Company registration number: 928555

Boots UK Limited
Directors' report and financial statements
for the year ended 31 March 2009

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Boots UK Limited

Directors' report
for the year ended 31 March 2009

The Directors present their report and the audited financial statements for the year ended 31 March 2009.

Principal activities
The Company's principal activity during the year was pharmacy-led health and beauty retailing.

Business review
Turnover increased by 21.5% (2008: 4.8%) to £6,083.0 million (2008: £5,005.1 million). Operating profit before exceptional items and pension deficit funding costs increased by 15.5% (2008: 16.6%) to £344.1 million (2008: £298.0 million).

Within operating profit was £34.4 million (2008: £85.1 million) of exceptional costs. The exceptional costs comprised £34.4 million (2008 £nil) in relation to merger cost synergies arising from the merger of Boots and Alliance UniChem in July 2006, £nil (2008: £11.1 million) relating to the acquisition of Alliance Boots by AB Acquisitions Limited in June 2007 and £nil (2008: £74.0 million) relating to increased provision for the expected liability on outstanding points in issue on loyalty schemes. In addition, within operating profit was £20.7 million (2008: £nil) of costs in relation to pension deficit funding. Operating profit was £309.7 million (2008: £212.9 million).

The Company's profit for the financial year was £200.8 million (2008: £356.7 million).

On 31 March 2008 the company bought the majority of the trade and assets of Boots.com Direct Limited, Boots Insurance Services Limited, E Moss Limited, the Alliance Pharmacy (NI) group of companies and The Boots Company PLC. The activities of these companies, which included the marketing and distribution of healthcare and consumer products, the operation of the boots.com website and various insurance activities, are now undertaken by Boots UK Limited.

On 31 December 2008 the trade and assets of a further 29 pharmacies were acquired from E Moss Limited and the Alliance Pharmacy (NI) group of companies, following the acquisition of 931 pharmacies in the prior year.

The Company performed well throughout the year, including the important Christmas period, growing both turnover and operating profit.

In the Dispensing and Related Income category, turnover increased due to dispensing volume growth and increased Related Income partially offset by a slightly lower average revenue per prescription mainly as a result of lower generic reimbursement prices. Related Income from pharmacy services, which currently comes primarily from medicine check-ups and other locally commissioned pharmacy services, continues to grow.

In the Retail Health category, sales of both non-prescription medicines and healthcare products such as vitamins increased year on year. The gross margin increased due to improved product mix and more effective use of promotions. We continue to develop our differentiated healthcare product offering, including our extensive range of Boots branded healthcare products. The Boots Health Club, which enables customers to receive targeted healthcare information on specific health issues, increased its membership by nearly 30% during the year and now has 4.8 million members.

Revenue in the Beauty & Toiletries category, where we have leading market positions and exclusive product brands, continues to grow with growth in toiletries being partly offset by lower sales of cosmetics and fragrances. We have maintained the market position of our No7 cosmetics and skincare brand and continue to invest in new product development, launching a number of new products including No7 Dual Protection Tinted Moisturiser, No7 Extreme Length Mascara and a new No7 Protect & Perfect Foundation range. In the toiletries sub-category, growth was spread across almost all product groupings, with suncare increasing the most strongly.

In the Lifestyle category good revenue growth was achieved in the baby and nutrition sub-categories with seasonal and electrical also increasing year on year. This more than compensated for a continuing decline in photographic. As in the prior year we had good seasonal gift sales and an excellent post Christmas sale.

The Boots Advantage Card loyalty scheme, where customers earn points on purchases for redemption at a later date, continues to be a key element of our offering. During the year the number of active Boots Advantage Card holders (which we define as members who have used their card at least once in the last 12 months) increased by 6.5% to 16.4 million, reflecting its position as one of the largest loyalty schemes in the UK.

During the year we carried out a major upgrade of the boots.com website to make it much easier for our customers to use. The website is now more closely integrated with our retail offering with "order-on-line collect in store" available in over 1,300 Boots stores at the year end. The roll-out of our "your local Boots pharmacy" branded format is now well underway with 401 stores re-branded during the year.

During the year we acquired 18 pharmacies (2008: 35) in addition to opening a further 21 stores (2008: 15).

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Principal risks and uncertainties
The Company's Directors monitor the overall risk profile of the Company. In addition, the Directors are responsible for determining clear policies as to what the Company considers to be acceptable levels of risk. These policies seek to enable people throughout the Company to use their expertise to identify risks that could undermine performance and to devise ways of bringing them within acceptable levels. Where the Directors identify risks that are not acceptable, they develop action plans to mitigate them with clear allocation of responsibilities and timescales for completion and ensure that progress towards implementing these plans is monitored and reported upon.

Directors' report
for the year ended 31 March 2009

Impact of regulation
Risk
The Company operates in regulated markets and could be adversely affected by changes to existing regulation, new regulation and/or failure to comply with regulation.

The Company could be adversely affected by changes to licensing regimes for pharmacies, prescription processing regimes or reimbursement arrangements.

Mitigation
The Company seeks to control this type of risk through active involvement in policy-making processes, understanding and contributing to government thinking on regulatory matters and building relationships with regulatory bodies directly and through representation in relevant professional and trade associations.

Changes and trends in consumer behaviour
Risk
The Company could be adversely affected by changes in consumer spending levels, shopping habits and preferences, including attitudes to its retail and product brands.

Mitigation
The Company's ability to respond flexibly to changing consumer demand is highly developed. Its strategy is to continue to enhance its market leading position in pharmacy-led health and beauty retailing in the UK, backed by differentiated brands and expert customer service.

Competition
Risk
Changes in market dynamics or actions of competitors or manufacturers could adversely impact the Company. The Company has a wide variety of competitors, including other pharmacies, supermarkets and department stores.

Mitigation
The Company's strategy is to capitalise on the potential and strength of its leading brands and the trust in which they are held and to build strong relationships with customers and suppliers.

Product/services risk
Risk
The Company could be adversely impacted by the supply of defective products or provision of inadequate services. In particular, this could come from allowing the infiltration of counterfeit products into the supply chain, errors in re-labelling of products and contamination or product mishandling issues.

Mitigation
The Company has robust purchasing, well developed contractual controls in relation to suppliers and a cohesive product control framework. This includes specific controls for the identification of counterfeit product.

Dividends
An interim dividend of £450.0 million (2008: £254.0 million) was declared and paid in the year.

Directors
The following served as Directors during the year:

S Duncan	
A W Gourlay	
G Chappell	Resigned 10 March 2009
E Fagan	
I Filby	
P Fussey	
P Kennerley	
R Mehra	
K Murphy	Appointed 17 September 2008
S Roberts	

Employees
The Company considers it is critical to its success that it continues to nurture the different and diverse talents across the business and has designed employment policies to achieve this. The Company aims to provide equal opportunities, regardless of sex, race, religion or belief, sexual orientation, disability or ethnic origin.

The Company does all that is practicable to meet its responsibilities towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

The Company aims to ensure that all of its employees are informed about, and engaged with, their part of the business, augmented by a deeper understanding of the Company overall and its future direction.

Boots UK Limited

Directors' report
for the year ended 31 March 2009

Political and charitable donations
The company has made no political donations during the current or preceding year. The company made £1.3 million of charitable donations during the year (2008: £1.5 million).

Financial instruments
The Company is exposed to currency, credit and interest rate risk. The Group's treasury function manages these risks at a Group level in accordance with Group Treasury Policy including the use of financial instruments for the purpose of managing these risks. Group risks are discussed in the Group's annual review, which does not form part of this report.

Auditors
The Company has elected to dispense with the annual reappointment of auditors and accordingly KPMG Audit Plc remain in office. Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and will therefore continue in office.

Statement as to disclosure of information to auditors
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board:

D Foster
Secretary

21 May 2009

Registered Office:
Nottingham
NG2 3AA

Registered in England and Wales No. 928555

Boots UK Limited

Directors' responsibilities statement

for the year ended 31 March 2009

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year.

Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Boots UK Limited

We have audited the financial statements of Boots UK Limited ('the Company') for the year ended 31 March 2009 which comprise the Profit and loss account, the Balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities on page 4.

Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the 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 read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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. 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 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 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.

Opinion
In our opinion:
- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

21 May 2009

Boots UK Limited

Profit and loss account

for the year ended 31 March 2009

	Notes	2009 £million	2008 £million
Turnover	2	6,083.0	5,005.1
Operating profit	2	309.7	212.9
Profit on sale of tangible fixed assets – continuing operations		-	2.5
Profit on disposal of fixed asset investments		0.1	177.7
Income from shares in Group undertakings		20.8	6.5
Amounts written off investments	11	(16.9)	(25.6)
Interest receivable and similar income	4	5.7	22.4
Interest payable and similar charges	5	(32.2)	(0.3)
Profit on ordinary activities before taxation		287.2	396.1
Tax on profit on ordinary activities	6	(86.4)	(39.4)
Profit for the financial year		200.8	356.7

There are no recognised gains and losses for the current and preceding financial years other than the profit of £200.8 million (2008: £356.7 million) shown above. Accordingly, no statement of recognised gains and losses is presented.

There is no difference between the reported profit shown above and the profit for the year restated on an historical cost basis. Accordingly, no note of historical cost profits is presented.

The amounts presented for the current and preceding financial years are derived from continuing operations.

Boots UK Limited

Balance sheet
as at 31 March 2009

	Notes	2009 £million	2008 £million
Fixed assets			
Tangible assets	9	877.2	843.0
Intangible assets	10	731.3	687.6
Investments	11	122.0	127.3
		1,730.5	1,657.9
Current assets			
Stocks	12	600.7	590.9
Debtors including £0.7 million due after more than one year (2008: £0.6 million)	13	603.2	1,292.7
Cash at bank and in hand		110.8	89.5
		1,314.7	1,973.1
Creditors: amounts falling due within one year	14	(1,190.9)	(2,429.9)
Net current assets / (liabilities)		123.8	(456.8)
Total assets less current liabilities		1,854.3	1,201.1
Creditors: amounts falling due after more than one year	15	(975.6)	(26.0)
Provisions for liabilities and charges	16	(58.0)	(105.2)
Net assets		820.7	1,069.9
Capital and reserves			
Called up share capital	18,19	709.7	709.7
Other reserves	19	53.6	53.6
Profit and loss account	19	57.4	306.6
Shareholders' funds		820.7	1,069.9

The notes on pages 8 to 20 form part of the Company's financial statements.

These financial statements were approved by the Board on 21 May 2009 and were signed on its behalf by:

Director

P FUSSEY

COMPANY NUMBER: 928555

Notes to the financial statements
for the year ended 31 March 2009

1. Accounting policies

Basis of preparation
The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice, and under the historical cost convention.

AB Acquisitions Holdings Limited ('ABAHL'), the ultimate parent undertaking of the Alliance Boots Group ('the Group'), includes the Company's assets, liabilities and results in its own publicly-available consolidated financial statements. Under FRS 1 (Revised 1996), 'Cash flow statements', the Company is therefore exempt from the requirement to prepare a cash flow statement. In addition, under SSAP 25, 'Segmental Reporting', the Company is exempt from the requirement to present segmental information on the grounds that ABAHL includes segmental information in its own publicly-available consolidated financial statements in compliance with IAS 14, 'Segment Reporting'.

The Company's voting rights are wholly controlled within the Group and, consequently, the Company is exempt under FRS 8, 'Related party Disclosures', from disclosing transactions with entities that are part of the Group or investees of the Group qualifying as related parties.

The Company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements and deliver them to the Registrar of Companies. The financial statements therefore present information about the Company as an individual undertaking and not about its group.

Currency
Transactions denominated in non-sterling currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in non-sterling currencies at the balance sheet date are translated at the exchange rates ruling at that date. Non-monetary assets and liabilities denominated in non-sterling currencies are translated using the exchange rates at the date of the underlying transactions. Exchange gains or losses are included in the profit or loss account.

Turnover
Turnover shown on the face of the profit and loss account is the amount derived from the sale of goods in the normal course of business, net of trade discounts, value added tax and other sales-related taxes. Turnover from the sale of goods is recognised at the point contractual obligations to a customer have been fulfilled. For the sale of goods, turnover is recognised when legal title transfers to a customer.

In respect of the Boots loyalty scheme, the Advantage Card, when points are issued to customers the retail value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as revenue. Sales of gift vouchers are only included in revenue when the vouchers are redeemed.

Tangible fixed assets
Cost
All tangible fixed assets are stated at cost less accumulated depreciation and impairment losses.

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

- Freehold land and assets in the course of construction – not depreciated;
- Freehold and long leasehold buildings – depreciated to their estimated residual values over their useful economic lives of not more than 50 years;
- Plant and machinery – 3 to 10 years; and
- Fixtures, fittings, tools and equipment – 3 to 20 years.

Residual values, where material, and remaining useful economic lives are reviewed annually and adjusted if appropriate.

Disposals
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account. Any impairment in the value of fixed assets is recognised immediately.

Intangible assets
Cost
Intangible assets purchased separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably and are subsequently measured at cost. Internally generated intangible assets are capitalised only where readily ascertainable market values are obtainable.

Goodwill represents the excess of the fair value of consideration paid over the fair value of the identifiable trade and assets acquired. Goodwill arising on the purchase of an entity's trade and assets is capitalised and carried at cost less accumulated impairment losses.

Amortisation
Where an intangible asset is considered to have a finite useful economic life, amortisation is charged to the profit and loss account on a straight-line basis over the useful life from the date the asset is available for use. Some intangible assets do not expire and therefore are considered to have an indefinite useful economic life. Those intangible assets considered to have an indefinite useful economic life are not amortised and are tested for impairment at each balance sheet date. Goodwill is considered to have an indefinite life and therefore no amortisation is charged.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

1. Accounting policies (continued)

Impairment of assets
The Company's fixed assets are reviewed at each balance sheet date to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the fixed asset's recoverable amount is estimated. The recoverable amount is the higher of a fixed asset's net realisable value and its value in use. An impairment loss is recognised in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount.

For intangible assets that either have an indefinite useful economic life or a useful economic life that exceeds twenty years, the recoverable amount is estimated annually or more frequently when there is an indication that the asset is impaired.

Stocks
Stocks consist of goods held for resale and are valued at the lower of cost and net realisable value. Cost is determined using the first in, first out method. The cost of finished goods comprises the purchase cost of goods, direct labour and those overheads related to distribution based on normal activity levels. Cost is valued at retail prices and reduced by appropriate margins to take into account factors such as average cost, obsolescence, seasonality and damage. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Share capital
Equity instruments
An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Accordingly, a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Group exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

Equity instruments are recorded as share capital and share premium, as applicable, net of tax-effected share issue costs. To the extent that this definition is not met, the proceeds of any issue are classified as a financial liability.

Dividends
Interim dividends on equity instruments classified as part of shareholders' funds are recognised as appropriations in the reconciliation of movements in shareholders' funds. Dividends unpaid at the balance sheet date are only recognised at that date to the extent that they are appropriately authorised by the shareholders of the Company and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Leases
Leases, for which the Company assumes substantially all the risks and rewards of ownership, are classified as finance leases. The cost of assets held under finance leases, including lease premiums paid upfront, is included within tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned over the length of the lease. The corresponding obligations under these leases are shown in creditors. The finance charge element of rentals is charged to the profit and loss account through interest payable and similar charges using a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight-line basis over the shorter of the lease term and the period until the contractually-specified rent review date.

Investments
Investments are stated at cost less provision for impairment.

Post retirement benefits
The Company participates in the Boots Pension Scheme and the Alliance UniChem UK Group Pension Scheme, incorporating both a multi-employer defined benefit scheme and a defined contribution plan, the assets and liabilities of which are held independently from the Group. The Company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly accounts for contributions to the scheme as if it were a defined contribution scheme. Particulars of the Group scheme are contained in the group accounts of Alliance Boots GmbH, prepared in accordance with International Financial Reporting Standards.

Additionally, the Company participates in two Stakeholder Pension Plans, which are defined contribution pension arrangements.

Taxation
Current taxation
Current tax is recognised at the amount expected to be paid or recovered for the period based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation
Deferred tax is recognised on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that it is more likely than not there will be suitable taxable profits against which the underlying timing differences can reverse. Deferred tax liabilities are not recognised in respect of corporation tax on chargeable gains arising on the disposal of assets where that gain is expected to be deferred indefinitely.

Deferred tax is measured on a non-discounted basis at the average rates expected to apply in the periods when the timing differences are expected to reverse using the tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements (continued)
for the year ended 31 March 2009

1. Accounting policies (continued)

Expense arising from share-based payments
In the prior year, certain share option awards granted by the former parent undertaking of the Group, Alliance Boots plc, remained unvested. The fair value of these unvested options to participating employees, as calculated on the date of grant, was incrementally charged as an employee expense and credited to shareholders funds over the contractually-determined vesting period. The fair value was measured at the grant date.

2. Profit from operations

	2009 £million	2008 £million
Turnover	6,083.0	5,005.1
Cost of sales		
Continuing operations	(3,531.0)	(3,181.0)
Acquisitions	(9.0)	-
	(3,540.0)	(3,181.0)
Gross profit	2,543.0	1,824.1
Distribution costs		
Continuing operations	(2,056.1)	(1,497.7)
Acquisitions	(2.4)	-
	(2,058.5)	(1,497.7)
Administrative expenses		
Continuing operations	(174.8)	(113.5)
Operating profit	309.7	212.9

Operating profit is stated after charging:

	2009 £million	2008 £million
Depreciation of tangible fixed assets		
- owned assets	168.3	111.6
- held under finance leases	0.5	1.1
Operating lease rentals payable:		
- land and buildings	249.4	245.7
- plant and machinery	20.6	1.1
Additional pension contributions (note 20)	20.7	-
Net foreign exchange loss/(gain)	7.0	(1.5)
Auditors' remuneration	0.3	-
Exceptional items:		
costs in relation to merger cost synergies and second phase of integration projects[1]	34.4	-
advantage card provision[2]	-	74.0
costs in relation to acquisition of Alliance Boots By AB Acquisitions Limited[3]	-	11.1

[1]Costs in relation to merger cost synergies of Boots Group PLC with Alliance UniChem Plc following the acquisition which took place in July 2006.

[2] Increased provision for the expected liability on outstanding points in issue on loyalty schemes arising following the acquisition of Alliance Boots by AB Acquisitions Limited during the year and the subsequent review by the new group management of the application of the group policy on accounting for loyalty schemes.

[3] Costs of settling share scheme obligations, including employer's national insurance contributions, following the acquisition of Alliance Boots by AB Acquisitions Limited on 26th June 2007.

The 2008 audit fee was borne by a fellow group undertaking. The allocation that would have been incurred in 2008 was £0.2 million. Amounts receivable by the Company's auditors in respect of non-audit services provided to the Company have not been disclosed in the Company's financial statement as the information that is required to be disclosed is presented on a group-wide basis in the consolidated financial statements of ABAHL.

Notes to the financial statements (continued)
for the year ended 31 March 2009

3. Staff numbers and costs
The average monthly number of full time equivalent persons employed by the Company during the year, analysed by function, was:

	2009 Full time equivalents	2008 Full time equivalents
Sales and marketing	39,428	30,296
Logistics	1,843	-
Administration	699	-
	41,970	30,296

Costs incurred in respect of these employees were:

	2009 £million	2008 £million
Wages and salaries	890.1	611.4
Social security costs	66.0	40.3
Pension costs	95.1	40.9
Share-based payments	-	12.3
	1,051.2	704.9

Directors' remuneration for the year was as follows:

	2009 £million	2008 £million
Directors' emoluments	3.1	3.3
Contributions to money purchase schemes	0.1	-
	3.2	3.3

In 2009, the aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £0.4 million and the Company contributed £48,000 to a money purchase pension scheme on her behalf.

In 2008, the aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £0.7 million. The highest paid director in 2008 was a member of a defined benefit scheme, under which accrued pension entitlements at the balance sheet date was worth £0.1 million.

Retirement benefits are accruing to the following number of directors under:

	2009 Number of directors	2008 Number of directors
Money purchase schemes	2	-
Defined benefit schemes	6	9

The number of directors who exercised share options in the year was nil (2008: 3).

4. Interest receivable and similar income

	2009 £million	2008 £million
Interest receivable from bank deposits	4.5	10.1
Interest receivable from group undertakings	-	11.9
Other finance income	1.2	0.4
	5.7	22.4

5. Interest payable and similar charges

	2009 £million	2008 £million
Interest payable on bank loans and overdrafts	2.0	0.3
Interest payable to group undertakings	29.3	-
Finance charges payable in respect of finance leases	0.9	-
	32.2	0.3

Notes to the financial statements (continued)
for the year ended 31 March 2009

6. Tax on profit on ordinary activities
An analysis of the tax charge for the year is presented as follows:

	2009 £million	2008 £million
Current tax		
United Kingdom ('UK') corporation tax		
Corporation tax on income for the period at 28% (2008: 30%)	102.3	50.3
Adjustments in respect of prior periods	19.5	(2.1)
	121.8	48.2
Double taxation relief	-	(0.4)
	121.8	47.8
Foreign Tax		
Corporation taxes	-	0.4
	121.8	48.2
Deferred tax (note 17)		
Origination and reversal of timing differences	(26.8)	(6.8)
Adjustment in respect of prior periods	(8.6)	(2.0)
	(35.4)	(8.8)
Tax on profit on ordinary activities	86.4	39.4

Notes to the financial statements (continued)
for the year ended 31 March 2009

6. Tax on profit on ordinary activities (continued)

The tax charge for the financial year is higher (2008: lower) than the standard rate of corporation tax of 28% (2008: 30%). The differences are explained below:

	2009 £million	2008 £million
Profit on ordinary activities before tax	287.2	396.1
Current tax at 28% (2008: 30%)	80.4	118.8
Effects of:		
Depreciation in excess of capital allowances	30.4	8.9
Loss/(profit) on disposal of fixed assets	0.2	(0.8)
Profit on disposal of investments	-	(53.3)
Provisions against investments and loans to group undertakings	4.7	7.7
Expenses not deductible for tax purposes	0.7	1.3
Non-taxable income	(0.8)	-
Non-taxable dividends received from UK companies	(5.8)	(2.0)
Movements in general provisions	(7.5)	-
Adjustments in respect of prior periods	19.5	(2.1)
UK transfer pricing adjustments	-	(33.1)
Share scheme adjustments	-	2.8
Total current tax charge as above	121.8	48.2

The standard rate of corporation tax in the UK changed to 28% with effect from 1 April 2008.

7. Dividends

The Company's dividends paid are presented as follows:

	2009 £million	2008 £million
Dividends paid in the year		
Interim dividends paid	450.0	254.0

Notes to the financial statements (continued)
for the year ended 31 March 2009

8. Acquisitions

On 31 December 2008 the Company bought the trade and assets of 29 pharmacies from E Moss Limited and the Alliance Pharmacy (NI) group of companies. During the year a further 18 pharmacies were acquired by the Company for £28.2 million. The book value of the assets acquired was £1.7 million and the fair value of the assets acquired was £28.2 million. These purchases have been accounted for using the acquisition method of accounting.

The book values of the identifiable assets and liabilities and their fair value to the Company at the date of acquisition were as follows:

Trade and assets from E Moss Limited	Book value £million	Fair Value £million
Tangible fixed assets	1.3	1.3
Pharmacy licences	12.3	14.2
Stock	1.5	1.5
Debtors	13.1	13.1
Cash	13.9	13.9
	42.1	44.0
Goodwill arising on acquisition	-	0.1
	42.1	44.1
Satisfied by:		
Cash		44.1

Had this entity been acquired at the start of the year, the effect on profit after tax would have been to increase profit by £0.9 million.

Total acquisitions	Book value £million	Fair Value £million
Tangible fixed assets	3.7	3.7
Pharmacy licences	12.6	43.9
Stock	2.1	2.1
Debtors	13.5	13.5
Creditors	(1.5)	(1.5)
Cash	18.8	18.8
	49.2	80.5
Goodwill arising on acquisition	-	2.2
	49.2	82.7
Satisfied by:		
Cash		82.7

Had these entities been acquired at the start of the year, the effect on profit after tax would have been to increase profit by £1.5 million.

Notes to the financial statements (continued)
for the year ended 31 March 2009

9. Tangible fixed assets

	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Payments on account and assets in course of construction £million	Total £million
Cost					
At 1 April 2008	61.3	95.7	1,811.6	14.6	1,983.2
Additions	9.7	15.2	36.5	147.2	208.6
Acquisition of businesses	3.0	-	0.7	-	3.7
Transfers	0.4	2.0	114.2	(116.6)	-
Disposals	(1.5)	(7.2)	(60.3)	-	(69.0)
At 31 March 2009	**72.9**	**105.7**	**1,902.7**	**45.2**	**2,126.5**
Depreciation					
At 1 April 2008	20.1	42.2	1,077.9	-	1,140.2
Charge for the year	3.1	8.8	156.9	-	168.8
Impairment	-	-	2.0	-	2.0
Disposals	(0.4)	(4.9)	(56.4)	-	(61.7)
At 31 March 2009	**22.8**	**46.1**	**1,180.4**	-	**1,249.3**
Net book value					
At 31 March 2009	**50.1**	**59.6**	**722.3**	**45.2**	**877.2**
At 31 March 2008	41.2	53.5	733.7	14.6	843.0

The net book value of tangible fixed assets held under finance leases of £8.5 million (2008: £7.6 million) is included in the total net book value presented above. Depreciation for the financial year on these assets was £0.5 million (2008: £1.1 million).

The net book value of land and buildings is comprised of:

	2009 £million	2008 £million
Freehold land and buildings	18.7	17.6
Long leasehold	2.3	1.4
Short leasehold	29.1	22.2
	50.1	41.2

10. Intangible assets

	Goodwill £million	Pharmacy licences £million	Total £million
Cost			
At 1 April 2008	40.9	650.6	691.5
Additions	-	1.3	1.3
Acquisition of businesses	2.2	43.9	46.1
Adjustments to fair value	(2.9)	-	(2.9)
Disposals	-	(0.6)	(0.6)
At 31 March 2009	**40.2**	**695.2**	**735.4**
Amortisation			
At 1 April 2008	-	3.9	3.9
Impairment	-	0.2	0.2
At 31 March 2009	-	**4.1**	**4.1**
Net book value			
At 31 March 2009	**40.2**	**691.1**	**731.3**
At 31 March 2008	40.9	646.7	687.6

Goodwill and pharmacy licences, which are regarded as having an indefinite useful economic life, are not amortised but are subject to an annual impairment test. The annual impairment test supports the carrying value of the pharmacy licences and therefore there was no impairment charge in the year.

The fair value of the net assets acquired from E Moss Limited on 31 March 2008 has been revised by £2.9 million due to adjustments to finance lease creditors. The impact on goodwill is a reduction of £2.9 million.

Notes to the financial statements (continued)
for the year ended 31 March 2009

11. Fixed asset investments

	Shares in subsidiary undertakings £million
Cost	
At 1 April 2008	165.1
Additions	12.8
Disposals	(34.9)
At 31 March 2009	**143.0**
Provision	
At 1 April 2008	37.8
Impairment	16.9
Disposals	(33.7)
At 31 March 2009	**21.0**
Net book value	
At 31 March 2009	**122.0**
At 31 March 2008	127.3

The Company's principal subsidiary undertakings at the balance sheet date are presented as follows:

	Percentage held by the Company or subsidiary undertakings	Country of incorporation	Main activity	Last financial year ended
Boots Investments Limited	100	Jersey	Investment company	31 March 2009

As permitted by section 231(5) of the Companies Act 1985, only principal undertakings are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

The company has investments in the following subsidiary undertakings acquired during the year:

	Percentage held by the Company or subsidiary undertakings	Country of incorporation	Main activity	Last financial year ended
Aubrey Glass Limited	100	Great Britain*	Pharmacy	31 March 2009
Selby and Taylor Limited	100	Great Britain*	Pharmacy	31 March 2009
Lendip Medichem Limited	100	Great Britain*	Pharmacy	31 March 2009
SLN Limited	100	Great Britain*	Pharmacy	1 October 2008
Woodgate Valley Pharmacy Limited	100	Great Britain*	Pharmacy	13 October 2008
Locrendaw Limited	100	Great Britain*	Pharmacy	31 October 2008
Curtis Street Limited	100	Great Britain*	Pharmacy	31 March 2009

*Registered in England and Wales

Boots UK Limited

Notes to the financial statements (continued)
for the year ended 31 March 2009

12. Stocks

	2009 £million	2008 £million
Raw materials and consumables	1.6	-
Finished goods and goods held for resale	599.1	590.9
	600.7	590.9

There is no material difference between the balance sheet value of stocks and their replacement cost.

13. Debtors

	2009 £million	2008 £million
Falling due within one year:		
Trade debtors	401.6	360.7
Amounts owed by group undertakings	60.5	825.4
VAT recoverable	29.3	-
Other debtors	16.2	14.3
Prepayments and accrued income	94.9	91.7
	602.5	1,292.1
Falling due after more than one year:		
Other debtors	0.7	0.6
Total debtors	603.2	1,292.7

14. Creditors: amounts falling due within one year

	2009 £million	2008 £million
Bank loans and overdrafts	164.6	67.1
Obligations under finance leases (note 15)	1.8	1.0
Trade creditors	189.6	141.9
Amounts owed to group undertakings	272.2	1,679.8
Corporation tax	39.7	25.0
Other creditors including taxes and social security	113.3	189.2
Accruals and deferred income	409.7	325.9
	1,190.9	2,429.9

Notes to the financial statements (continued)
for the year ended 31 March 2009

15. Creditors: amounts falling due after more than one year

	2009 £million	2008 £million
Obligations under finance leases and hire purchase contracts	6.9	6.0
Amounts owed to group undertakings	950.0	-
Accruals and deferred income	18.7	20.0
	975.6	26.0

The maturity of the Company's net obligations under finance leases are presented as follows:

	2009 £million	2008 £million
Less than one year	1.8	1.0
Between one year and five years	4.5	2.3
More than five years	2.4	3.7
	8.7	7.0

16. Provisions for liabilities and charges

	Refurbishment and reorganisation £million	Vacant property £million	Closure or termination of operations £million	Other provisions £million	Total £million
At 1 April 2008	50.2	12.3	3.1	39.6	105.2
Provisions created during the year	-	4.2	2.6	-	6.8
Provisions utilised during the year	(12.9)	(5.2)	(0.5)	-	(18.6)
Profit and loss account credit	-	-	-	(35.4)	(35.4)
At 31 March 2009	**37.3**	**11.3**	**5.2**	**4.2**	**58.0**

The refurbishment and reorganisation provision relates to store refurbishments and supply chain reorganisations. The majority of these costs are expected to be incurred over in the next two years. In respect of the store refurbishment programme estimates of expected costs have been based on a store-by-store survey and comprise management's view of lease obligations.

The vacant property provision represents recognition of the present value of the expected net costs arising from vacant properties and sub-let properties. The exact timing of utilisation of this provision will vary according to the individual properties concerned.

The termination and closure provision relates to the costs arising as a result of the Halfords and Boots Health & Beauty disposals. These costs are expected to be incurred over the next three years.

Included within 'Other provisions' is an amount of £4.2 million (2008: £39.6 million) relating to deferred tax (note 17).

Notes to the financial statements (continued)
for the year ended 31 March 2009

17. Deferred tax

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset the associated current tax assets and liabilities.

Deferred tax (assets)/liabilities are attributable to the following after offset:

	2009 £million	2008 £million
Accelerated capital allowances	13.2	53.2
Other short term timing differences	(9.0)	(13.6)
	4.2	39.6

The movement in the net deferred tax (asset)/liability for the year is presented as follows:

	Accelerated capital allowances £million	Other short term differences £million	Total £million
Deferred tax (assets)/liabilities			
At 1 April 2008	53.2	(13.6)	39.6
Profit and loss account (credit)/charge	(40.0)	4.6	(35.4)
At 31 March 2009	**13.2**	**(9.0)**	**4.2**

No deferred tax liability has been recognised in respect of chargeable gains rolled over into replacement assets held by the Company. The tax arising on these rolled over gains would only become payable if the assets were sold and it was not possible to claim further rollover relief. The total amount of deferred tax unprovided at the balance sheet date is £15.0 million (2008: £8.0 million). At present it is not envisaged that any such tax will become payable in the foreseeable future.

18. Called up share capital

	2009 £million	2008 £million
Authorised		
709,750,000 Ordinary shares of £1 each	709.7	709.7
Allotted, called up and fully paid		
709,750,000 Ordinary shares of £1 each	709.7	709.7

19. Reconciliation of movements in equity shareholders' funds

	Share capital £million	Profit and loss account £million	Other reserves £million	Total £million
At 1 April 2008	709.7	306.6	53.6	1,069.9
Profit for the financial year	-	200.8	-	200.8
Equity dividends paid	-	(450.0)	-	(450.0)
At 31 March 2009	**709.7**	**57.4**	**53.6**	**820.7**

	Share capital £million	Profit and loss account £million	Other reserves £million	Total £million
At 1 April 2007	709.7	194.8	53.6	958.1
Profit for the financial year	-	356.7	-	356.7
Share-based payments for the financial year	-	9.1	-	9.1
Equity dividends paid	-	(254.0)	-	(254.0)
At 31 March 2008	**709.7**	**306.6**	**53.6**	**1,069.9**

Notes to the financial statements (continued)
for the year ended 31 March 2009

20. Retirement benefits

The Company participates in the Boots Pension Scheme and the Alliance UniChem UK Group Pension Scheme, incorporating both a multi-employer defined benefit scheme and a defined contribution plan, the assets and liabilities of which are held independently from the Group. The Company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly accounts for contributions to the scheme as if it were a defined contribution scheme.

Contributions to the defined benefit schemes for the year were £90.8 million (2008: £39.9 million). This includes additional contributions of £20.7 million (2008: £nil million) paid to fund the actuarial deficit. The agreed contribution rate for the next 12 months is 20.6%. Contributions to the defined contribution scheme for the period were £4.3 million (2008: £1.0 million). There are no prepaid or accrued contributions to either scheme at the balance sheet date.

At 31 March 2009 the defined benefit schemes had a surplus on an FRS17, Retirement benefits' basis, of £212.7 million (2008: £311.0 million) before tax. Details of the most recent actuarial valuations and detailed disclosures at 31 March 2009 can be found in the financial statements of Alliance Boots GmbH.

21. Operating leases
At 31 March 2009 the Company had annual commitments under non-cancellable operating leases as follows:

	2009 Land and buildings £million	**2009 Other £million**	2008 Land and buildings £million	2008 Other £million
Less than one year	8.4	5.1	2.8	3.8
Between one and five years	57.2	6.4	40.9	13.9
More than five years	232.1	0.4	237.2	-
	297.7	**11.9**	**280.9**	**17.7**

22. Commitments
Capital commitments at the balance sheet date for which no provision has been made, are presented as follows:

	2009 £million	2008 £million
Contracted	47.0	31.5

23. Contingent liabilities

On 21 December 2007, the Company became a Guarantor under both a £8,270 million multi-currency Senior Facilities Agreement and a £750 million multi-currency Subordinated Facility Agreement (together the Agreements) between, amongst others, AB Acquisitions Limited (a fellow subsidiary undertaking within the Alliance Boots GmbH group) as a Borrower and Deutsche Bank AG as the Facility Agent for the Lenders. As a Guarantor under the Agreements, the company has guaranteed the liabilities of fellow subsidiary undertakings within the Alliance Boots GmbH group under the Agreements.

As at 31 March 2009 the gross borrowings outstanding under the Agreements in aggregate (including the impact of currency translation and capitalised interest) were £8,876 million.

24. Ultimate parent undertaking

At 31 March 2009 the Company's immediate parent company was Alliance Boots Holdings Limited and its ultimate parent company and controlling party was AB Acquisitions Holdings Limited. AB Acquisitions Holdings Limited is also the parent undertaking of the largest group in which the Company is consolidated.

AB Acquisitions Holdings Limited is incorporated in Gibraltar, and its registered office is 57/63 Line Wall Road, Gibraltar. AB Acquisitions Holdings Limited is jointly controlled by Alliance Santé Participations S.A., and certain funds advised by Kohlberg Kravis Roberts & Co. L.P.. S. Pessina, and O. Barra, who are Directors of Alliance Boots GmbH, are also Directors of Alliance Santé Participations S.A., which is ultimately owned by a family trust.

The smallest group in which the results of the Company are consolidated is that headed by Alliance Boots GmbH, a company incorporated in Switzerland. The consolidated financial statements of this group are available from the Alliance Boots website at www.allianceboots.com.