Company registration number: 928555

Boots UK Limited
Strategic report, Directors' report and financial statements
for the year ended 31 March 2014

Contents

Boots UK Limited

Strategic report
for the year ended 31 March 2014

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

Business review
Turnover increased by 2.2% (2013: decreased by 2.4%) to £6,340 million (2013: £6,204 million). Operating profit before exceptional items increased by 12.4% (2013: 12.6%) to £542 million (2013: £482 million).

The Company's profit for the financial year was £397 million (2013: £371 million).

The Company delivered good retail turnover growth, during an increasingly competitive and promotion-led trading environment. We were able to organically grow our already considerable market share. We attribute this success to the ongoing attractiveness of the unique Boots omni-channel retail offer. Reimbursement rates for prescription medicines continued to be under pressure. This, together with intense price competition in select retail categories, adversely impacted our gross margins, which we compensated through cost efficiencies and synergies from our strategic partnership with Walgreens. Trading margin was maintained, the resulting profit growth being more modest than in recent years.

Turnover from Dispensing & Related Income was unchanged year on year, as were dispensing volumes on a reported and like for like basis, totalling 222 million items. Boots walk-in prescription business in its pharmacies in England continued to be impacted by the '100 hour opening' entry exemption (which ended in September 2012), albeit at a lower rate than in the previous year, as competitor openings mature. Like for like dispensing volumes increased year on year in Wales, Scotland and Northern Ireland where the '100 hour opening' entry exemption did not previously apply.

During the year, an increasing number of doctors in England started to use Release 2 of the NHS Electronic Prescription Service, where a patient nominates a pharmacy to which their prescriptions are sent electronically. This service, which is particularly attractive for repeat prescriptions, was a key enabler in improved dispensing performance in our final quarter, accounting for around 9% of Boots dispensing volumes in England by the year end.

Boots continues to extend its range of consultation services focused on the most important health conditions impacting families in the UK, building on the initial January 2013 launch of the Diabetes Risk Awareness Service where over 23,000 consultations have been conducted to date. In April 2013, an asthma support programme was launched, over 4,000 Boots UK pharmacists having received training to better assist those suffering from the condition. To date, the programme has undertaken approximately 5,300 chronic obstructive pulmonary disease tests and over 4,300 asthma control tests. In addition, a new Boots 'Smoke Less Plan' plan was launched in September 2013, which is now available at over 450 Boots pharmacies.

As the leader in retail pharmacy in the UK, Boots remains committed to making high quality healthcare more available and accessible to all. Increasingly, this means delivering an integrated omni-channel offer, combining product sales with services and advice, both in-store and increasingly online, and through combining our pharmacy offer with eyecare through Boots Opticians and hearingcare services through our associate, Boots Hearingcare.

Our transactional website, boots.com, and our consumer health and wellness information portal, BootsWebMD.com, continue to be two of the most visited health websites in the UK. The number of site visitors again increasing substantially year on year, BootsWebMD.com receiving on average around 3.5 million visitors every month.

We will shortly trial a new automated dispensing hub in the Alliance Healthcare facility in Preston, initially serving around 50 pharmacies. This is designed to free up pharmacists' time to deliver our increasing range of pharmacy services, while improving efficiency in the preparation of repeat prescriptions. The final dispensing of medicines will continue in the individual pharmacies in the normal way.

Retail turnover increased by 3.4% to £4,139 million, up 2.0% on a like for like basis, reflecting market share gains in what was an increasingly competitive and promotional trading environment. Boots.com turnover growth was particularly strong, increasing year on year by 30%. Like for like retail store growth (which excludes boots.com orders collected in store) increased by 1.3%, the highest growth rates being in our flagship and airport stores. Turnover growth was achieved in all geographical regions, growth being more evenly distributed than in the prior year, the highest rate again being in London. The key driver of retail store turnover growth was an increase in average basket size, transaction volumes decreasing by around 0.4%, which we estimate to be less than half the rate of market footfall decline.

Turnover in the highly competitive Retail Health category, where Boots have been the market leader for many years, increased by 3.5% to £936 million, mainly due to higher sales in the positive healthcare sub-category. We continue to develop innovative new products for the growing Boots Pharmaceuticals brand, an example being the Boots Pharmaceuticals Cold & Flu Defence Nasal Spray, which has a clinically proven antiviral effect and is unique in being suitable for children from one year and for use during pregnancy and breastfeeding. Boots Pharmaceuticals continues to have the widest range of healthcare products of any brand in the UK, including therapeutically proven medicines, natural alternatives, vitamins and first aid products.

Following our acquisition in February 2013 of a 49% associate interest in a UK based company of Sonova Group that operates Boots Hearingcare, we have worked in partnership to successfully expand the business. By the year end, its number of locations had increased to 430, almost all of which are within Boots stores or standalone Boots Opticians practices.

Turnover in the Beauty & Toiletries category, where we have leading market positions and exclusive product brands, increased by 3.4% to £2,253 million, both beauty and toiletries growing at a similar rate. Gross margin in beauty was however lower, due to changes in product mix within skincare and higher promotional discounts for fragrances which were necessary to combat strong competition online and from department stores.

Within beauty, sales increased in all product sub-categories. Premium beauty product sales were again particularly strong, which we largely attribute to extending the distribution of premium ranges in Boots stores, the full year impact of brands launched in Boots in the prior year, and the benefits from refitting around 120 in-store beauty halls in the last two years.

Strategic report (continued)
for the year ended 31 March 2014

Business review (continued)

Sales of No7, the UK's leading skincare brand, again increased year on year, further demonstrating the strength of the brand. In October 2013, we introduced No7 Restore & Renew Day & Night Serum, which has been specifically formulated for more mature skin, actively targeting five key signs of ageing. Sales of No7 cosmetics increased significantly, due to a combination of new product development, most notably for lips, and the full year impact of the brand re-launch in the previous year, which included more contemporary packaging and new in-store display units to better merchandise the evolving product range.

Fragrances sales returned to growth in the important pre-Christmas selling period, as a result of our 'Lowest prices on the High Street' advertising campaign and new display cabinets in 135 of our largest stores which better merchandise our expanding ranges.

In toiletries, sales growth was particularly strong in suncare, where we benefited from a warmer summer with lower rainfall, and in haircare where we performed well in both the mass and professional haircare segments. We continue to introduce new haircare product ranges and in June 2013 re-launched the Charles Worthington brand on an exclusive basis. Good growth was also achieved in indulgent bathing, with Soap & Glory and Champneys performing well, both of which are exclusive to Boots in the UK.

In the Lifestyle category, turnover increased by 3.1% to £950 million reflecting substantial growth in on-line sales of electrical beauty products, higher sales of food and beverages and additional income from our synergy programme. Our Shapers and Delicious food ranges performed particularly well as a result of the full year impact of their re-launch during the prior year and the introduction of enhanced salad and sushi ranges. Turnover and gross margins were lower in both the highly competitive baby sub-category and in photography where the market continues to decline. In the coming months, we will launch a new photo offer, based on technology used extensively by Walgreens.

Boots retail sales performance in the important Christmas selling period was relatively resilient in the face of lower footfall across the market, competition for gifts from within the health and beauty sector and from sectors such as technology, as well as increasingly value conscious consumers. Third quarter like for like sales growth was lower than for the year overall, our strongest quarter being the fourth. We continue to provide a differentiated gifting offer, including products sourced via our Asian sourcing operation based in Hong Kong. Our gift ranges will be further enhanced in the coming year as we introduce appealing new products and gift packs for special occasions.

Our own product brands, such as No7, Boots Pharmaceuticals, Soltan, Botanics and SEVENTEEN, together with exclusive ranges such as Soap & Glory and Champneys, enable us to differentiate our retail offering from that of our competitors and continue to be very important drivers of turnover and margin.

As an omni-channel retailer, we are increasingly integrating boots.com into our core Boots product and service offer, bringing greater levels of accessibility and convenience for our customers, whether accessing our full or mobile websites. As a result, boots.com is growing very fast, turnover increasing year on year by 30%. This growth was driven by increased customer orders and the launch of an enhanced offer that enables customers to 'order by 2pm today, pick up from 2pm tomorrow' from over 2,300 stores across the UK. The convenience service was especially valued by our customers during the important Christmas trading period, particularly those who shop relatively late for presents and those who shop in our smaller stores, store staff increasingly using tablet technology to access to over 28,000 products, as well as for advice. As a result, 59% of all online orders during the year were collected in-store, a year on year increase of 14 percentage points. The net contribution of boots.com, after all direct costs including depreciation, again increased substantially year on year.

The Boots Advantage Card loyalty programme, where customers earn points on purchases for redemption at a later date, continues to be a key element of our offering. At the year end, 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) totalled 17.8 million, reflecting the programme's well established position as one of the largest and most valued loyalty schemes in the UK. Around 60% of Boots retail sales in the UK are made by Boots Advantage Card members, who spend on average over 60% more per transaction than non-cardholders. As in previous years, around 90% of active members are women, representing around 60% of the adult female population in the UK.

Throughout the year, we continued to engage Boots Advantage Card members with personalised loyalty communications and offers. The first digital Boots Health & Beauty magazine was launched in February 2014.

We attribute much of Boots success to our passionate focus on customer service and care. Each week we analyse over 20,000 customer responses to in-store marketing surveys to better understand customers' evolving needs, our internal customer care measures continuing to improve. We recruited in total almost 500 pre-registration pharmacy graduates and fully qualified pharmacists and further developed our comprehensive staff training programme, including e-learning modules.

We continue to invest in our store portfolio, making our products more accessible and convenient for customers to buy. During the year, we opened 25 new Boots stores, of which nine were relocations and three were hospital pharmacy contract wins, acquired two community pharmacies and closed seven stores. In addition, we fully refitted 115 stores, almost all in town centres, in line with our commitment to support the regeneration of high streets across the UK.

At the year end, Boots had 2,487 health and beauty stores in the UK, of which 2,385 included a pharmacy. As a result, around 90% of the UK population is estimated to be within a 10 minute drive of a Boots store.

Post balance sheet events

Since the year end, we acquired Burrows & Close, a chain of 17 pharmacies, based in the East Midlands, which will shortly be converted to the 'your local Boots pharmacy' format.

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

Strategic report (continued)
for the year ended 31 March 2014

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.

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 its retail and product brands.

Mitigation
The Company's commercial skills and ability to respond flexibly to changing consumer demand are 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, 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 Group's executive directors.

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 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 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.

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 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 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 future accruals.

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 is 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 strive to ensure where possible that all processing done by ourselves complies with data protection legislation.

By order of the Board:

D Foster
Company Secretary
8 May 2014

Boots UK Limited

Directors' report
for the year ended 31 March 2014

The Directors present their report and the audited financial statements for the year ended 31 March 2014.

Dividends
A dividend of £371 million (2013: £175 million) was declared and paid in the year.

Directors
The following served as Directors during the year:

E Fagan	(Resigned 14 October 2013)
B Fletcher	(Resigned 14 October 2013)
A Gourlay	(Resigned 30 September 2013)
P Kennerley	(Resigned 14 October 2013)
S Lehane	
M Muller	(Appointed 14 October 2013)
K Murphy	(Resigned 14 October 2013)
S Roberts	

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

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

The Company aims to ensure that all of its employees are informed about, and engaged with, their part of the business, augmented by a deeper understanding of the Company overall and its future direction. Approaches used to fulfil these aims include face to face team briefings, conference calls, magazines, newsletters and intranet sites.

We encourage continued interest and involvement of our people in the Company's future through reward schemes that are linked to business and individual performance. There are a number of other recognition schemes within the Company to recognise and reward excellence, celebrating the particular commitment and achievements of our people.

Political and charitable donations
The Company and its subsidiaries made no political donations during the current and preceding year. The Company and its subsidiaries made £1 million (2013: £1 million) of charitable donations during the year.

Auditor
During the year KPMG LLP were appointed auditor to the Company. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Disclosure of information to auditor
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 auditor is 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 auditor is aware of that information.

By order of the Board:

D Foster
Company Secretary
8 May 2014

Registered office:
Nottingham
NG2 3AA

Registered in England and Wales No. 928555

Statement of Directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

for the year ended 31 March 2014

The Directors are responsible for preparing the Strategic report, 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 auditor's report
to the members of Boots UK Limited

We have audited the financial statements of Boots UK Limited for the year ended 31 March 2014 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 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 Strategic Report and the Directors' Report for the financial year 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

Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

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

8 May 2014

Boots UK Limited

Profit and loss account
for the year ended 31 March 2014

	Notes	2014 £million	2013 £million
Turnover	**2**	**6,340**	6,204
Operating profit	**2**	**542**	482
Income from investments		**2**	4
Interest receivable and similar income	**4**	**2**	18
Interest payable and similar charges	**5**	**(39)**	(52)
Profit on ordinary activities before taxation		**507**	452
Tax on profit on ordinary activities	**6**	**(110)**	(81)
Profit for the financial year		**397**	371

There were no recognised gains and losses for the current and preceding financial years other than the profit of £397 million (2013: £371 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 2014

	Notes	2014 £million	2013 £million
Fixed assets			
Tangible assets	**8**	**849**	829
Intangible assets	**9**	**748**	748
Investments	**10**	**19**	16
		1,616	1,593
Current assets			
Stocks	**11**	**563**	538
Debtors	**12**	**685**	772
Cash at bank and in hand		**59**	69
		1,307	1,379
Creditors: amounts falling due within one year	**13**	**(979)**	(896)
Net current assets		**328**	483
Total assets less current liabilities		**1,944**	2,076
Creditors: amounts falling due after more than one year	**14**	**(731)**	(880)
Provisions for liabilities and charges	**15**	**(9)**	(18)
Net assets		**1,204**	1,178
Capital and reserves			
Called up share capital	**17,18**	**710**	710
Other reserves	**18**	**54**	54
Profit and loss account	**18**	**440**	414
Shareholder's funds		**1,204**	1,178

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

These financial statements were approved by the Board on 8 May 2014 and were signed on its behalf by:

M Muller
Director

Registered in England and Wales No. 928555

Notes to the financial statements
for the year ended 31 March 2014

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 applicable accounting standards and under the historical cost convention.

Alliance Boots GmbH ("the Group"), 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 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.

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 turnover. Sales of gift vouchers are only included in turnover 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;
- Building improvements – depreciated over the lower of: their useful economic lives of not more than 50 years; and the remaining 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.

1. Accounting policies (continued)

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.

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.
- **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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Cash at bank and in hand
Cash at bank and in hand comprises cash in hand and short term deposits with maturities of three months or less from the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

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
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.

Notes to the financial statements (continued)
for the year ended 31 March 2014

1. Accounting policies (continued)

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.

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.

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

	2014 £million	2013 £million
Turnover	**6,340**	6,204
Cost of sales	**(3,501)**	(3,397)
Gross profit	**2,839**	2,807
Distribution costs	**(2,115)**	(2,096)
Administrative expenses	**(182)**	(229)
Operating profit	**542**	482

Operating profit is stated after charging:

	2014 £million	2013 £million
Depreciation of tangible fixed assets		
- owned assets	**146**	153
- held under finance leases	**1**	1
Impairment of tangible fixed assets	**2**	-
Loss on disposal of tangible fixed assets	**1**	-
Operating lease rentals payable:		
- land and buildings	**348**	343
- plant and machinery	**9**	10
Net foreign exchange loss/(gain)	**1**	(1)

Auditor's remuneration

The 2014 fee in respect of auditing the accounts of the Company pursuant to legislation was £0.2 million (2013: £0.2 million). Amounts receivable by the Company's auditors in respect of non-audit services provided to the Company were £nil (2013: £nil).

Notes to the financial statements (continued)
for the year ended 31 March 2014

3. Staff numbers and costs

There were no staff employed by the Company during the year (2013: none).

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

4. Interest receivable and similar income

	2014 £million	2013 £million
Interest receivable from Group undertakings	2	18

5. Interest payable and similar charges

	2014 £million	2013 £million
Interest payable to Group undertakings	36	52
Other finance costs	3	-
	39	52

6. Tax on profit on ordinary activities

An analysis of the tax charge for the year ended 31 March 2014 is presented as follows:

	2014 £million	2013 £million
Current tax		
United Kingdom ('UK') corporation tax		
Corporation tax on income for the period at 23% (2013: 24%)	122	115
Adjustments in respect of prior periods	(5)	(19)
	117	96
Deferred tax (note 16)		
Origination and reversal of timing differences	(2)	(2)
Adjustment in respect of prior periods	(5)	(13)
	(7)	(15)
Tax on profit on ordinary activities	110	81

The current tax charge for the financial year is equal to (2013: lower) the standard rate of corporation tax of 23% (2013: 24%). The differences are explained below:

	2014 £million	2013 £million
Profit on ordinary activities before tax	507	452
Current tax at 23% (2013: 24%)	117	108
Effects of:		
Depreciation in excess of capital allowances	4	6
Expenses not deductible for tax purposes	3	3
Pension contributions for tax purposes	(2)	(2)
Adjustments in respect of prior periods	(5)	(19)
Total current tax charge as above	117	96

Factors that may affect future current and total tax charges

During the year to 31 March 2014, the UK Government substantively enacted a reduction in the corporation tax rate to 21%, effective from 1 April 2014 and to 20% from 1 April 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 March 2014 has been calculated based on the rate of 20% unless the asset/liability is expected to be realised or settled by 31 March 2015 in which case a rate of 21% has been used.

Notes to the financial statements (continued)
for the year ended 31 March 2014

7. Dividends

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

	2014 £million	2013 £million
Dividends paid in the year		
Dividends paid	**371**	175

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 2013	86	144	2,128	5	2,363
Additions	2	-	80	92	174
Reclassified from assets in course of construction	-	3	86	(89)	-
Other reclassifications[1]	289	(82)	(202)	(5)	-
Disposals	(8)	(2)	(92)	-	(102)
At 31 March 2014	**369**	**63**	**2,000**	**3**	**2,435**
Depreciation					
At 1 April 2013	37	50	1,447	-	1,534
Charge for the year	4	9	135	-	148
Impairment	-	-	2	-	2
Other reclassifications[1]	166	(44)	(122)	-	-
Disposals	(7)	(2)	(89)	-	(98)
At 31 March 2014	**200**	**13**	**1,373**	**-**	**1,586**
Net book value					
At 31 March 2013	49	94	681	5	829
At 31 March 2014	**169**	**50**	**627**	**3**	**849**

The net book value of tangible fixed assets held under finance leases of £2 million (2013: £3 million) is included in the total net book value presented above. Depreciation for the financial year on these assets was £1 million (2013: £1 million).

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

	2014 £million	2013 £million
Freehold land and buildings	**16**	17
Long leasehold	**2**	2
Short leasehold[1]	**151**	30
	169	49

[1] Certain items previously classified as fixtures and fitting and plant and machinery, which predominantly related to leasehold improvements, have been reclassified as land and buildings.

Notes to the financial statements (continued)
for the year ended 31 March 2014

9. Intangible assets

	Goodwill £million	Pharmacy licences £million	Total £million
Cost			
At 1 April 2013 and at **31 March 2014**	**41**	**707**	**748**
Net book value			
At 31 March 2013 and at **31 March 2014**	**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.

10. Fixed asset investments

	Shares in subsidiary undertakings £million	Shares in associate and joint venture undertakings £million	Total £million
Cost			
At 1 April 2013	18	14	32
Additions	3	-	3
Disposal	(7)	-	(7)
At 31 March 2014	**14**	**14**	**28**
Provision			
At 1 April 2013	16	-	16
Disposal	(7)	-	(7)
At 31 March 2014	**9**	-	**9**
Net book value			
At 31 March 2013	2	14	16
At 31 March 2014	**5**	**14**	**19**

During the year, the Company made an investment of £3 million to obtain 100% equity share in Burrells Limited, a small pharmacy chain in the UK. A number of dormant subsidiaries were also dissolved.

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

11. Stocks

	2014 £million	2013 £million
Raw materials and consumables	**3**	2
Finished goods and goods held for resale	**560**	536
	563	538

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

12. Debtors

	2014 £million	2013 £million
Falling due within one year:		
Trade debtors	**39**	36
Amounts owed by Group undertakings	**514**	616
Other debtors	**51**	39
Prepayments and accrued income	**81**	81
	685	772

Notes to the financial statements (continued)
for the year ended 31 March 2014

13. Creditors: amounts falling due within one year

	2014 £million	2013 £million[1]
Obligations under finance leases (note 14)	-	2
Trade creditors	289	196
Amounts owed to Group undertakings (note 14)	193	233
Other creditors including taxes and social security (note 14)	106	122
Accruals and deferred income	329	299
Corporation tax payable	55	36
VAT payable	7	8
	979	896

[1] During the year, a number of balances were reclassified between trade creditors, accruals and other creditors. The prior year balances have been restated to reflect this recoding.

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

	2014 £million	2013 £million
Obligations under finance leases	2	2
Amounts owed to Group undertakings	700	850
Other creditors	29	28
	731	880

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

	2014 £million	2013 £million
Less than one year (note 13)	-	2
Between one year and five years (note 14)	2	2
	2	4

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

	2014 £million	2013 £million
Less than one year (note 13)	193	233
Between one year and five years (note 14)	700	850
	893	1,083

The amount owed to Group undertakings between one year and five years is a loan due for repayment on 31 March 2016. Management expect that at 31 March 2015 this loan will either be rolled or replaced with a similar agreement. Interest is charged at 4.2% per annum.

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

	2014 £million	2013 £million[1]
Less than one year (note 13)	106	122
Between one year and five years (note 14)	20	17
More than five years (note 14)	9	11
	135	150

[1] During the year, a number of balances were reclassified between trade creditors, accruals and other creditors. The prior year balances have been restated to reflect this recoding.

Notes to the financial statements (continued)

for the year ended 31 March 2014

15. Provisions for liabilities and charges

	Reorganisation £million	Vacant property £million	Deferred tax £million	Total £million
At 1 April 2013	2	8	8	18
Charged/(credited) to profit and loss account	3	-	(7)	(4)
Provisions utilised during the year	(3)	(2)	-	(5)
At 31 March 2014	**2**	**6**	**1**	**9**

The reorganisation provision relates to supply chain reorganisations. 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.

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 liabilities are attributable to the following after offset:

	2014 £million	2013 £million
Accelerated capital allowances	**6**	10
Other short term timing differences	**(5)**	(2)
	1	8

The movement in the net deferred tax liability for the year is presented as follows:

	Accelerated capital allowances £million	Other short term differences £million	Total £million
Deferred tax liabilities/(assets)			
At 1 April 2013	10	(2)	8
Profit and loss account credit	(4)	(3)	(7)
At 31 March 2014	**6**	**(5)**	**1**

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 £11 million (2013: £12 million). At present it is not envisaged that any such tax will become payable in the foreseeable future.

17. Called up share capital

	2014 £million	2013 £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	Other reserves £million	Profit and loss account £million	Total £million
At 1 April 2012	710	54	218	982
Profit for the financial year	-	-	371	371
Equity dividends paid	-	-	(175)	(175)
At 1 April 2013	710	54	414	1,178
Profit for the financial year	-	-	397	397
Equity dividends paid	-	-	(371)	(371)
At 31 March 2014	**710**	**54**	**440**	**1,204**

Notes to the financial statements (continued)
for the year ended 31 March 2014

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 from Boots UK Limited for the year were £22 million (2013: £43 million). The agreed contributions for the next 12 months are £53 million.

At 31 March 2014 there are accrued contributions of £nil due to the Boots Pension Scheme (2013: £nil). At 31 March 2014 the Boots Pension Scheme had a deficit on an IAS 19, 'Employee benefits' basis, of £78 million (2013: surplus of £62 million). Details of the most recent actuarial valuation and detailed disclosures at 31 March 2014 can be found in the financial statements of Alliance Boots GmbH.

20. Operating leases

At 31 March 2014 the Company had annual commitments under non-cancellable operating leases as follows:

	2014 Land and buildings £million	**2014 Other £million**	2013 Land and buildings £million	2013 Other £million
Less than one year	**28**	**1**	24	4
Between one and five years	**81**	**4**	80	6
More than five years	**200**	**-**	199	-
	309	**5**	303	10

21. Commitments

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

	2014 £million	2013 £million
Contracted	**17**	10

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 2014 the gross borrowings outstanding under the Agreements in aggregate (including the impact of currency translation and capitalised interest) were £8,357 million (2013: £8,836 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 2014, the Company was contingently liable under this arrangement for a total amount of £59 million (2013: £69 million).

23. Post balance sheet events

Since the year end, the Company acquired the shares of Burrows & Close Limited, a chain of 17 pharmacies, based in the East Midlands, for a cash consideration of £19.6 million.

24. Related party transactions

All transactions with related parties were on an arm's length basis. A summary of these transactions is as follows:

The Company, in its normal course of business, transacts with other entities controlled or significantly influenced by Kohlberg Kravis Roberts & Co. L.P.

Transactions with Walgreen Co. and its subsidiaries (Walgreens)
Following Walgreens acquisition of a 45% equity stake in Alliance Boots GmbH on 2 August 2012, Walgreen Co. and its subsidiaries are related parties. Transactions with Walgreens generated turnover of £29 million (2013: £2 million). At 31 March 2014, amounts due from Walgreens were £5 million (2013: £2 million).

Transactions with Boots Hearingcare Limited
Boots UK Limited acquired a 49% equity stake in Boots Hearingcare Limited on 20 February 2013 and therefore it is a related party. Transactions with Boots Hearingcare Limited generated turnover of £11 million (2013: £nil). At 31 March 2014, amounts due from Boots Hearingcare Limited were £1 million (2013: £nil).

Notes to the financial statements (continued)
for the year ended 31 March 2014

25. Ultimate parent undertaking

At 31 March 2014 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.