Company registration number 928555

Boots UK Limited
Directors' report and financial statements
for the year ended 31 March 2010

Contents

Boots UK Limited

Directors' report
for the year ended 31 March 2010

The Directors present their report and the audited financial statements for the year ended 31 March 2010

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

Business review
Turnover increased by 3 6% (2009 21 5%) to £6,303 million (2009 £6,083 million) Operating profit before exceptional items increased by 14 5% (2009 15 5%) to £394 million (2009 £344 million)

Within operating profit was £37 million (2009 £34 million) of exceptional costs The exceptional costs comprised £37 million (2009 £34 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 £21 million (2009 £21 million) of costs relating to pension deficit funding Operating profit was £357 million (2009 £310 million)

The Company's profit for the financial year was £235 million (2009 £201 million)

During the year the trade and assets of a further 20 pharmacies were acquired from E Moss Limited and the Alliance Pharmacy (NI) group of companies, following the acquisition of 29 pharmacies in the prior year

Boots UK performed well throughout the year, including the important Christmas period, growing both revenue and trading margin, despite regulatory pressures impacting dispensing profitability

Dispensing & Related Income increased by 1 7% This was due to good dispensing volume growth, which was partially offset by lower average revenue per prescription (mainly as a result of lower generic reimbursement prices) and strong growth in Related Income Profit growth was, however, held back by lower reimbursement prices, particularly for 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 over 8%

Revenue in the Retail Health category increased by 5 6% Sales of both non-prescription medicines and healthcare products such as vitamins increased year on year The gross margin increased due to improved product mix and more effective use of promotions We continue to develop our differentiated healthcare product offering, including our extensive range of Boots branded healthcare products, building on our excellent reputation for customer care and trust

Revenue in the Beauty & Toiletries category, where we have leading market positions and exclusive product brands, increased by 6 1%, sales of cosmetics, fragrances, accessories and toiletries all increasing year on year

In Beauty, No7 and fragrance sales were particularly strong No7 benefitted from the successful launch of new products including No7 Protect & Perfect Intense Beauty Serum, the clinically proven skincare product which provides genuine long term anti-ageing benefits The launch in April 2009 was widely reported in the media, generating strong consumer demand which has continued through repeat purchases As a result, sales of No7 products increased substantially, further consolidating its position as the UK's leading cosmetics and skincare brand We continue to invest in new product development for No7 and launched a number of other new products during the year, including the No7 Lift & Luminate skincare range Further product launches are planned in the coming months

In the Toiletries sub-category, growth was spread across almost all our product groupings, suncare increasing the most strongly driven by growth in self-tanning products, along with indulgent bathing, which benefitted from strong promotions of our differentiated product offering

Revenue in the Lifestyle category decreased by 4 6%, reflecting the continuing decline in the photographic market, lower sales of baby products due to strong competition from the supermarkets and lower miscellaneous sales This was partly offset by good revenue growth in the electrical sub-category

The business performed well during the key Christmas selling period, assisted again by our highly acclaimed 'Here come the girls' advertising campaign, promotional offers and Christmas gift catalogue

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 7 million, reflecting its position as one of the largest and most valued loyalty schemes in the UK

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

During the year we substantially increased 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 more than 2,000 Boots stores across the UK, providing customers with convenient access to the extended Boots product range, including the full seasonal gift offering

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

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

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

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

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

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

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

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

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

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 throughout the Group 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 Group's Health & Safety committee

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 its pharmacies, the Company is exposed to risks relating to the professional services it provides

Mitigation
The Company has robust purchasing, well developed contractual controls in relation to suppliers and a cohesive product control framework This includes specific controls for the identification of counterfeit product The Company has a rigorous governance framework in place in its pharmacies and the Company 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, IT systems or operational systems of key third party suppliers

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

Directors' report (continued)
for the year ended 31 March 2010

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 on a national and international basis 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 the anticipated commercial, operational and financial benefits from the various change programmes in the course of implementation throughout the Company

Mitigation
The Company has in place robust governance processes to control all key change programmes, including regular programme board and steering group meetings at which progress to achieve the 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

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

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 was accidentally or maliciously 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 ensures that all processing done by the Company complies with data protection legislation

Dividends
No dividends were declared and paid in the year (2009 £450 million interim dividend declared and paid)

Directors
The following served as Directors during the year

T Clerckx	Appointed 28 January 2010
E Fagan	
A W Gourlay	
P Kennerley	
R Mehra	
K Murphy	
S Roberts	
S Duncan	Resigned 11 January 2010
I Filby	Resigned 2 June 2009
P Fussey	Resigned 1 June 2009

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 has made no political donations during the current and preceding year The Company made £1 1 million (2009 £1 3 million) of charitable donations during the year

Boots UK Limited

Directors' report (continued)
for the year ended 31 March 2010

Auditors
KPMG Audit Plc have been appointed auditors in accordance with Section 485 of the Companies Act 2006 ("the Act") and will be deemed reappointed pursuant to Section 487 of the Act

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

11 May 2010

Registered office
Nottingham
NG2 3AA

Registered in England and Wales No 928555

Directors' responsibilities statement

for the year ended 31 March 2010

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 the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law)

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 judgments 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of 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 2010 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 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/UKNP

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 2010 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

Stephen Cooper (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
London

11 May 2010

Boots UK Limited

Profit and loss account
for the year ended 31 March 2010

	Notes	2010 £million	2009 £million
Turnover	2		
Continuing operations		6,296	6,083
Acquisitions		7	-
		6,303	6,083
Operating profit			
Continuing operations	2	357	310
Income from shares in Group undertakings		31	20
Amounts written off investments		(22)	(17)
Interest receivable and similar income	4	1	6
Interest payable and similar charges	5	(30)	(32)
Profit on ordinary activities before taxation		337	287
Tax on profit on ordinary activities	6	(102)	(86)
Profit for the financial year		235	201

There were no recognised gains and losses for the current and preceding financial years other than the profit of £235 million (2009 £201 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 2010

	Notes	2010 £million	2009 £million
Fixed assets			
Tangible assets	9	852	877
Intangible assets	10	743	731
Investments	11	100	122
		1,695	1,730
Current assets			
Stocks	12	581	601
Debtors including £3 million due after more than one year (2009 £1 million)	13	723	603
Cash at bank and in hand		47	111
		1,351	1,315
Creditors amounts falling due within one year	14	(1,071)	(1,191)
Net current assets		280	124
Total assets less current liabilities		1,975	1,854
Creditors amounts falling due after more than one year	15	(872)	(975)
Provisions for liabilities and charges	16	(47)	(58)
Net assets		1,056	821
Capital and reserves			
Called up share capital	18,19	710	710
Other reserves	19	54	54
Profit and loss account	19	292	57
Shareholders' funds		1,056	821

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

These financial statements were approved by the Board on 11 May 2010 and were signed on its behalf by

T Clerckx
Director

Registered in England and Wales No 928555

Notes to the financial statements (continued)
for the year ended 31 March 2010

1 Accounting policies

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

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

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 and loss account

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

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

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

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

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

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

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

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

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

Amortisation
Where an intangible asset is considered to have a finite useful economic life, amortisation is charged to the profit and loss account on a straight-line basis over the useful life from the date the asset is available for use Some intangible assets do not expire and therefore are considered to have an indefinite useful economic life Those intangible assets considered to have an indefinite useful economic life are not amortised and are tested for impairment at each balance sheet date

Amortisation periods and methods are reviewed annually and adjusted if appropriate

Notes to the financial statements (continued)
for the year ended 31 March 2010

1 Accounting policies (continued)

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

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

Stocks
Stocks consist of goods held for resale and are valued at the lower of cost and net realisable value Cost is determined using the first in, first out method The cost of 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 Boots Pension Scheme and the Alliance UniChem Group Pension Scheme, incorporating both a multi-employer defined benefit scheme and a defined contribution plan, the assets and liabilities of which are held independently from the Group The Company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly, as required 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 schemes 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

Notes to the financial statements (continued)

for the year ended 31 March 2010

2 Profit from operations

	2010 £million	2009 £million
Turnover	**6,303**	6,083
Cost of sales		
Continuing operations	**(3,657)**	(3,540)
Acquisitions	**(5)**	-
	(3,662)	(3,540)
Gross profit	**2,641**	2,543
Distribution costs		
Continuing operations	**(2,099)**	(2,058)
Acquisitions	**(2)**	-
	(2,101)	(2,058)
Administrative expenses		
Continuing operations	**(183)**	(175)
Acquisitions	**-**	-
	(183)	(175)
Operating profit	**357**	310

Operating profit is stated after charging

	2010 £million	2009 £million
Depreciation of tangible fixed assets		
- owned assets	**169**	168
- held under finance leases	**1**	1
Operating lease rentals payable		
- land and buildings	**326**	249
- plant and machinery	**16**	21
Additional pension contributions	**21**	21
Net foreign exchange loss	**4**	7
Exceptional items		
Costs in relation to second phase integration projects[1]	**37**	34

[1]Costs in relation to the second phase of integration projects following the merger of Boots and Alliance UniChem in July 2006

Amounts receivable by the auditors and their associates

The 2010 fee in respect of auditing the accounts of the Company pursuant to legislation was £0 4 million (2009 £0 3 million)

Notes to the financial statements (continued)
for the year ended 31 March 2010

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

	2010 Number of employees	2009 Number of employees
Sales and marketing	38,290	39,428
Logistics	1,496	1,843
Administration	982	699
	40,768	41,970

Costs incurred in respect of these employees were

	2010 £million	2009 £million
Wages and salaries	919	890
Social security costs	67	66
Pension costs	108	95
	1,094	1,051

Directors' remuneration for the year was as follows

	2010 £million	2009 £million
Directors' emoluments	3	3
Compensation for loss of office	1	-
	4	3

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid Director was £0 5 million (2009 £0 4 million) and the Company contributed £81,000 (2009 £48,000) to a money purchase pension scheme on his/her behalf

Retirement benefits are accruing to the following number of Directors under

	2010 Number of Directors	2009 Number of Directors
Money purchase schemes	3	2
Defined benefit schemes	4	6

4 Interest receivable and similar income

	2010 £million	2009 £million
Interest receivable from bank deposits	-	5
Other finance income	1	1
	1	6

5 Interest payable and similar charges

	2010 £million	2009 £million
Interest payable on bank loans and overdrafts	-	2
Interest payable to Group undertakings	30	29
Finance charges payable in respect of finance leases	-	1
	30	32

Notes to the financial statements (continued)
for the year ended 31 March 2010

6 Tax on profit on ordinary activities

An analysis of the tax charge for the year ended 31 March 2010 is presented as follows

	2010 £million	2009 £million
Current tax		
United Kingdom ('UK') corporation tax		
Corporation tax on income for the period at 28% (2009 28%)	**87**	102
Adjustments in respect of prior periods	**4**	20
	91	122
Deferred tax (note 17)		
Origination and reversal of timing differences	**14**	(27)
Adjustment in respect of prior periods	**(3)**	(9)
	11	(36)
Tax on profit on ordinary activities	**102**	86

The current tax charge for the financial year is lower (2009 higher) than the standard rate of corporation tax of 28% (2009 28%) The differences are explained below

	2010 £million	2009 £million
Profit on ordinary activities before tax	**337**	287
Current tax at 28% (2009 28%)	**94**	80
Effects of		
Depreciation in excess of capital allowances	**2**	30
Loss on disposal of fixed assets	**-**	-
Provisions against investments and loans to Group undertakings	**6**	5
Expenses not deductible for tax purposes	**1**	1
Non-taxable income	**-**	(1)
Non-taxable dividends received from UK companies	**(9)**	(6)
Movements in general provisions	**(8)**	(7)
Pension contributions for tax purposes	**1**	-
Adjustments in respect of prior periods	**4**	20
Total current tax charge as above	**91**	122

7 Dividends

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

	2010 £million	2009 £million
Dividends paid in the year		
Interim dividends paid	**-**	450

Notes to the financial statements (continued)
for the year ended 31 March 2010

8 Acquisitions

On 1 April 2009 the Company bought the trade and assets of 1 pharmacy from E Moss Limited On 30 September 2009 the Company bought the trade and assets of 19 pharmacies from E Moss Limited and AP (NI) (No 1) Limited The purchases of the trade and assets have been accounted for using the acquisition method of accounting

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

	Book value £million	Fair value £million
Tangible fixed assets	3	3
Pharmacy licences	6	10
Debtors	3	3
Creditors	(3)	(3)
Cash	2	2
	11	15
Goodwill arising on acquisition		1
		16
Satisfied by		
Cash		16

Had these pharmacies been acquired at the start of the year, the effect on profit after tax would have been to decrease profit by £1 million

9 Tangible fixed assets

	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Payments on account and assets in course of construction £million	Total £million
Cost					
At 1 April 2009	73	106	1,902	45	2,126
Additions	5	23	47	71	146
Acquisition of businesses	3	-	1	-	4
Transfers	-	-	102	(102)	-
Disposals	(4)	(7)	(29)	-	(40)
At 31 March 2010	**77**	**122**	**2,023**	**14**	**2,236**
Depreciation					
At 1 April 2009	23	46	1,180	-	1,249
Charge for the year	4	10	156	-	170
Acquisition of businesses	1	-	-	-	1
Disposals	(2)	(7)	(27)	-	(36)
At 31 March 2010	**26**	**49**	**1,309**	-	**1,384**
Net book value					
At 31 March 2009	50	60	722	45	877
At 31 March 2010	**51**	**73**	**714**	**14**	**852**

The net book value of tangible fixed assets held under finance leases of £5 million (2009 £9 million) is included in the total net book value presented above Depreciation for the financial year on these assets was £1 million (2009 £1 million)

The net book value of land and buildings is comprised of

	2010 £million	2009 £million
Freehold land and buildings	19	19
Long leasehold	3	2
Short leasehold	29	29
	51	50

Notes to the financial statements (continued)
for the year ended 31 March 2010

10 Intangible assets

	Goodwill £million	Pharmacy licences £million	Total £million
Cost			
At 1 April 2009	40	695	735
Additions	-	2	2
Acquisition of businesses	1	10	11
Disposals	-	(1)	(1)
At 31 March 2010	**41**	**706**	**747**
Amortisation			
At 1 April 2009 and **31 March 2010**	-	4	4
Net book value			
At 31 March 2009	40	691	731
At 31 March 2010	**41**	**702**	**743**

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

11 Fixed asset investments

	Shares in subsidiary undertakings £million
Cost	
At 1 April 2009 and **31 March 2010**	143
Provision	
At 1 April 2009	21
Impairment	22
At 31 March 2010	**43**
Net book value	
At 31 March 2009	122
At 31 March 2010	**100**

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

	Percentage held by the Company or subsidiary undertakings	Country of incorporation	Main activity
Boots Investments Limited	100	Jersey	Investment company

As permitted by section 410 of the Companies Act 2006, only principal undertakings are shown A complete list of all subsidiary undertakings is filed with the Company's annual return

12 Stocks

	2010 £million	2009 £million
Raw materials and consumables	**2**	2
Finished goods and goods held for resale	**579**	599
	581	601

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

Notes to the financial statements (continued)
for the year ended 31 March 2010

13 Debtors

	2010 £million	2009 £million
Falling due within one year		
Trade debtors	406	402
Amounts owed by Group undertakings	196	60
VAT recoverable	19	29
Other debtors	13	16
Prepayments and accrued income	86	95
	720	602
Falling due after more than one year		
Other debtors	3	1
Total debtors	723	603

14 Creditors amounts falling due within one year

	2010 £million	2009 £million
Bank loans and overdrafts	93	164
Obligations under finance leases (note 15)	4	2
Trade creditors	176	190
Amounts owed to Group undertakings	224	272
Other creditors including taxes and social security	118	113
Accruals and deferred income	411	410
Corporation tax payable	45	40
	1,071	1,191

15 Creditors amounts falling due after more than one year

	2010 £million	2009 £million
Obligations under finance leases and hire purchase contracts	2	7
Amounts owed to Group undertakings	850	950
Other creditors	20	18
	872	975

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

	2010 £million	2009 £million
Less than one year	4	2
Between one year and five years	1	5
More than five years	1	2
	6	9

Notes to the financial statements (continued)
for the year ended 31 March 2010

16 Provisions for liabilities and charges

	Refurbishment and reorganisation £million	Vacant property £million	Closure or termination of operations £million	Deferred tax £million	Total £million
At 1 April 2009	37	12	5	4	58
Provisions created during the year	2	10	1	11	24
Provisions utilised during the year	(26)	(3)	-	-	(29)
Provisions released during the year	-	-	(6)	-	(6)
At 31 March 2010	**13**	**19**	**-**	**15**	**47**

The refurbishment and reorganisation provision relates to supply chain 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

17 Deferred tax

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

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

	2010 £million	2009 £million
Accelerated capital allowances	18	13
Other short term timing differences	(3)	(9)
	15	4

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 2009	13	(9)	4
Profit and loss account (credit)/charge	5	6	11
At 31 March 2010	**18**	**(3)**	**15**

No deferred tax liability has been recognised in respect of chargeable gains rolled over into replacement assets held by the Company The tax arising on these rolled over gains would only become payable if the assets were sold and it was not possible to claim further rollover relief The total amount of deferred tax unprovided at the balance sheet date is £15 million (2009 £15 million) At present it is not envisaged that any such tax will become payable in the foreseeable future

18 Called up share capital

	2010 £million	2009 £million
Authorised, allotted, called up and fully paid		
709,750,000 ordinary shares of £1 each	710	710

19 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 2008	710	306	54	1,070
Profit for the financial year	-	201	-	201
Equity dividends paid	-	(450)	-	(450)
At 1 April 2009	710	57	54	821
Profit for the financial year	-	235	-	235
At 31 March 2010	**710**	**292**	**54**	**1,056**

Notes to the financial statements (continued)
for the year ended 31 March 2010

20 Retirement benefits

The Company participates in the Boots Pension Scheme and the Alliance UniChem Group Pension Scheme, incorporating both a multi-employer defined benefit scheme and a defined contribution plan, the assets and liabilities of which are held independently from the Group The Company is unable to identify its share of the 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 scheme for the year were £102 million (2009 £91 million) This includes additional contributions of £21 million (2009 £21 million) paid to fund the deficit The agreed contribution rate for the next 12 months is 22 8% (2009 22 8%) Contributions to the defined contribution scheme for the year were £6 million (2009 £4 million) There are no prepaid or accrued contributions to either scheme at the balance sheet date

At 31 March 2010 the defined benefit scheme had a deficit on an FRS17, 'Retirement benefits', basis, of £416 million (2009 a surplus of £213 million) before tax Details of the most recent actuarial valuation and detailed disclosures at 31 March 2010 can be found in the financial statements of Alliance Boots GmbH

In January 2010, the Group announced that it was entering into consultation with employees of its UK businesses about a proposal to introduce a new defined contribution pension scheme and to close its UK defined benefit schemes to future accrual for active members Since the year end, following an extensive consultation process, the Group announced that the new defined contribution scheme is to be implemented with effect from 1 July 2010 with a number of significant enhancements to that originally proposed As a result, the existing Boots Pension Scheme and the Alliance UniChem Group Pension Scheme will close to future accrual from that date

21 Operating leases

At 31 March 2010 the Company had annual commitments under non-cancellable operating leases as follows

	2010 Land and buildings £million	**2010 Other £million**	2009 Land and buildings £million	2009 Other £million
Less than one year	**9**	**5**	9	5
Between one and five years	**78**	**2**	57	6
More than five years	**210**	**-**	232	1
	297	**7**	298	12

22 Commitments

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

	2010 £million	2009 £million
Contracted	**19**	47

23 Contingent liabilities

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

As at 31 March 2010 the gross borrowings outstanding under the Agreements in aggregate (including the impact of currency translation and capitalised interest) were £8,850 million (2009 £8,876 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 2010, the Company was contingently liable under this arrangement for a total amount of £nil (2009 £nil)

24 Ultimate parent undertaking

At 31 March 2010 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