Company registration number 928555

Boots UK Limited
Directors' report and financial statements
for the year ended 31 March 2012

Contents

Boots UK Limited

Directors' report
for the year ended 31 March 2012

The Directors present their report and the audited financial statements for the year ended 31 March 2012

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

Business review
Turnover decreased by 0 3% (2011 increased by 1 1%) to £6,354 million (2011 £6,372 million) Operating profit before exceptional items increased by 2 0% (2011 16 5%) to £468 million (2011 £459 million)

Within operating profit was £190 million (2011 £212 million) of exceptional costs The exceptional costs comprised £167 million of costs relating to pension deficit funding (2011 £166 million) and £23 million relating to restructuring projects (2011 £9 million) Operating profit including exceptional items was £278 million (2011 £247 million)

The Company's profit for the financial year was £176 million (2011 £159 million)

Revenue from Dispensing & Related Income decreased by 1 6% in value due to lower average revenue per prescription which more than offset growth in dispensing volumes and fee income This decrease was due to further government reductions in generic medicine reimbursement prices and the impact of more branded medicines losing patent protection and being substituted with lower priced generic medicines We anticipate these factors to continue to hold back dispensing revenue growth in our next financial year Total dispensing volumes increased year on year to 224 million items, up 1 9% on a like for like basis Our growth was particularly strong in the domiciliary dosage (patient specific packs) category and from prescriptions collected on behalf of patients from doctors' practices Profitability was adversely impacted by the lower reimbursement prices on generic medicines

Related Income from pharmacy services, which during the year came primarily from Medicine Check-ups and other locally commissioned pharmacy services, while still relatively modest, increased year on year by around 3 5% Our pharmacists in England and Wales carried out over 760,000 Medicine Check-ups during the year and played an important role in the October 2011 launch of the NHS 'New Medicine Service' in England This has been introduced to improve medicines adherence in people with long term conditions who are newly prescribed a medicine, and is initially focused on particular patient groups and conditions Boots has a market leading position in the provision of such services, with just under 95% of our pharmacies now incorporating private consultation facilities

As the leading operator of retail pharmacies in the UK, we remain committed to making high quality healthcare more available and accessible We now have 14 doctors' surgeries operating in Boots stores In September, we launched a new travel health service in 11 Boots stores in the London region, which is proving popular with our customers BootsWebMD com, our consumer health and wellness information portal, which is one of the top ranking health and medical websites in the UK, significantly increased its site visitor numbers year on year

Revenue in the Retail Health category, where we are the market leader, decreased by 2 4% to £891 million Sales were impacted by strong competition and lower volumes of cough and cold related non-prescription medicines following a significantly lower incidence of such ailments this winter Gross margin increased due to improved product mix and promotion management We continue to develop innovative new product ranges, such as the Boots Pharmaceuticals Re Balance range launched in August 2011, which is designed to help with lack of sleep, low energy levels and everyday stress 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 2 0% to £2,151 million Within beauty, sales of cosmetics, fragrances and accessories all grew year on year In the toiletries sub-category, we strengthened our value proposition, sales similarly increasing Growth was particularly strong in indulgent bathing, which was largely due to the April 2011 launch of the new Champneys range which is exclusive to Boots, with haircare and personal care sales also up year on year

We continue to invest in new product development for No7 A number of new products were launched during the year, including the No7 Beautiful Skin range in January 2012, which includes the innovative No7 Beautiful Skin BB Cream with a unique 3-in-1 formula to even and enhance skin tones and disguise imperfections

Since the year end, in mid April 2012 we launched No7 Lift & Luminate Day & Night Serum This new anti-ageing serum is clinically proven to tackle the three key signs of ageing of skin in women aged 45 and above It reduces the appearance of wrinkles, makes skin feel firmer, and evens skin tone and lightens and fades age spots

In the Lifestyle category, revenue decreased by 2 2% to £942 million, reflecting the continuing decline in the photographic market and lower electrical beauty sales due to strong competition The baby sub-category performed well, sales increasing year on year despite strong competition

Boots retail performance was particularly good in the important Christmas selling period We had a strong customer offer, attractive promotions, record levels of customer care and our highly acclaimed 'Here come the girls' advertising campaign which continued to resonate strongly with our target customers

Our own product brands, such as No7, Boots Pharmaceuticals, Soltan, Botanics and 17, together with exclusive ranges such as Soap & Glory and Champneys, enable us to differentiate our retail offering from that of our competitors and are very important drivers of revenue and margin In addition to the innovative new No7 products and expansion of the Boots Pharmaceuticals range, other new developments during the year included the launch of the Shapers 'around the world' food range in January 2012 We are further developing our own extended food offer, as the trials with Waitrose to sell products in each other's stores did not meet expectations We continue to operate 13 Boots pharmacies in Waitrose stores

Directors' report (continued)
for the year ended 31 March 2012

Business review (continued)

Online sales through our boots com website grew strongly during the year with a significant increase in the number of visitors to the site In August 2011, a new mobile specific site was successfully launched "Order-on-line and collect-in-store", which is available in nearly all our stores across the UK, is increasing in popularity, comprising over 45% of online orders in the year We continue to expand both the range of products available on boots com and its related online health and beauty advice In January 2012, we commenced deliveries from our new boots com automated logistics facility within the Burton-on-Trent distribution centre, which will support the continuing growth of online sales

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 members (which we define as members who have used their card at least once in the last 12 months) increased by 6% to 17 8 million, reflecting its position as one of the largest and most valued loyalty schemes in the UK We recently upgraded our technology to personalise customer offers and make the Boots Advantage Card easier to use online

We attribute much of Boots success to our passionate focus on customer service and care Each week we analyse over 25,000 customer responses to in-store marketing surveys to better understand customers' evolving needs Our internal customer care measure further improved year on year as a result of our ongoing focus on areas that we know are important to our customers, including 'value for money', 'quick and easy to pay', 'staff available and approachable', and 'time taken to get my prescription'

During the year, we recruited in total around 1,000 pre-registration pharmacy graduates and fully qualified pharmacists and continued to invest in our people An example of this is our e-learning system, which is extensively used by store colleagues throughout the UK To further enhance the quality of leadership, a new Leadership and Senior Leadership Development Programme was launched in January 2012

We continue to invest in our store portfolio, making our products more accessible and convenient for customers to buy In 2011/12, we opened 40 new Boots stores, 24 of which were relocations, and refitted a further 68 stores This included a major store in the new Westfield Stratford City shopping centre in East London, a prime position given this summer's London Olympic and Paralympic Games At the year end, we had 2,477 health and beauty stores in the UK, of which 2,390 included a pharmacy

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

Directors' report (continued)
for the year ended 31 March 2012

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

Risk management process
The executive Directors and Internal Audit & Risk Management continue to play the leading role, monitoring the overall risk profile and regularly reporting to the Board The process of risk identification is facilitated by the use of risk registers In addition, the Board through the executive Directors is responsible for determining clear policies as to what Boots UK Limited 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

Directors' report (continued)
for the year ended 31 March 2012

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 has 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

Currency exchange
Risk
The Company has transaction currency exposures relating to the import and export of goods in currencies other than the Company's functional currency

Mitigation
We have rigorous policies and procedures in place to manage and report transaction exposures Translation exposures are partially mitigated by ensuring that borrowings are denominated in the major currencies in which we operate

Pension contributions
Risk
The Company could be required to increase the funding of the Group defined benefit pension schemes in which it participates 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

Directors' report (continued)
for the year ended 31 March 2012

Dividends
An interim dividend of £159 million (2011 £250 million) was declared and paid in the year

Directors
The following served as Directors during the year

T Clerckx
E Fagan
A Gourlay
P Kennerley
S Lehane
K Murphy
S Roberts
R Mehra (resigned 01/03/2012)

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 Approaches used to fulfil these aims include face to face team briefings, conference calls, magazines, newsletters and intranet sites

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 £0 9 million (2011 £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

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
9 May 2012

Registered office
Nottingham
NG2 3AA

Registered in England and Wales No 928555

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

for the year ended 31 March 2012

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 2012 set out on pages 8 to 19 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

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 2012 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

9 May 2012

Boots UK Limited

Profit and loss account
for the year ended 31 March 2012

	Notes	2012 £million	2011 £million
Turnover	2	6,354	6,372
Operating profit	2	278	247
Income from investments		3	-
Interest receivable and similar income	4	17	4
Interest payable and similar charges	5	(58)	(31)
Profit on ordinary activities before taxation		240	220
Tax on profit on ordinary activities	6	(64)	(61)
Profit for the financial year		176	159

There were no recognised gains and losses for the current and preceding financial years other than the profit of £176 million (2011 £159 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 10 to 19 form part of the Company's financial statements

Boots UK Limited

Balance sheet
as at 31 March 2012

	Notes	2012 £million	2011 £million
Fixed assets			
Tangible assets	8	**863**	858
Intangible assets	9	**748**	748
Investments	10	**4**	6
		1,615	1,612
Current assets			
Stocks	11	**559**	621
Debtors	12	**683**	996
Cash at bank and in hand		**183**	143
		1,425	1,760
Creditors amounts falling due within one year	13	**(1,124)**	(1,335)
Net current assets		**301**	425
Total assets less current liabilities		**1,916**	2,037
Creditors amounts falling due after more than one year	14	**(893)**	(1,025)
Provisions for liabilities and charges	15	**(41)**	(47)
Net assets		**982**	965
Capital and reserves			
Called up share capital	17,18	**710**	710
Other reserves	18	**54**	54
Profit and loss account	18	**218**	201
Shareholders' funds		**982**	965

The notes on pages 10 to 19 form part of the Company's financial statements

These financial statements were approved by the Board on 9 May 2012 and were signed on its behalf by

T Clerckx
Director

Registered in England and Wales No 928555

Notes to the financial statements
for the year ended 31 March 2012

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

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

Alliance Boots GmbH, the intermediate parent entity, 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 400 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

Going Concern

The company has net assets and generates positive cash flows and expects this to continue in future periods Based on these facts, 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

Foreign Currencies
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, as points are issued to customers the retail fair 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 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,
- Short leasehold buildings – depreciated over the lease term,
- 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

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

Investments

Investments are stated at cost less provision for impairment

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 the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable income, referred to as income generating units ("IGU")

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

The recoverable amounts of the IGUs are determined from value in use calculations which use discounted pre tax cash flows for a period of five years taken from approved budgets and three year forecasts, and extrapolated cash flows for the periods beyond these using estimated long term growth rates The key assumptions are

- **Long term average growth rates** are used to extrapolate cash flows These are determined with reference to both internal approved budgets and forecasts and available external long term growth data for both the country and sector of each IGU
- **Discount rates** are calculated separately for each IGU and reflect the individual nature and specific risks relating to the market in which it operates
- **Gross margins** are based on past performance and management's expectations of market development No improvements to margins beyond periods covered by approved budgets and forecasts have been assumed

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 Company 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 as a liability 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 or over the lease term if shorter 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

Notes to the financial statements (continued)
for the year ended 31 March 2012

1 Accounting policies (continued)

Post retirement benefits
The Company participates in 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

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

	2012 £million	2011 £million
Turnover	6,354	6,372
Cost of sales	(3,594)	(3,618)
Gross profit	2,760	2,754
Distribution costs	(2,141)	(2,139)
Administrative expenses	(341)	(368)
Operating profit	278	247

Operating profit is stated after charging

	2012 £million	2011 £million
Depreciation of tangible fixed assets		
- owned assets	152	163
- held under finance leases	1	1
Operating lease rentals payable		
- land and buildings	336	334
- plant and machinery	11	11
Exceptional items		
- costs in relation to restructuring[1]	23	9
- pension deficit funding	167	166
- costs in relation to defined benefit pension schemes[2]	-	37

1 During the prior 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

2 In the prior 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 2012 fee in respect of auditing the accounts of the Company pursuant to legislation was £0 2 million (2011 £0 2 million) Amounts receivable by the Company's auditors in respect of non-audit services provided to the Company were £0 1 million (2011 £nil)

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

	2012 Number of employees	2011 Number of employees
Sales and marketing	-	10,592
Logistics	-	414
Administration	-	350
	-	11,356

Costs incurred in respect of these employees were

	2012 £million	2011 £million
Wages and salaries	-	222
Social security costs	-	16
Pension costs	-	185
	-	423

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

	2012 £million	2011 £million
Other finance income	17	4

5 Interest payable and similar charges

	2012 £million	2011 £million
Interest payable to Group undertakings	58	31

6 Tax on profit on ordinary activities

An analysis of the tax charge for the year ended 31 March 2012 is presented as follows

	2012 £million	2011 £million
Current tax		
United Kingdom ('UK') corporation tax		
Corporation tax on income for the period at 26% (2011 28%)	63	72
Adjustments in respect of prior periods	(4)	(14)
	59	58
Deferred tax (note 16)		
Origination and reversal of timing differences	3	(4)
Adjustment in respect of prior periods	4	8
Effect of decreased tax rate	(2)	(1)
	5	3
Tax on profit on ordinary activities	64	61

The current tax charge for the financial year is lower (2011 lower) than the standard rate of corporation tax of 26% (2011 28%) The differences are explained below

	2012 £million	2011 £million
Profit on ordinary activities before tax	240	220
Current tax at 26% (2011 28%)	62	62
Effects of		
Depreciation in excess of capital allowances	3	7
Expenses not deductible for / (income not taxable) for tax purposes	-	(2)
Movements in general provisions	-	(1)
Pension contributions for tax purposes	(2)	6
Adjustments in respect of prior periods	(4)	(14)
Total current tax charge as above	59	58

During the year to March 2012 the UK Government enacted a reduction in the Corporation Tax rate to 24%, effective from 1 April 2012 It was also announced that the rate would reduce by 1% over each of the next two years to 22% These further changes to the tax rate have not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

7 Dividends

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

	2012 £million	2011 £million
Dividends paid in the year		
Interim dividends paid	159	250

Notes to the financial statements (continued)

for the year ended 31 March 2012

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
Cost					
At 1 April 2011	81	116	1,989	25	2,211
Additions	4	-	70	93	167
Reclassifications	-	33	75	(108)	-
Disposals	(2)	(5)	(57)	-	(64)
At 31 March 2012	**83**	**144**	**2,077**	**10**	**2,314**
Depreciation					
At 1 April 2011	30	41	1,282	-	1,353
Charge for the year	2	6	145	-	153
Disposals	-	(3)	(52)	-	(55)
At 31 March 2012	**32**	**44**	**1,375**	-	**1,451**
Net book value					
At 31 March 2011	51	75	707	25	858
At 31 March 2012	**51**	**100**	**702**	**10**	**863**

The net book value of tangible fixed assets held under finance leases of £3 million (2011 £4 million) is included in the total net book value presented above Depreciation for the financial year on these assets was £1 million (2011 £1 million)

The net book value of land and buildings is comprised of

	2012 £million	2011 £million
Freehold land and buildings	17	18
Long leasehold	3	3
Short leasehold	31	30
	51	51

9 Intangible assets

	Goodwill £million	Pharmacy licences £million	Total £million
Cost			
At 1 April 2011 and **31 March 2012**	41	711	752
Amortisation			
At 1 April 2011 and **31 March 2012**	-	4	4
Net book value			
At 31 March 2011	41	707	748
At 31 March 2012	**41**	**707**	**748**

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

Notes to the financial statements (continued)
for the year ended 31 March 2012

10 Fixed asset investments

	Shares in subsidiary undertakings £million
Cost	
At 1 April 2011	31
Disposals	(13)
At 31 March 2012	**18**
Provision	
At 1 April 2011	25
Disposals	(11)
At 31 March 2012	**14**
Net book value	
At 31 March 2011	6
At 31 March 2012	**4**

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

11 Stocks

	2012 £million	2011 £million
Raw materials and consumables	1	2
Finished goods and goods held for resale	558	619
	559	621

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

12 Debtors

	2012 £million	2011 £million
Falling due within one year		
Trade debtors	289	408
Amounts owed by Group undertakings	275	475
VAT recoverable	18	28
Other debtors	17	9
Prepayments and accrued income	82	75
	681	995
Falling due after more than one year		
Other debtors	2	1
Total debtors	**683**	996

13 Creditors amounts falling due within one year

	2012 £million	2011 £million
Bank loans and overdrafts	132	125
Obligations under finance leases (note 14)	4	2
Trade creditors	320	209
Amounts owed to Group undertakings	280	300
Other creditors	42	187
Accruals and deferred income	346	490
Corporation tax payable	-	22
	1,124	1,335

Notes to the financial statements (continued)

for the year ended 31 March 2012

14 Creditors amounts falling due after more than one year

	2012 £million	2011 £million
Obligations under finance leases and hire purchase contracts	**2**	4
Amounts owed to Group undertakings	**864**	996
Other creditors	**27**	25
	893	1,025

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

	2012 £million	2011 £million
Less than one year	**4**	2
Between one year and five years	**2**	3
More than five years	**-**	1
	6	6

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

	2012 £million	2011 £million
Less than one year	**280**	300
Between one year and five years		
- loan 1	**864**	850
- loan 2	**-**	146
	1,144	1,296

Loan 1 is due for repayment on 31 March 2014 Management expect that at 31 March 2014 this loan will either be rolled or replaced with a similar agreement Interest is charged at LIBOR plus a margin of 3 05%

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

	2012 £million	2011 £million
Less than one year	**42**	187
Between one year and five years	**17**	15
More than five years	**10**	10
	69	212

15 Provisions for liabilities and charges

	Refurbishment and reorganisation £million	Vacant property £million	Deferred tax £million	Total £million
At 1 April 2011	9	20	18	47
Provisions created during the year	23	2	5	30
Provisions released during the year	-	(1)	-	(1)
Provisions utilised during the year	(28)	(7)	-	(35)
At 31 March 2012	**4**	**14**	**23**	**41**

The refurbishment and reorganisation provision relates to supply chain and central support reorganisations The majority of the remaining costs are expected to be incurred over the next year

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

Notes to the financial statements (continued)
for the year ended 31 March 2012

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

	2012 £million	2011 £million
Accelerated capital allowances	27	24
Other short term timing differences	(4)	(6)
	23	18

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 2011	24	(6)	18
Profit and loss account (credit)/charge	3	2	5
At 31 March 2012	**27**	**(4)**	**23**

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 £13 million (2011 £14 million) At present it is not envisaged that any such tax will become payable in the foreseeable future

17 Called up share capital

	2012 £million	2011 £million
Allotted, called up and fully paid		
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 2010	710	292	54	1,056
Profit for the financial year	-	159	-	159
Equity dividends paid	-	(250)	-	(250)
At 1 April 2011	710	201	54	965
Profit for the financial year	-	176	-	176
Equity dividends paid	-	(159)	-	(159)
At 31 March 2012	**710**	**218**	**54**	**982**

19 Retirement benefits

The Company participates in 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 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 £169 million (2011 £183 million) This includes additional contributions of £167 million (2011 £166 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 £nil million (2011 £2 million) At 31 March 2012 there are accrued contributions of £nil due to the Boots Pension Scheme (2011 £146 million), which are included in other creditors in note 13 There are no prepaid or accrued contributions to the Alliance UniChem UK Group Pension Scheme at the balance sheet date

At 31 March 2012 the Boots Pension Scheme had a surplus on an FRS17, 'Retirement benefits', basis, of £30 million (2011 deficit of £147 million) before tax Details of the most recent actuarial valuation and detailed disclosures at 31 March 2012 can be found in the financial statements of Alliance Boots GmbH

Notes to the financial statements (continued)
for the year ended 31 March 2012

20 Operating leases

At 31 March 2012 the Company had annual commitments under non-cancellable operating leases as follows

	2012 Land and buildings £million	2012 Other £million	2011 Land and buildings £million	2011 Other £million
Less than one year	**16**	**8**	14	6
Between one and five years	**86**	**7**	85	1
More than five years	**202**	**-**	193	7
	304	**15**	292	14

21 Commitments

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

	2012 £million	2011 £million
Contracted	17	29

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 2012 the gross borrowings outstanding under the Agreements in aggregate (including the impact of currency translation and capitalised interest) were £8,790 million (2011 £8,851 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 2012, the Company was contingently liable under this arrangement for a total amount of £51 million (2011 £18 million)

23 Financial commitments

At 31 March 2012 the Company had derivative financial instruments in the form of interest rate swaps The value of the interest rate swaps at 31 March 2012 was a deferred liability of £17 million (2011 £31 million)

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 2012 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