

**SUPERDRUG STORES PLC**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 29 DECEMBER 2012

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# **Superdrug Stores plc**

## **Annual Report and Financial Statements for the 52 weeks ended 29 December 2012**

<b>CONTENTS</b>	<b>PAGES</b>
Directors' report	1-4
Independent auditors' report to the member of Superdrug Stores plc	5-6
Profit and loss account for the 52 weeks ended 29 December 2012	7
Statement of total recognised gains and losses for the 52 weeks ended 29 December 2012	8
Balance sheet as at 29 December 2012	9
Notes to the financial statements for the 52 weeks ended 29 December 2012	10-23

## **Superdrug Stores plc**

### **Directors' report**

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The directors present their annual report together with the audited financial statements of the Company (registered number 807043) for the 52 weeks ended 29 December 2012

#### **PRINCIPAL ACTIVITY**

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

#### **RESULTS AND BUSINESS REVIEW**

Turnover for the period was £1,021m (2011 £1,049m) Growth was impacted by the continuing pressures on consumer income with reduced footfall on high streets, which was more significant outside London. Despite the continuing difficult trading environment, the Company was able to slightly increase its gross margin to 39.2% (2011 39.1%). Costs were kept under strict control throughout the year and this resulted in an operating profit before exceptional item of £13.7m (2011 £10.8m)

The Directors reassessed the useful economic lives of short leasehold improvements and decided to change the period over which the cost less estimated residual value of the assets concerned are written off from the terms of the lease to the shorter of 6 2/3 years or the length of the lease. This resulted in an additional depreciation charge in the period of £15.1m, which has been disclosed as an exceptional item. The resulting operating loss for 2012 was £1.4m (2011 profit £10.8m). Loss for the period was £6.4m (2011 profit £4.0m)

At 29 December 2012, shareholder's funds totalled £121.5m (2011 £139.0m)

The Company had a net pension liability at 29 December 2012 of £16.4m (2011 £9.6m) 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, which was then closed to further contributions after 30 September 2012, when the Company implemented a Group Personal Pension Plan for all eligible employees

#### **DIVIDEND**

No dividend was declared or paid during the financial year (2011 £nil)

#### **BUSINESS ENVIRONMENT**

The UK health and beauty market grew by 2.3% in 2012 to £18,745m predominantly through price inflation

2012 has seen a further concentration to prime retailing locations especially in London, the South East and major regional shopping centres and empty secondary high street sites. The online expansion continues with pure play beauty retailers and those with strong TV or catalogue businesses

Customers remained under pressure and lacking confidence in 2012 and as a result were much more thoughtful about purchases. Beauty suffered less than most other sectors but it was not immune and saw signs of customers trading down to overcome their reluctance to spend

A good proportion of the UK high street was on sale for most of 2012 and the health and beauty retailing promotional environment was no different. Heavy discounting throughout the grocers has resulted in many customers incorporating health and beauty as part of their household grocery shop

## **Superdrug Stores plc**

### **Directors' report (continued)**

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#### **STRATEGY**

Against this challenging business environment, Superdrug continued its vision to provide the customer with everyday accessible beauty and health, 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 refreshed its store environment in 2012 with special focus on the South East region. This will continue to evolve and be rolled out across the whole estate in 2013 and 2014 to fit with the store location.

Innovation is a key driver of growth in the beauty and health market 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. Superdrug will continue to diversify its product range into better performing complementary categories and continue to excite our customers by bringing new brands to market whether in store or online.

The business also recognises that it needs to continue to build on its internet offering to be a successful modern retailer but that customers also want to be presented with the product in store. This will lead to a closer relationship with the customer through the BeautyCard loyalty program and in store customer service.

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 and health products and services 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.

## Superdrug Stores plc

### Directors' report (continued)

#### KEY PERFORMANCE INDICATORS ("KPIs")

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

	52 weeks ended 29 December 2012 £'000	53 weeks ended 31 December 2011 £'000
• Turnover	1,021,021	1,049,128
• Gross margin (%)	39.2%	39.1%
• Operating profit before depreciation reassessment, interest and tax	13,738	10,799
• Operating (loss)/profit before interest and tax	(1,399)	10,799
• Net debt at year end	113,876	130,994
• Total shareholder's funds	121,542	138,953

#### 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.

# **Superdrug Stores plc**

## **Directors' report for the 52 weeks ended 29 December 2012 (continued)**

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### **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 29 December 2012 was 22 days (2011: 27 days).

### **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 prepared 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

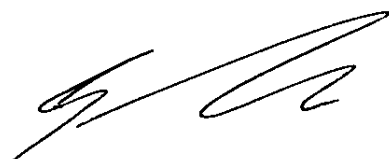
### **DISCLOSURE OF INFORMATION TO AUDITORS**

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 office and a resolution concerning their reappointment will be proposed at the annual general meeting.

On behalf of the Board



G G Smith  
Director  
25 JUNE 2013

## **Superdrug Stores plc**

### **Independent auditors' report to the member of Superdrug Stores plc**

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We have audited the financial statements of Superdrug Stores plc for the 52 weeks ended 29 December 2012 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 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 member 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 29 December 2012 and of its loss 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 member of Superdrug Stores plc**  
**(continued)**

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**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

*Rosemary Shapland*

Rosemary Shapland (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Gatwick

*25 June* 2013



**Superdrug Stores plc****Profit and loss account for the 52 weeks ended 29 December 2012**

		52 weeks ended 29 December 2012	53 weeks ended 31 December 2011
	Note	£'000	£'000
<b>Turnover</b>	1(b)	1,021,021	1,049,128
Cost of sales		(620,575)	(639,394)
Gross profit		400,446	409,734
Selling and distribution costs		(351,660)	(364,804)
Exceptional selling and distribution cost	2	(15,137)	-
Administrative expenses		(56,791)	(54,836)
Other operating income		21,743	20,705
<b>Operating (loss)/profit</b>	2	(1,399)	10,799
Interest receivable and similar income	5	315	195
Interest payable and similar charges	6	(4,511)	(7,316)
Other finance income	18	1,618	1,839
<b>(Loss)/profit on ordinary activities before taxation</b>		(3,977)	5,517
Tax on (loss)/profit on ordinary activities	7	(2,434)	(1,542)
<b>(Loss)/profit for the financial year</b>	16	(6,411)	3,975

All of the above results relate to continuing operations

A note on historical cost profits has not been included as part of these financial statements as the (loss)/profit disclosed in the profit and loss account are prepared on an unmodified historical cost basis

**Superdrug Stores plc****Statement of total recognised gains and losses for the 52 weeks ended 29 December 2012**

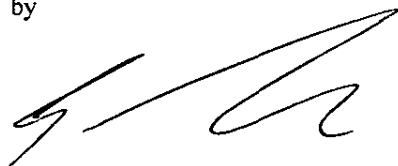
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	Note	52 weeks ended 29 December 2012	53 weeks ended 31 December 2011
		£'000	£ 000
<b>(Loss)/profit for the financial year</b>		<b>(6,411)</b>	<b>3,975</b>
Actuarial losses recognised in pension scheme	18	(14,166)	(16,737)
Movement on deferred tax relating to pension liability	17	2,794	3,980
Goodwill reinstated on disposal of pharmacy licences		372	-
Total losses recognised since last annual report		<u>(17,411)</u>	<u>(8,782)</u>

**Superdrug Stores plc**  
**Balance sheet as at 29 December 2012**

	Note	29 December 2012 £'000	31 December 2011 £'000
<b>FIXED ASSETS</b>			
Intangible fixed assets	8	14,637	14,301
Tangible fixed assets	10	96,611	109,411
		<u>111,248</u>	<u>123,712</u>
<b>CURRENT ASSETS</b>			
Stock		150,421	168,381
Debtors	11	204,117	205,526
Cash at bank and in hand		25,589	14,873
		<u>380,127</u>	<u>388,780</u>
<b>CREDITORS</b>			
Amounts falling due within one year	12	<u>(350,033)</u>	<u>(361,383)</u>
<b>NET CURRENT ASSETS</b>		<u>30,094</u>	<u>27,397</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
Provisions for liabilities	14	<u>(3,387)</u>	<u>(2,581)</u>
<b>NET ASSETS BEFORE PROVISION</b>		<u>137,955</u>	<u>148,528</u>
Net pension liability	18	<u>(16,413)</u>	<u>(9,575)</u>
<b>NET ASSETS</b>		<u>121,542</u>	<u>138,953</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	22,000	22,000
Share premium account	16	103,400	103,400
Profit and loss account	16	(3,858)	13,553
<b>TOTAL SHAREHOLDER'S FUNDS</b>	17	<u>121,542</u>	<u>138,953</u>

The financial statements on pages 7 to 23 were approved by the Board of Directors and signed on its behalf by



G G Smith  
Director

25 JUNE 2013

# **Superdrug Stores plc**

## **Notes to the financial statements for the 52 weeks ended 29 December 2012**

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### **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 1 January 2005. Impairment reviews are carried out on an annual basis to ensure that the carrying value of each individual pharmacy licence is still appropriate.

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 30 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 52 weeks ended 29 December 2012 (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	shorter of 6 2/3 year or length of 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 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 and existing 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 18 represents contributions payable by the Company to the scheme.

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (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 (LOSS)/PROFIT	52 weeks ended 29 December 2012 £'000	53 weeks ended 31 December 2011 £'000
Operating (loss)/profit is stated after (crediting)/charging		
Rental income	(6,930)	(6,175)
Auditors' remuneration - audit services	134	133
- tax services	36	57
Operating leases - land and buildings	103,211	103,645
Operating leases - plant and machinery	3,765	3,791
(Profit)/loss on disposal of tangible fixed assets	(336)	1,054
Movement in goodwill provision (note 8)	(336)	(158)
Increase/(decrease) in idle property impairment provision (note 14)	1,058	(1,391)
Depreciation (note 10)	36,915	22,252

The Directors reassessed the useful economic lives of short leasehold improvements and decided to change the period over which the cost less estimated residual value of the assets concerned are written off from the terms of the lease to the shorter of 6 2/3 years or the length of the lease. This resulted in an additional depreciation charge in the period of £15,137,000 that has been reported as an exceptional selling and distribution cost

### 3 EMPLOYEES

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

	Number	Number
Selling	5,517	6,116
Distribution	536	548
Administration	527	452
	6,580	7,116

Their aggregate remuneration comprised

	52 weeks ended 29 December 2012 £'000	53 weeks ended 31 December 2011 £'000
Wages and salaries	135,196	150,057
Social security costs	9,216	9,751
Pension costs	1,108	691
	145,520	160,499

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

<b>4 DIRECTORS' EMOLUMENTS</b>	<b>52 weeks ended 29 December 2012 £'000</b>	<b>53 weeks ended 31 December 2011 £'000</b>
Aggregate emoluments	<u>1,410</u>	<u>1,062</u>

Pension contributions of £35,583 (2011 £77,355) were paid to defined contribution pension schemes on behalf of 2 directors (2011 2)

Included in the above emoluments, £109,539 (2011 £91,161) was accrued in respect of a long term incentive plan and £447,041 (2011 £nil) compensation for loss of office

	<b>52 weeks ended 29 December 2012 £'000</b>	<b>53 weeks ended 31 December 2011 £'000</b>
Highest paid Director		
Remuneration	1,044	693
Pension contributions	9	50
	<u>1,053</u>	<u>743</u>

Included in the director s emoluments, £nil (2011 £9,388) was accrued in respect of a long term incentive plan and £447,041 (2011 £nil) compensation for loss of office

<b>5 INTEREST RECEIVABLE AND SIMILAR INCOME</b>	<b>52 weeks ended 29 December 2012 £'000</b>	<b>53 weeks ended 31 December 2011 £'000</b>
Bank deposits	102	131
Other	213	64
	<u>315</u>	<u>195</u>

<b>6 INTEREST PAYABLE AND SIMILAR CHARGES</b>	<b>52 weeks ended 29 December 2012 £'000</b>	<b>53 weeks ended 31 December 2011 £'000</b>
Group undertakings	4,484	7,246
Bank overdrafts	15	61
Other	12	9
	<u>4,511</u>	<u>7,316</u>

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

7 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	52 weeks ended 29 December 2012 £'000	53 weeks ended 31 December 2011 £'000
<b>a) Analysis of charge in the year</b>		
<b>Current tax:</b>		
Tax charge on profit on ordinary activities at 24.5% (2011: 26.5%)	2,373	1,775
Adjustment in respect of prior period	(173)	(983)
Total current tax charge	2,200	792
<b>Deferred tax:</b>		
Origination and reversal of timing differences	498	1,003
Adjustment due to change in rate	(264)	(253)
Total deferred tax charge	234	750
Tax on (loss)/profit on ordinary activities	2,434	1,542

Included within the deferred tax charge for the year is an amount of £1,084,000 (2011: £1,321,000) 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 18

### b) Factors affecting tax charge for the period

The tax charge for the period is higher (2011: lower) than the effective rate of corporation tax in the UK at 24.5% (2011: 26.5%). The differences are explained below

(Loss)/profit on ordinary activities before taxation	(3,977)	5,517
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(974)	1,462
Effects of		
Expenses not deductible	1,394	1,194
Short term timing differences	(244)	58
Depreciation in excess of capital allowances	4,119	1,169
Capitalised repairs	(546)	(560)
Pension cost charge less pension cost relief	(1,376)	(1,548)
Adjustment to tax charge in respect of prior period	(173)	(983)
Total current tax charge	2,200	792

### c) Factors affecting future tax charges

During the year, as a result of the changes in the UK corporation tax rate to 24%, which was substantially enacted on 26 March 2012 and was effective from 1 April 2012, and to 23%, which was substantially enacted on 3 July 2012 and will be effective from 1 April 2013. The relevant deferred tax balances have been re-measured.

A further reduction to the UK corporation tax rate has been announced. The change proposes to reduce the rate to 22% from 1 April 2014. The change had not been substantively enacted at the balance sheet date and, therefore, is not recognised in these financial statements.

Based on current capital investment plans, the Company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar to the current year.



# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

### 8 INTANGIBLE FIXED ASSETS

	Purchased goodwill £'000
<b>Cost</b>	
At 31 December 2011	20,317
Reclassifications	(2)
Disposals	(4)
At 29 December 2012	<u>20,311</u>
<b>Accumulated amortisation and impairment</b>	
At 31 December 2011	6,016
Reclassifications	(2)
Disposals	(4)
Movement on impairment	(336)
At 29 December 2012	<u>5,674</u>
<b>Net book value</b>	
At 29 December 2012	<u>14,637</u>
At 31 December 2011	<u>14,301</u>

Purchased goodwill arose on the purchase of pharmacy licences

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 consider these assumptions to be reasonable based on current performance of the company. As at 29 December 2012, the impairment provision against the carrying value of pharmacy licences was decreased by £336,000 (2011: £158,000).

### 9 FIXED ASSET INVESTMENTS

Shares in subsidiary undertakings are carried at nil value, having been written down to reflect the underlying value. The subsidiary undertakings 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

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

### 10 TANGIBLE FIXED ASSETS

	Land and buildings £'000	Fixtures, fittings and equipment £'000	Assets in the course of construction £'000	Total £'000
<b>COST</b>				
At 31 December 2011	12,163	384,340	10,827	407,330
Additions	-	16,155	8,939	25,094
Transfer	-	10,827	(10,827)	-
Intra group	-	(61)	-	(61)
Reclassification	358	(354)	-	4
Disposals	-	(5,954)	-	(5,954)
<b>At 29 December 2012</b>	<b>12,521</b>	<b>404,953</b>	<b>8,939</b>	<b>426,413</b>
<b>ACCUMULATED DEPRECIATION</b>				
At 31 December 2011	9,923	287,996	-	297,919
Charge for year	561	36,354	-	36,915
Intra group	-	(6)	-	(6)
Reclassifications	102	(98)	-	4
Disposals	-	(5,000)	-	(5,000)
Movement in impairment provision	(30)	-	-	(30)
<b>At 29 December 2012</b>	<b>10,556</b>	<b>319,246</b>	<b>-</b>	<b>329,802</b>
<b>NET BOOK VALUE</b>				
<b>At 29 December 2012</b>	<b>1,965</b>	<b>85,707</b>	<b>8,939</b>	<b>96,611</b>
At 31 December 2011	2,240	96,344	10,827	109,411

£0 7m of cost (2011 £0 9m) and £0 6m of accumulated depreciation (2011 £0 1m) of tangible fixed assets are held under finance leases to third parties

Land and buildings are further analysed as follows

	Long leasehold £'000	Short leasehold £'000	Total at 29 December 2012 £'000	Total at 31 December 2011 £'000
At cost	1,484	11,037	12,521	12,163
Accumulated depreciation	(509)	(9,975)	(10,484)	(9,791)
Net book value before provision	975	1,062	2,037	2,372
Reclassifications	-	(102)	(102)	-
Impairment provision	-	30	30	(132)
Net book value				
<b>At 29 December 2012</b>	<b>975</b>	<b>990</b>	<b>1,965</b>	
At 31 December 2011	742	1,499		2,240

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

<b>11 DEBTORS:</b>	<b>29 December 2012 £'000</b>	<b>31 December 2011 £'000</b>
Trade debtors	53,502	53,349
Amounts owed by group undertakings	102,343	106,904
Other debtors	6,329	8,605
Prepayments and accrued income	41,344	36,668
Deferred tax	599	-
	<b>204,117</b>	<b>205,526</b>

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

<b>12 CREDITORS: amounts falling due within one year</b>	<b>29 December 2012 £'000</b>	<b>31 December 2011 £'000</b>
Bank overdraft	-	7,455
Trade creditors	36,679	47,594
Amounts owed to group undertakings	231,387	223,770
Corporation tax	3,978	5,352
Other creditors	13,519	11,954
Other taxation and social security	19,246	20,662
Accruals and deferred income	45,224	44,596
	<b>350,033</b>	<b>361,383</b>

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

		<b>29 December 2012 £'000</b>	<b>31 December 2011 £'000</b>
<b>Group undertaking</b>	<b>Interest rate</b>		
Kruidvat UK Limited	6.21%	24,328	24,328
A S Watson (Health & Beauty UK) Limited	2.19%	102,137	101,084
Merchant Retail Group plc	BoE base rate +0.5%	13,000	13,000
		<b>139,465</b>	<b>138,412</b>

The Company has a bank overdraft facility which is provided by National Westminster Bank plc and which is unsecured and repayable on demand. Interest is payable at National Westminster Bank plc base rate plus 1.25%. The company's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of its immediate parent company and fellow subsidiary undertakings.

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 52 weeks ended 29 December 2012 (continued)

<b>13 DEFERRED TAX ASSET / (LIABILITY)</b>	<b>29 December 2012 £'000</b>	<b>31 December 2011 £'000</b>
Depreciation in excess of capital allowances	308	(724)
Short term timing differences	291	472
Deferred tax asset	599	(252)
Deferred tax asset on pension deficit (note 18)	4,902	3,192
Deferred tax asset at end of period including deferred tax on pension deficit	5,501	2,940

The deferred tax assets have been recognised to the extent that the directors believe they will be recovered in the foreseeable future

Deferred tax is recognised at the standard UK corporation tax of 23% (2011 25%)

	<b>29 December 2012 £'000</b>	<b>31 December 2011 £'000</b>
Balance at 31 December 2011	(252)	(822)
Deferred tax charge credited to the profit and loss account	851	570
<b>Balance at 29 December 2012</b>	<b>599</b>	<b>(252)</b>
<b>Deferred tax asset relating to pension deficit</b>		
Balance at 31 December 2011	3,192	524
Deferred tax charge charged to the profit and loss account	(1,084)	(1,312)
Deferred tax charge credited to the statement of total recognised gains and losses	2,794	3,980
<b>Balance at 29 December 2012</b>	<b>4,902</b>	<b>3,192</b>

The deferred tax asset of £4,902,000 (2011 £3,192,000) has been deducted in arriving at the net pension deficit on the balance sheet

<b>14 PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>29 December 2012 £'000</b>	<b>31 December 2011 £'000</b>
Deferred tax	-	252
Idle property provision	3,387	2,329
	3,387	2,581
<b>Idle property provision</b>		
Balance at 31 December 2011		2,329
Released to the profit and loss account		1,058
<b>Balance at 29 December 2012</b>		<b>3,387</b>

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

### 15 CALLED UP SHARE CAPITAL

	Allotted and Fully Paid	
	2012	2011
	£'000	£'000
Ordinary shares of 10 p each	22,000	22,000
Number of shares ('000 shares)	220,000	220,000

### 16 RESERVES

	Share premium account £'000	Profit and loss account £'000
At 31 December 2011	103,400	13,553
Loss for the year	-	(6,411)
Actuarial loss on pension scheme	-	(14,166)
Movement on deferred tax relating to pension scheme	-	2,794
Goodwill reinstated on disposal of pharmacy licences		372
At 29 December 2012	103,400	(3,858)

Cumulative goodwill of £21,434,368 (2011 £21,805,888) arising on pharmacy business acquisitions made prior to 30 January 1999 has been eliminated against the profit and loss reserve account

### 17 RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDER'S FUNDS

	52 weeks ended 29 December 2012 £'000	53 weeks ended 31 December 2011 £'000
(Loss)/profit for the financial year	(6,411)	3,975
Actuarial loss on pension scheme (note 18)	(14,166)	(16,737)
Movement on deferred tax relating to pension scheme	2,794	3,980
Goodwill reinstated on disposal of pharmacy licences	372	-
Net movement in shareholder's funds	(17,411)	(8,782)
Opening shareholder's funds	138,953	147,735
Closing shareholder's funds	121,542	138,953

## Superdrug Stores plc

### Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

#### 18 PENSIONS

The Company implemented a Group Personal Pension Plan, effective from 1 October 2012, for all eligible employees to join. Company contributions payable in respect of the Group Personal Pension Plan for the year totalled £722,206.

Until October 2012, the Company operated 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 had 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, has made additional cash contributions totalling £2.5m in 2010 and £4m in both 2011 and 2012, with further contributions of £4m per annum payable from 1 January 2013 to 30 November 2021 towards the defined benefit section shortfall being corrected by 30 November 2021. The Company and the pension plan trustee are currently considering the initial results of the 31 March 2012 funding valuation. The Company's defined benefit contributions during the year totalled £4,000,000 (2011: £4,000,000).

Until 30 September 2012, all new employees were given the opportunity to join the defined contribution section of the scheme. The company made a contribution, the level of which depended on the seniority of the employee. Company contributions payable in respect of the defined contribution section for the year totalled £2,014,718 (2011: £2,526,575).

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

### 18 PENSIONS (continued)

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 2012 by KPMG LLP and for previous years by Watson Wyatt & Co, consulting actuaries. The major assumptions used by the actuaries were

Financial assumptions	29 December 2012	31 December 2011	25 December 2010	26 December 2009
Discount rate	4.60%	4.90%	5.60%	5.70%
Retail price index	2.95%	3.10%	3.50%	3.60%
Salary increases	n/a	n/a	n/a	4.65%
Pension increases	2.85%	3.00%	3.30%	3.45%

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

	29 December 2012	31 December 2011	25 December 2010	26 December 2009
	Expected rate of return	Expected rate of return	Expected rate of return	Expected rate of return
	Value £'000	Value £'000	Value £'000	Value £'000
Equity	8.45%	8.60%	9.00%	9.15%
Property	7.45%	7.60%	8.00%	8.15%
Bonds (including gilts)	4.10%	4.20%	5.70%	5.80%
Cash	0.50%	0.50%	0.50%	0.61%
Other	7.45%	7.60%	9.00%	9.15%
Total	105,607	92,969	95,929	82,964

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

Balance Sheet	29 December 2012	31 December 2011	25 December 2010
	£'000	£'000	£'000
Total market value of assets	105,607	92,969	95,929
Actuarial liabilities	(126,922)	(105,736)	(97,798)
Deficit in the scheme	(21,315)	(12,767)	(1,869)
Related deferred tax asset	4,902	3,192	524
<b>Net balance sheet liability at the end of the period</b>	<b>(16,413)</b>	<b>(9,575)</b>	<b>(1,345)</b>

	52 weeks ended 29 December 2012	53 weeks ended 31 December 2011
	£'000	£'000
<b>Components of pension cost for the period:</b>		
Expected return on assets	6,741	7,252
Interest cost	(5,123)	(5,413)
Net return	1,618	1,839
<b>Amounts recognised in STRGL:</b>		
Actual return less than expected return on scheme assets	4,279	(11,893)
Changes in actuarial assumptions	(18,445)	(4,844)
Actuarial loss in STRGL	(14,166)	(16,737)

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

### 18 PENSIONS (continued)

	52 weeks ended 29 December 2012 £'000	53 weeks ended 31 December 2011 £'000
<b>Changes in the present value of the defined benefit obligation:</b>		
Present value of obligations at start of financial year	105,736	97,798
Interest cost	5,123	5,413
Actuarial loss on obligation	18,445	4,844
Actual benefits paid	(2,217)	(1,764)
Net transfer out	(165)	(555)
Present value of obligations at end of financial year	<u>126,922</u>	<u>105,736</u>
<b>Changes in the fair value of the assets:</b>		
Fair value of the plan assets at the start of financial year	92,969	95,929
Expected return on plan assets	6,741	7,252
Actuarial gain/(loss) on plan assets	4,279	(11,893)
Actual company contributions	4,000	4,000
Actual benefits paid	(2,217)	(1,764)
Net transfer out	(165)	(555)
Fair value of plan assets at end of financial year	<u>105,607</u>	<u>92,969</u>

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

	29 December 2012 Total £'000	31 December 2011 Total £'000	25 December 2010 Total £'000	26 December 2009 Total £'000	27 December 2008 Total £'000
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### Difference between the expected and actual return on scheme assets

Amount	4,279	(11,893)	5,273	9,690	(30,386)
Percentage of scheme assets	4.05%	12.79%	5.50%	11.68%	45.3%

### Experience gains and losses on scheme liabilities

Gains	-	-	-	363	-
Percentage of the present value of scheme liabilities	-	-	-	0.33%	-

### Total amount recognised in STRGL

(Losses)/gains	(14,166)	(16,737)	14,968	(11,986)	(21,014)
Percentage of the present value of scheme liabilities	11.16%	15.83%	15.31%	10.84%	25.15%



# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

### 19 COMMITMENTS

The Company has the following annual commitments as at 29 December 2012

a) A duty deferment guarantee in favour of HM Customs & Excise to the value of £20 million (2011 £20 million)

b) Capital commitments	29 December 2012 £'000	31 December 2011 £'000
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Contracted but not provided	-	683
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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		Plant and Machinery	
	29 December 2012 £'000	31 December 2011 £'000	29 December 2012 £'000	31 December 2011 £'000
Less than one year	12,881	18,201	769	587
Two to five years	41,327	37,413	911	1,015
More than five years	53,796	56,791	-	-
	<u>108,004</u>	<u>112,405</u>	<u>1,680</u>	<u>1,602</u>

The financial commitments for operating lease amounts payable as a percentage of turnover have been based on the minimum payment that is required under the terms of the relevant lease. As a result the amounts charged to the profit and loss account may be different to the financial commitment at the period end date

### 20 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 (2011 £5,624,796)

### 21 ULTIMATE PARENT UNDERTAKING

The Company's parent undertaking is A S Watson (Health & Beauty 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 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.