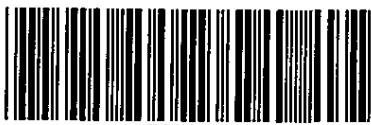


Company registration number 928555

**Boots UK Limited**  
**Directors' report and financial statements**  
for the year ended 31 March 2011

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# Boots UK Limited

## Directors' report

for the year ended 31 March 2011

The Directors present their report and the audited financial statements for the year ended 31 March 2011

### Principal activities

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

### Business review

Turnover increased by 1.1% (2010: 3.6%) to £6,372 million (2010: £6,303 million). Operating profit before exceptional items increased by 11.4% (2010: 14.5%) to £439 million (2010: £394 million).

Within operating profit was £192 million (2010: £37 million) of exceptional costs. The exceptional costs comprised £146m of costs relating to pension deficit funding (2010: £nil), £37m relating to the closure of the Alliance UniChem Group Pension Scheme (2010: £nil), £9m relating to restructuring projects (2010: £nil) and £nil (2010: £37 million) relating to the second phase of integration projects following the merger of Boots and Alliance UniChem in July 2006. In addition, within operating profit was £20 million (2010: £21 million) of costs relating to pension deficit funding. Operating profit including exceptional items was £247 million (2010: £357 million).

The Company's profit for the financial year was £159 million (2010: £235 million).

During the year the trade and assets of one pharmacy was acquired from E Moss Limited (in addition to 3 external acquisitions), following the acquisition of 20 pharmacies in the prior year. On 1 July 2010 all employees were transferred to Boots Management Services Limited, a fellow Group undertaking.

Boots UK performed well throughout the year, including the important Christmas period.

Dispensing & Related Income increased by 2.4%. This was due to growth in dispensing volumes, which was partially offset by lower average revenue per prescription (mainly as a result of lower generic reimbursement prices) and robust growth in Related Income. Total dispensing volumes increased year on year to 220 million items, up 3.6% on a like for like basis, our growth being particularly strong in the domiciliary dosage (patient specific packs) category and from prescriptions collected on behalf of patients from doctors' practices. Profit growth continued to be held back by lower reimbursement prices on generic medicines.

Related Income from pharmacy services, which currently comes primarily from medicine checkups and other locally commissioned pharmacy services, whilst still relatively modest, increased year on year by nearly 6%.

Revenue in the Retail Health category increased by 0.2%. Sales of positive healthcare products, such as vitamins, increased year on year, which was partially offset by lower sales of flu related non-prescription medicines and anti-viral products. Gross margin increased due to improved product mix. We recently launched a major new healthcare brand, Boots Pharmaceuticals, bringing together 160 years of Boots expertise in developing trusted healthcare products for our customers. Boots Pharmaceuticals has the widest range of healthcare products of any brand in the UK, including therapeutically proven medicines, natural alternatives, vitamins and first aid products.

Revenue in the Beauty & Toiletries category, where we have leading market positions and exclusive product brands, increased by 1.0%, with sales of fragrances, accessories and toiletries all increasing year on year. Cosmetics sales were slightly lower year on year, reflecting a challenging prior year comparable that included the very successful launch of No7 Protect & Perfect Intense Beauty Serum.

In Beauty, we continued to invest in new product development for No7 with the launch of a number of new products, including No7 Protect & Perfect Intense Day Cream with 5-star rated UVA protection and SPF15.

In the toiletries sub-category, sales growth was mainly in hair and sun care products, the latter starting to benefit from our recent re-launch of our Soltan range.

Revenue in the Lifestyle category decreased by 0.8%, reflecting the continuing decline in the photographic market and lower sales of baby products due to strong competition from supermarkets. This was partially offset by growth in the electrical, nutrition and seasonal sub-categories. In September, in partnership with Mothercare, we successfully launched 'mini club', a new clothing and accessories brand for babies and children aged 0-6 years, which is being sold in around 380 Boots stores.

The business performed well during the key Christmas selling period, despite all the disruption of the weather, assisted by strong promotional offers and our highly acclaimed "Here come the girls" advertising campaign which further evolved this year.

We have continued to increase the number of Boots stores where customers can collect goods ordered on our boots.com website. 'Order-on-line collect-in-store' is now available in nearly all of our 2,500 Boots stores across the UK, providing customers with convenient access to the extended Boots product range, including the full seasonal gift offering.

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 to 16.8 million, reflecting its position as one of the largest and most valued loyalty schemes in the UK. In October, we launched 'Treat Street', a new online shopping service which enables Boots Advantage Card customers to collect points when they shop online with around 60 well known retail brands.

We continue to invest in our store portfolio and in making our products more accessible and convenient for our customers to buy.

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

# Boots UK Limited

## Directors' report

for the year ended 31 March 2011

### Risk management

Our approach is to identify, monitor and assess all significant risks and take steps, where necessary, to mitigate them

### The Alliance Boots Group's risk management process

The executive Directors and the Director of Internal Audit & Risk Management continue to play the leading role, monitoring the overall risk profile and regularly reporting to the Board through the audit committee. The process of risk identification is facilitated by the use of risk registers for Alliance Boots, and for each business. In addition, the Board through the executive Directors is responsible for determining clear policies as to what Alliance Boots considers to be acceptable levels of risk. These policies seek to enable employees to use their expertise to identify risks that could undermine performance and to devise ways of bringing them to within acceptable levels.

Where we identify risks that are not acceptable, we 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.

### The risks the Company faces

#### Macro economic and political environment

##### Risk

The Company could be affected adversely by the impact of the current macroeconomic and political environment on key suppliers and customer groups.

##### Mitigation

The Company has a rigorous process for identifying and monitoring all business critical suppliers and we develop appropriate contingency plans for suppliers we consider to be vulnerable. The Company also has a rigorous planning process to assess the impact of macroeconomic and political developments on key customer groups.

#### 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 our retail and product brands.

##### Mitigation

The Company's commercial skills and ability to respond flexibly to changing consumer demand are highly developed. The Company's strategy is to continue to enhance our 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 our leading brands and the trust in which they are held, to build strong relationships with customers and suppliers, and to enhance our buying and promotional activities.

#### Health, safety and environmental risks

##### Risk

The Company could suffer reputational damage caused by a major health and safety or environmental incident.

##### Mitigation

The Company applies standards which are closely monitored and regularly audited. Health, safety and environmental incidents are logged and analysed in order to learn the necessary lessons. Any major incident is promptly reported to and investigated by the Alliance Boots Group's executive committee.

# Boots UK Limited

## Directors' report

for the year ended 31 March 2011

### 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. Through our pharmacies, the Company is exposed to risks relating to the professional services we provide.

#### Mitigation

The Company has robust purchasing processes, well developed contractual controls in relation to suppliers and a cohesive product control framework. This includes specific controls for the identification of counterfeit product. The Company has a rigorous governance framework in place and conducts regular dispensing compliance reviews to ensure that individual pharmacies follow approved processes.

### Major operational business failures

#### Risk

The Company could be adversely impacted by a major failure of its distribution centres and logistics infrastructure, or its IT or operational systems.

#### Mitigation

The Company operates rigorously audited control frameworks, regularly updates and tests business continuity plans and continually seeks to improve control of core business processes, both through self-assessment and through specific programmes relating to the delivery of key strategic projects.

### Increased costs

#### Risk

Operating costs may be subject to increases outside the control of the Company.

#### Mitigation

The Company uses procurement professionals and sophisticated procurement techniques to purchase goods and services. The Company carefully controls operating costs such as payroll and have a property management function to manage lease negotiations in the UK.

### Change management

#### Risk

The Company could be affected adversely by the failure to achieve anticipated benefits from various business transformation programmes being implemented throughout the Alliance Boots Group.

#### Mitigation

The Company has in place robust governance processes to control all key programmes, including regular programme board and steering group meetings at which progress to achieve required benefits is monitored rigorously.

### Pension contributions

#### Risk

The Company could be required to increase the funding of its defined benefit pension schemes due to lower than expected pension fund investment returns and/or increased life expectancy of scheme members.

#### Mitigation

The Company retains independent actuaries to review investment performance, provide periodic investment advice and advise on appropriate actuarial assumptions and sensitivities. All UK defined benefit schemes are closed to new entrants and from 1 July 2010 were closed to future accrual.

### Data protection

#### Risk

The Company processes a significant volume of confidential personal and business data and could be adversely affected if any of this data were to be lost.

#### Mitigation

The Company applies rigorous information security policies and procedures such as strong perimeter controls, access controls and data encryption. The Company is committed to the Payment Card Industry Data Security Standards and strives to ensure, where possible, that all processing done by the Company complies with data protection legislation.

### Dividends

An interim dividend of £250 million (2010: £nil) was declared and paid in the year.

### Directors

The following served as Directors during the year:

T Clerckx  
E Fagan  
A W Gourlay  
P Kennerley  
S Lehane  
R Mehra  
K Murphy  
S Roberts

Appointed 28 June 2010

# Boots UK Limited

## Directors' report

for the year ended 31 March 2011

### 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.

### Political and charitable donations

The Company and its subsidiaries made no political donations during the current and preceding year. The Company and its subsidiaries made £1.1 million (2010: £1.1 million) of charitable donations during the year.

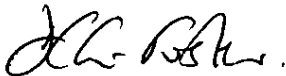
### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors were deemed to be reappointed and KPMG Audit Plc 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**  
Company Secretary  
10 May 2011

Registered office  
Nottingham  
NG2 3AA

Registered in England and Wales No. 928555

## Boots UK Limited

### **Statement of Directors' responsibilities in respect of the Directors' report and the financial statements**

for the year ended 31 March 2011

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)

Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 judgements and accounting 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 for the year ended 31 March 2011 set out on pages 7 to 18. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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**

As explained more fully in the Directors' responsibilities statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**Chris Hearld (Senior Statutory Auditor)**  
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants  
15 Canada Square  
Canary Wharf  
London, E14 5GL

10 May 2011



## Boots UK Limited

### Profit and loss account

for the year ended 31 March 2011

	Notes	2011 £million	2010 £million
<b>Turnover</b>	<b>2</b>	<b>6,372</b>	<b>6,303</b>
<b>Operating profit</b>	<b>2</b>	<b>247</b>	<b>357</b>
Income from shares in Group undertakings		-	31
Amounts written off investments		-	(22)
Interest receivable and similar income	4	4	1
Interest payable and similar charges	5	(31)	(30)
<b>Profit on ordinary activities before taxation</b>		<b>220</b>	<b>337</b>
Tax on profit on ordinary activities	6	(61)	(102)
<b>Profit for the financial year</b>		<b>159</b>	<b>235</b>

There were no recognised gains and losses for the current and preceding financial years other than the profit of £159 million (2010 £235 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.

The notes on pages 9 to 18 form part of the Company's financial statements.

# Boots UK Limited

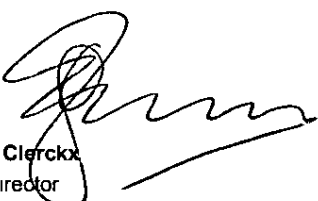
## Balance sheet

as at 31 March 2011

	Notes	2011 £million	2010 £million
<b>Fixed assets</b>			
Tangible assets	8	858	852
Intangible assets	9	748	743
Investments	10	6	100
		1,612	1,695
<b>Current assets</b>			
Stocks	11	621	581
Debtors	12	996	723
Cash at bank and in hand		143	47
		1,760	1,351
Creditors amounts falling due within one year	13	(1,335)	(1,071)
<b>Net current assets</b>		425	280
<b>Total assets less current liabilities</b>		2,037	1,975
Creditors amounts falling due after more than one year	14	(1,025)	(872)
Provisions for liabilities and charges	15	(47)	(47)
<b>Net assets</b>		965	1,056
<b>Capital and reserves</b>			
Called up share capital	17,18	710	710
Other reserves	18	54	54
Profit and loss account	18	201	292
<b>Shareholders' funds</b>		965	1,056

The notes on pages 9 to 18 form part of the Company's financial statements

These financial statements were approved by the Board on 10 May 2011 and were signed on its behalf by



T Clerckx  
Director

Registered in England and Wales No 928555

# Boots UK Limited

## Notes to the financial statements (continued)

for the year ended 31 March 2011

### 1 Accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below

#### 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, 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 Alliance Boots GmbH includes segmental information in its own publicly-available consolidated financial statements in compliance with IFRS 8, 'Operating Segments'

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 also qualifies on this basis for the exemption from presenting financial instruments disclosures in accordance with FRS 29, 'Financial Instruments Disclosures'. The disclosures required by FRS 29 are included in the Group's publicly-available consolidated financial statements

The Company is exempt under section 401 of the Companies Act 2006 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

The company has net assets and generates positive cash flows and expects this to continue in future periods. Based on this, the Company's Directors have assessed that there is no material uncertainty surrounding the going concern of the entity. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

#### 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 and provision of services 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. Where services provided to a customer relate to partial performance against contractual obligations, turnover is recognised to the extent that a right to consideration has been obtained through performance to date

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. The fair value of the points awarded is determined with reference to the fair value from the customers' point of view and considers factors such as the redemption profile

#### 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

# Boots UK Limited

## Notes to the financial statements (continued)

for the year ended 31 March 2011

### 1 Accounting policies (continued)

#### *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.

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

#### **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 raw materials and packaging is their purchase price. 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 Alliance UniChem Group UK Pension Scheme and the Boots 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, as permitted by FRS 17, 'Retirement benefits' accounts for contributions to the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Particulars of the Group scheme are contained in the consolidated financial statements of Alliance Boots GmbH, prepared in accordance with International Financial Reporting Standards.

Additionally, the Company also operates two Stakeholder Pension Plans, which are defined contribution pension arrangements.

# Boots UK Limited

## Notes to the financial statements (continued)

for the year ended 31 March 2011

### 1 Accounting policies (continued)

#### 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.

### 2 Profit from operations

	2011 £million	2010 £million
<b>Turnover</b>	6,372	6,303
<b>Cost of sales</b>	(3,618)	(3,662)
<b>Gross profit</b>	2,754	2,641
Distribution costs	(2,139)	(2,101)
Administrative expenses	(368)	(183)
<b>Operating profit</b>	247	357

Operating profit is stated after charging

	2011 £million	2010 £million
Depreciation of tangible fixed assets		
- owned assets	163	169
- held under finance leases	1	1
Operating lease rentals payable		
- land and buildings	334	326
- plant and machinery	11	16
Additional pension contributions	20	21
Net foreign exchange loss	-	4
Exceptional items		
- costs in relation to second phase integration projects <sup>1</sup>	-	37
- costs in relation to restructuring <sup>2</sup>	9	-
- costs in relation to defined benefit pension schemes <sup>3</sup>	37	-
- pension deficit funding	146	-

<sup>1</sup> Costs in relation to the second phase of integration projects following the merger of Boots and Alliance UniChem in July 2006

<sup>2</sup> During the year the Company commenced a programme to provide best in class support for stores and drive future growth. The programme, which focuses on optimising end-to-end business processes, includes moving to a leaner central support organisation, supported by new systems and optimisation of supply chain activities.

<sup>3</sup> During the year the Group undertook a number of projects designed to ensure the long term security of accrued benefits for its defined benefit pension schemes. In the UK, the Group closed all its defined benefit pension schemes in the UK to future accrual. The obligations of the Alliance UniChem UK Group Pension Scheme were subsequently transferred by the Group to an insurer which gave rise to a settlement loss. The Company's contribution to the cost of transfer was £37 million.

#### Amounts receivable by the auditors and their associates

The 2011 fee in respect of auditing the accounts of the Company pursuant to legislation was £0.2 million (2010: £0.4 million). Amounts receivable by the Company's auditors in respect of non-audit services provided to the Company were £nil (2010: £nil).

## Boots UK Limited

### Notes to the financial statements (continued)

for the year ended 31 March 2011

#### 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

	2011 Number of employees	2010 Number of employees
Sales and marketing	10,592	38,290
Logistics	414	1,496
Administration	350	982
	11,356	40,768

Costs incurred in respect of these employees were

	2011 £million	2010 £million
Wages and salaries	222	919
Social security costs	16	67
Pension costs	185	108
	423	1,094

Directors' remuneration was paid on behalf of the Company by a fellow Group undertaking

On 1 July 2010 all employees were transferred to Boots Management Services Limited, a fellow Group undertaking. A recharge arrangement exists to recharge the cost of these employees to the Company.

#### 4 Interest receivable and similar income

	2011 £million	2010 £million
Other finance income	4	1

#### 5 Interest payable and similar charges

	2011 £million	2010 £million
Interest payable to Group undertakings	31	30

## Boots UK Limited

### Notes to the financial statements (continued)

for the year ended 31 March 2011

#### 6 Tax on profit on ordinary activities

An analysis of the tax charge for the year ended 31 March 2011 is presented as follows

	2011 £million	2010 £million
<b>Current tax</b>		
<i>United Kingdom ('UK') corporation tax</i>		
Corporation tax on income for the period at 28% (2010 28%)	72	87
Adjustments in respect of prior periods	(14)	4
	58	91
<b>Deferred tax (note 16)</b>		
Origination and reversal of timing differences	(4)	14
Adjustment in respect of prior periods	8	(3)
Effect of decreased tax rate	(1)	-
	3	11
<b>Tax on profit on ordinary activities</b>	61	102

The current tax charge for the financial year is lower (2010 lower) than the standard rate of corporation tax of 28% (2010 28%). The differences are explained below

	2011 £million	2010 £million
Profit on ordinary activities before tax	220	337
Current tax at 28% (2010 28%)	62	94
Effects of		
Depreciation in excess of capital allowances	7	2
Provisions against investments and loans to Group undertakings	-	6
Expenses not deductible for tax purposes	(2)	1
Non-taxable dividends received from UK companies	-	(9)
Movements in general provisions	(1)	(8)
Pension contributions for tax purposes	6	1
Adjustments in respect of prior periods	(14)	4
<b>Total current tax charge as above</b>	58	91

During the year a tax charge of £2 million arose as a result of the reduction in deferred tax assets and liabilities as a consequence of the two percentage point reduction in the rate of UK corporation tax applicable from April 2011. During the year the UK Government announced that the rate of UK corporation tax would reduce by 1% over each of the next three years to 23%.

#### 7 Dividends

The Company's paid and proposed dividends are presented as follows

	2011 £million	2010 £million
<b>Dividends paid in the year</b>		
Interim dividends paid	250	-

# Boots UK Limited

## Notes to the financial statements (continued)

for the year ended 31 March 2011

### 8 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
<b>Cost</b>					
At 1 April 2010	77	122	2,023	14	2,236
Additions	4	4	65	113	186
Reclassifications	-	11	91	(102)	-
Disposals	-	(21)	(190)	-	(211)
<b>At 31 March 2011</b>	<b>81</b>	<b>116</b>	<b>1,989</b>	<b>25</b>	<b>2,211</b>
<b>Depreciation</b>					
At 1 April 2010	26	49	1,309	-	1,384
Charge for the year	4	10	150	-	164
Disposals	-	(18)	(177)	-	(195)
<b>At 31 March 2011</b>	<b>30</b>	<b>41</b>	<b>1,282</b>	<b>-</b>	<b>1,353</b>
<b>Net book value</b>					
At 31 March 2010	51	73	714	14	852
<b>At 31 March 2011</b>	<b>51</b>	<b>75</b>	<b>707</b>	<b>25</b>	<b>858</b>

The net book value of tangible fixed assets held under finance leases of £4 million (2010 £5 million) is included in the total net book value presented above. Depreciation for the financial year on these assets was £1 million (2010 £1 million).

The net book value of land and buildings is comprised of

	2011 £million	2010 £million
Freehold land and buildings	18	19
Long leasehold	3	3
Short leasehold	30	29
	<b>51</b>	<b>51</b>

### 9 Intangible assets

	Goodwill £million	Pharmacy licences £million	Total £million
<b>Cost</b>			
At 1 April 2010	41	706	747
Acquisition of businesses	-	5	5
<b>At 31 March 2011</b>	<b>41</b>	<b>711</b>	<b>752</b>
<b>Amortisation</b>			
At 1 April 2010 and 31 March 2011	-	4	4
<b>Net book value</b>			
At 31 March 2010	41	702	743
<b>At 31 March 2011</b>	<b>41</b>	<b>707</b>	<b>748</b>

Pharmacy licences recognised as intangible assets do not expire and therefore are considered to have an indefinite life. Goodwill has been identified as having an indefinite life based on the life and history of the Boots brand along with current market strength and future development plans.

These assets are not amortised but are subject to annual impairment tests. The annual impairment tests support the carrying value of goodwill and pharmacy licences and therefore there was no impairment charge in the year.

On 30 September the Company bought the trade and assets of 1 pharmacy from E Moss Limited. During the year a further 3 pharmacies were acquired by the Company for £5.1 million. The book value of the assets acquired was £0.6 million and the fair value of the assets acquired was £5.1 million, resulting in a pharmacy licence of £5 million. The purchase of the trade and assets has been accounted for using the acquisition method of accounting.

The profit after tax recorded by these pharmacies for their financial year up to the acquisition date is £0.1 million.



# Boots UK Limited

## Notes to the financial statements (continued)

for the year ended 31 March 2011

### 10 Fixed asset investments

	Shares in subsidiary undertakings £million
<b>Cost</b>	
At 1 April 2010	143
Additions	6
Disposals	(118)
<b>At 31 March 2011</b>	<b>31</b>
<b>Provision</b>	
At 1 April 2010	43
Disposals	(18)
<b>At 31 March 2011</b>	<b>25</b>
<b>Net book value</b>	
At 31 March 2010	100
<b>At 31 March 2011</b>	<b>6</b>

During the year Boots Investments Limited, a subsidiary company, repaid £100m relating to its preference shares prior to being struck-off. In addition a further 9 subsidiaries were struck-off in the year. The company has no principal undertakings at the year end.

A complete list of all subsidiary undertakings is filed with the Company's annual return.

### 11 Stocks

	2011 £million	2010 £million
Raw materials and consumables	2	2
Finished goods and goods held for resale	619	579
	621	581

There is no material difference between the estimated replacement cost and the carrying value of stocks.

### 12 Debtors

	2011 £million	2010 £million
<b>Falling due within one year</b>		
Trade debtors	408	406
Amounts owed by Group undertakings	475	196
VAT recoverable	28	19
Other debtors	9	13
Prepayments and accrued income	75	86
	995	720
<b>Falling due after more than one year</b>		
Other debtors	1	3
<b>Total debtors</b>	<b>996</b>	<b>723</b>

### 13 Creditors amounts falling due within one year

	2011 £million	2010 £million
Bank loans and overdrafts	125	93
Obligations under finance leases (note 14)	2	4
Trade creditors	209	176
Amounts owed to Group undertakings	300	224
Other creditors including taxes and social security	187	118
Accruals and deferred income	490	411
Corporation tax payable	22	45
	1,335	1,071

# Boots UK Limited

## Notes to the financial statements (continued)

for the year ended 31 March 2011

### 14 Creditors amounts falling due after more than one year

	2011 £million	2010 £million
Obligations under finance leases and hire purchase contracts	4	2
Amounts owed to Group undertakings	996	850
Other creditors	25	20
	1,025	872

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

	2011 £million	2010 £million
Less than one year	2	4
Between one year and five years	3	1
More than five years	1	1
	6	6

The maturity of the Company's amounts owed to Group undertakings is presented as follows

	2011 £million	2010 £million
Less than one year	300	224
Between one year and five years		
- loan 1	850	850
- loan 2	146	-
	1,296	1,074

Loan 1 is due for repayment on 30 November 2012. Management expect that at 30 November 2012 this loan will either be rolled or replaced with a similar agreement. Interest is charged at LIBOR plus a margin of 3.05%.

Loan 2 is due for repayment on 31 March 2012. Management expect that at 31 March 2012 this loan will either be rolled or replaced with a similar agreement. Interest is charged at the higher of LIBOR minus 0.5% and 0.1%.

The maturity of the Company's other creditors is presented as follows

	2011 £million	2010 £million
Less than one year	187	118
Between one year and five years	15	20
More than five years	10	-
	212	138

### 15 Provisions for liabilities and charges

	Refurbishment and reorganisation £million	Vacant property £million	Deferred tax £million	Total £million
At 1 April 2010	13	19	15	47
Provisions created during the year	-	7	3	10
Provisions utilised during the year	(4)	(6)	-	(10)
<b>At 31 March 2011</b>	<b>9</b>	<b>20</b>	<b>18</b>	<b>47</b>

The refurbishment and reorganisation provision relates to supply chain and head office reorganisations. The majority of these costs are expected to be incurred over the next two years.

The vacant property provision represents recognition of the 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 deferred tax provision is further explained in note 16.

# Boots UK Limited

## Notes to the financial statements (continued)

for the year ended 31 March 2011

### 16 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

	2011 £million	2010 £million
Accelerated capital allowances	24	18
Other short term timing differences	(6)	(3)
	18	15

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
<b>Deferred tax (assets)/liabilities</b>			
At 1 April 2010	18	(3)	15
Profit and loss account (credit)/charge	6	(3)	3
<b>At 31 March 2011</b>	<b>24</b>	<b>(6)</b>	<b>18</b>

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 £14 million (2010: £15 million). At present it is not envisaged that any such tax will become payable in the foreseeable future.

### 17 Called up share capital

	2011 £million	2010 £million
<b>Allotted, called up and fully paid</b>		
709,750,000 ordinary shares of £1 each	710	710

### 18 Reconciliation of movements in equity shareholders' funds

	Called up share capital £million	Profit and loss account £million	Other reserves £million	Total £million
At 1 April 2009	710	57	54	821
Profit for the financial year	-	235	-	235
At 1 April 2010	710	292	54	1,056
Profit for the financial year	-	159	-	159
Equity dividends paid	-	(250)	-	(250)
<b>At 31 March 2011</b>	<b>710</b>	<b>201</b>	<b>54</b>	<b>965</b>

### 19 Retirement benefits

The Company participates in the Boots Pension Scheme and the Alliance UniChem Group UK 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 assets and liabilities of the defined benefit schemes on a reasonable basis and as permitted under FRS 17, 'Retirement benefits', these schemes have been accounted for in these financial statements as if the schemes were defined contribution schemes.

Contributions to the defined benefit schemes for the year were £183 million (2010: £102 million). This includes additional contributions of £166 million (2010: £21 million) paid to fund the deficit. The agreed contribution rate for the next 12 months is nil%. Contributions to the defined contribution schemes for the year were £2 million (2010: £6 million). At 31 March 2011 there are accrued contributions of £146 million due to the Boots Pension Scheme (2010: £nil), which are included in other creditors in note 13. There are no prepaid or accrued contributions to the Alliance UniChem Group UK Pension Scheme at the balance sheet date.

Following an extensive consultation process, the Group implemented a new defined contribution scheme in the UK with effect from 1 July 2010, and as a result, all the Group's defined benefit pension schemes in the UK were closed to future accrual from that date. The obligations of the Alliance UniChem Group UK Pension Scheme were subsequently transferred to an insurer prior to the scheme being fully bought out which gave rise to a settlement loss. The company's contribution to the total amount paid to the insurer on transfer was £37 million, and this is classified as an exceptional cost within operating profit.

At 31 March 2011 the Boots Pension Scheme had a deficit on an FRS17, 'Retirement benefits', basis, of £147 million (2010: £416 million) before tax. Details of the most recent actuarial valuation and detailed disclosures at 31 March 2011 can be found in the financial statements of Alliance Boots GmbH.

## Boots UK Limited

### Notes to the financial statements (continued)

for the year ended 31 March 2011

#### 20 Operating leases

At 31 March 2011 the Company had annual commitments under non-cancellable operating leases as follows

	2011 Land and buildings £million	2011 Other £million	2010 Land and buildings £million	2010 Other £million
Less than one year	14	6	9	5
Between one and five years	85	1	78	2
More than five years	193	7	210	-
	<b>292</b>	<b>14</b>	<b>297</b>	<b>7</b>

#### 21 Commitments

Capital commitments at the balance sheet date for which no provisions have been made, are presented as follows

	2011 £million	2010 £million
Contracted	29	19

#### 22 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 2011 the gross borrowings outstanding under the Agreements in aggregate (including the impact of currency translation and capitalised interest) were £8,851 million (2010 £8,850 million)

The Company has entered into an arrangement with its bank under which its current account balances are netted on a daily basis with those of the other participating Group companies for the purposes of charging or crediting interest. Under this arrangement, each participating company agrees that it is jointly and severally liable to the bank, with each participating company, for the aggregate overdraft balances on current accounts of all participating companies. Each of the participating company's liability is limited to the amount of any positive cash balance it has in its current accounts with the bank on the day netting takes place. At 31 March 2011, the Company was contingently liable under this arrangement for a total amount of £18 million (2010 £Nil)

#### 23 Financial commitments

At 31 March 2011 the Company had derivative financial instruments in the form of interest rate swaps. The value of the interest rate swaps at 31 March 2011 was a deferred liability of £31 million (2010 £nil)

#### 24 Related party transactions

The Company, in its normal course of business, transacts with other entities controlled or significantly influenced by Kohlberg Kravis Roberts & Co L P. All transactions are carried out on an arm's length basis.

#### 25 Ultimate parent undertaking

At 31 March 2011 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](http://www.allianceboots.com)