5
Cost of employee share scheme	4.3	–	4.3
Cash flow hedge	–	0.3	0.3
At 25 February 2006	**11.1**	**–**	**11.1**

Puttable minority interest reserve

The owners of the minority interest in Mighty Ocean Limited have an option to sell their 25% interest in Mighty Ocean Limited to the group in certain specified circumstances and every year by notice in the 4 weeks following the announcements of the company's annual results. This liability represents the amount that would be payable by the group if this option were exercised.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Share-based payments reserve

The employee share scheme reserve comprises the cumulative expense recognised in connection with the group's share-based payment obligations and includes the recognised element of deferred tax on these payments.

The group has a number of share schemes which entitle executive directors, senior management and employees to acquire shares in the company. These schemes have been in existence for many years and a new performance share scheme was adopted at the Annual General Meeting in June 2005. The recognition and measurement principles in IFRS 2 have been applied to all share awards not vested at 29 February 2004 or those granted since that date.

During the year ended 25 February 2006 the company had the following share-based payment arrangements with employees of the group. They are all equity settled. The details of the arrangements are as follows:

Share option schemes

The group has a number of share option schemes ("Share Option Schemes") which have been used to grant options to executive directors, senior management and employees. Since 1995 the schemes have been subject to performance conditions and subject to those conditions being met and the employee not leaving the company (unless the board of the company exercises its discretion to allow the options to be retained) the term of the options are 10 years.

17. OTHER RESERVES (CONTINUED)

Performance share awards

In June 2005 a new perfomance share award scheme was adopted whereby executive directors, senior management and employees are awarded free shares which vest after three years subject to performance conditions. The performance conditions for awards to executive directors and members of the executive committee are scaled and can give rise to variable levels of vesting.

Share save option schemes

The group invites employees to enter into savings contracts which enable them to buy shares at a 20% discount to the market price at the date of the invitation. Options granted under such arrangements vest after either 3, 5 or 7 years. There are no performance conditions.

	Share option schemes		Share save option schemes		Performance share awards		Total	
	Number (m)	Average price £	Number (m)	Average price £	Number (m)	Average price £	Number (m)	Average price £
At 29 February 2004	20.4	1.06	0.8	0.88	–	–	21.2	1.05
Granted during the year	3.7	1.45	0.6	1.16	–	–	4.3	1.41
Exercised during the year	(2.6)	1.14	–	0.88	–	–	(2.6)	1.14
Expired during the year	(0.1)	2.24	–	1.42	–	–	(0.1)	2.10
Lapsed during the year	(1.4)	1.12	(0.1)	1.01	–	–	(1.5)	1.12
At 26 February 2005	20.0	1.11	1.3	1.00	–	–	21.3	1.10
Granted during the year	0.7	2.32	0.5	1.53	2.1	–	3.3	0.76
Exercised during the year	(3.0)	1.10	(0.5)	0.87	–	–	(3.5)	1.07
Expired during the year	(1.2)	1.29	–	–	–	–	(1.2)	1.29
Lapsed during the year	(1.4)	1.29	(0.2)	1.20	(0.2)	–	(1.8)	1.16
At 25 February 2006	**15.1**	**1.14**	**1.1**	**1.27**	**1.9**	**–**	**18.1**	**1.03**
Exercisable at 26 February 2005	3.9	1.05	–	–	–	–	3.9	1.05
Exercisable at 25 February 2006	**7.7**	**0.99**	**–**	**–**	**–**	**–**	**7.7**	**0.99**

At 26 February 2005	Share option schemes	Share save option schemes	Performance share awards
Option prices	£0.89 to £2.13	£0.86 to £1.42	–
Weighted average contractual life remaining (Years)	7.0	2.8	–
Weighted average price at date of exercise of options exercised in the year (£)	1.65	1.46	–

The following information applies to all options outstanding at the end of the year

Exercise price	Average exercise price	Number outstanding	Average life
Up to £1.10	£0.96	14.2m	7.1 years
Over £1.10	£1.40	7.1m	6.2 years

17. OTHER RESERVES (CONTINUED)

At 25 February 2006	*Share option* schemes	*Share save* option schemes	*Performance* share awards
Option prices	£0.89 to £2.35	£0.86 to £1.53	–
Weighted average contractual life remaining (years)	6.7	3.2	2.4
Weighted average price at date of exercise of options exercised in the year (£)	2.41	2.27	–

The following information applies to all options outstanding at the end of the year

Exercise price	Average exercise price	Number outstanding	Average life
Nil	£0.00	1.9	2.4 years
Up to £1.15	£0.94	10.5	6.3 years
Over £1.15	£1.53	5.7	7.7 years

In respect of options/performance shares granted during the year the fair value was measured by using the Black-Scholes Model. The weighted average results and inputs being as follows.

Arrangement	**Share option schemes**	**Share option schemes**	**Share save option scheme**	**Share save option scheme**	**Performance share awards**	**Phantom option scheme**
Year of grant	**FY06**	**FY05**	**FY06**	**FY05**	**FY06**	**FY06**
Fair value of the options at date of grant	£0.59	£0.35	£0.63	£0.45	£2.15	£2.24
Number of options/shares granted (millions)	0.7	3.7	0.5	0.6	2.0	0.1
Exercise price	£2.32	£1.45	£1.53	£1.16	£0.00	£0.00
Weighted average share price	£2.32	£1.45	£1.91	£1.45	£2.31	£2.32
Contractual term (years)	10 years	10 years	3 to 7 years	3 to 7 years	3 years	3 years
Performance condition	Increase in normalised compound EPS greater than 7.5% per annum	Increase in normalised compound EPS greater than 3% per annum	None	None	Increase in normalised compound EPS greater than 7.5% per annum	Increase in normalised compound EPS greater than 7.5% per annum
Settlement	Shares	Shares	Shares	Shares	Shares	Cash
Expected volatility	33.0%	37.0%	34.0%	38.0%	N/A	N/A
Expected life of option at grant (years)	4.0	4.0	4.1	4.5	3.0	3.0
Risk-free interest rate	4.0%	4.9%	4.4%	4.9%	N/A	N/A
Expected dividend yield	2.5%	4.8%	3.0%	4.8%	2.5%	2.5%

The expected volatility was determined by calculating the historical volatility of the group's share price over the four years preceding the date of grant. The expected life of the options at grant has been based on exercise behaviour from the last year.

* Awards to directors and executive members vest at variable levels *depending on the achievement of variable compound growth rates in EPS* between 7.5% and over 12.5%.

As a result of the application of IFRS2 the expense recognised is £1.4m (2005 £1.4m).

18. DIVIDENDS

The following information applies to all options outstanding at the end of the year

	2006 £m	2005 £m
Final dividend paid of 3.8p per share for 26 February 2005 (2004: 3.8p per share)	**7.9**	7.7
Interim dividend paid of 2.2p per share for 25 February 2006 (2005: 1.9p per share)	**4.7**	4.0
	12.6	11.7

Interim dividend

The directors have already resolved on 19 March 2006 to pay a second interim dividend of 4.4p per share on 3 July 2006 to shareholders who were on the register at the close of business on 24 March 2006. These financial statements do not reflect this dividend payable.

19. MINORITY INTERESTS

	2006 £m	2005 £m
At 27 February 2005	**1.1**	–
Arising on acquisition of subsidiary undertaking	**–**	0.8
Profit on ordinary activities after taxation	**0.6**	0.3
Exchange differences	**(0.2)**	–
At 25 February 2006	**1.5**	1.1

20. GROUP CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating profit to net cash inflow from operating activities:	2006 £m	2005 £m
Operating profit	**41.5**	39.2
Depreciation	**15.0**	14.0
Impairment of property, plant and equipment	**0.2**	–
Amortisation of intangibles	**2.4**	2.1
Loss on disposal of property, plant and equipment	**1.5**	0.8
Loss on disposal of intangible assets	**–**	0.1
Share option charge	**1.4**	1.4
Exchange differences	**0.7**	1.0
Decrease/(increase) in inventories	**11.7**	(0.3)
(Increase)/decrease in trade and other receivables	**(5.7)**	5.9
Increase/(decrease) in trade and other payables	**3.3**	4.7
(Decrease)/increase in provisions	**(0.8)**	(0.1)
	71.2	68.8

20. GROUP CASH FLOW FROM OPERATING ACTIVITIES (CONTINUED)

Analysis of changes in net funds

Changes in net funds constitutes the movements in net liability on borrowings by the group which are as follows:

	At 27 February 2005	**Cash flows**	**Exchange and other non-cash movements**	**At 25 February 2006 £m**	At 29 February 2004	Cash Flows	Exchange and other non-cash movements	At 26 February 2005 £m
Cash and cash equivalents	41.6	11.1	1.1	**53.8**	17.6	24.1	(0.1)	41.6
Funds due within one year	(45.6)	(2.0)	(3.5)	**(51.1)**	(25.9)	(19.9)	0.2	(45.6)
Funds due after one year	(0.3)	0.1	–	**(0.2)**	(0.6)	–	0.3	(0.3)
Finance leases	(15.5)	0.3	–	**(15.2)**	(16.0)	0.5	–	(15.5)
Total	(19.8)	9.5	(2.4)	**(12.7)**	(24.9)	4.7	0.4	(19.8)

21. BORROWINGS

Non-current	**2006 £m**	2005 £m
Obligations under finance leases	**12.9**	13.1
Other borrowings	**0.2**	0.3
	13.1	13.4
Current	**50.8**	45.3
Bank borrowings	**2.3**	2.4
Obligations under finance leases	**0.3**	0.3
Other borrowings	**53.4**	48.0
Total borrowings	**66.5**	61.4

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Bank and other borrowings are unsecured.

The maturity of non-current borrowings is as follows:

	2006 £m	2005 £m
After one and not more than two years	**2.1**	2.2
After two and not more than five years	**6.5**	6.8
Over five years	**4.5**	4.4
	13.1	13.4

21. BORROWINGS (CONTINUED)

Obligations under finance leases

The carrying amounts and fair value of the non-current borrowings are as follows:

	2006		2005	
	Fair value £m	**Carrying amounts £m**	Fair value £m	Carrying amounts £m
Obligations under finance leases	12.9	12.9	13.1	13.1
Other borrowings	0.2	0.2	0.3	0.3
	13.1	**13.1**	13.4	13.4

The fair values are based on cash flows discounted using an appropriate rate.
The carrying amounts of current borrowings approximate their fair value.
Details of all undrawn committed borrowing facilities are as set out in note 25.

The carrying amounts of borrowings are denominated in the following currencies:

	2006 £m	**2006 Local currency**	2005 £m	2005 Local currency
Sterling	**–**	**–**	–	–
US Dollar	**22.9**	**40.0**	18.3	35.0
Euro	**8.2**	**12.0**	8.3	12.0
HK Dollar	**9.2**	**125.0**	8.4	125.0
Singapore Dollar	**10.5**	**30.0**	10.3	32.0
	50.8		45.3	

The present value of minimum lease payments is as follows:

	2006 £m	2005 £m
Not later than one year	**2.3**	2.4
After one and not more than five years	**8.4**	8.6
Over five years	**4.5**	4.5
	15.2	15.5

21. BORROWINGS (CONTINUED)

Interest rate profile

The effective interest rates at the balance sheet date were as follows:

2006	£	US$	€	Singapore Dollar	Hong Kong Dollar
Bank borrowings	**0%**	**5.3%**	**3.2%**	**4.2%**	**4.6%**
Obligations under finance leases	**15.0%**	**0%**	**0%**	**0%**	**0%**
Other borrowings	**5.7%**	**0%**	**0%**	**0%**	**0%**

2005	£	US$	€	Singapore Dollar	Hong Kong Dollar
Bank borrowings	0%	3.3%	2.8%	2.7%	2.2%
Obligations under finance leases	15.0%	0%	0%	0%	0%
Other borrowings	5.7%	0%	0%	0%	0%

The exposure of the group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	2006				2005			
	6 months or less £m	**6–12 months £m**	**1–5 years £m**	**Total £m**	6 months or less £m	6–12 months £m	1–5 years £m	Total £m
Bank borrowings	**50.8**	**–**	**–**	**50.8**	45.3	–	–	45.3
Obligations under finance leases	**–**	**–**	**15.2**	**15.2**	–	–	15.5	15.5
Other borrowings	**–**	**0.5**	**–**	**0.5**	–	0.6	–	0.6
Total borrowings	**50.8**	**0.5**	**15.2**	**66.5**	45.3	0.6	15.5	61.4

22. PROVISIONS FOR LIABILITIES AND CHARGES

	Group Onerous Contracts £m	**Company Onerous contracts £m**
Balance at 27 February 2005	2.2	2.1
Provisions used during the period	(1.0)	(1.0)
Unwinding of discount	0.2	0.2
At 25 February 2006	**1.4**	**1.3**
Current	0.8	0.8
Non-current	0.6	0.5
	1.4	**1.3**

The onerous contracts relate to buildings which the group no longer occupies. The affected lease agreements expire within two to 26 years. Where possible, the group sublets the properties. The amounts due, net of rents receivable under subleases, are discounted at the effective interest rate of 5.7%.

23. DEFFERED TAX ASSETS AND LIABILITIES

Deferred tax is calculated in full on all temporary differences using the tax rate applicable to the jurisdiction where the asset or liability arises.

As at 25 February 2006, the group had the following deferred tax assets:

	2006 Group £m	2005 Group £m	**2006 Company £m**	2005 Company £m
At 27 February 2005	**8.6**	3.1	**5.2**	2.3
Prior period charge	**(5.2)**	(1.7)	**(1.9)**	–
Current period charge:				
Income statement	**4.6**	4.4	**(0.8)**	–
Equity	**2.8**	2.9	**2.7**	2.9
Exchange differences	**0.1**	(0.1)	**–**	–
At 25 February 2006	**10.9**	8.6	**5.2**	5.2

The movement on each type of temporary difference or unused tax loss is shown below.
This disclosure is prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12.
Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax liabilities

Group	**Impairment of fixed assets £m**	***Accelerated* capital allowances £m**	***Other* temporary differences £m**	**Total £m**
At 27 February 2005	(0.3)	(1.6)	(0.8)	(2.7)
Prior period charge	–	0.1	0.5	0.6
Current period charge:				
Income statement	0.3	(0.1)	–	0.2
At 25 February 2006	**–**	**(1.6)**	**(0.3)**	**(1.9)**

Company	**Accelerated capital allowances £m**	**Other temporary differences £m**	**Total £m**
At 27 February 2005	(0.9)	(0.5)	(1.4)
Prior period charge	–	0.5	0.5
Current period charge:			
Income statement	(0.8)	–	(0.8)
At 25 February 2006	**(1.7)**	**–**	**(1.7)**

23. DEFFERED TAX ASSETS AND LIABILITIES (CONTINUED)

Deferred tax assets

Group	Share-based payments £m	Tax losses £m	Other temporary differences £m	Total £m
At 27 February 2005	4.1	3.4	3.8	11.3
Prior period charge	–	(3.5)	(2.3)	(5.8)
Current period charge:				
Income statement	–	4.8	(0.4)	4.4
Equity	2.8	–	–	2.8
Exchange differences	–	0.1	–	0.1
At 25 February 2006	**6.9**	**4.8**	**1.1**	**12.8**

Company	Share-based payments £m	Other temporary differences £m	Total £m
At 27 February 2005	4.1	2.5	6.6
Prior period charge	–	(2.4)	(2.4)
Current period charge:			
Equity	2.7	–	2.7
At 25 February 2006	**6.8**	**0.1**	**6.9**

Deferred tax assets are recognised in respect of tax loss carry-forwards and deductible temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. Under current tax legislation, unrelieved tax losses and deductible temporary differences may be carried forward for relief against future tax liabilities.

Deferred tax assets have not been recognised in respect of the following items:

	Group 2006 £m	Group 2005 £m
Deductible temporary differences	**13.0**	13.2
Tax losses	**6.3**	11.6
	19.3	24.8

The probability of any realisation of unrelieved tax losses is, in all cases, based on the group's prudent assessment of the future profitability of the company concerned, supported by revenue and cost budgets approved by the group's directors, and is reviewed on an ongoing basis.

The group has not recognised a deferred tax liability for the withholding tax and other taxes that would be payable on the unremitted earnings of overseas subsidiaries as the earnings are continually reinvested, and as a result no tax is expected to be paid in the foreseeable future . If the earnings were remitted tax of £1.1m at 25 February 2006 (2005: £0.9m) would be payable.

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trade payables	**13.9**	13.3	**11.7**	10.8
Social security and other taxes	**4.2**	5.5	**2.3**	3.3
Other payables	**14.7**	8.6	**6.8**	3.3
Accrued expenses	**18.7**	16.7	**8.0**	10.8
Liability for puttable minority interest	**5.6**	5.6	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**28.1**	17.6
	57.1	49.7	**56.9**	45.8

The fair value of trade and other payables does not differ significantly from their carrying value.

Puttable minority interest
The owners of the minority interest in Mighty Ocean Limited have an option to sell their 25% interest in Mighty Ocean Limited to the group in certain specified circumstances and every year by notice in the 4 weeks following the announcements of the company's annual results. This liability represents the amount that would be payable by the group if this option were exercised.

25. FINANCIAL RISK MANAGEMENT

Risk exposures
Exposure to debt market prices, credit, interest rate, exchange and liquidity risks arises in the normal course of the group's business. The board approves treasury policies, with members of the senior management team directly controlling day-to-day operations. The group uses derivatives only to manage its foreign exchange risks arising from underlying business activities. No transactions of a speculative nature are undertaken.

Debt market prices
The group has no significant risk to debt market prices.

Credit risk
The group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The group has policies that limit the amount of credit exposure to any one financial institution.

Cash flow and fair value interest rate risk
The group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the group to cash flow interest-rate risk. Borrowings at fixed rates expose the group to fair value interest-rate risk. The group's objective is to minimise the cost of borrowing by matching the maturity dates of loans to the seasonal requirements of the business.

Interest payable on borrowings other than finance leases is fixed for periods of up to six months, as set out in note 21.

Foreign exchange risk
The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, the US dollar, the Singapore dollar and the Hong Kong dollar.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The group hedges the effects of changes in exchange rates either on balances payable to its subsidiaries that is not expected to be settled in the foreseeable future or on balances receivable from its subsidiaries that may or may not be capitalised in the foreseeable future. In addition, to manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the group manages the position in each foreign currency by using external forward currency contracts, which are designated as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The group's currency risk management policy is to hedge on a monthly basis to cover receipts and payments expected to occur in nine months time using basic forward exchange contracts only. Each hedging instrument is designated as such and is documented in accordance with the requirements of IAS 39:88. The hedging instruments do not hedge all gross receipts.

The fair value of hedging contracts held to hedge foreign exchange risk at the balance sheet date is £0.1m (2005 £0.2m).

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Liquidity risk
The group's objective is to maintain a balance between continuity of funding through medium term facilities and flexibility through short term local overdrafts. The main facility is an £130.0 million multi-currency revolving credit agreement which runs until December 2009. In addition, there are a number of smaller short term facilities to support local requirements, including overdraft facilities in the United Kingdom and elsewhere. Total available facilities at 25 February 2006 were £134.7 m (2005 £130.0 m), of which £50.8 m (2005 £40.3m) was drawn down.

Fair value estimation
The following summarises the methods and assumptions used in estimating the fair values of financial instruments.

Derivatives
Forward exchange contracts are generally valued by deducting the current spot rate from the contractual forward price. Where significant the discounted contractual forward price is used, based on market discount rates for a similar instrument at the balance sheet date.

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest case flows.

Finance lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at market interest rates for similar lease agreements. The estimated fair values reflect change in interest rates.

Trade and other receivables / payables
For receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect their fair value. All other receivables and payables are discounted to determine the fair value.

26. EARNINGS PER SHARE

Basic
Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as employee share option trust shares (Note 17).

	2006 £m	2005 £m
Profit attributable to equity shareholders of the company	**28.6**	28.5
	Number in millions	Number in millions
Weighted average number of ordinary shares in issue	**210.5**	206.6
Basic earnings per share (pence per share)	**13.6**	13.8

Diluted
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares arise from share options. For these, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

26. EARNINGS PER SHARE (CONTINUED)

	2006 £m	2005 £m
Profit attributable to equity shareholders of the company	**28.6**	28.5

	Number in millions	Number in millions
Weighted average number of ordinary shares in issue	**210.5**	206.6
Adjustments for dilutive effect of share options	**6.6**	6.7
Weighted average number of ordinary shares for diluted earnings per share	**217.1**	213.3
Diluted earnings per share (pence per share)	**13.2**	13.3

27. COMMITMENTS

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2006 £m	2005 £m
Property, plant and equipment	**0.4**	3.7
Intangible assets	**0.7**	0.7
	1.1	4.4

Operating lease commitments

The group leases various retail outlets, warehouses and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The group also leases items of plant and equipment on short- and medium-term leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2006 £m	2005 £m
Not later than 1 year	**49.9**	32.8
Later than 1 year and not later than 5 years	**133.7**	91.8
Later than 5 years	**89.0**	86.8
	272.6	211.4

The majority of leases are subject to rent reviews. Of the above, £1.7m (2005 £2.5 m) relates to total commitments under leases where the group has granted sub-leases at the same rental to franchisees and other entities. Income from sublet property amounted to £Nil (2005 £0.6m) for the period

28. CONTINGENT LIABILITIES

There were no material contingent liabilities at 25 February 2006 (2005 Nil).

29. RELATED-PARTY TRANSACTIONS

Identity of related parties
The group has related party relationships with its subsidiaries (see note 12) and with its directors and executive officers ("key management personnel").

Transactions with key management personnel
Key management personnel of the company and their close relatives control 21.6% of the voting shares of the company.

In addition to their salaries, the group also provides non-cash benefits to key management personnel, and contributes to money purchase pension schemes on their behalf.

Key management personnel also participate in the group's share option programme (see note 17).

The compensation of the company's boards of directors is regulated by the company's remuneration committee, which makes its Remuneration Report to the equity shareholders of the company at the Annual General Meeting.

The key management personnel *compensations, included in staff costs and numbers (see note 4), are as follows:*

	2006 £m	2005 £m
Short-term employee benefits	**3.9**	3.9
Post-employment benefits	**0.5**	0.3
Termination benefits	**0.5**	–
Share-based payments	**0.7**	0.8
	5.6	5.0

Loans with directors
Peter Saunders joined the company's US subsidiary Buth-Na-Bodhaige Inc (BNB) in July 1998 as chief operating officer. At the time, BNB was operated under a joint venture agreement with Adrian Bellamy. As part of his contract of employment, Peter Saunders was granted an interest free loan of US$ 800,000 by BNB to facilitate his relocation to its head office in San Francisco. This loan was still in existence at the date of his appointment to the board on 12 February 2002.

The latest date on which the loan is repayable is 22 February 2009. The amount outstanding was US$ 800,000 for the whole of the period. The loan was repaid in full on 4 April 2006.

Loans with officers other than directors
At 25 February 2006 the aggregate amount of outstanding loans with officers other than directors was £343,829 (26 February 2005: £325,626). This balance related to 2 officers.

29. RELATED-PARTY TRANSACTIONS (CONTINUED)

Trading transactions

During the year the parent company entered into the following transactions with its subsidiaries.

	Sales of goods including services		Purchasing of goods including services		Amounts owed by related parties net of impairment		Amounts owed to related parties net of impairment	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
TBS Retail Properties Ltd	**–**	–	**–**	–	**2.0**	0.2	**–**	–
TBS (France) SARL	**2.0**	1.9	**–**	–	**2.4**	2.0	**–**	–
BS Danmark A/S	**0.8**	1.9	**–**	–	**0.6**	2.1	**–**	–
The Body Shop Germany GmbH	**5.3**	9.6	**–**	–	**–**	–	**–**	–
TBS (Singapore) Pte	**3.9**	3.7	**–**	–	**–**	1.7	**6.8**	–
TBS Int'l (Asia Pacific) Pte	**0.2**	0.1	**–**	–	**–**	–	**4.7**	9.0
TBS Hong Kong Limited	**1.0**	5.2	**–**	–	**0.3**	–	**–**	–
Mighty Ocean Company Ltd	**–**	–	**–**	–	**1.1**	1.4	**–**	–
TBS Canada Ltd	**–**	9.7	**–**	–	**–**	0.5	**3.1**	–
TBS GmbH(Austria)	**1.6**	1.3	**–**	–	**–**	0.9	**–**	–
TBS Benelux B.V	**–**	–	**–**	–	**3.0**	0.1	**–**	–
Eastwick Benelux B.V	**3.0**	–	**–**	–	**–**	–	**–**	–
Buth-Na-Bodaige Inc	**37.0**	24.6	**–**	–	**5.2**	7.8	**–**	–
TBS Card Services	**0.7**	0.9	**–**	–	**–**	4.4	**2.1**	5.2
Soapworks Ltd	**–**	–	**9.7**	6.7	**5.9**	2.7	**–**	–
TBS Worldwide Ltd	**–**	–	**–**	–	**0.7**	0.7	**–**	–
TBS Beteiligungs GmbH	**–**	–	**–**	–	**0.9**	0.2	**0.6**	–
TBS On-Line II	**–**	–	**–**	–	**–**	–	**–**	–
TBS On-Line US GP	**–**	–	**–**	–	**–**	–	**0.8**	0.3
ESOT	**–**	–	**–**	–	**6.1**	6.1	**–**	–
Small subsidiaries	**15.4**	20.8	**–**	–	**7.8**	10.2	**10.6**	5.0
Dormant companies	**–**	–	**–**	–	**3.7**	3.8	**0.8**	1.1

30. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Notes to the reconciliation of equity

a) Reconciliations and explanatory notes on how the transition to IFRS has effected profit and net assets previously reported under UK generally accepted accounting principles are given below:

IFRS 3 "Business Combinations"
As at the transition date, amortisation of goodwill on a straight-line basis ceased and accumulated amortisation and impairment losses recognised to that date were netted against the goodwill's original cost.

From the date of transition, goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Goodwill balances were reviewed for impairment as at 28 February 2004 and 26 February 2005 and no adjustments were identified.

In the 52 weeks ended 26 February 2005 the non-amortisation of goodwill has resulted in an increase in profit before tax of £3.8 million. There was no resulting tax impact.

IAS 21 "Foreign Exchange"
Under IAS 21, exchange differences resulting from the translation of the opening net investment in foreign operations that arise after the transition date are recognised as a separate component of equity, rather than within retained earnings as under UK GAAP.

In addition, when a foreign operation is sold, such exchange differences accumulated since the transition date are recognised in the income statement as part of the gain or loss on sale. Under UK GAAP such exchange differences are not re-cycled from retained earnings through the profit and loss account on the disposal of a foreign operation.

For the parent company accounts net investment hedging is not allowed under IFRS. Therefore investments have been restated to historical cost and the foreign exchange on retranslation of foreign currency loans has been taken to the income statement.

IAS 17 "Leased Assets"
Under IAS 17, lease agreements for land and buildings are treated as finance leases where the lease term approximates to the useful life of the building and where the present value of the minimum lease payments, excluding payments for land, approximates to the fair value of the leased assets at inception.

Following a review of the group's building leases, a number of leases have been reclassified from operating to finance leases and have been brought on to the balance sheet. This has led to an increase of £9.4 million in fixed assets as at 26 February 2005, with a corresponding increase in finance lease liabilities.

The main impact to the income statement is that operating lease rentals under UK GAAP has been replaced by depreciation and an interest expense under IFRS. Over the period of the lease, the total impact on the income statement has been the same. However, under IFRS more of the total expense has been recognised earlier in the term of the lease and the majority of the expense has been classified under finance costs rather than operating costs. The pre-tax impact on the income statement for the 52 weeks ended 26 February 2005 is not material, although there is a £1.7 million reclassification of cost from operating profit to interest expense as a result of this change in accounting policy.

IAS 38 "Intangible Assets"
Under UK GAAP, items such as software development and website development costs are included within tangible fixed assets. IAS 38 requires these assets to be disclosed under intangible assets. Consequently, a reclassification has been performed on the restatement of the group's balance sheet to IFRS. The amount reclassified as at 26 February 2005 is £9.8 million. There is no impact on the income statement as a result of this reclassification.

IAS 32 and 39 "Financial Instruments"

Under IAS 32 a liability has been recognised in respect of the option for the owners of the minority interest in Mighty Ocean Limited to sell their 25% interest in Mighty Ocean Limited to the group.

IAS 39 has a number of implications on the restatement of the group's financial statements:

Deferred consideration receivable
Under UK GAAP, deferred consideration is recorded at the gross amount due. Under IAS 39, such receivables are recorded at their discounted value, with the difference being recorded as interest receivable over the period that the consideration is due.

As at 26 February 2005, this adjustment has resulted in a reduction in receivables due after more than one year of £0.7 million. The effect on the income statement for the 52 weeks ended 26 February 2005 is an increase in pre-tax profit of £0.2 million.

Hedging instruments
Under UK GAAP, gains and losses on hedges on long-term amounts due from or to foreign subsidiaries are taken to the profit and loss account. In addition, gains and losses on hedges of future transactions denominated in foreign currency are deferred until the period in which the hedged transaction occurs, at which point they are recognised in the profit and loss account.

Under IFRS, gains and losses on hedges of future transactions are recognised in the hedging reserve in equity to the extent that the hedges are deemed to be effective in the group and company accounts; the ineffective portion is recognised in the income statement. This applies from 1 January 2005 for hedges of future transactions denominated in currency, as prior to this date the group did not meet the criteria for hedge accounting under IAS 39, and at 26 February 2005 this resulted in a reduction in pre-tax profit of £1.1 million.

30. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

IFRS 2 "Share Based Payments"

The main impact on the group of IFRS 2 is an expense charge to the income statement in respect of employee and directors' share options. Under UK GAAP, there is no comparable charge.

The expense is calculated based on the fair value of the share options at the date of grant and is spread over the vesting period of the option scheme, adjusted for expected levels of vesting. The Black-Scholes model has been used to calculate the fair value of the share options at the date of grant.

To improve comparability, the group has applied IFRS 2 to all share options that had not vested as at 29 February 2004, rather than just to those granted post 1 November 2002 (as permitted by the standard). The fair value of share options granted prior to 1 November 2002 was published on the group's website on 15 August 2005.

For the 52 weeks ended 26 February 2005, the impact of IFRS 2 was a £1.4 million reduction in pre-tax profit. This is offset by a deferred tax credit of £0.2 million. The total deferred tax credit is based on the difference between the market value of the share options at the balance sheet date and the option exercise price. Of this amount, the deferred tax relating to the difference between the share option charge and the Black-Scholes charge is taken to the income statement, with the remainder being credited directly to equity. As at 26 February 2005, the total amount recognised with respect to deferred tax on share options was £4.1 million.

IAS 12 "Income Taxes"

Current taxes are accounted for under IFRS under the same basis as UK GAAP.

Deferred tax under UK GAAP is recognised on all timing differences that have originated but not reversed by the balance sheet date. The exception is the recognition of deferred tax assets, which is limited to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Under IFRS, deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from the differences between the carrying amount of assets and liabilities in the balance sheet and their corresponding tax basis. Deferred tax is not recognised on temporary differences arising from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction where there is no effect on either the tax or accounting profit.

The change to the balance sheet liability method of accounting for deferred tax results in the following changes to the tax charge:

	29 Feb 04 Net assets £m	26 Feb 05 P&L £m	26 Feb 05 Reserves £m	26 Feb 05 Net assets £m
Impact of IAS 12	0.2	(0.2)	–	–
Tax effect of accounting changes	2.6	0.5	3.0	6.1
Total tax impact	2.8	0.3	3.0	6.1

The most significant elements of the change in the tax charge as a result of the transition to IFRS relates to the recognition of deferred tax on share-based payments and on hedging gains or losses under IAS 39.

IAS 10 "Dividends"

Under UK GAAP, dividends were recognised in the profit and loss account in the period to which they relate.

Under IFRS, dividends are only recognised in the period to which they relate if they have been approved prior to year end. If they are not approved until after the balance sheet date, they are recognised in the following accounting period.

As a result the final dividend for the 52 weeks ended 28 February 2004 of £7.7 million, which was not declared until after the balance sheet date, has been reversed in the transition balance sheet and charged to equity in the balance sheet as at 26 February 2005. Similarly, the final dividend for the 52 weeks ended 26 February 2005 of £7.9 million has been charged to equity in the 52 weeks to 25 February 2006.

IAS 37 "Provisions"

Previously, provisions in the balance sheet were not discounted. Under IFRS, provisions are carried at a discounted value that reflects an appropriate pre-tax discount rate applied to expected future cash flows.

Other Adjustments

Other adjustments include the recognition of a vacation accrual under IAS 19, the impact of which was not material on either the transition balance sheet or the 52 weeks to 26 February 2005.

30. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

b) Income statement reconciliation for the 52 weeks ended 26 February 2005

Group	UK GAAP £m	IFRS 3 Business combinations £m	Share Based payments £m	IFRS 2 IAS 32 & 39 Financial instruments £m	IAS 17 Leases £m	IAS 12 Income taxes £m	Other £m	IFRS (audited) £m
Revenue	419.0	–	–	–	–	–	–	**419.0**
Cost of sales	(146.3)	–	–	–	–	–	–	**(146.3)**
Gross profit	272.7	–	–	–	–	–	–	**272.7**
Operating expenses	(236.5)	3.8	(1.4)	(1.1)	1.7	–	–	**(233.5)**
Group operating profit	36.2	3.8	(1.4)	(1.1)	1.7	–	–	**39.2**
Net finance costs	(1.7)	–	–	0.2	(1.8)	–	(0.2)	**(3.5)**
Profit on ordinary activities before taxation	**34.5**	**3.8**	**(1.4)**	**(0.9)**	**(0.1)**	**–**	**(0.2)**	**35.7**
Taxation	(7.2)	–	–	–	–	0.3	–	**(6.9)**
Profit for the period	**27.3**	**3.8**	**(1.4)**	**(0.9)**	**(0.1)**	**0.3**	**(0.2)**	**28.8**
Profit attributable to minority interests	0.3	–	–	–	–	–	–	**0.3**
Profit attributable to shareholders	27.0	3.8	(1.4)	(0.9)	(0.1)	0.3	(0.2)	**28.5**
	27.3	**3.8**	**(1.4)**	**(0.9)**	**(0.1)**	**0.3**	**(0.2)**	**28.8**
Earnings per share								
– basic	**13.1p**							**13.8p**
– diluted	**12.6p**							**13.3p**

30. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

c) Balance sheet reconciliation as at 26 February 2005

Group IFRS 3	IAS 38 UK GAAP £m	IAS 32 &39 Business combinations £m	Intangible assets £m	IAS 12 Financial instruments £m	IFRS 2 IAS 17 Leases £m	Income taxes £m	Share based payments £m	IAS 10 Dividends £m	Other £m	**IFRS (audited) £m**
Assets										
Non-current assets										
Property, plant and equipment	73.5	–	(7.2)	–	9.4	–	–	–	–	**75.7**
Other intangible assets	–	–	7.2	–	–	–	–	–	–	**7.2**
Goodwill	44.0	3.8	–	–	–	–	–	–	–	**47.8**
Deferred tax asset	2.5	–	–	–	–	9.3	–	–	–	**11.8**
Non-current receivables	5.4	–	–	(0.7)	–	–	–	–	–	**4.7**
Total non-current assets	**125.4**	**3.8**	**–**	**(0.7)**	**9.4**	**9.3**	**–**	**–**	**–**	**147.2**
Current assets										
Inventories	62.1	–	–	–	–	–	–	–	–	**62.1**
Trade and other receivables	32.4	–	–	–	–	–	–	–	–	**32.4**
Derivatives	–	–	–	0.2	–	–	–	–	–	**0.2**
Cash and cash equivalents	41.6	–	–	–	–	–	–	–	–	**41.6**
Total current assets	**136.1**	–	–	**0.2**	–	–	–	–	–	**136.3**
Total assets	**261.5**	**3.8**	**–**	**(0.5)**	**9.4**	**9.3**	**–**	**–**	**–**	**283.5**
Liabilities										
Current liabilities										
Trade and other payables	(51.8)	–	–	(5.6)	–	–	–	7.9	(0.2)	**(49.7)**
Interest-bearing loans and borrowings	(45.6)	–	–	–	–	–	–	–	–	**(45.6)**
Obligations under finance leases	(0.2)	–	–	–	(2.2)	–	–	–	–	**(2.4)**
Derivatives	–	–	–	–	–	–	–	–	–	**–**
Tax payable	(8.0)	–	–	–	–	–	–	–	–	**(8.0)**
Total current liabilities	**(105.6)**	**–**	**–**	**(5.6)**	**(2.2)**	**–**	**–**	**7.9**	**(0.2)**	**(105.7)**
Non-current liabilities										
Interest-bearing loans and borrowings	(0.3)	–	–	–	–	–	–	–	–	**(0.3)**
Obligations under finance leases	(0.2)	–	–	–	(12.9)	–	–	–	–	**(13.1)**
Deferred Tax	–	–	–	–	–	(3.2)	–	–	–	**(3.2)**
Provisions	(2.4)	–	–	–	–	–	–	–	0.2	**(2.2)**
Total non-current liabilities	**(2.9)**	**–**	**–**	**–**	**(12.9)**	**(3.2)**	**–**	**–**	**0.2**	**(18.8)**
Total liabilities	**(108.5)**	**–**	**–**	**(5.6)**	**(15.1)**	**(3.2)**	**–**	**7.9**	**–**	**(124.5)**
Net assets	**153.0**	**3.8**	**–**	**(6.1)**	**(5.7)**	**6.1**	**–**	**7.9**	**–**	**159.0**
Equity										
Called up share capital	10.7	–	–	–	–	–	–	–	–	**10.7**
Share premium account	62.3	–	–	–	–	–	–	–	–	**62.3**
Reserve for own shares	(6.1)	–	–	–	–	–	–	–	–	**(6.1)**
Foreign currency translation	–	–	–	0.3	–	0.1	–	–	(0.4)	**–**
Other reserve	–	–	–	(5.6)	–	3.3	3.5	–	–	**1.2**
Retained earnings	85.0	3.8	–	(0.8)	(5.7)	2.7	(3.5)	7.9	0.4	**89.8**
Equity attributable to equity holders of the parent	**151.9**	**3.8**	**–**	**(6.1)**	**(5.7)**	**6.1**	**–**	**7.9**	**–**	**157.9**
Equity minority interests	1.1	–	–	–	–	–	–	–	–	**1.1**
Total equity	**153.0**	**3.8**	**–**	**(6.1)**	**(5.7)**	**6.1**	**–**	**7.9**	**–**	**159.0**

30. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

d) Balance sheet reconciliation as at 28 February 2004

Group	UK GAAP £m	IAS 38 Intangible assets £m	IAS 32 & 39 Financial instruments £m	IAS 17 Leases £m	IAS 12 Income taxes £m	IFRS 2 Share based payments £m	IAS 10 Dividends £m	Other £m	**IFRS (audited) £m**
Assets									
Non-current assets									
Property, plant and equipment	61.9	(7.3)	–	9.9	–	–	–	(0.1)	**64.4**
Other intangible assets	–	7.3	–	–	–	–	–	0.1	**7.4**
Goodwill	31.7	–	–	–	–	–	–	–	**31.7**
Deferred tax asset	0.2	–	–	–	5.0	–	–	–	**5.2**
Non-current receivables	5.9	–	(0.9)	–	–	–	–	–	**5.0**
Total non-current assets	**99.7**	**–**	**(0.9)**	**9.9**	**5.0**	**–**	**–**	**–**	**113.7**
Current assets									
Inventories	52.4	–	–	–	–	–	–	–	**52.4**
Trade and other receivables	36.0	–	–	–	–	–	–	–	**36.0**
Derivatives	–	–	1.0	–	–	–	–	–	**1.0**
Cash and cash equivalents	17.6	–	–	–	–	–	–	–	**17.6**
Total current assets	**106.0**	–	**1.0**	–	–	–	–	–	**107.0**
Total assets	**205.7**	**–**	**0.1**	**9.9**	**5.0**	**–**	**–**	**–**	**220.7**
Liabilities									
Current liabilities									
Trade and other payables	(41.8)	–	–	–	–	–	7.7	(0.2)	**(34.3)**
Interest-bearing loans and borrowings	(25.9)	–	–	–	–	–	–	–	**(25.9)**
Obligations under finance leases	(0.2)	–	–	(2.2)	–	–	–	–	**(2.4)**
Tax payable	(5.1)	–	–	–	–	–	–	–	**(5.1)**
Total current liabilities	**(73.0)**	**–**	**–**	**(2.2)**	**–**	**–**	**7.7**	**(0.2)**	**(67.7)**
Non-current liabilities									
Interest-bearing loans and borrowings	(0.6)	–	–	–	–	–	–	–	**(0.6)**
Obligations under finance leases	(0.3)	–	–	(13.3)	–	–	–	–	**(13.6)**
Deferred tax	–	–	–	–	(2.2)	–	–	–	**(2.2)**
Provisions	(2.5)	–	–	–	–	–	–	0.4	**(2.1)**
Total non-current liabilities	**(3.4)**	**–**	**–**	**(13.3)**	**(2.2)**	**–**	**–**	**0.4**	**(18.5)**
Total liabilities	**(76.4)**	**–**	**–**	**(15.5)**	**(2.2)**	**–**	**7.7**	**0.2**	**(86.2)**
Net assets	**129.3**	**–**	**0.1**	**(5.6)**	**2.8**	**–**	**7.7**	**0.2**	**134.5**
Equity									
Called up share capital	10.4	–	–	–	–	–	–	–	**10.4**
Share premium account	54.7	–	–	–	–	–	–	–	**54.7**
Reserve for own shares	(6.1)	–	–	–	–	–	–	–	**(6.1)**
Other reserve	–	–	–	–	0.4	2.1	–	–	**2.5**
Retained earnings	70.3	–	0.1	(5.6)	2.4	(2.1)	7.7	0.2	**73.0**
Equity attributable to equity holders of the parent	**129.3**	**–**	**0.1**	**(5.6)**	**2.8**	**–**	**7.7**	**0.2**	**134.5**
Equity minority interests	–	–	–	–	–	–	–	–	–
Total equity	**129.3**	**–**	**0.1**	**(5.6)**	**2.8**	**–**	**7.7**	**0.2**	**134.5**

30. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

e) Balance sheet reconciliation as at 26 February 2005

Company	UK GAAP £m	IFRS 3 Business combinations £m	IAS 38 Intangible assets £m	IAS 32 & 39 Financial instruments £m	IAS 17 Leases £m	IAS 12 Income taxes £m	IFRS 2 Share based payments £m	IAS 10 Dividends £m	IAS 21 Foreign exchange £m	Other £m	**IFRS (audited) £m**
Assets											
Non-current assets											
Property, plant and equipment	46.1	–	(8.4)	–	9.5	–	–	–	–	–	**47.2**
Other intangible assets	–	–	8.4	–	–	–	–	–	–	–	**8.4**
Goodwill and investments	135.9	0.1	–	–	–	–	–	–	17.6	–	**153.6**
Deferred tax asset	–	0.2	–	–	2.7	5.5	–	–	–	(3.2)	**5.2**
Non-current receivables	–	–	–	–	–	–	–	–	–	3.7	**3.7**
Total non-current assets	**182.0**	**0.3**	**–**	**–**	**12.2**	**5.5**	**–**	**–**	**17.6**	**0.5**	**218.1**
Current assets											
Inventories	38.6	–	–	–	–	–	–	–	–	–	**38.6**
Trade and other receivables	53.1	(0.7)	–	–	–	–	–	–	–	2.6	**55.0**
Derivatives	–	–	–	0.2	–	–	–	–	–	–	**0.2**
Cash and cash equivalents	27.8	–	–	–	–	–	–	–	–	–	**27.8**
Total current assets	**119.5**	**(0.7)**	**–**	**0.2**	**–**	**–**	**–**	**–**	**–**	**2.6**	**121.6**
Total assets	**301.5**	**(0.4)**	**–**	**0.2**	**12.2**	**5.5**	**–**	**–**	**17.6**	**3.1**	**339.7**
Liabilities											
Current liabilities											
Trade and other payables	(53.4)	–	–	–	–	(0.2)	–	7.9	–	(0.1)	**(45.8)**
Interest-bearing loans and borrowings	(45.3)	–	–	–	–	–	–	–	–	0.1	**(45.2)**
Obligations under finance leases	(0.2)	–	–	–	(2.2)	–	–	–	–	–	**(2.4)**
Derivatives	–	–	–	–	–	–	–	–	–	–	**–**
Tax payable	(6.4)	–	–	–	–	–	–	–	–	–	**(6.4)**
Total current liabilities	**(105.3)**	**–**	**–**	**–**	**(2.2)**	**(0.2)**	**–**	**7.9**	**–**	**–**	**(99.8)**
Non-current liabilities											
Interest-bearing loans and borrowings	–	–	–	–	–	–	–	–	–	–	**–**
Obligations under finance leases	(0.1)	–	–	–	(13.0)	–	–	–	–	–	**(13.1)**
Deferred Tax	(1.2)	(0.1)	–	–	(1.0)	1.2	–	–	–	1.1	**–**
Provisions	(2.3)	0.2	–	–	–	–	–	–	–	–	**(2.1)**
Total non-current liabilities	**(3.6)**	**0.1**	**–**	**–**	**(14.0)**	**1.2**	**–**	**–**	**–**	**1.1**	**(15.2)**
Total liabilities	**(108.9)**	**0.1**	**–**	**–**	**(16.2)**	**1.0**	**–**	**7.9**	**–**	**1.1**	**(115.0)**
Net assets	**192.6**	**(0.3)**	**–**	**0.2**	**(4.0)**	**6.5**	**–**	**7.9**	**17.6**	**4.2**	**224.7**
Equity											
Called up share capital	10.7	–	–	–	–	–	–	–	–	–	**10.7**
Share premium account	62.3	–	–	–	–	–	–	–	–	–	**62.3**
Reserve for own shares	(6.1)	–	–	–	–	–	–	–	–	6.1	**–**
Other reserve	–	–	–	–	–	3.3	3.4	–	–	(0.2)	**6.5**
Retained earnings	125.7	(0.3)	–	0.2	(4.0)	3.2	(3.4)	7.9	17.6	(1.7)	**145.2**
Equity attributable to equity holders of the parent	**192.6**	**(0.3)**	**–**	**0.2**	**(4.0)**	**6.5**	**–**	**7.9**	**17.6**	**4.2**	**224.7**
Total equity	**192.6**	**(0.3)**	**–**	**0.2**	**(4.0)**	**6.5**	**–**	**7.9**	**17.6**	**4.2**	**224.7**

30. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

f) Balance sheet reconciliation as at 26 February 2004

Company	UK GAAP £m	IFRS 3 Business combinations £m	IAS 38 Intangible assets £m	IAS 32 & 39 Financial instruments £m	IAS 17 Leases £m	IAS 12 Income taxes £m	IFRS 2 Share based payments £m	IAS 10 Dividends £m	IAS 21 Foreign exchange £m	Other £m	**IFRS (audited) £m**
Assets											
Non-current assets											
Property, plant and equipment	37.3	–	(5.6)	–	9.9	–	–	–	–	–	**41.6**
Other intangible assets	–	–	5.6	–	–	–	–	–	–	–	**5.6**
Goodwill and investments	96.0	–	–	–	–	–	–	–	14.9	0.1	**111.0**
Deferred tax asset	–	0.3	–	–	2.0	0.3	1.0	–	–	–	**3.6**
Non-current receivables	–	–	–	–	–	–	–	–	–	–	**–**
Total non-current assets	**133.3**	**0.3**	**–**	**–**	**11.9**	**0.3**	**1.0**	**–**	**14.9**	**0.1**	**161.8**
Current assets											
Inventories	37.2	–	–	–	–	–	–	–	–	–	**37.2**
Trade and other receivables	70.6	(0.9)	–	–	–	–	–	–	–	6.1	**75.8**
Derivatives	–	–	–	1.0	–	–	–	–	–	–	**1.0**
Cash and cash equivalents	6.1	–	–	–	–	–	–	–	–	–	**6.1**
Total current assets	**113.9**	**(0.9)**	**–**	**1.0**	**–**	**–**	**–**	**–**	**–**	**6.1**	**120.1**
Total assets	**247.2**	**(0.6)**	**–**	**1.0**	**11.9**	**0.3**	**1.0**	**–**	**14.9**	**6.2**	**281.9**
Liabilities											
Current liabilities											
Trade and other payables	(52.8)	–	–	–	–	–	–	7.7	–	(0.1)	**(45.2)**
Interest-bearing loans and borrowings	(25.6)	–	–	–	–	–	–	–	–	–	**(25.6)**
Obligations under finance leases	(0.2)	–	–	–	(2.2)	–	–	–	–	–	**(2.4)**
Derivatives	–	–	–	–	–	–	–	–	–	–	**–**
Tax payable	(4.7)	–	–	–	–	–	–	–	–	–	**(4.7)**
Total current liabilities	**(83.3)**	**–**	**–**	**–**	**(2.2)**	**–**	**–**	**7.7**	**–**	**(0.1)**	**(77.9)**
Non-current liabilities											
Interest-bearing loans and borrowings	–	–	–	–	–	–	–	–	–	–	**–**
Obligations under finance leases	(0.3)	–	–	–	(13.3)	–	–	–	–	–	**(13.6)**
Deferred Tax	(0.9)	–	–	(0.3)	(0.3)	0.9	–	–	–	(0.1)	**(0.7)**
Provisions	(2.2)	–	–	–	–	–	–	–	–	0.4	**(1.8)**
Total non-current liabilities	**(3.4)**	**–**	**–**	**(0.3)**	**(13.6)**	**0.9**	**–**	**–**	**–**	**0.3**	**(16.1)**
Total liabilities	**(86.7)**	**–**	**–**	**(0.3)**	**(15.8)**	**0.9**	**–**	**7.7**	**–**	**0.2**	**(94.0)**
Net assets	**160.5**	**(0.6)**	**–**	**0.7**	**(3.9)**	**1.2**	**1.0**	**7.7**	**14.9**	**6.4**	**187.9**
Equity											
Called up share capital	10.4	–	–	–	–	–	–	–	–	–	**10.4**
Share premium account	54.7	–	–	–	–	–	–	–	–	–	**54.7**
Reserve for own shares	(6.1)	–	–	–	–	–	–	–	–	6.1	**–**
Other reserve	–	–	–	–	–	–	2.5	–	–	–	**2.5**
Retained earnings	101.5	(0.6)	–	0.7	(3.9)	1.2	(1.5)	7.7	14.9	0.3	**120.3**
Equity attributable to equity holders of the parent	**160.5**	**(0.6)**	**–**	**0.7**	**(3.9)**	**1.2**	**1.0**	**7.7**	**14.9**	**6.4**	**187.9**
Total equity	**160.5**	**(0.6)**	**–**	**0.7**	**(3.9)**	**1.2**	**1.0**	**7.7**	**14.9**	**6.4**	**187.9**

30. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

g) In summary, the impact of adopting IFRS on the accounts for the 52 weeks ended 26 February 2005 is as follows:

Impact on income statement	**£m**
Profit as per UK GAAP	27.3
Goodwill amortisation	3.8
Share-based payments	(1.4)
Financial instruments	(0.9)
Leases	(0.1)
Other	(0.2)
Increase in profit before tax	1.2
Taxation	0.3
Increase in profit after tax	1.5
Profit as per IFRS	28.8

Impact on net assets	**£m**
Dividends	7.9
Taxation	6.1
Goodwill amortisation	3.8
Leases	(5.7)
Financial instruments	(6.1)
Increase in net assets	6.0

Impact on cash flow

Under IAS 7 "Cash Flow Statements", the definition of cash is extended to "cash and cash equivalents" which includes movements on short term deposits. The presentation of the cash flow statement has therefore changed to include these cash equivalents. Other than this disclosure change, there is no impact on reported cash flows as a result of the transition to IFRS.

Group Five Year Summary

	IFRS		UK GAAP		
	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Retail sales**	**772.0**	724.0	699.5	697.1	691.8
Revenue (excluding exceptional revenue)	**485.8**	419.0	381.1	378.2	379.6
Operating profit before exceptional items	**41.5**	39.2	30.3	26.9	26.7
Exceptional items (net)	**-**	–	-	(2.6)	(11.5)
Operating profit	**41.5**	39.2	30.3	24.3	15.2
Interest payable (net)	**(3.9)**	(3.5)	(1.8)	(3.9)	(3.6)
Profit on ordinary activities before taxation	**37.6**	35.7	28.5	20.4	11.6
Dividends	**12.6**	11.7	11.6	11.5	11.4
Dividends per ordinary share	**6.0p**	5.7p	5.7p	5.7p	5.7p
Basic earnings per ordinary share	**13.6p**	13.8p	10.7p	6.8p	2.8p
Earnings per ordinary share excluding exceptional and restructuring costs	**13.6p**	13.8p	10.7p	7.5p	7.8p
Diluted earnings per ordinary share	**13.2p**	13.3p	10.6p	6.8p	2.8p
Weighted average number of shares in issue (millions)	**210.5**	206.6	202.1	200.0	195.0
Number of stores	**2,133**	2,045	2,007	1,968	1,954
Summary of balance sheet					
Non-current assets	**168.7**	144.0	93.6	107.2	116.8
Net assets	**185.8**	159.0	129.3	126.0	124.0

**Retail sales include sales by both the group and its franchisees through all stores, mail order, The Body Shop at Home™ and the internet. Retail sales are stated at the average exchange rate for the year being reported.

Comparative earnings per share where practicable have been restated in accordance with IAS 8.

The five year summary does not form part of the audited financial statements.

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