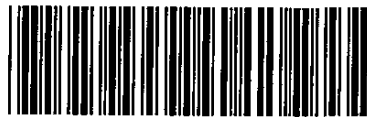


REGISTERED NUMBER: 807043

SUPERDRUG STORES PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 53 WEEKS ENDED 31 DECEMBER 2011

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Superdrug Stores plc

Annual Report and Financial Statements for the 53 weeks ended 31 December 2011

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Superdrug Stores plc

Directors' report for the 53 weeks ended 31 December 2011

The directors present their annual report together with the audited financial statements of the Company (registered number 807043) for the 53 weeks ended 31 December 2011

PRINCIPAL ACTIVITY

The Company trades as a beauty and health retailer in the United Kingdom

RESULTS AND BUSINESS REVIEW

Turnover for the year was £1,049m (2010 £1,055m) Growth was impacted by the continuing pressures on consumer income with reduced footfall on high streets, which was more significant outside London The Company achieved improved margins but had increased operating costs due to non-recurrence of a pension credit of £7.4m in 2010, which resulted in an operating profit for 2011 of £10,799k (2010 £15,240k) Profit after taxation was £3,975k (2010 £1,342k)

At 31 December 2011, shareholders' funds totalled £138,953k (2010 £147,735k)

The Company had a net pension liability at 31 December 2011 of £9,575k (2010 £1,345k) in respect of the defined benefit section of its pension scheme With effect from 28 February 2010 the defined benefit section was closed to future accrual and final salary linkage was also severed All active members were offered membership of the defined contribution section of the pension scheme.

DIVIDEND

No dividend was declared or paid during the financial year (2010 £nil)

BUSINESS ENVIRONMENT

The UK health and beauty market grew by 2.4% in 2011 to £18,324m predominately through price inflation

2011 has seen a further concentration to prime retailing locations especially in London, South East and major regional shopping centres and empty secondary high street sites There has been continued aggressive store expansion of some health and beauty discounter chains whilst some high street clothing chains have launched beauty offers The online expansion continues with pure play beauty retailers and those with strong TV or catalogue businesses

Although, consumer income is being squeezed they appreciate the ability to treat themselves with "small luxuries" which has helped the health and beauty market to continue to grow in 2011

Along with many other sectors in UK retailing, the health and beauty retailing promotional environment has become intense Heavy discounting throughout the grocers has resulted in many customers incorporating health and beauty as part of their household grocery shop

Innovation is a key driver of growth in the cosmetics and fragrance categories and Superdrug successfully launched own brand and exclusive ranges and services across a variety of categories and price points to offer the customer great value and a reason to visit the store

STRATEGY

Against this challenging business environment, Superdrug continued its vision to provide the customer with everyday accessible beauty, offering products people want in a refreshed environment at great prices The Company recognises customers are looking for value for money and the lower level of discretionary spend will be spent wisely in terms of product and location

Superdrug Stores plc **Directors' report for the 53 weeks ended 31 December 2011 (continued)**

STRATEGY (continued)

Superdrug launched a new store design in Wimbledon in March 2011 and rolled this out across several stores in the estate in 2011. This will continue to be refined and rolled out in 2012, with special focus on the South East region. Superdrug also continued to partner with our sister company, The Perfume Shop, to introduce The Perfume Shop into 41 Superdrug stores and provide our customers with access to more brands. We will continue to introduce The Perfume Shop into new concept stores that launch this year where there is a good fit.

Superdrug launched its Beautycard loyalty program in May 2011 with media support and has already attracted over 5 million customers. This is another way in which Superdrug continues to evolve and offer customers added value when they shop in store.

The business will continue with its ongoing strategy to encourage customers to Take Another Look at Superdrug, continuing to refresh the store environment and the products and services offered in store. We will continue to emphasise our value message in the current market and continue to excite our customers by bringing new brands to market. The business also recognises that it is increasingly popular for UK customers to buy and research products on line and will continue to develop its online retailing and invest in social media.

The business is aware that with continued upward pressure on retailer costs, it requires operational improvements, innovation and efficiencies to ensure we can maintain our value message for customers.

The directors expect the economic environment to remain challenging for the foreseeable future and the squeeze on personal incomes to continue.

The directors remain cautious but confident that by understanding our customers and providing access to the best accessible beauty products to our customers everyday which are great value for money, the business will continue to improve on the current level of performance and emerge in a strong position to deliver future growth once consumer demand improves.

PRINCIPAL RISKS AND UNCERTAINTIES

The directors of the Company's intermediate parent company, A S Watson (Health & Beauty UK) Limited, manage the group's risks at a group level, rather than at an individual business unit level. For this reason, the Company's directors believe that a discussion of the group's risks would not be appropriate for an understanding of the development, performance or position of the Superdrug Stores plc business. The principal risks and uncertainties of A S Watson (Health & Beauty UK) Limited, which include those of the Company, are discussed in the paragraph of the same name in the directors' report of the group's annual report which does not form part of this report.

KEY PERFORMANCE INDICATORS ("KPIs")

The directors monitor progress on the Company's performance by reference to the following KPIs

	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
• Turnover	1,049,128	1,054,587
• Gross margin (%)	39.1%	38.7%
• Operating profit before interest and tax	10,799	15,240
• Net debt at year end	130,994	103,469
• Total shareholders' funds	138,953	147,735

Superdrug Stores plc

Directors' report for the 53 weeks ended 31 December 2011 (continued)

DIRECTORS

The directors who held office during the year and up to the date of signing these financial statements, unless where stated, were

D K M Lai
A J Heaton
J P Seigal
J C Y Wat
G G Smith

Resigned 31 January 2012

Appointed 31 January 2012

As permitted by s234(2) of the Companies Act 2006, the Company maintains directors' and officers' liability insurance which provides insurance cover against liabilities which directors and other officers of the Company may incur personally as a consequence of claims made against them alleging breach of duty or other unlawful acts or omissions in their capacity as directors and officers

DISABLED PERSONS

It is the Company's policy to give full consideration to the possibility of employing disabled persons wherever suitable opportunities exist. Employees who have become disabled are given every opportunity and assistance to continue in their employment or to be trained for other suitable positions. It is the policy of the Company that the training, career development and promotion of disabled persons should be identical to that of other employees.

EMPLOYEE INVOLVEMENT

The Board regards employee involvement and effective communication as being essential to foster good employee relations, to achieve improved performance and productivity, to enhance the quality of working life, and to gain commitment to the Company's business objectives.

Consultation with employees has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. There are regular newsletters, regional meetings, management meetings and a conference to ensure that there is a regular flow and exchange of information and ideas about the business.

CHARITABLE AND POLITICAL DONATIONS

The Company made charitable donations and organised and contributed to fund-raising activities that in total raised £nil (2010 £295k) during the year.

No political donations were made during the year (2010 £nil).

SUPPLIER PAYMENT POLICY

The Company does not impose standard payment terms on its suppliers but agrees specific terms with each one. It is the Company's policy to pay its suppliers in accordance with the terms that have been agreed. The Company's average creditor payment period at 31 December 2011 was 27 days (2010 29 days).

Superdrug Stores plc

Directors' report for the 53 weeks ended 31 December 2011 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom 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 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,
- 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.

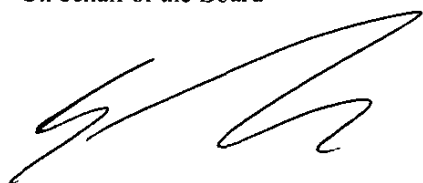
DISCLOSURE OF INFORMATION TO AUDITORS

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information (this is information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and they have taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in the office and a resolution concerning their reappointment will be proposed at the annual general meeting.

On behalf of the Board



G G Smith
Director

19/06/2012

Superdrug Stores plc

Independent auditors' report to the members of Superdrug Stores plc

We have audited the financial statements of Superdrug Stores plc for the 53 weeks ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, as set out on page 4, 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 December 2011 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom 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

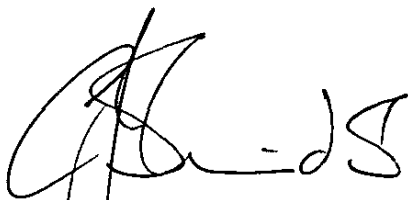
In our opinion the information given in the Directors' Report for the period for which the financial statements are prepared is consistent with the financial statements.

Superdrug Stores plc
Independent auditors' report to the members of Superdrug Stores plc
(continued)

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



Christopher Maidment (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Gatwick

25 June 2012

Superdrug Stores plc
Profit and loss account for the 53 weeks ended 31 December 2011

		53 weeks ended 31 December 2011	52 weeks ended 25 December 2010
	Note	£'000	£'000
Turnover	1(b)	1,049,128	1,054,587
Cost of sales		(639,394)	(646,250)
Gross profit		409,734	408,337
Distribution costs		(364,804)	(360,381)
Administrative expenses		(54,836)	(47,826)
Other operating income		20,705	15,110
Operating profit	2	10,799	15,240
Interest receivable and similar income	5	195	121
Interest payable and similar charges	6	(7,316)	(6,770)
Other finance income		1,839	711
Profit on ordinary activities before taxation		5,517	9,302
Tax charge on profit on ordinary activities	7	(1,542)	(7,960)
Profit for the financial year	15	3,975	1,342

All of the above results relate to continuing operations

There is no material difference between the profit/(loss) on ordinary activities and profit for the financial year stated above and their historical cost equivalents

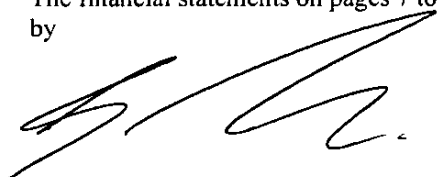
Superdrug Stores plc**Statement of total recognised gains and losses for the 53 weeks ended 31 December 2011**

	Note	53 weeks ended 31 December 2011	52 weeks ended 25 December 2010
		£'000	£'000
Profit for the financial year		3,975	1,342
Actuarial (loss)/gain recognised in pension scheme	17	(16,737)	14,968
Movement on deferred tax relating to pension liability	16	3,980	(5,210)
Total (losses)/gains recognised since last annual report		<u>(8,782)</u>	<u>11,100</u>

Superdrug Stores plc
Balance sheet as at 31 December 2011

		31 December 2011 £'000	25 December 2010 £'000
	Note		
FIXED ASSETS			
Intangible fixed assets	8	14,301	14,351
Tangible fixed assets	10	109,411	106,557
		<u>123,712</u>	<u>120,908</u>
CURRENT ASSETS			
Stock		168,381	170,173
Debtors	11	205,526	232,928
Cash at bank and in hand		14,873	58,273
		<u>388,780</u>	<u>461,374</u>
CREDITORS			
Amounts falling due within one year	12	<u>(361,383)</u>	<u>(428,660)</u>
NET CURRENT ASSETS		<u>27,397</u>	<u>32,714</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		151,109	153,622
CREDITORS:			
Provisions for liabilities	13	(2,581)	(4,542)
Pension liability	17	(9,575)	(1,345)
NET ASSETS		<u>138,953</u>	<u>147,735</u>
CAPITAL AND RESERVES			
Called up share capital	14	22,000	22,000
Share premium account	15	103,400	103,400
Profit and loss account	15	13,553	22,335
TOTAL SHAREHOLDERS' FUNDS	16	<u>138,953</u>	<u>147,735</u>

The financial statements on pages 7 to 22 were approved by the Board of Directors and signed on its behalf by



G G Smith
 Director
 19/06/2012

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011

1 ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the UK. The principal accounting policies which are consistently applied are set out below.

The Company is exempt from the following-

- publication of a cash flow statement under FRS 1, 'Cash Flow Statements' (revised 1996),
- publication of consolidated financial statements under Section 400 of the Companies Act, and
- requirement to disclose related party transactions with A S Watson (Health & Beauty UK) Limited owned group undertakings, under FRS 8, 'Related Party Disclosures'

These exemptions have been claimed as the Company was a wholly owned subsidiary undertaking of A S Watson (Health & Beauty UK) Limited, a company registered in England and Wales, which publishes consolidated financial statements that are publicly available.

b) Turnover

Turnover represents retail sales to customers and is measured at the fair value of the consideration received or receivable and is recognised on the day that the sale is made based on the store till receipts and automatic uploads of retail information. It represents amounts receivable for goods sold in the normal course of business, net of returns, and is stated net of value added tax. The company regularly operates a variety of sales promotions that give rise to goods being sold at a discount to standard retail price. Turnover reflects retail sales net of all related discounts. Retail sales are usually in cash or by credit or debit card. It is the company's policy to sell its products to the customer with a right of return. Based on accumulated experience no provision is made for such returns at the time of sale.

c) Loyalty schemes

In respect of loyalty schemes, principally the Superdrug Beautycard, as 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. Liabilities are recorded to estimate the proportion of the points issued which will be redeemed by the customers.

d) Goodwill

Purchased goodwill arising on the purchase of pharmacy licences is calculated as the excess of the fair value of consideration given over the fair value of the identifiable assets acquired, and is capitalised as an intangible asset.

Following an investigation by the UK government of the regulatory environment governing pharmacies in 2005, the Directors reviewed the carrying value of the purchased goodwill on the pharmacy licences held by the Company and concluded that a policy of amortising these licences was no longer appropriate. Accordingly, amortisation of the pharmacy licences ceased with effect from 1st January 2005.

Where a business or pharmacy licence is sold, or where goodwill has been impaired, the net book value of goodwill or the amount of impaired goodwill, as applicable, is charged through the profit and loss account in the year of disposal or impairment. The Company has taken advantage of the transitional rules of FRS 10 "Goodwill and Intangible Assets" to leave purchased goodwill acquired prior to 30th January 1999 eliminated against reserves. This goodwill will be charged to the profit and loss account on the subsequent disposal of the related business.

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

e) Impairment of intangible and tangible fixed assets

Intangible and tangible fixed assets are subject to review for impairment in accordance with FRS11 "Impairment of Fixed Assets and Goodwill". Any impairment is recognised in the profit and loss account in the year in which it occurs.

f) Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost, less accumulated depreciation. The cost of fixed assets is their historic purchase price, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, over the following expected useful economic lives of the assets concerned:

Leasehold land and buildings	terms of the lease
Fixtures, fittings and equipment	5 to 10 years
Assets in the course of construction	not depreciated

Useful economic lives are reassessed periodically.

g) Valuation of investment in subsidiaries

Investments in subsidiary undertakings are stated at the book value of the net assets of each subsidiary undertaking with the movement being dealt with through the revaluation reserve. Investments are revalued annually.

h) Stock

Stock is stated at the lower of cost and net realisable value, at weighted average cost and consists of finished goods purchased for resale. Provisions are made as appropriate for shrinkage and slow-moving items.

i) Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred. Where an incentive to sign the lease has been taken, this is spread on a straight line basis over the lease term.

j) Pension costs

The Company operates a hybrid pension scheme with defined benefit and contribution sections for employees. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The defined benefit section, closed to new members since 2002, was closed to future accrual on 28 February 2010, from which date final salary linkage was also severed. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the year in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

The defined contribution section is open to all new employees to join. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The pension cost charge disclosed in note 17 represents contributions payable by the Company to the scheme.

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

k) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis

2 OPERATING PROFIT

	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Operating profit is stated after (crediting)/charging		
Rental income	(6,175)	(3,493)
Auditors' remuneration - audit services	133	125
- tax services	57	115
Operating leases – land and buildings	103,645	106,309
Operating leases – other	3,791	3,153
Charitable donations	-	295
Loss on disposal of tangible fixed assets	1,054	102
Movement in goodwill impairment provision (note 8)	(158)	(31)
(Decrease)/increase in idle property impairment provision (note 13)	(1,391)	2,075
Depreciation (note 10)	22,252	23,891

3 EMPLOYEES

The average monthly number of persons employed by the Company (including directors) during the period was

	Number	Number
Selling	6,116	6,204
Distribution	548	636
Administration	452	498
	7,116	7,338

Their aggregate remuneration comprised

	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Wages and salaries	150,057	143,892
Social security costs	9,751	9,677
Other pension costs (note 17)	-	333
	159,808	153,902

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

4 DIRECTORS' EMOLUMENTS	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Aggregate emoluments	<u>1,062</u>	<u>1,664</u>

Pension contributions of £77,355 (2010 £167,648) were paid to defined contribution pension schemes on behalf of 2 directors (2010 2)

Included in the above emoluments, £91,161 (2010 £283,914) was accrued in respect of a long term incentive plan

	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Highest paid Director		
Remuneration	693	1,235
Pension contributions	<u>50</u>	<u>142</u>
	<u>743</u>	<u>1,377</u>

Included in the director's emoluments, £9,388 (2010 £204,217) was accrued in respect of a long term incentive plan

5 INTEREST RECEIVABLE AND SIMILAR INCOME	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Bank deposits	131	100
Other	<u>64</u>	<u>21</u>
	<u>195</u>	<u>121</u>

6 INTEREST PAYABLE AND SIMILAR CHARGES	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Group undertakings	7,246	6,648
Bank overdrafts	61	46
Other	<u>9</u>	<u>76</u>
	<u>7,316</u>	<u>6,770</u>

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

7 TAX ON PROFIT ON ORDINARY ACTIVITIES	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
a) Analysis of credit in the year		
Current tax:		
Tax charge on profit on ordinary activities at 26.5% (2010 28%)	1,775	1,665
Adjustment to tax charge in respect of prior period	(983)	3,051
Total current tax charge	792	4,716
Deferred tax:		
Origination and reversal of timing differences	1,003	3,279
Adjustment due to change in rate	(253)	-
Adjustment to deferred tax in prior periods	-	(35)
Total deferred tax charge	750	3,244
Tax on profit on ordinary activities	1,542	7,960

Included within the deferred tax charge for the year is an amount of £1,321,000 (2010 £3,026,000) in relation to timing differences in the Company's pension scheme which is reflected in the movement on the pension scheme liability as detailed in note 17

b) Factors affecting tax charge/(credit) for the period

The tax charge for the period is lower (2010 higher) than the effective rate of corporation tax in the UK at 26.5%. The differences are explained below

Profit on ordinary activities before taxation	5,517	9,302
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010 28%)	1,462	2,604
Effects of		
Expenses not deductible	1,194	1,425
Short term timing differences	58	(116)
Depreciation in excess of capital allowances	1,169	1,705
Capitalised repairs	(560)	(560)
Pension cost charge less pension cost relief	(1,548)	(3,393)
Adjustment to tax charge in respect of prior period	(983)	3,051
Total current tax charge/(credit)	792	4,716

c) Factors affecting future tax charges

The Finance Act 2011, enacted in July 2011, includes legislation to reduce the main rate of corporation tax from 26% to 25% from April 2012. Further reductions to the main rate are proposed, to reduce the rate by 1% per annum to 23% by 1 April 2014.

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

8 INTANGIBLE FIXED ASSETS

	Purchased goodwill £'000
Cost	
At 25 December 2010	20,601
Additions	-
Disposals	(284)
At 31 December 2011	<u>20,317</u>
Accumulated amortisation and impairment	
At 25 December 2010	6,250
Disposals	(76)
Movement on impairment	(158)
At 31 December 2011	<u>6,016</u>
Net book value	
At 31 December 2011	<u>14,301</u>
At 25 December 2010	<u>14,351</u>

Impairment reviews are carried out on an annual basis to ensure that the carrying value of each individual pharmacy licence is still appropriate. In performing these reviews, management prepared forecasts for future trading in which assumptions over sales growth, gross margins and costs were applied. Management considers these assumptions to be reasonable based on current performance of the company. As at 31 December 2011, the impairment provision against the carrying value of pharmacy licences was decreased by £158,000 (2010 £31,000).

9 FIXED ASSET INVESTMENTS

Shares in subsidiary undertakings are carried at nil value, having been written down to reflect the underlying value, are all 100% owned and incorporated in England and Wales.

<u>Name</u>	<u>Class</u>	<u>Nature of business</u>
A S Watson Card Services (UK) Limited	Ordinary	Dormant
Superdrug Pension Trustee Limited	Ordinary	Dormant
Tip Top Drugstores plc	Ordinary	Dormant

The Directors believe that the carrying value of the investments is supported by the underlying net assets.

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

10 TANGIBLE FIXED ASSETS

	Land and buildings £'000	Fixtures, fittings and equipment £'000	Payments on account and assets in the course of construction £'000	Total £'000
COST				
At 25 December 2010	12,163	372,643	5,436	390,242
Additions	-	16,287	10,827	27,114
Transfer	-	5,436	(5,436)	-
Intra group	-	(370)	-	(370)
Disposals	-	(9,656)	-	(9,656)
At 31 December 2011	12,163	384,340	10,827	407,330
ACCUMULATED DEPRECIATION				
At 25 December 2010	9,401	274,284	-	283,685
Charge for year	565	21,687	-	22,252
Intra group	-	(224)	-	(224)
Disposals	-	(7,751)	-	(7,751)
Movement in impairment provision	(43)	-	-	(43)
At 31 December 2011	9,923	287,996	-	297,919
NET BOOK VALUE				
At 31 December 2011	2,240	96,344	10,827	109,411
At 25 December 2010	2,762	98,359	5,436	106,557

£0.9m of cost (2010: £1.8m) and £0.1m of accumulated depreciation (2010: £1.7m) of tangible fixed assets are held under operating leases to third parties.

No provision is made for tax on capital gains that might arise on the disposal of the Company's properties at the balance sheet amounts.

Land and buildings are further analysed as follows:

	Long leasehold £'000	Short leasehold £'000	Total at 31 December 2011 £'000	Total at 25 December 2010 £'000
At cost	1,126	11,037	12,163	12,163
Aggregate depreciation	(384)	(9,406)	(9,790)	(9,226)
Net book value before provision	742	1,631	2,373	2,937
Impairment provision	-	(132)	(132)	(175)
Net book value				
At 31 December 2011	742	1,499	2,241	
At 25 December 2010	768	1,994		2,762

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

11 DEBTORS: amounts falling due within one year	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Trade debtors	53,349	47,283
Amounts owed by group undertakings	106,904	140,953
Other debtors	8,605	10,041
Prepayments and accrued income	36,668	34,651
	205,526	232,928

Amounts owed by group undertakings are interest free and repayable on demand

12 CREDITORS: amounts falling due within one year	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Bank overdraft	7,455	-
Trade creditors	47,594	62,288
Amounts owed to group undertakings	223,770	287,448
Corporation tax	5,352	14,795
Other creditors	11,954	14,773
Other taxation and social security	20,662	14,763
Accruals and deferred income	44,596	34,593
	361,383	428,660

Amounts owed to group undertakings include the following loans repayable on demand

Group undertaking	Interest rate	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Kruidvat UK Limited	6.21%	24,328	24,328
A S Watson (Health & Beauty UK) Limited	2.19%	101,084	99,414
Merchant Retail Group plc	BoE base rate +0.5%	13,000	38,000
		138,412	161,742

All other amounts owed to group undertakings are interest free and repayable on demand

The Company has an additional credit agreement with A S Watson (Health & Beauty UK) Limited, the parent company, under which a loan credit facility of up to £85,000,000 has been made available, with interest charged at 6 months Libor + 4.5625%. The loan credit facility matures on 30 June 2014.

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

13 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax provision £'000	Idle property provision £'000	Total £'000
At 25 December 2010	822	3,720	4,542
Charge to the profit and loss account	(570)	(1,391)	(1,961)
At 31 December 2011	252	2,329	2,581

The idle property provision is in respect of the disposal of properties no longer required in the portfolio, consists of property costs and dilapidations and is expected to be utilised within 8 years, the lease commitment element discounted by 10%

The deferred tax provision is in respect of timing differences

14 CALLED UP SHARE CAPITAL

	Allotted and Fully Paid	
	2011 £'000	2010 £'000
Ordinary shares of 10 p each	22,000	22,000
Number of shares ('000 shares)	220,000	220,000

15 RESERVES

	Share premium account £'000	Profit and loss account £'000
At 25 December 2010	103,400	22,335
Profit for the year	-	3,975
Actuarial loss on pension scheme	-	(16,737)
Movement on deferred tax relating to pension scheme	-	3,980
At 31 December 2011	103,400	13,553

16 RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Profit for the financial year	3,975	1,342
Actuarial (loss)/gain on pension scheme (note 17)	(16,737)	14,968
Movement on deferred tax relating to pension scheme	3,980	(5,210)
Net movement in shareholders' funds	(8,782)	11,100
Opening shareholders' funds	147,735	136,635
Closing shareholders' funds	138,953	147,735

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

17 PENSIONS

The Company operates a hybrid pension scheme, the A S Watson (Health & Beauty UK) Pension Plan, with defined contribution and benefit sections, the latter closed to new entrants. The scheme commenced on 1 April 2002, when assets and liabilities were transferred to the defined benefit section from another scheme. On 26 October 2010, the scheme actuary, Clare Wilmington, a Fellow of the Institute and Faculty of Actuaries, of Hewitt Associates Limited, certified the actuarial valuation as at 31 March 2009 of the defined benefit section of the scheme. The financial assumptions adopted for the valuation were

Financial assumptions

Pre-retirement discount rate	6.50%
Post-retirement discount rate	4.90%
Retail price index	3.38%
Salary increases	3.62%-4.57%
Pension increases	3.20%
Life expectancy for a 60 year old male pensioner	86.1 years
Life expectancy for a 60 year old female pensioner	88.1 years

The assets in the defined benefit section of the scheme totalled £63.1m and on the above assumptions adopted using the projected unit method, these represented approximately 61% overall of the benefits that have accrued to members. This allowed for the cessation of accrual of future defined benefits for all active members on 28 February 2010, from which date final salary linkage was also severed. All active members were offered membership of the defined contribution section. The Company, as the sponsoring employer, made additional cash contributions totalling £2.5m in 2010 with further contributions of £4m per annum from 1 January 2011 to 30 November 2021 towards the defined benefit section shortfall being corrected by 30 November 2021. The Company's defined benefit contributions during the year totalled £4,000,000 (2010: £3,072,000).

All new employees are given the opportunity to join the defined contribution section of the scheme. The company makes a contribution, the level of which depends on the seniority of the employee. Company contributions payable in respect of the defined contribution section for the year totalled £2,526,575 (2010: £2,230,850).

Actuarial valuations of the defined benefit section using the projected unit basis were carried out for accounts disclosure purposes under FRS17 "Retirement Benefits" for the Company in December 2008 to 2011 by KPMG LLP and for previous years by Watson Wyatt & Co, consulting actuaries. The major assumptions used by the actuaries were

Financial assumptions	31 December 2011	25 December 2010	26 December 2009	27 December 2008
Discount rate	4.90%	5.60%	5.70%	6.40%
Retail price index	3.10%	3.50%	3.60%	3.30%
Salary increases	n/a	n/a	4.65%	4.30%
Pension increases	3.00%	3.30%	3.45%	3.30%

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

17 PENSIONS (continued)

The assets in the scheme and the expected rates of return were

	31 December 2011		25 December 2010		26 December 2009		27 December 2008	
	Expected rate of return	Value £'000	Expected rate of return	Value £'000	Expected rate of return	Value £'000	Expected rate of return	Value £'000
Equity	8.60%	57,393	9.00%	70,276	9.15%	59,696	8.80%	45,908
Property	7.60%	8,767	8.00%	8,545	8.15%	6,741	7.80%	6,280
Bonds (including gilts)	4.20%	15,043	5.70%	9,154	5.80%	11,700	6.40%	8,581
Cash	0.50%	2,200	0.50%	6,835	0.61%	1,155	2.80%	610
Other	7.60%	9,566	9.00%	1,119	9.15%	3,672	8.80%	5,632
Total		92,969		95,929		82,964		67,011

The following amounts at were measured in accordance with the requirements of FRS17

Balance Sheet	31 December 2011 £'000	25 December 2010 £'000	26 December 2009 £'000
Total market value of assets	92,969	95,929	82,964
Actuarial liabilities	(105,736)	(97,798)	(110,607)
Deficit in the scheme	(12,767)	(1,869)	(27,643)
Related deferred tax asset	3,192	524	7,740
Net balance sheet liability at the end of the period	(9,575)	(1,345)	(19,903)

	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Components of pension cost for the period:		
Current service cost charged to operating profit	-	(333)
Amount credited / (charged) to operating profit	-	7,356
Curtailment gains	-	7,023
Expected return on assets	7,252	7,037
Interest cost	(5,413)	(6,326)
Net return	1,839	711
Amounts recognised in STRGL:		
Actual return less than expected return on scheme assets	(11,893)	5,273
Experience gains	-	-
Changes in actuarial assumptions	(4,844)	9,695
Actuarial gain/(loss) in STRGL	(16,737)	14,968

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

17 PENSIONS (continued)

	53 weeks ended 31 December 2011 £'000	52 weeks ended 25 December 2010 £'000
Changes in the present value of the defined benefit obligation:		
Present value of obligations at start of financial year	97,798	11,796
Current service cost net of employee contributions	-	333
Actual employee contributions	-	248
Interest cost	5,413	6,326
Actuarial (gain)/loss on obligation	4,844	(10,885)
Curtailment gains	-	(7,357)
Actual benefits paid	(1,764)	(2,444)
Net transfer in/(out)	(555)	(220)
Present value of obligations at end of financial year	<u>105,736</u>	<u>97,798</u>
Changes in the fair value of the assets:		
Fair value of the plan assets at the start of financial year	95,929	82,964
Expected return on plan assets	7,252	7,037
Actuarial (gain)/loss on plan assets	(11,893)	5,273
Actual company contributions	4,000	3,072
Actual employee contributions	-	248
Actual benefits paid	(1,764)	(2,444)
Net transfer in/(out)	(555)	(220)
Fair value of plan assets at end of financial year	<u>92,969</u>	<u>95,929</u>

History of experience gains and losses for the last five years:

	31 December 2011 Total £'000	25 December 2010 Total £'000	26 December 2009 Total £'000	27 December 2008 Total £'000	29 December 2007 Total £'000
Difference between the expected and actual return on scheme assets					
Amount	(11,893)	5,273	9,690	(30,386)	(3,324)
Percentage of scheme assets	12.79%	5.5%	11.68%	45.3%	3.79%
Experience gains and losses on scheme liabilities					
Gains	-	-	363	-	194
Percentage of the present value of scheme liabilities	-	-	0.33%	-	0.23%
Total amount recognised in STRGL					
(Losses)/gains	(16,737)	14,968	(11,986)	(21,014)	(383)
Percentage of the present value of scheme liabilities	15.89%	15.31%	10.84%	25.15%	0.45%

Superdrug Stores plc

Notes to the financial statements for the 53 weeks ended 31 December 2011 (continued)

18 COMMITMENTS

The Company has the following annual commitments as at 31 December 2011

a) A duty deferment guarantee in favour of HM Customs & Excise to the value of £2 0 million (2010 £2 0 million)

b) Capital commitments	31 December 2011 £'000	25 December 2010 £'000
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Contracted but not provided	683	500
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c) Lease commitments

The following payments are due in respect of operating leases and hire agreements that expire in the following periods from the balance sheet date

	Land and Buildings		Other	
	31 December 2011 £'000	25 December 2010 £'000	31 December 2011 £'000	25 December 2010 £'000
Less than one year	18,201	17,367	587	389
Two to five years	37,413	32,175	1,015	456
More than five years	56,791	60,949	-	-
	112,405	110,491	1,602	845

19 CONTINGENT LIABILITIES

The Company has issued guarantees in respect of property lease rentals for a fellow group undertaking, Kruidvat Real Estate (UK) Limited, to the annual value of £5,624,796 (2010 £4,480,000)

20 ULTIMATE PARENT UNDERTAKING

The Company's parent undertaking is Kruidvat UK Limited, a company registered in England. The consolidated financial statements of that company can be obtained from Hutchison House, 5 Hester Road, Battersea, London SW11 4AN. A S Watson (Health & Beauty UK) Limited represents the smallest group into which the results of the Company are consolidated.

The Company's ultimate parent undertaking and controlling party is Hutchison Whampoa Limited, a company incorporated in Hong Kong which is the largest group into which the results of the Company are consolidated. The financial statements of Hutchison Whampoa Limited can be obtained from 22 Floor, Hutchison House, 10 Harcourt Road, Hong Kong.