

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Quarterly Period Ended February 28, 2015**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number  
001-36759

**WALGREENS BOOTS ALLIANCE, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

47-1758322  
(I.R.S. Employer Identification No.)

108 Wilmot Road, Deerfield, Illinois  
(Address of principal executive offices)

60015  
(Zip Code)

(847) 315-2500  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of March 31, 2015 was 1,090,756,509.

WALGREENS BOOTS ALLIANCE, INC.

FORM 10-Q FOR THE QUARTER ENDED FEBRUARY 28, 2015

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Consolidated Condensed Financial Statements (Unaudited)**

**WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
**(UNAUDITED)**  
(In millions, except per share amounts)

	February 28, 2015	August 31, 2014
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,005	\$ 2,646
Accounts receivable, net	7,017	3,218
Inventories	9,379	6,076
Other current assets	1,314	302
Total Current Assets	20,715	12,242
<b>Non-Current Assets:</b>		
Property, plant and equipment, at cost, less accumulated depreciation and amortization	15,646	12,257
Equity investment in Alliance Boots	-	7,336
Goodwill	17,044	2,359
Intangible assets	12,225	1,180
Other non-current assets	5,727	1,896
Total Non-Current Assets	50,642	25,028
<b>Total Assets</b>	<b>\$ 71,357</b>	<b>\$ 37,270</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities:</b>		
Short-term borrowings	\$ 1,061	\$ 774
Trade accounts payable	10,293	4,315
Accrued expenses and other liabilities	5,140	3,701
Income taxes	196	105
Total Current Liabilities	16,690	8,895
<b>Non-Current Liabilities:</b>		
Long-term debt	16,001	3,736
Deferred income taxes	3,689	1,080
Other non-current liabilities	3,951	2,942
Total Non-Current Liabilities	23,641	7,758
<b>Commitments and Contingencies (see Note 12)</b>		
<b>Equity:</b>		
Preferred stock \$.01 par value (\$.0625 at August 31, 2014); authorized 32 million shares, none issued	-	-
Common stock \$.01 par value (\$.078125 at August 31, 2014); authorized 3.2 billion shares; issued 1,172,513,618 at February 28, 2015 and 1,028,180,150 at August 31, 2014	12	80
Paid-in capital	9,838	1,172
Employee stock loan receivable	(3)	(5)
Retained earnings	24,526	22,327
Accumulated other comprehensive (loss) income	(68)	136
Treasury stock, at cost; 79,751,513 shares at February 28, 2015 and 77,793,261 at August 31, 2014	(3,491)	(3,197)
Total Walgreens Boots Alliance, Inc. Shareholders' Equity	30,814	20,513
Noncontrolling interests	212	104
Total Equity	31,026	20,617
<b>Total Liabilities and Equity</b>	<b>\$ 71,357</b>	<b>\$ 37,270</b>

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

**WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENT OF EQUITY**  
**(UNAUDITED)**

For the six month period ended February 28, 2015  
(In millions, except per share amounts)

<b>Equity attributable to Walgreens Boots Alliance, Inc.</b>										
	<b>Common Stock Shares</b>	<b>Common Stock Amount</b>	<b>Treasury Stock Amount</b>	<b>Paid- In Capital</b>	<b>Employee Stock Loan Receivable</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>	
August 31, 2014	950,386,889	\$ 80	\$ (3,197)	\$ 1,172	\$ (5)	\$ 136	\$ 22,327	\$ 104	\$20,617	
Net earnings	-	-	-	-	-	-	2,892	45	2,937	
Other comprehensive income, net of tax	-	-	-	-	-	(204)	-	(5)	(209)	
Dividends declared (\$ .675 per share)	-	-	-	-	-	-	(693)	-	(693)	
Exchange of Walgreen Co. shares for Walgreens Boots Alliance, Inc. shares	-	(69)	-	69	-	-	-	-	-	
Issuance of shares for Alliance Boots acquisition	144,333,468	1	-	10,976	-	-	-	-	10,977	
Treasury stock purchases	(9,216,429)	-	(594)	-	-	-	-	-	(594)	
Employee stock purchase and option plans	7,258,177	-	300	(5)	-	-	-	-	295	
Stock-based compensation	-	-	-	65	-	-	-	-	65	
Acquisition of noncontrolling interest	-	-	-	(2,439)	-	-	-	(130)	(2,569)	
Employee stock loan receivable	-	-	-	-	2	-	-	-	2	
Noncontrolling interests in businesses acquired	-	-	-	-	-	-	-	198	198	
February 28, 2015	1,092,762,105	\$ 12	\$ (3,491)	\$ 9,838	\$ (3)	\$ (68)	\$ 24,526	\$ 212	\$31,026	

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

**WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENT OF EARNINGS**  
**(UNAUDITED)**

(In millions, except per share amounts)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2015	2014	2015	2014
Net sales	\$ 26,573	\$ 19,605	\$ 46,127	\$ 37,934
Cost of sales	19,691	13,955	33,949	27,132
Gross Profit	6,882	5,650	12,178	10,802
Selling, general and administrative expenses	5,606	4,569	10,062	8,948
Equity earnings in Alliance Boots	101	136	315	330
Operating Income	1,377	1,217	2,431	2,184
Gain on previously held equity interest	706	-	706	-
Other income (expense)	504	(59)	703	166
Earnings Before Interest and Tax Provision	2,587	1,158	3,840	2,350
Interest expense, net	144	37	199	78
Earnings Before Income Tax Provision	2,443	1,121	3,641	2,272
Income tax provision	391	391	712	810
Post tax earnings from equity method investments	8	-	8	-
Net Earnings	2,060	730	2,937	1,462
Net earnings attributable to noncontrolling interests	18	14	45	23
Net Earnings Attributable to Walgreens Boots Alliance, Inc. Co.	\$ 2,042	\$ 716	\$ 2,892	\$ 1,439
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – basic	\$ 1.96	\$ 0.75	\$ 2.91	\$ 1.51
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted	\$ 1.93	\$ 0.74	\$ 2.88	\$ 1.49
Dividends declared per share	\$ 0.3375	\$ 0.3150	\$ 0.6750	\$ 0.6300
Average shares outstanding	1,043.6	951.9	994.7	950.6
Dilutive effect of stock options	11.1	11.8	10.6	12.0
Average diluted shares	1,054.7	963.7	1,005.3	962.6

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

**WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
**(In millions)**

	<u>Three Months Ended February 28,</u>		<u>Six Months Ended February 28,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Comprehensive Income				
Net Earnings	\$ 2,060	\$ 730	\$ 2,937	\$ 1,462
Other comprehensive income (loss), net of tax:				
Postretirement liability	(8)	(2)	(9)	6
Unrealized (loss) on cash flow hedges	-	-	(12)	-
Changes in unrecognized gain (loss) on available-for-sale investments	90	(49)	189	35
Share of other comprehensive income (loss) of Alliance Boots	92	(19)	113	(56)
Currency translation adjustments	(301)	116	(490)	281
Total Other Comprehensive Income (Loss)	<u>(127)</u>	<u>46</u>	<u>(209)</u>	<u>266</u>
Total Comprehensive Income	1,933	776	2,728	1,728
Comprehensive income attributable to noncontrolling interests	13	14	40	23
Comprehensive income attributable to Walgreens Boots Alliance, Inc.	<u>\$ 1,920</u>	<u>\$ 762</u>	<u>\$ 2,688</u>	<u>\$ 1,705</u>

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

**WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(In millions)**

	Six Months Ended February 28,	
	2015	2014
<b>Cash Flows from Operating Activities :</b>		
Net earnings	\$ 2,937	\$ 1,462
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation and amortization	826	663
Change in fair value of warrants and related amortization	(859)	(166)
Gain on previously held equity interest	(706)	-
Deferred income taxes	181	29
Stock compensation expense	65	52
Unrealized gain from fair value adjustments	(68)	-
Equity earnings in Alliance Boots	(315)	(330)
Other	390	48
Changes in operating assets and liabilities -		
Accounts receivable, net	(391)	(117)
Inventories	106	(288)
Other current assets	21	13
Trade accounts payable	363	(171)
Accrued expenses and other liabilities	(20)	(25)
Income taxes	(99)	47
Other non-current assets and liabilities	(94)	20
Net cash provided by operating activities	<u>2,337</u>	<u>1,237</u>
<b>Cash Flows from Investing Activities :</b>		
Additions to property, plant and equipment	(643)	(591)
Proceeds from sale of assets	579	209
Return of restricted cash	74	-
Alliance Boots acquisition, net of cash received	(4,461)	-
Other business and intangible asset acquisitions, net of cash received	(92)	(297)
Purchases of short-term investments held to maturity	(29)	(34)
Proceeds from short-term investments held to maturity	29	34
Investment in AmerisourceBergen	-	(430)
Other	(165)	(59)
Net cash used for investing activities	<u>(4,708)</u>	<u>(1,168)</u>
<b>Cash Flows from Financing Activities :</b>		
Payments of short-term borrowings	(330)	-
Proceeds from issuance of long-term debt	12,279	-
Payments of long-term debt	(7,817)	-
Stock purchases	(594)	(205)
Proceeds related to employee stock plans	293	416
Cash dividends paid	(642)	(597)
Other	(360)	(12)
Net cash provided by (used for) financing activities	<u>2,829</u>	<u>(398)</u>
Effect of exchange rate changes on cash and cash equivalents	(99)	-
<b>Changes in Cash and Cash Equivalents :</b>		
Net increase (decrease) in cash and cash equivalents	359	(329)
Cash and cash equivalents at beginning of period	2,646	2,106
Cash and cash equivalents at end of period	<u>\$ 3,005</u>	<u>\$ 1,777</u>

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

**WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 1. Organization**

Walgreens Boots Alliance, Inc. ("WBA" or "Walgreens Boots Alliance") and subsidiaries is a global pharmacy-led wellbeing enterprise. Its operations are conducted through three reportable segments (Retail Pharmacy USA, Retail Pharmacy International, and Pharmaceutical Wholesale). See Note 19, Segment Reporting for additional discussion.

On December 31, 2014, Walgreens Boots Alliance became the successor of Walgreen Co. ("Walgreens") pursuant to a merger designed to effect a reorganization of Walgreens into a holding company structure (the "Reorganization"). Pursuant to the Reorganization, Walgreens became a wholly owned subsidiary of Walgreens Boots Alliance, a newly-formed Delaware corporation, and each issued and outstanding share of Walgreens common stock, par value \$0.078125, converted on a one-to-one basis into Walgreens Boots Alliance common stock, par value \$0.01.

On December 31, 2014, following the completion of the Reorganization, Walgreens Boots Alliance completed the acquisition of the remaining 55% of Alliance Boots GmbH ("Alliance Boots") that Walgreens did not previously own (the "Second Step Transaction") in exchange for £3.133 billion in cash and 144,333,468 shares of WBA common stock pursuant to the Purchase and Option Agreement dated June 18, 2012, as amended (the "Purchase and Option Agreement"). Alliance Boots became a consolidated subsidiary and ceased being accounted for under the equity method immediately upon completion of the Second Step Transaction. For financial reporting and accounting purposes, Walgreens Boots Alliance was the acquirer of Alliance Boots. The consolidated financial statements (and other data) reflect the results of operations and financial position of Walgreens and its subsidiaries for periods prior to December 31, 2014 and of Walgreens Boots Alliance and its subsidiaries for periods after the closing of the Reorganization and the Second Step Transaction on December 31, 2014.

References to the "Company" refer to Walgreens Boots Alliance and its subsidiaries from and after the effective time of the Reorganization on December 31, 2014 and, prior to that time, to the predecessor registrant Walgreens and its subsidiaries, except as otherwise indicated or the context otherwise requires.

**Note 2. Basis of Presentation**

The consolidated condensed financial statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. The Consolidated Condensed Balance Sheets as of February 28, 2015 and August 31, 2014, the Consolidated Condensed Statement of Equity for the six month period ended February 28, 2015, the Consolidated Condensed Statements of Earnings and the Consolidated Condensed Statements of Comprehensive Income for the three and six month periods ended February 28, 2015 and 2014, and the Consolidated Condensed Statements of Cash Flows for the six months ended February 28, 2015 and 2014, have been prepared without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited consolidated condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Walgreens Annual Report on Form 10-K, as amended, for the fiscal year ended August 31, 2014.

In the opinion of the Company, the consolidated condensed financial statements for the unaudited interim periods presented include all adjustments (consisting only of normal recurring adjustments) necessary to present a fair statement of the results for such interim periods. Because of the acquisition of Alliance Boots, influence of certain holidays, seasonality, foreign currency rates, changes in vendor, payer and customer relationships and terms and other factors on the Company's operations, net earnings for any interim period may not be comparable to the same interim period in previous years or indicative of net earnings for the full fiscal year. In addition, the positive impact on gross profit margins and gross profit dollars typically have been significant in the first several months after a generic version of a drug is first allowed to compete with the branded version, which is generally referred to as a "generic conversion." In any given year, the number of major brand name drugs that undergo a conversion from branded to generic status can increase or decrease, which can have a significant impact on the Company's Retail Pharmacy USA segment's sales, gross profit margins and gross profit dollars.

As part of the Second Step Transaction, the Company acquired the remaining 27.5% noncontrolling interest in Walgreens Boots Alliance Development GmbH ("WBAD"), a 50/50 joint venture between the Company and Alliance Boots. The Company already owned a 50% direct ownership in WBAD and indirectly owned an additional ownership interest through its previous 45% investment in Alliance Boots, representing a direct and indirect economic interest of 72.5%. The Company's acquisition of the remaining 27.5% effective ownership in WBAD as part of the Second Step Transaction was accounted for as an equity transaction as it has historically been consolidated by the Company. On January 1, 2015, WBAD Holdings Limited sold 320 common shares of WBAD, representing approximately 5% of the equity interests in WBAD, to Alliance Healthcare Italia Distribuzione S.p.A. ("AHID"), which is not a member of the Company's consolidated group. Under certain circumstances, AHID has the right to put, and WBAD Holdings Limited has the right to call, the 320 common shares of WBAD currently owned by AHID for a purchase price of \$100,000.

Immediately prior to the completion of the Second Step Transaction, the Company held a 45% equity interest in Alliance Boots and recorded its proportionate share of equity income in Alliance Boots in the Company's consolidated financial statements on a three-month reporting lag. Following the Second Step Transaction, the Company eliminated the three-month reporting lag and applied this change retrospectively as a change in accounting principle in accordance with Accounting Standards Codification ("ASC") Topic 250, Accounting Changes and Error Corrections. See Note 3, Change in Accounting Policy for further information.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to use judgment in the application of accounting policies, including making estimates and assumptions. The Company bases its estimates on the information available at the time, its experience and on various other assumptions believed to be reasonable under the circumstances. Adjustments may be made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. Actual results may differ. For a discussion of the Company's significant accounting policies, please see the Walgreens Annual Report on Form 10-K, as amended, for the fiscal year ended August 31, 2014. The additional accounting policies outlined below are incremental and incorporate the inclusion of the Alliance Boots operations.

### **Consolidation**

The consolidated condensed financial statements include all majority-owned subsidiaries. Investments in less than majority-owned companies in which the Company does not have a controlling interest but does have significant influence are accounted for as equity method investments. All intercompany transactions have been eliminated.

### **Restricted Cash**

The Company is required to maintain cash deposits with certain banks which consist of deposits restricted under contractual agency agreements and cash restricted by law and other obligations. As of February 28, 2015, the amount of such restricted cash was \$206 million. There was no restricted cash as of August 31, 2014.

### **Accounts Receivable**

Accounts receivable are stated net of allowances for doubtful accounts. Accounts receivable balances primarily include amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies), clients and members, as well as vendors and manufacturers. Charges to bad debt are based on both historical write-offs and specifically identified receivables.

### **Inventory**

The Company values inventories on a lower of cost or market basis. Inventory includes product costs, inbound freight, direct labor, warehousing costs, overhead costs relating to the manufacture and distribution of products and vendor allowances not classified as a reduction of advertising expense.

The Company's Retail Pharmacy USA segment inventory is accounted for using the last-in-first-out ("LIFO") method. At February 28, 2015 and August 31, 2014, Retail Pharmacy USA segment inventories would have been greater by \$2.4 billion and \$2.3 billion, respectively, if they had been valued on a lower of first-in-first-out ("FIFO") cost or market basis. LIFO inventory costs can only be determined annually when inflation rates and inventory levels are finalized; therefore, LIFO inventory costs for interim financial statements are estimated.

The Company's Retail Pharmacy International and Pharmaceutical Wholesale segments costs are determined using the FIFO method, except for retail inventory in the Retail Pharmacy International segment. The Company's Retail Pharmacy International segment's retail inventory is primarily determined using the retail inventory method. Under the retail inventory method, cost is determined by applying a calculated cost-to-retail ratio across groupings of similar items. The cost-to-retail ratio is applied to ending inventory at its current owned retail valuation to determine the cost of ending inventory across groupings of similar items. Current owned retail valuation represents the retail price for which merchandise is offered for sale on a regular basis reduced for any permanent or clearance markdowns. Inherent in the retail method calculation are certain management judgments and estimates including initial mark-up, markdowns and shrinkage, which can impact the owned retail valuation and, therefore, the ending inventory valuation at cost.

### **Vendor Allowances and Supplier Rebates**

Vendor allowances are principally received as a result of purchases, sales or promotion of vendors' products. Allowances are generally recorded as a reduction of inventory and are recognized as a reduction of cost of sales when the related merchandise is sold. Those allowances received for promoting vendors' products are offset against advertising expense and result in a reduction of selling, general and administrative expenses to the extent of advertising costs incurred, with the excess treated as a reduction of inventory costs.

Rebates or refunds received by the Company from its suppliers, mostly in cash, are considered as an adjustment of the prices of the supplier's products purchased by the Company.

### **Revenue Recognition**

Revenue is recognized when: (a) persuasive evidence of an arrangement exists, (b) delivery has occurred or services have been rendered, (c) the seller's price to the buyer is fixed or determinable, and (d) collectability is reasonably assured. The following revenue recognition policies have been established for the Company's reportable segments:

#### *Retail Pharmacy USA and Retail Pharmacy International*

The Company recognizes revenue at the time the customer takes possession of the merchandise, after making appropriate adjustments for estimated returns, which are immaterial. Revenue does not include sales related taxes. In certain international locations, the Company initially estimates revenue based on expected reimbursements from governmental agencies for dispensing prescription drugs and providing optical services. The estimates are based on historical experience and updated to actual reimbursement amounts.

#### *Pharmaceutical Wholesale*

Wholesale revenue is recognized upon shipment of goods, which is generally also the day of delivery. When the Company acts in the capacity of an agent or a logistics service provider, revenue is the fee received for the service and is recognized when the services have been performed. The Company has determined it is the agent when providing logistics services, which is based on its assessment of the following criteria: (a) whether it is the primary obligor in the arrangement, (b) whether it has latitude in establishing the price, changing the product or performing part of the service, (c) whether it has discretion in supplier selection, (d) whether it is involved in the determination of service specifications, and (e) whether it is exposed to credit risk.

### **Financial Instruments**

The Company uses derivative instruments to hedge its exposure to interest rate and currency risks arising from operating and financing activities. In accordance with its risk management policies, the Company does not hold or issue derivative instruments for trading or speculative purposes.

Derivatives are recognized on the Consolidated Condensed Balance Sheets at their fair values. When the Company becomes a party to a derivative instrument and intends to apply hedge accounting, it formally documents the hedge relationship and the risk management objective for undertaking the hedge which includes designating the instrument for financial reporting purposes as a fair value hedge, a cash flow hedge, or a net investment hedge. The accounting for changes in fair value of a derivative instrument depends on whether the Company had designated it in a qualifying hedging relationship and further, on the type of hedging relationship. The Company applies the following accounting policies:

- Changes in the fair value of a derivative designated as a fair value hedge, along with the gain or loss on the hedged asset or liability attributable to the hedged risk, are recorded in the Consolidated Condensed Statements of Earnings.
- The effective portion of changes in the fair value of a derivative designated as a cash flow hedge is recorded in accumulated other comprehensive income (loss) in the Consolidated Condensed Statements of Comprehensive Income and reclassified into earnings in the period or periods during which the hedged item affects earnings.
- The effective portion of changes in the fair value of a derivative designated as a hedge of a net investment in a foreign operation is recorded in cumulative translation adjustments within accumulated other comprehensive income (loss) in the Consolidated Condensed Statements of Comprehensive Income. Recognition in earnings of amounts previously recorded in cumulative translation adjustments is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged investments in foreign operations.
- Changes in the fair value of a derivative not designated in a hedging relationship are recognized in the Consolidated Condensed Statements of Earnings along with the ineffective portions of changes in the fair value of derivatives designated in hedging relationships.

Cash receipts or payments on a settlement of derivative contract are reported in the Consolidated Condensed Statements of Cash Flows consistent with the nature of the underlying hedged item.

For derivative instruments designated as hedges, the Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Highly effective means that cumulative changes in the fair value of the derivative are between 80% and 125% of the cumulative changes in the fair value of the hedged item. In addition, when the Company determines that a derivative is not highly effective as a hedge, hedge accounting is discontinued. When it is probable that a hedged forecasted transaction will not occur, the Company discontinues hedge accounting for the affected portion of the forecasted transaction, and reclassifies any gains or losses in accumulated other comprehensive income (loss) to earnings in the Consolidated Condensed Statements of Earnings. When a derivative in a hedge relationship is terminated or the hedged item is sold, extinguished or terminated, hedge accounting is discontinued prospectively.

### **Pension and Postretirement Benefits**

The Company has various defined benefit pension plans that cover some of its foreign employees. The Company also has postretirement healthcare plans that cover qualifying domestic employees. Eligibility and the level of benefits for these plans varies depending participants' status, date of hire and or length of service. Pension and postretirement expenses and valuations are dependent on assumptions used by third party actuaries in calculating those amounts. These assumptions include discount rates, healthcare cost trends, long-term return on plan assets, retirement rates, mortality rates and other factors.

The Company funds its pension plans in accordance with applicable regulations. Postretirement plans are not funded.

### **Income Taxes**

In determining the provision for income taxes, the Company uses an annual effective income tax rate based on full-year forecast income, permanent differences between book and tax income, the relative proportion of foreign and domestic income, statutory income tax rates, projections of income subject to Subpart F rules and unrecognized tax benefits related to current year results. Discrete events such as the assessment of the ultimate outcome of tax audits, audit settlements, recognizing previously unrecognized tax benefits due to lapsing of the applicable statute of limitations, recognizing or de-recognizing benefits of deferred tax assets due to future year financial statement projections and changes in tax laws are recognized in the period in which they occur.

The Company is subject to routine income tax audits that occur periodically in the normal course of business. U.S. federal, state, local and foreign tax authorities raise questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the tax benefits associated with the various tax filing positions, the Company records a tax benefit for uncertain tax positions using the highest cumulative tax benefit that is more likely than not to be realized. Adjustments are made to the liability for unrecognized tax benefits in the period in which the Company determines the issue is effectively settled with the tax authorities, the statute of limitations expires for the return containing the tax position or when more information becomes available. As of February 28, 2015, approximately \$115 million of unrecognized tax benefits were reported as current liabilities, with the balance being classified as long-term liabilities on the Consolidated Condensed Balance Sheets. Based on current knowledge, it is reasonably possible the amount of unrecognized tax benefits will decrease in the next 12 months by up to \$115 million, primarily due to expected tax audit settlements in multiple tax jurisdictions. The Company does not expect the settlements to materially impact the Consolidated Condensed Statements of Earnings, the Consolidated Condensed Balance Sheets or the Company's liquidity.

### **Business Combinations**

Business combinations are accounted for under ASC Topic 805, Business Combinations, using the acquisition method of accounting. The cost of an acquired company is assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires estimates and the use of valuation techniques when a market value is not readily available. Any excess of purchase price over the fair value of net tangible and intangible assets acquired is allocated to goodwill. The final determination of the fair value of certain assets and liabilities is completed within the one year measurement period as allowed under ASC Topic 805, Business Combinations. Transaction costs associated with business combinations are expensed as they are incurred.

### **Noncontrolling Interests**

The Company accounts for its less than 100% interest in consolidated subsidiaries in accordance with ASC Topic 810, Consolidation, and accordingly, the Company presents noncontrolling interests as a component of equity on its Consolidated Condensed Balance Sheets and reports the noncontrolling interest net earnings or loss as Net earnings attributable to noncontrolling interests in the Consolidated Condensed Statements of Earnings.

### **Currency**

Assets and liabilities of non-U.S. dollar functional currency operations are translated into U.S. dollars at end-of-period exchange rates while revenues, expenses and cash flows are translated at average monthly exchange rates over the period. Equity is translated at historical exchange rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss) in the Consolidated Condensed Balance Sheets.

For U.S. dollar functional currency operations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for nonmonetary balance sheet amounts, which are remeasured from historical exchange rates. Revenues and expenses are remeasured at average monthly exchange rates over the period, except for those expenses related to nonmonetary balance sheet amounts, which are remeasured from historical exchange rates. Gains or losses from foreign currency remeasurement and transactions are included in selling, general and administrative expenses within the Consolidated Condensed Statements of Earnings. For all periods presented, there were no material operational gains or losses from foreign currency transactions.

### **Warrants**

Walgreens, Alliance Boots and AmerisourceBergen Corporation ("AmerisourceBergen") entered into a Framework Agreement dated as of March 18, 2013, pursuant to which (1) Walgreens and Alliance Boots together were granted the right to purchase a minority equity position in AmerisourceBergen, beginning with the right, but not the obligation, to purchase up to 19,859,795 shares of AmerisourceBergen common stock (approximately 7 percent of the then fully diluted equity of AmerisourceBergen, assuming the exercise in full of the warrants described below) in open market transactions; (2) Walgreens and Alliance Boots collectively were issued (a) warrants to purchase up to 22,696,912 shares of AmerisourceBergen common stock at an exercise price of \$51.50 per share exercisable during a six-month period beginning in March 2016, and (b) warrants to purchase up to 22,696,912 shares of AmerisourceBergen common stock at an exercise price of \$52.50 per share exercisable during a six-month period beginning in March 2017. The parties and affiliated entities also entered into certain related agreements governing relations between and among the parties thereto, including the Shareholders Agreement, the Transaction Rights Agreement and the Limited Liability Company Agreement of WAB Holdings LLC, a limited liability company formed for the purpose of acquiring and holding AmerisourceBergen common stock, each of which (including the Framework Agreement) is summarized in, and copies of which were filed as exhibits to, Walgreens Current Report on Form 8-K filed with the SEC on March 20, 2013.

Pursuant to the Reorganization and Second Step Transaction discussed in Note 1, Organization, and Note 2, Basis of Presentation, Walgreens and Alliance Boots became wholly owned subsidiaries of WBA effective December 31, 2014. The Company holds all AmerisourceBergen warrants issued to Walgreens and Alliance Boots in its consolidated subsidiaries.

The warrants are valued at the date of issuance and the end of the period using a Monte Carlo simulation. Key assumptions used in the valuation include risk-free interest rates using constant maturity treasury rates; the dividend yield for AmerisourceBergen's common stock; AmerisourceBergen's common stock price; AmerisourceBergen's equity volatility; the number of shares of AmerisourceBergen's common stock outstanding; the number of AmerisourceBergen's employee stock options and the exercise price; and the details specific to the warrants. The Company reports its warrants at fair value within other non-current assets in the Consolidated Condensed Balance Sheets. A deferred credit from the day-one valuation attributable to the warrants granted to Walgreens is being amortized over the life of the warrants. Gains and losses due to changes in the fair value on warrants are recognized in other income (expense) in the Consolidated Condensed Statement of Earnings. See Note 10, Financial Instruments, for additional disclosure regarding the Company's warrants.

### **3. Change in Accounting Policy**

Walgreens historically accounted for its investment and proportionate share of earnings in Alliance Boots utilizing a three-month reporting lag. Concurrent with the completion of the Second Step Transaction, the Company eliminated the three-month reporting lag. The Company determined that the elimination of the three-month reporting lag was preferable because having Alliance Boots and its subsidiaries have the same period-end reporting date improves overall financial reporting as business performance is reflected in the Company's consolidated financial statements on a more timely basis.

In accordance with ASC Topic 810, Consolidation, a change to eliminate a previously existing reporting lag is considered a change in accounting principle in accordance with ASC Topic 250, Accounting Changes and Error Corrections. Changes in accounting principles are to be reported through retrospective application of the new principle to all prior financial statement periods presented. Accordingly, the consolidated condensed financial statements have been recast to reflect the period specific effects of eliminating the three-month reporting lag. The acquisition of the initial 45% interest was reflected in the Company's August 31, 2012 balance sheet. The Company's equity earnings and income statement for the year ended August 31, 2012, were not recasted as the impact was not material.

The elimination of the three-month reporting lag for the equity investment in Alliance Boots resulted in the adjustments as of and for the periods indicated below (in millions, except per share amounts). The impact of the change in accounting policy on the current period financial statements is not material.

	Three Months Ended February 28, 2014			Six Months Ended February 28, 2014		
	As Reported	Adjustments	After Change in Accounting Principle	As Reported	Adjustments	After Change in Accounting Principle
<b>Consolidated Condensed Statements of Earnings</b>						
Equity earnings in Alliance Boots	\$ 194	\$ (58)	\$ 136	\$ 345	\$ (15)	\$ 330
Operating Income	1,275	(58)	1,217	2,199	(15)	2,184
Earnings Before Income Tax Provision	1,179	(58)	1,121	2,287	(15)	2,272
Income tax provision	411	(20)	391	815	(5)	810
Net Earnings	768	(38)	730	1,472	(10)	1,462
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	754	(38)	716	1,449	(10)	1,439
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – basic	0.79	(0.04)	0.75	1.52	(0.01)	1.51
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted	0.78	(0.04)	0.74	1.51	(0.02)	1.49
<b>Consolidated Condensed Statements of Comprehensive Income</b>						
Net Earnings	768	(38)	730	1,472	(10)	1,462
Share of other comprehensive loss of Alliance Boots	(36)	17	(19)	(70)	14	(56)
Cumulative translation adjustments	191	(75)	116	253	28	281
Total Other Comprehensive Income	104	(58)	46	224	42	266
Total Comprehensive Income	872	(96)	776	1,696	32	1,728
Comprehensive Income Attributable to Walgreens Boots Alliance, Inc.	\$ 858	\$ (96)	\$ 762	\$ 1,673	\$ 32	\$ 1,705

	As of August 31, 2014		
	As Reported	Adjustments	After Change in Accounting Principle
<b>Consolidated Condensed Balance Sheet</b>			
<b>Non-Current Assets:</b>			
Equity investment in Alliance Boots	\$ 7,248	\$ 88	\$ 7,336
Total Non-Current Assets	24,940	88	25,028
Total Assets	37,182	88	37,270
<b>Non-Current Liabilities:</b>			
Deferred income taxes	1,048	32	1,080
Total Non-Current Liabilities	7,726	32	7,758
<b>Equity:</b>			
Retained earnings	22,229	98	22,327
Accumulated other comprehensive income	178	(42)	136
Total Walgreens Boots Alliance, Inc. Shareholders' Equity	20,457	56	20,513
Total Equity	20,561	56	20,617
Total Liabilities and Equity	\$ 37,182	\$ 88	\$ 37,270

	Six Months Ended February 28, 2014		
	As Reported	Adjustments	After Change in Accounting Principle
<b>Consolidated Condensed Statement of Cash Flows</b>			
<b>Cash Flows from Operating Activities:</b>			
Net earnings	\$ 1,472	\$ (10)	\$ 1,462
Deferred income taxes	34	(5)	29
Equity earnings in Alliance Boots	(345)	15	(330)

The cumulative effect of eliminating the three-month reporting lag was recorded as an after-tax increase to retained earnings of \$98 million as of September 1, 2013, the first day of the Company's 2014 fiscal year.

#### **4. Leases and Store Closures**

Initial terms for leased premises in the U.S. are typically 15 to 25 years, followed by additional terms containing renewal options at five-year intervals, and may include rent escalation clauses. Non-U.S. leases are typically for shorter terms and may or may not include cancellation clauses or renewal options. The commencement date of all lease terms is the earlier of the date the Company becomes legally obligated to make rent payments or the date the Company has the right to control the property. The Company recognizes rent expense on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, some leases provide for contingent rentals based upon a portion of sales.

The Company continuously evaluates its real estate portfolio in conjunction with its capital needs. The Company has entered into several sale-lease-back transactions. In some of these transactions, the Company negotiated fixed rate renewal options which constitute a form of continuing involvement, resulting in the assets remaining on the balance sheet and a corresponding finance lease obligation.

Annual minimum rental commitments under all leases having an initial or remaining non-cancelable term of more than one year are shown below (in millions):

	Financing Obligation	Capital Lease	Operating Lease
2015	\$ 19	\$ 68	\$ 3,071
2016	18	66	3,006
2017	18	62	2,886
2018	18	59	2,814
2019	18	59	2,561
Later	1,153	901	23,102
Total Minimum Lease Payments	\$ 1,244	\$ 1,215	\$ 37,440

The capital and finance lease amounts include \$1.6 billion of imputed interest and executory costs. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately \$211 million on leases due in the future under non-cancelable subleases.

In March 2014, the Company's Board of Directors approved a plan to close underperforming stores in efforts to optimize and focus resources in a manner intended to increase shareholder value. The Company incurred no pre-tax charges related to this plan in the three month period ended February 28, 2015. For the six month period ended February 28, 2015, the Company incurred total pre-tax charges of \$17 million primarily related to lease termination costs. The Company incurred no pre-tax charges for the three and six month periods ended February 28, 2014.

The Company provides for future costs related to closed locations. The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. During the three and six month periods ended February 28, 2015, the Company recorded charges of zero and \$26 million, respectively, for facilities that were closed or relocated under long-term leases, including stores closed through the Company's store optimization plan. This compares to \$6 million and \$33 million for the three and six month periods ended February 28, 2014, respectively. These charges are reported in selling, general and administrative expenses on the Consolidated Condensed Statements of Earnings.

The changes in reserve for facility closings and related lease termination charges include the following (in millions):

	<b>February 28, 2015</b>	<b>August 31, 2014</b>
Balance – beginning of period	\$ 257	\$ 123
Provision for present value of non-cancellable lease payments on closed facilities	11	171
Assumptions about future sublease income, terminations and changes in interest rates	2	(8)
Interest accretion	13	14
Liability assumed through acquisition of Alliance Boots	13	-
Cash payments, net of sublease income	(36)	(43)
Balance – end of period	<u>\$ 260</u>	<u>\$ 257</u>

The Company remains secondarily liable on approximately 72 leases. The maximum potential undiscounted future payments are \$360 million at February 28, 2015. Lease option dates vary, with some extending to 2041.

Rental expense, which includes common area maintenance, insurance and taxes, was as follows (in millions):

	<b>Three Months Ended February 28,</b>		<b>Six Months Ended February 28,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Minimum rentals	\$ 809	\$ 673	\$ 1,486	\$ 1,333
Contingent rentals	1	1	3	4
Less: Sublease rental income	(6)	(7)	(11)	(12)
	<u>\$ 804</u>	<u>\$ 667</u>	<u>\$ 1,478</u>	<u>\$ 1,325</u>

### **5. Equity Method Investments**

Alliance Boots became a consolidated subsidiary and ceased being accounted for under the equity method upon completion of the Second Step Transaction on December 31, 2014. Equity method investments as of February 28, 2015 and August 31, 2014 were as follows (in millions, except percentages):

	<b>February 28, 2015</b>		<b>August 31, 2014</b>	
	<b>Carrying Value</b>	<b>Ownership Percentage</b>	<b>Carrying Value</b>	<b>Ownership Percentage</b>
Alliance Boots	\$ N/A	100%	\$ 7,336	45%
Other	762	12% - 50%	74	30% - 50%
Total	<u>\$ 762</u>		<u>\$ 7,410</u>	

N/A Not applicable

*Alliance Boots*

On August 2, 2012, pursuant to the Purchase and Option Agreement the Company acquired 45% of the issued and outstanding share capital of Alliance Boots in exchange for \$4.025 billion in cash and approximately 83.4 million shares of Walgreens common stock. The Purchase and Option Agreement provided, subject to the satisfaction or waiver of specified conditions, a call option that gave the Company the right, but not the obligation, to acquire the remaining 55% of Alliance Boots in exchange for an additional £3.1 billion in cash as well as an additional 144.3 million Company shares, subject to certain adjustments (the "call option"). On August 5, 2014, the Purchase and Option Agreement was amended to permit the exercise of the call option beginning on that date, and the Company, through an indirectly wholly-owned subsidiary to which the Company previously assigned its right to the call option, exercised the call option on August 5, 2014. The Company's equity earnings, initial investment and the call option excluded the Alliance Boots minority interest in Galenica Ltd. ("Galenica"). The Alliance Boots investment in Galenica was distributed to the Alliance Boots shareholders other than Walgreens in May 2013, which had no impact on the Company's financial results.

Prior to the closing of the Second Step Transaction on December 31, 2014, the Company accounted for its 45% investment in Alliance Boots using the equity method of accounting. Because the underlying net assets in Alliance Boots were denominated in a foreign currency, translation gains or losses had an impact on the recorded value of the Company's investment. The Company utilized a three-month reporting lag in recording equity income in Alliance Boots, which was eliminated on December 31, 2014 (See Note 3, Change in Accounting Policy). The Company's share of Alliance Boots earnings was recorded as Equity earnings in Alliance Boots in the Consolidated Condensed Statements of Earnings. The Company's investment was recorded as Equity investment in Alliance Boots in the Consolidated Condensed Balance Sheets.

The Company's initial investment in Alliance Boots exceeded its proportionate share of the net assets of Alliance Boots by \$2.4 billion. This premium of \$2.4 billion was recognized as part of the carrying value in the Company's equity investment in Alliance Boots. The difference was primarily related to the fair value of Alliance Boots indefinite-lived intangible assets and goodwill. The Company's equity method income from the investment in Alliance Boots was adjusted to reflect the amortization of fair value adjustments in certain definite lived assets of Alliance Boots. The Company's incremental amortization expense associated with the Alliance Boots investment was approximately \$4 million and \$14 million for the three and six month periods ended February 28, 2015, respectively. The Company's incremental amortization expense associated with the Alliance Boots investment was approximately \$10 million and \$20 million for the three and six month periods ended February 28, 2014, respectively. The incremental amortization expense has been recorded as a reduction in equity earnings from Alliance Boots for all periods prior to closing of the Second Step Transaction on December 31, 2014.

The Second Step Transaction closed on December 31, 2014. (See Note 1, Organization, and Note 2, Basis of Presentation.) In connection with this transaction as required by ASC Topic 805, Business Combinations, the Company recorded a non-cash gain of \$706 million resulting from the remeasurement of the previously held equity interest in Alliance Boots at its acquisition date fair value. The non-cash gain includes \$80 million of foreign currency translation gains and losses reclassified from accumulated other comprehensive income. This gain is preliminary and may be subject to change as the Company finalizes purchase accounting.

*Other Equity Method Investments*

Other equity method investments primarily relate to equity method investments in Guangzhou Pharmaceuticals Corporation and Nanjing Pharmaceutical Corporation Limited, the Company's pharmaceutical wholesale investments in China. Also included are additional investments in pharmaceutical wholesaling and distribution, retail pharmacy and our hearing care operator, an equity method investment received through the sale of the Take Care Employer business in fiscal 2014 and joint ventures associated with the Company's infusion and respiratory businesses. The Second Step Transaction resulted in the Company acquiring stakes in various equity method investments held by Alliance Boots. These newly acquired investments are included with the equity investments of the Company within other noncurrent assets on the Consolidated Condensed Balance Sheets. The Company reported \$8 million of equity earnings in equity method investments for the three and six month periods ended February 28, 2015, respectively. Equity earnings from the historical Walgreens equity method investments for the three and six month periods ended February 28, 2014, respectively were immaterial. The Company's share of equity income is reported as post tax earnings from equity method investments, in the Consolidated Condensed Statements of Earnings.

**Summarized Financial Information**

Summarized financial information for the Company's equity method investees is as follows:

*Balance Sheet (in millions)*

	<u>February 28, 2015</u> <sup>(1)</sup>	<u>August 31, 2014</u> <sup>(1)</sup>
Current assets	\$ 4,674	\$ 9,074
Noncurrent assets	625	22,363
Current liabilities	4,067	9,372
Noncurrent liabilities	253	10,608
Shareholders' equity <sup>(2)</sup>	979	11,457

*Income Statement (in millions)*

	<u>Three Months Ended</u> <u>February 28,</u>		<u>Six Months Ended</u> <u>February 28,</u>	
	<u>2015</u> <sup>(3)</sup>	<u>2014</u> <sup>(3)</sup>	<u>2015</u> <sup>(3)</sup>	<u>2014</u> <sup>(3)</sup>
Net sales	\$ 5,317	\$ 9,688	\$ 14,978	\$ 19,100
Gross Profit	979	2,083	3,168	4,055
Net Income	246	324	743	771
Share of income from equity method investments <sup>(3)</sup>	109	136	323	330

<sup>(1)</sup> Net assets in foreign equity method investments are translated at their respective February 28, 2015 and August 31, 2014 spot rates.

<sup>(2)</sup> Shareholders' equity at February 28, 2015 and August 31, 2014 includes \$151 million and \$283 million respectively, related to noncontrolling interests.

<sup>(3)</sup> Alliance Boots became a consolidated subsidiary and ceased being accounted for under the equity method upon completion of the Second Step Transaction on December 31, 2014. Earnings for the three and six month periods ended February 28, 2015 reflect incremental acquisition-related amortization expense of \$4 million (\$3 million net of tax) and \$14 million (\$8 million net of tax), respectively. Incremental acquisition-related amortization expense for the three and six month periods ended February 28, 2014 were \$10 million (\$8 million net of tax) and \$20 million (\$16 million net of tax), respectively. Earnings in foreign equity method investments are translated at their respective average exchange rates.

**6. Available-for-Sale Investments**

Walgreens, Alliance Boots and AmerisourceBergen entered into a Framework Agreement dated as of March 18, 2013, pursuant to which Walgreens and Alliance Boots together were granted the right to purchase a minority equity position in AmerisourceBergen, beginning with the right, but not the obligation, to purchase up to 19,859,795 shares of AmerisourceBergen common stock (approximately 7 percent of the then fully diluted equity of AmerisourceBergen, assuming the exercise in full of the warrants described within Note 10, Financial Instruments) in open market transactions.

In conjunction with its long-term relationship with AmerisourceBergen, Walgreens acquired shares of AmerisourceBergen through open market transactions totaling \$140 million and \$430 million, respectively, during the three and six months ended February 28, 2014. As of February 28, 2015, the Company held 11.5 million shares, approximately 5.2% of AmerisourceBergen's outstanding common stock at a total fair value of \$1.2 billion. The Company's cumulative cost basis of common shares acquired was \$717 million at February 28, 2015.

Pursuant to ASC Topic 320, Investments – Debt and Equity Securities, the Company has deemed the investment in AmerisourceBergen shares an available-for-sale investment reported at fair value and included it within other non-current assets in the Consolidated Condensed Balance Sheets. As an available-for-sale investment, changes in the fair value are recorded through other comprehensive income. The value of the investment is recorded at the closing price of AmerisourceBergen common stock as of the balance sheet date.

A summary of the cost and fair value of available-for-sale securities, with gross unrealized gains and losses, is as follows (in millions):

	<u>February 28, 2015</u>				
	<u>Cost</u>	<u>Unrealized gains</u>	<u>Foreign Exchange losses</u>	<u>Unrealized losses</u>	<u>Fair value</u>
AmerisourceBergen common stock	\$ 717	\$ 461	\$ -	\$ -	\$ 1,178
Other investments	75	6	(4)	-	77
Total available-for-sale investments	<u>\$ 792</u>	<u>\$ 467</u>	<u>\$ (4)</u>	<u>\$ -</u>	<u>\$ 1,255</u>

August 31, 2014

	Cost	Unrealized gains	Foreign Exchange losses	Unrealized losses	Fair value
AmerisourceBergen common stock	\$ 717	\$ 170	\$ -	\$ -	\$ 887
Total available-for-sale investments	\$ 717	\$ 170	\$ -	\$ -	\$ 887

For the three and six month periods ended February 28, 2015 and 2014, there were no sales of available-for-sale investments.

The Company has \$77 million of other available-for-sale investments classified within other current assets in the Consolidated Condensed Balance Sheets at February 28, 2015.

## 7. Acquisitions

### Alliance Boots

The Second Step Transaction closed on December 31, 2014, resulting in the acquisition by the Company of 55% of the issued and outstanding share capital of Alliance Boots, increasing its interest to 100%. (See Note 1, Organization, and Note 2, Basis of Presentation.) The Company previously accounted for its 45% interest in Alliance Boots as an equity method investment. As a result of the Second Step Transaction, the Company significantly expanded its operations to include pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution businesses in major international markets.

As a result of the closing of the Second Step Transaction, the Company increased its interest in WBAD, a 50/50 joint venture between Walgreens and Alliance Boots, to 100%. Because Walgreens held, prior to the Second Step Transaction, a 50% direct interest and an additional indirect interest in WBAD through its 45% ownership of Alliance Boots, the financial results of WBAD were fully consolidated into the Walgreens consolidated financial statements with the remaining 27.5% effective interest being recorded as a noncontrolling interest. The acquisition of the 27.5% noncontrolling interest has been accounted for as an equity transaction with no gain or loss recorded in the statement of earnings under ASC Topic 805, Business Combinations. On January 1, 2015, WBAD Holdings Limited sold 320 common shares of WBAD, representing approximately 5% of the equity interests in WBAD, to Alliance Healthcare Italia Distribuzione S.p.A. ("AHID"), which is not a member of the Company's consolidated group. Under certain circumstances, AHID has the right to put, and WBAD Holdings Limited has the right to call, the 320 common shares of WBAD currently owned by AHID for a purchase price of \$100,000.

The total purchase price of the Second Step Transaction of \$15.9 billion included £3.133 billion in cash (approximately \$4.9 billion at the December 31, 2014 spot rate of \$1.56 to £1.00) and 144.3 million of the Company's common shares at a fair value of \$11.0 billion (based on the December 30, 2014 closing market price of \$76.05). Of the total purchase price, \$13.3 billion was preliminarily allocated to acquire the 55% ownership interest in Alliance Boots and \$2.6 billion was preliminarily allocated to acquire the noncontrolling interest in WBAD. The purchase price attributed to the acquisition of the noncontrolling interest in WBAD was determined based on the relative fair value of Alliance Boots and WBAD, respectively.

The preliminary impact of the equity transaction is as follows (in millions):

	Amount
Consideration attributable to WBAD	\$ 2,569
Less: Carrying value of the Company's pre-existing noncontrolling interest	130
Impact to additional paid in capital	\$ 2,439

As of February 28, 2015, the Company had not completed the analysis to assign fair values to all tangible and intangible assets acquired and therefore the purchase price allocation for Alliance Boots and WBAD has not been completed. The preliminary purchase price allocation will be subject to further refinement and may result in material changes. These changes will primarily relate to the allocation of consideration and the fair value assigned to all tangible and intangible assets acquired and identified. The following table summarizes the consideration paid to acquire the remaining 55% interest in Alliance Boots and the preliminary amounts of identified assets acquired and liabilities assumed at the date of the Second Step Transaction (in millions).

**Consideration paid**

Cash	\$ 4,874
Common stock	10,977
Total consideration transferred	15,851
Less: consideration attributed to WBAD	(2,569)
	13,282
Fair value of the investment in Alliance Boots held before the Second Step Transaction	8,290
Total consideration	<u>\$ 21,572</u>

**Identifiable assets acquired and liabilities assumed including noncontrolling interests**

Cash and cash equivalents	\$ 413
Accounts receivable	3,805
Inventories	3,713
Other current assets	902
Property, plant and equipment	3,774
Intangible assets	11,461
Other non-current assets	1,760
Trade accounts payable, accrued expenses and other liabilities	(7,722)
Borrowings	(8,999)
Deferred income taxes	(2,437)
Other non-current liabilities	(456)
Noncontrolling interests	(198)
Total identifiable net assets and noncontrolling interests	6,016
Goodwill	<u>\$ 15,556</u>

As a result of the Company acquiring the remaining 55% interest in Alliance Boots, the Company's previously held 45% interest was remeasured to fair value, resulting in a gain of \$706 million. This gain has been recognized as Gain on previously held equity interest in the Consolidated Condensed Statements of Earnings. This gain is preliminary and may be subject to change as the Company finalizes purchase accounting.

The fair value of the previously held equity interest of \$8.3 billion in Alliance Boots was determined using the Income Approach methodology. The fair value measurement of the previously held equity interest is based on significant inputs not observable in the market, and thus represents Level 3 measurements. The fair value estimates for the previously held equity interest are based on (a) projected discounted cash flows, (b) historical and projected financial information, and (c) synergies including cost savings, as relevant, that market participants would consider when estimating the fair value of the previously held equity interest in Alliance Boots. The fair value for trade names and trademarks was determined using the relief from royalty method of the income approach; pharmacy licenses and customer relationships used the excess earnings method of the income approach; and loyalty card holders used the incremental cash flow method which is a form of the income approach. Personal property fair values were determined primarily using the indirect cost approach. While real property fair values were determined using the income, market and/or cost approach.

The preliminary identified definite and indefinite lived intangible assets were as follows:

<b>Definite-Lived Intangible Assets</b>	<b>Weighted-Average Useful Life (in years)</b>	<b>Amount (in millions)</b>
Customer relationships	12	\$ 1,676
Loyalty card holders	12	723
Trade names and trademarks	15	544
Favorable lease interests	3	55
Total		<u>\$ 2,998</u>
<b>Indefinite-Lived Intangible Assets</b>		<b>Amount (in millions)</b>
Trade names and trademarks		\$ 6,192
Pharmacy licenses		2,271
Total		<u>\$ 8,463</u>

The preliminary goodwill of \$15.6 billion arising from the Second Step Transaction consists of expected purchasing synergies, operating efficiencies by benchmarking performance and applying best practices across the combined company, consolidation of operations, reductions in selling, general and administrative expenses and combining workforces. The Company determined that the preliminary goodwill should be allocated across all segments because each segment will benefit from synergies related to the acquisition that will increase each segment's overall profitability. The Company determined that \$4.7 billion of preliminary goodwill arising from synergies was directly attributable to the Retail Pharmacy USA segment. The Company also allocated \$3.6 billion of preliminary goodwill from the acquisition to the Retail Pharmacy USA segment based on a with and without analysis whereby the difference between the fair value of a segment before the acquisition and its fair value after the acquisition represents the amount of goodwill assigned to that segment. Of the remaining preliminary goodwill, \$3.8 billion was allocated to the Retail Pharmacy International segment and \$3.5 billion was allocated to the Pharmaceutical Wholesale segment. The allocation of the goodwill to the individual reporting units within the respective segments has not been completed. Substantially all of the goodwill recognized is not expected to be deductible for income tax purposes.

The Company incurred legal and other professional services costs related to the Second Step Transaction, which were included in selling, general and administrative expenses, of \$59 million and \$83 million for the three and six month periods ended February 28, 2015.

The preliminary fair value of the assets acquired includes inventory having an estimated fair value of \$3.7 billion. This fair value includes a \$106 million "step-up" adjustment to capitalize the estimated profit in acquired finished goods inventory as of the date of the Second Step Transaction, all of which was expensed to cost of sales during the three and six months ended February 28, 2015 over the first inventory turn.

The following table presents supplemental unaudited condensed pro forma consolidated statements of earnings for 2015 and 2014 as if the Second Step Transaction had occurred on September 1, 2013, the first day of the Company's fiscal 2014. As described in Note 3, Change in Accounting Policy, the information has been presented without a lag. The unaudited condensed pro forma statements reflect certain adjustments related to past operating performance and acquisition accounting adjustments, such as increased amortization expense based on the fair valuation of assets acquired, the impact of acquisition financing, transaction costs and the related income tax effects. The unaudited condensed pro forma statements do not include any anticipated synergies which may be achievable subsequent to the date of the Second Step Transaction. The unaudited condensed pro forma statements also exclude certain non-recurring items such as the gain on Walgreens previously held 45% investment in Alliance Boots and other transaction related costs. Accordingly, the unaudited condensed pro forma results have been prepared for comparative purposes only and are not intended to be indicative of what the Company's results would have been had the Second Step Transaction occurred at the beginning of the periods presented or the results which may occur in the future.

	Pro forma Three months ended February 28,		Pro forma Six months ended February 28,	
	2015	2014	2015	2014
	(in millions, except per share amounts)			
Net sales	\$ 30,202	\$ 29,276	\$ 59,173	\$ 56,999
Net earnings	1,253	966	2,621	1,973
Net earnings per common share:				
Basic	\$ 1.20	\$ 0.88	\$ 2.51	\$ 1.80
Diluted	1.19	0.87	2.49	1.78

Actual results from Alliance Boots operations included in the Consolidated Condensed Statements of Earnings since December 31, 2014, the date of the Second Step Transaction, are as follows (in millions, except per share amounts):

	Three months ended February 28,	Six months ended February 28,
	2015	2015
(in millions, except per share amounts)		
Net sales	\$ 5,525	\$ 5,525
Net earnings	330	330
Net earnings per common share:		
Basic	\$ 0.32	\$ 0.33
Diluted	0.31	0.33

*Other Acquisitions*

The aggregate purchase price of all businesses, excluding Alliance Boots, net of cash received was \$92 million for the six month period ended February 28, 2015. These acquisitions added \$23 million to goodwill and \$64 million to intangible assets, primarily pharmacy files. The remaining fair value relates to immaterial amounts of tangible assets, less liabilities assumed. Operating results of the businesses acquired have been included in the Consolidated Condensed Statements of Earnings from their respective acquisition dates forward. Pro forma results of the Company, assuming all of the acquisitions had occurred at the beginning of each period presented, would not be materially different from the results reported.

**8. Goodwill and Other Intangible Assets**

Historically, Walgreens operations were within one reportable segment. As a result of the Second Step Transaction effective December 31, 2014, the Company realigned its reportable segments into the Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale segments (see Note 19, Segment Reporting). Goodwill added as a result of the Second Step Transaction has been preliminarily allocated to the Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale reportable segments.

Changes in the carrying amount of goodwill by reportable segment consist of the following activity (in millions):

	<b>Retail Pharmacy USA</b>	<b>Retail Pharmacy International</b>	<b>Pharmaceutical Wholesale</b>	<b>Total</b>
August 31, 2014	\$ 2,359	\$ -	\$ -	\$ 2,359
Acquisitions	8,311	3,747	3,521	15,579
Sale of business <sup>(1)</sup>	(706)	-	-	(706)
Other <sup>(2)</sup>	(3)	-	-	(3)
Currency translation adjustments	-	(99)	(86)	(185)
February 28, 2015	<u>\$ 9,961</u>	<u>\$ 3,648</u>	<u>\$ 3,435</u>	<u>\$ 17,044</u>

<sup>(1)</sup> Represents Walgreens Infusion and Respiratory Services goodwill that has been reclassified as an asset held for sale. See Note 22, Subsequent Events for further details.

<sup>(2)</sup> Other primarily represents immaterial purchase accounting adjustments for the Company's acquisitions.

As a result of the Second Step Transaction, the Company recorded \$15.6 billion of goodwill and \$11.5 billion of intangible assets in conjunction with the preliminary purchase accounting. See Note 7, Acquisitions for additional information regarding the transaction.

The carrying amount and accumulated amortization of intangible assets consist of the following (in millions):

	<u>February 28, 2015</u>	<u>August 31, 2014</u>
<b>Gross Amortizable Intangible Assets</b>		
Purchased prescription files	\$ 925	\$ 1,079
Favorable lease interests	427	382
Purchasing and payer contracts	95	301
Non-compete agreements	154	151
Trade names and trademarks	735	191
Customer relationships	1,724	-
Loyalty card holders	716	-
Other amortizable intangible assets	4	4
Total gross amortizable intangible assets	<u>4,780</u>	<u>2,108</u>
<b>Accumulated amortization</b>		
Purchased prescription files	471	474
Favorable lease interests	187	174
Purchasing and payer contracts	61	145
Non-compete agreements	82	70
Trade names and trademarks	84	69
Customer relationships	46	-
Loyalty card holders	10	-
Other amortizable intangible assets	1	4
Total accumulated amortization	<u>942</u>	<u>936</u>
Total amortizable intangible assets, net	<u>\$ 3,838</u>	<u>\$ 1,172</u>
<b>Indefinite Lived Intangible Assets</b>		
Trade names and trademarks	\$ 6,136	\$ 8
Pharmacy licenses	2,251	-
Total indefinite lived intangible assets	<u>\$ 8,387</u>	<u>\$ 8</u>
Total intangible assets, net	<u>\$ 12,225</u>	<u>\$ 1,180</u>

The carrying amount of amortizable intangible assets and accumulated amortization included currency translation adjustments of \$(129) million and \$46 million, respectively, as of February 28, 2015.

The carrying amount of indefinite lived intangible assets included currency translation adjustments of \$(76) million as of February 28, 2015.

Amortization expense for intangible assets was \$209 million and \$276 million for the three and six months ended February 28, 2015, respectively and \$73 million and \$143 million for the three and six months ended February 28, 2014, respectively.

Estimated annual amortization expense for intangible assets recorded at February 28, 2015 is as follows (in millions):

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Estimated annual amortization expense:	\$ 426	\$ 465	\$ 424	\$ 388	\$ 366

**9. Short-Term Borrowings and Long-Term Debt**

Short-term borrowings and long-term debt consist of the following (all amounts are presented in millions of U.S. dollars. Debt issuances are denominated in U.S. dollars, unless otherwise noted):

	February 28, 2015	August 31, 2014
<b>Short-Term Borrowings <sup>(1)</sup></b>		
Current portion of loans assumed through the purchase of land and buildings; various interest rates from 5.000% to 8.750%; various maturities from 2015 to 2035	\$ 2	\$ 8
1.000% unsecured notes due 2015	750	750
Other <sup>(2)</sup>	309	16
<b>Total short-term borrowings</b>	<b>\$ 1,061</b>	<b>\$ 774</b>
<b>Long-Term Debt <sup>(1)</sup></b>		
Unsecured variable rate notes due 2016	\$ 750	\$ -
Unsecured Pound Sterling variable rate term loan due 2019	2,235	-
1.800% unsecured notes due 2017	999	999
1.750% unsecured notes due 2017	749	-
5.250% unsecured notes due 2019 <sup>(3)</sup>	1,016	1,010
2.700% unsecured notes due 2019	1,248	-
2.875% unsecured Pound Sterling notes due 2020 <sup>(4)</sup>	615	-
3.300% unsecured notes due 2021	1,247	-
3.100% unsecured notes due 2022	1,199	1,199
3.800% unsecured notes due 2024	1,995	-
3.600% unsecured Pound Sterling notes due 2025 <sup>(4)</sup>	462	-
2.125% unsecured Euro notes due 2026 <sup>(5)</sup>	837	-
4.500% unsecured notes due 2034	497	-
4.400% unsecured notes due 2042	496	496
4.800% unsecured notes due 2044	1,500	-
Loans assumed through the purchase of land and buildings; various interest rates from 5.000% to 8.750%; various maturities from 2015 to 2035	41	40
Other <sup>(6)</sup>	117	-
	16,003	3,744
Less: current maturities	2	8
<b>Total long-term debt</b>	<b>\$ 16,001</b>	<b>\$ 3,736</b>

<sup>(1)</sup> All notes are presented net of unamortized discount, where applicable.

<sup>(2)</sup> Other short-term borrowings represent a mix of fixed and variable rate borrowings with various maturities and working capital facilities denominated in various foreign currencies including \$29 million of U.S. dollar equivalent bank overdrafts.

<sup>(3)</sup> Also includes interest rate swap fair market value adjustments, see Note 11, Fair Value Measurements for additional fair value disclosures.

<sup>(4)</sup> Pound Sterling denominated notes are translated at the February 28, 2015 spot rate of \$1.54 to one British Pound Sterling.

<sup>(5)</sup> Euro denominated notes are translated at the February 28, 2015 spot rate of \$1.12 to one Euro.

<sup>(6)</sup> Other long-term debt represents a mix of fixed and variable rate borrowings in various foreign currencies with various maturities.

**Extinguishment of Debt Assumed in Second Step Transaction**

As a result of the Second Step Transaction (see Note 7, Acquisitions), the Company assumed \$9.0 billion of Alliance Boots existing debt. In January 2015, the Company repaid substantially all of the assumed debt with proceeds from the November 2014 debt issuances described below.

**\$8.0 Billion Note Issuance**

On November 18, 2014, WBA received net proceeds (after deducting underwriting discounts and estimated offering expenses) of \$7.9 billion from a public offering of notes with varying maturities and interest rates, the majority of which are fixed rate. The notes are unsecured, unsubordinated debt obligations of WBA and rank equally in right of payment with all other unsecured and unsubordinated indebtedness of WBA from time to time outstanding. The notes are fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Walgreens as described below. Total issuance costs relating to the notes, including underwriting discounts and estimated offering expenses, were \$44 million. The fair value of the notes as of February 28, 2015 was \$8.3 billion. Fair value for these notes was determined based upon quoted market prices.

The following table summarizes each tranche of notes issued:

Notes Issued (in millions)	Maturity Date	Interest Rate	Interest Payment Dates
\$ 750	May 18, 2016	Variable; three-month U.S. dollar LIBOR, reset quarterly, plus 45 basis points	February 18, May 18, August 18, and November 18; commencing on February 18, 2015
	November 17,	Fixed 1.750%	May 17 and November 17; commencing on May 17, 2015

750	2017		
	November 18,	Fixed 2.700%	May 18 and November 18; commencing on May 18, 2015
1,250	2019		
	November 18,	Fixed 3.300%	May 18 and November 18; commencing on May 18, 2015
1,250	2021		
	November 18,	Fixed 3.800%	May 18 and November 18; commencing on May 18, 2015
2,000	2024		
	November 18,	Fixed 4.500%	May 18 and November 18; commencing on May 18, 2015
500	2034		
	November 18,	Fixed 4.800%	May 18 and November 18; commencing on May 18, 2015
1,500	2044		
<u>\$</u>	<u>8,000</u>		

### *Walgreens Guarantee*

The Walgreens guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of Walgreens and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens from time to time outstanding. The purpose of the guarantee is to protect the notes against structural subordination to certain indebtedness of Walgreens. The Walgreens guarantee will automatically terminate, and the obligations of Walgreens under the Walgreens guarantee will be unconditionally released and discharged, if and when (i) the aggregate outstanding principal amount of Capital Markets Indebtedness (as defined), including the Existing Notes (as defined), and Commercial Bank Indebtedness (as defined), in each case, of Walgreens is less than \$2.0 billion and (ii) Walgreens does not guarantee any Capital Markets Indebtedness (other than the notes or the Euro/Sterling Notes (as defined)) or Commercial Bank Indebtedness, in each case, of WBA. In addition, the Walgreens guarantee will automatically terminate, and the obligations of Walgreens under the Walgreens guarantee will be unconditionally released and discharged, with respect to any series of outstanding notes, upon (i) repayment of such series of outstanding notes in full, (ii) the satisfaction and discharge of the indenture with respect to such series of outstanding notes or (iii) the defeasance or covenant defeasance of such series of outstanding notes in accordance with the terms of the indenture. Once released in accordance with its terms, the Walgreens guarantee will not subsequently be required to be reinstated.

### *Redemption Option*

WBA may redeem (a) the notes due 2017, at any time in whole or from time to time in part, (b) the notes due 2019, at any time prior to October 18, 2019 in whole or from time to time prior to October 18, 2019 in part, (c) the notes due 2021, at any time prior to September 18, 2021 in whole or from time to time prior to September 18, 2021 in part, (d) the notes due 2024, at any time prior to August 18, 2024 in whole or from time to time prior to August 18, 2024 in part, (e) the notes due 2034, at any time prior to May 18, 2034 in whole or from time to time prior to May 18, 2034 in part, and (f) the notes due 2044, at any time prior to May 18, 2044 in whole or from time to time prior to May 18, 2044 in part, in each case, at WBA's option for the sum of accrued and unpaid interest plus a redemption price equal to the greater of:

- (1) 100% of the principal amount of the fixed rate notes being redeemed; and
- (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the redemption date), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined in the applicable series of notes), plus 15 basis points for the notes due 2017, 15 basis points for the notes due 2019, 20 basis points for the notes due 2021, 20 basis points for the notes due 2024, 20 basis points for the notes due 2034 and 25 basis points for the notes due 2044.

In addition, at any time on or after October 18, 2019 with respect to the notes due 2019, September 18, 2021 with respect to the notes due 2021, August 18, 2024 with respect to the notes due 2024, May 18, 2034 with respect to the notes due 2034, or May 18, 2044 with respect to the notes due 2044, WBA may redeem some or all of the applicable series of fixed rate notes at its option, at a redemption price equal to 100% of the principal amount of the applicable fixed rate notes being redeemed, plus accrued and unpaid interest on the fixed rate notes being redeemed to, but excluding, the redemption date.

### *Change in Control*

If WBA experiences a change of control triggering event, unless WBA has exercised its option to redeem the fixed rate notes or has defeased the notes as described in the indenture, WBA will be required to offer payment of cash equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest.

### **£700 Million and €750 Million Notes Issuance**

On November 20, 2014, WBA issued three series of debt securities denominated in Euros and Pound Sterling in a public offering, each with varying maturities and interest rates. Interest on all notes is payable annually on November 20, commencing on November 20, 2015. The notes are unsecured, unsubordinated debt obligations of WBA and rank equally in right of payment with all other unsecured and unsubordinated indebtedness of WBA from time to time outstanding. The notes are fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Walgreens as described below. Total issuance costs relating to the notes, including underwriting discounts and estimated offering expenses, were \$11 million. The fair value of the notes as of February 28, 2015 was \$2.0 billion. Fair value for these notes was determined based upon quoted market prices.

The following table details each tranche of Euro and Pound Sterling notes issued:

Notes Issued (in millions)	Maturity Date	Interest Rate
Euro Notes:		
€ 750	November 20, 2026	Fixed 2.125%
Pound Sterling Notes:		
£ 400	November 20, 2020	Fixed 2.875%
300	November 20, 2025	Fixed 3.600%
£ 700		

#### *Walgreens Guarantee*

The Walgreens guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of Walgreens and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens from time to time outstanding. The purpose of the guarantee is to protect the notes against structural subordination to certain indebtedness of Walgreens. The Walgreens guarantee will automatically terminate, and the obligations of Walgreens under the Walgreens guarantee will be unconditionally released and discharged, if and when (i) the aggregate outstanding principal amount of Capital Markets Indebtedness (as defined), including the Existing Notes (as defined), and Commercial Bank Indebtedness (as defined), in each case, of Walgreens is less than \$2.0 billion and (ii) Walgreens does not guarantee any Capital Markets Indebtedness (other than the notes or the U.S. Dollar Notes (as defined)) or Commercial Bank Indebtedness, in each case, of WBA. In addition, the Walgreens guarantee will automatically terminate, and the obligations of Walgreens under the Walgreens guarantee will be unconditionally released and discharged, with respect to any series of outstanding notes, upon (i) repayment of such series of outstanding notes in full, (ii) the satisfaction and discharge of the indenture with respect to such series of outstanding notes or (iii) the defeasance or covenant defeasance of such series of outstanding notes in accordance with the terms of the indenture. Once released in accordance with its terms, the Walgreens guarantee will not subsequently be required to be reinstated.

#### *Redemption Option*

WBA may redeem (a) the Euro notes, at any time prior to August 20, 2026 in whole or from time to time prior to August 20, 2026 in part, (b) the Pound Sterling notes due 2020, at any time prior to October 20, 2020 in whole or from time to time prior to October 20, 2020 in part, and (c) the Pound Sterling notes due 2025, at any time prior to August 20, 2025 in whole or from time to time prior to August 20, 2025 in part, in each case, at WBA's option for the sum of accrued and unpaid interest plus at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the notes to be redeemed; and
- (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the redemption date), discounted to the redemption date on an annual basis at the applicable Comparable Government Bond Rate, (as defined in the applicable series of notes), plus 20 basis points for the Euro notes, 20 basis points for the Pound Sterling notes due 2020 and 20 basis points for Pound Sterling the notes due 2025.

In addition, at any time on or after August 20, 2026 with respect to the Euro notes, October 20, 2020 with respect to the Pound Sterling notes due 2020, or August 20, 2025 with respect to the Pound Sterling notes due 2025, WBA may redeem some or all of the applicable series of notes at its option, at a redemption price equal to 100% of the principal amount of the applicable notes to be redeemed, plus, in every case, accrued and unpaid interest on the notes to be redeemed to, but excluding, the redemption date.

#### *Change in Control*

If WBA experiences a change of control triggering event, unless WBA has exercised its option to redeem the fixed rate notes or has defeased the notes as described in the indenture, WBA will be required to offer payment of cash equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest.

#### **\$4.0 Billion Note Issuance**

On September 13, 2012, Walgreens obtained net proceeds from a public offering of \$4.0 billion of notes with varying maturities and interest rates, the majority of which, at issuance, were fixed rate. The notes are unsecured senior debt obligations and rank equally with all other unsecured and unsubordinated indebtedness of Walgreens. On December 31, 2014, Walgreens Boots Alliance fully and unconditionally guaranteed the outstanding notes on an unsecured and unsubordinated basis. The guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of WBA and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of WBA. Total issuance costs relating to the notes, including underwriting discounts and fees, were \$26 million.

The Company repaid the \$550 million variable rate notes on their March 13, 2014 maturity date. Additionally, the Company repaid the \$750 million 1.000% fixed rate notes on their March 13, 2015 maturity date.

The following table details each tranche of outstanding notes as of February 28, 2015:

<b>Notes Issued (in millions)</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Interest Payment Dates</b>
\$ 750	March 13, 2015	Fixed 1.000%	March 13 and September 13; commencing on March 13, 2013
1,000	September 15, 2017	Fixed 1.800%	March 15 and September 15; commencing on March 15, 2013
1,200	September 15, 2022	Fixed 3.100%	March 15 and September 15; commencing on March 15, 2013
500	September 15, 2042	Fixed 4.400%	March 15 and September 15; commencing on March 15, 2013
<u>\$ 3,450</u>			

The fair value of the notes as of February 28, 2015 and August 31, 2014 was \$3.5 billion and \$3.4 billion, respectively. Fair value for these notes was determined based upon quoted market prices.

#### *Redemption Option and Change in Control*

Walgreens may redeem the fixed rate notes at its option, at any time in whole, or from time to time in part, at a redemption price equal to the greater of: (a) 100% of the principal amount of the notes being redeemed; and (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined in the applicable series of notes), plus 12 basis points for the notes due 2015, 20 basis points for the notes due 2017, 22 basis points for the notes due 2022 and 25 basis points for the notes due 2042. If a change of control triggering event occurs, Walgreens will be required, unless it has exercised its right to redeem the notes, to offer to purchase the notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, on the notes repurchased to the date of repurchase.

#### **\$1.0 Billion Note Issuance**

On January 13, 2009, Walgreens issued notes totaling \$1.0 billion bearing an interest rate of 5.250% paid semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2009. The notes will mature on January 15, 2019. The notes are unsecured senior debt obligations and rank equally with all other unsecured senior indebtedness of Walgreens. On December 31, 2014, WBA fully and unconditionally guaranteed the outstanding notes on an unsecured and unsubordinated basis. The guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of WBA and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of WBA. The notes are not convertible or exchangeable. Total issuance costs relating to this offering including underwriting discounts and fees, were \$8 million. The fair value of the notes as of February 28, 2015 and August 31, 2014 was \$1.1 billion and \$1.1 billion, respectively. Fair value for these notes was determined based upon quoted market prices.

#### *Redemption Option and Change in Control*

Walgreens may redeem the notes, at any time in whole or from time to time in part, at its option at a redemption price equal to the greater of: (a) 100% of the principal amount of the notes to be redeemed; or (b) the sum of the present values of the remaining scheduled payments of principal and interest, discounted to the date of redemption on a semiannual basis at the Treasury Rate (as defined in the applicable series of notes), plus 45 basis points, plus accrued interest on the notes to be redeemed to, but excluding, the date of redemption. If a change of control triggering event occurs, unless Walgreens has exercised its option to redeem the notes, it will be required to offer to repurchase the notes at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest to the date of redemption.

#### **Other Borrowings**

The Company periodically borrows under its commercial paper program and may continue to borrow under it in future periods. There were no commercial paper borrowings outstanding at February 28, 2015 or 2014. The Company had average daily short-term borrowings of \$4 million of commercial paper outstanding at a weighted average interest rate of 0.02% for the six months ended February 28, 2015. For the six month period ended February 28, 2014, the Company had average daily short-term borrowings of \$14 million of commercial paper outstanding at a weighted average interest rate of 0.23%.

On November 10, 2014, WBA and Walgreens entered into a term loan credit agreement (the "Term Loan Agreement") which provides the ability to borrow up to £1.45 billion on an unsecured basis. As of February 28, 2015, the Company has borrowed £1.45 billion (\$2.2 billion at the February 28, 2015 spot rate of \$1.54 to £1) under the Term Loan Agreement. Borrowings under the Term Loan Agreement bear interest at a fluctuating rate per annum equal to the reserve adjusted LIBOR plus an applicable margin based on the Company's credit ratings.

On November 10, 2014, WBA and Walgreens entered into a five-year unsecured, multicurrency revolving credit agreement (the "Revolving Credit Agreement"), replacing prior Walgreens agreements dated July 20, 2011 and July 23, 2012. The new unsecured revolving credit agreement initially totaled \$2.25 billion, of which \$375 million was available for the issuance of letters of credit. On December 29, 2014, upon the affirmative vote of the majority of common shares of Walgreens represented and entitled to vote at the Walgreens special meeting of shareholders to approve the issuance of the shares necessary to complete the Second Step Transaction, the available credit increased to \$3.0 billion, of which \$500 million is available for the issuance of letters of credit. The issuance of letters of credit reduces the aggregate amount otherwise available under the Revolving Credit Agreement for the making of revolving loans. Borrowings under the Revolving Credit Agreement will bear interest at a fluctuating rate per annum equal to, at WBA's option, the alternate base rate or the reserve adjusted LIBOR, in each case, plus an applicable margin calculated based on the Company's credit ratings. The Company's ability to access these facilities is subject to compliance with the terms and conditions of the credit facilities, including financial covenants. The covenants require the Company to maintain certain financial ratios related to the proportion of consolidated debt to total capitalization and priority debt, along with limitations on the sale of assets and purchases of investments. Total upfront fees related to the Term Loan Agreement and Revolving Credit Agreement were \$14 million. The Company pays a facility fee to the financing banks to keep these lines of credit active. At February 28, 2015, there were no borrowings or letters of credit issued against the revolving credit facility.

On December 19, 2014, WBA and Walgreens entered into a Revolving Credit Agreement (the "364-Day Credit Agreement") with the lenders party thereto. The 364-Day Credit Agreement is a 364-day unsecured, multicurrency revolving facility. The aggregate commitment of all lenders under the 364-Day Credit Agreement is \$750 million. At February 28, 2015, there were no borrowings against the 364-Day Credit Agreement.

Walgreens as co-obligor guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of Walgreens Boots Alliance under the Term Loan Agreement, the Revolving Credit Agreement, and the 364-Day Credit Agreement, which guarantee will remain in full force and effect until certain conditions are met.

## **10. Financial Instruments**

The Company uses derivative instruments to manage its exposure to interest rate and foreign currency exchange risks. As a result of the Second Step Transaction, the Company acquired all the derivative instruments held by Alliance Boots at their acquisition date fair values.

The notional amounts, fair value and balance sheet presentation of derivative instruments outstanding as of February 28, 2015, excluding warrants which are presented separately in this footnote, were as follows (in millions):

	<u>Notional</u> <sup>(1)</sup>	<u>Fair Value</u>	<u>Location in Consolidated Condensed Balance Sheets</u>
<b>Derivatives designated as fair value hedges :</b>			
Interest rate swaps	\$ 1,000	\$ 22	Other non-current assets
<b>Derivatives designated as cash flow hedges:</b>			
Basis swap	71	6	Other current assets
<b>Derivatives not designated as hedges :</b>			
Interest rate swaps	1,542	-	Other current assets
Interest rate caps	3,879	-	Other current assets
Foreign currency forwards	2,037	60	Other current assets
Foreign currency forwards	104	7	Other current liabilities

<sup>(1)</sup> Amounts in U.S. dollar equivalents, where appropriate.

The notional amounts, fair value and balance sheet presentation of derivative instruments outstanding as of August 31, 2014, excluding warrants which are presented separately in this footnote, are as follows (in millions):

	<u>Notional</u>	<u>Fair Value</u>	<u>Location in Consolidated Condensed Balance Sheets</u>
<b>Derivatives designated as fair value hedges :</b>			
Interest rate swaps	\$ 1,000	\$ 16	Other non-current assets
<b>Derivatives designated as cash flow hedges :</b>			
Forward interest rate swaps	1,500	44	Other non-current liabilities

The Company uses interest rate swaps to manage the interest rate exposure associated with some of its fixed-rate borrowings and designates them as fair value hedges. The Company uses forward starting interest rate swaps to hedge its interest rate exposure of some of its anticipated debt issuances and designates them as cash flow hedges.

The Company utilizes foreign currency forward contracts and other foreign currency derivatives to hedge significant committed and highly probable future transactions and cash flows denominated in currencies other than the functional currency of the Company or its subsidiaries. The Company has significant non-US dollar denominated net investments and uses foreign currency denominated financial instruments, specifically foreign currency derivatives and foreign currency denominated debt, to hedge its foreign currency risk.

### Fair Value Hedges

The Company entered into a series of interest rate swaps, converting \$750 million of its 5.250% fixed rate notes to a floating interest rate based on the six-month LIBOR in arrears plus a constant spread and an interest rate swap converting \$250 million of its 5.250% fixed rate notes to a floating interest rate based on the one-month LIBOR in arrears plus a constant spread. All swap termination dates coincide with the notes maturity date, January 15, 2019. These swaps were designated as fair value hedges.

The gains and losses due to changes in fair value on the swaps and on the hedged notes attributable to interest rate risk were recognized as follows (in millions):

	<u>Location in Consolidated Condensed Statements of Earnings</u>	<u>Three Months Ended February 28,</u>		<u>Six Months Ended February 28,</u>	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
		\$	4	(6)	(6)
Interest rate swaps	Interest expense, net	\$ 4	\$ (6)	\$ (6)	\$ (17)
Notes	Interest expense, net	(4)	6	6	18

The changes in fair value of the Company's debt that was swapped from fixed to variable rate and designated as fair value hedges are included in short-term and long-term debt on the Consolidated Condensed Balance Sheets (see Note 9, Short-Term Borrowings and Long-Term Debt). At February 28, 2015 and August 31, 2014, the cumulative fair value adjustments resulted in an increase in long-term debt of \$18 million and \$12 million, respectively. No material gains or losses were recorded from ineffectiveness during the three and six month periods ended February 28, 2015 or during the three and six month periods ended February 28, 2014.

### Cash Flow Hedges

In fiscal 2014, the Company entered into a series of forward starting interest rate swap transactions locking in the then current three-month LIBOR interest rate on \$1.5 billion of the then anticipated issuance of debt, with expected maturity tenures of 10 and 30 years. The swap transactions were designated as cash flow hedges of the variability in the expected cash outflows of interest payments on the then forecasted debt due to changes in the benchmark interest rates. In November 2014, in conjunction with the issuance of the \$2.0 billion notes maturing in fiscal 2024 and the \$1.5 billion notes maturing in fiscal 2044, the Company terminated these forward starting interest rate swaps, locking in the effective yields on the related debt. Cash of \$45 million was paid to settle the 10-year swap and cash of \$18 million was paid to settle the 30-year swap in November 2014. The changes in fair value of the swaps until their termination were included in other comprehensive income, and any ineffectiveness was recorded directly to interest expense in the Consolidated Condensed Statements of Earnings. The cumulative changes included in other comprehensive income will be amortized into earnings in the same periods during which interest expense on the identified debt is recognized.

As a result of the Second Step Transaction, the Company assumed \$9.0 billion of Alliance Boots existing debt, a portion of which was hedged using interest rate swaps and interest rate caps. In January 2015, the Company repaid substantially all of the assumed debt and simultaneously terminated swaps converting £1.0 billion of outstanding debt from floating to fixed rates with no material gain or loss recognized. At February 28, 2015, £1.0 billion of floating to fixed rate swaps with no material fair value remain outstanding. The swaps mature in July 2015 and are not designated as hedging instruments. Interest rate caps with notional principal amounts of £1.5 billion and €2.0 billion to protect the Company from rising interest rates on the corresponding amounts of assumed Alliance Boots existing debt were in place on completion of the Second Step Transaction. In January 2015, interest rate caps with an aggregate notional principal of €600 million were terminated with no material gain or loss recognized. The remaining caps mature in July 2015, have no material fair value and are not designated as hedging instruments.

There were no material gains and losses due to the change in fair value of derivatives designated as cash flow hedges recognized in other comprehensive income during the three and six month periods ended February 28, 2015 and 2014.

In addition, the Company acquired a basis swap held by Alliance Boots which is designated as a hedge of future contracted interest payments on Unidades de Fomento ("UF") denominated bonds in Chile. The basis swap matures in May 2015.

No portion of the derivatives designated as cash flow hedges was excluded from hedge assessment. No material gains or losses were recorded in earnings from ineffectiveness during the three and six month periods ended February 28, 2015 or during the three and six month periods ended February 28, 2014.

### Derivatives not Designated as Hedges

The Company enters into derivative transactions that are not designated as accounting hedges. These derivative instruments are economic hedges of interest rate and foreign currency risks. The gains and losses due to changes in fair value of these derivative instruments were recognized in earnings as follows (in millions):

	<u>Location in Consolidated Condensed Statements of Earnings</u>	<u>Three Months Ended February 28, 2015</u>	<u>Six Months Ended February 28, 2015</u>
Interest rate swaps	Interest expense, net	\$ (1)	\$ (1)
Foreign currency forwards	Selling, general and administrative expense	\$ (28)	\$ (28)
Second Step Transaction foreign currency forwards	Other income (expense)	\$ (70)	\$ (166)

### Warrants

As discussed in Note 2, Basis of Presentation, the Company holds (a) a warrant to purchase up to 22,696,912 shares of AmerisourceBergen common stock at an exercise price of \$51.50 per share exercisable during a six-month period beginning in March 2016, and (b) a warrant to purchase up to 22,696,912 shares of AmerisourceBergen common stock at an exercise price of \$52.50 per share exercisable during a six-month period beginning in March 2017. The warrants issued to Alliance Boots were acquired by the Company as part of the Second Step Transaction.

The Company reports its warrants at fair value. The fair value and balance sheet presentation of warrants was as follows (in millions):

	<u>Location in Consolidated Condensed Balance Sheets</u>	<u>February 28, 2015</u>	<u>August 31, 2014</u>
<b>Asset derivatives not designated as hedges:</b>			
Warrants	Other non-current assets	\$ 2,231	\$ 553

The gains and losses due to changes in fair value of the warrants recognized in earnings were as follows (in millions):

	<u>Location in Consolidated Condensed Statements of Earnings</u>	<u>Three Months Ended February 28,</u>		<u>Six Months Ended February 28,</u>	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Warrants	Other income (expense)	\$ 559	\$ (64)	\$ 849	\$ 156

### Derivatives Credit Risk

Counterparties to derivative financial instruments expose the Company to credit-related losses in the event of counterparty nonperformance, and the Company regularly monitors the credit worthiness of each counterparty.

### Derivatives Offsetting

The Company does not offset the fair value amounts of derivative instruments subject to master netting agreements in the Consolidated Condensed Balance Sheets.

**11. Fair Value Measurements**

The Company measures certain assets and liabilities in accordance with ASC Topic 820, Fair Value Measurements and Disclosures, which defines fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In addition, it establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

- Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 - Observable inputs other than quoted prices in active markets.
- Level 3 - Unobservable inputs for which there is little or no market data available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Assets and liabilities measured at fair value on a recurring basis were as follows (in millions):

	<u>February 28, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets :</b>				
Restricted cash <sup>(1)</sup>	\$ 206	\$ 206	\$ -	\$ -
Money market funds <sup>(2)</sup>	1,881	1,881	-	-
Available-for-sale investments <sup>(3)</sup>	1,255	1,255	-	-
Interest rate swaps <sup>(4)</sup>	22	-	22	-
Basis swap	6	-	6	-
Foreign currency forwards <sup>(5)</sup>	60	-	60	-
Warrants <sup>(6)</sup>	2,231	-	2,231	-
<b>Liabilities :</b>				
Foreign currency forwards <sup>(5)</sup>	7	-	7	-

	<u>August 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets :</b>				
Money market funds <sup>(2)</sup>	\$ 1,879	\$ 1,879	\$ -	\$ -
Available-for-sale investments <sup>(3)</sup>	887	887	-	-
Interest rate swaps <sup>(4)</sup>	16	-	16	-
Warrants <sup>(5)</sup>	553	-	553	-
<b>Liabilities :</b>				
Forward interest rate swaps <sup>(7)</sup>	44	-	44	-

(1) Restricted cash consists of deposits restricted under agency agreements and cash restricted by law and other obligations.

(2) Money market funds are valued at the closing price reported by the fund sponsor.

(3) Fair values of quoted investments are based on current bid prices as of the balance sheet dates. See Note 6, Available-for-Sale Investments for additional disclosures.

(4) The fair value of interest rate swaps is calculated by discounting the estimated cash flows received and paid based on the applicable observable yield curves. See Note 10, Financial Instruments for additional disclosures.

(5) The fair value of forward currency contracts is estimated by discounting the difference between the contractual forward price and the current available forward price for the residual maturity of the contract using observable market rates.

(6) Warrants were valued using a Monte Carlo simulation. Key assumptions used in the valuation include risk-free interest rates using constant maturity treasury rates; the dividend yield for AmerisourceBergen's common stock; AmerisourceBergen's common stock price at the valuation date; AmerisourceBergen's equity volatility; the number of shares of AmerisourceBergen's common stock outstanding; the number of AmerisourceBergen employee stock options and the exercise price; and the details specific to the warrants.

(7) Forward interest rate swaps were valued using three-month LIBOR rates. See Note 10, Financial Instruments for additional disclosures.

There were no transfers between levels for the three and six months ended February 28, 2015 and February 28, 2014.

The Company reports its debt instruments under the guidance of ASC Topic 825, Financial Instruments, which requires disclosure of the fair value of the Company's debt in the footnotes to the consolidated financial statements. Unless otherwise noted, the fair value for all notes was determined based upon quoted market prices and therefore categorized as Level 1. See Note 9, Short-Term Borrowings and Long-Term Debt for further details. The carrying values of accounts receivable and trade accounts payable approximated their respective fair values due to their short-term nature.

## **12. Commitments and Contingencies**

The Company is involved in legal proceedings and is subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the normal course of the Company's business, including the matters described below. Legal proceedings, in general, and securities and class action litigation, in particular, can be expensive and disruptive. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. From time to time, the Company is also involved in legal proceedings as a plaintiff involving antitrust, tax, contract, intellectual property and other matters. Gain contingencies, if any, are recognized when they are realized. The results of legal proceedings are often uncertain and difficult to predict, and the costs incurred in litigation can be substantial, regardless of the outcome. The Company believes that its defenses and assertions in pending legal proceedings have merit, and does not believe that any of these pending matters, after consideration of applicable reserves and rights to indemnification, will have a material adverse effect on the Company's consolidated financial position. However, substantial unanticipated verdicts, fines and rulings do sometimes occur. As a result, the Company could from time to time incur judgments, enter into settlements or revise its expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on its results of operations in the period in which the amounts are accrued and/or its cash flows in the period in which the amounts are paid.

On a quarterly basis, the Company assesses its liabilities and contingencies for outstanding legal proceedings and reserves are established on a case-by-case basis for those legal claims for which management concludes that it is probable that a loss will be incurred and that the amount of such loss can be reasonably estimated. Substantially all of these contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any loss can be complex. With respect to litigation and other legal proceedings where the Company has determined that a loss is reasonably possible, the Company is unable to estimate the amount or range of reasonably possible loss in excess of amounts reserved due to the inherent difficulty of predicting the outcome of and uncertainties regarding such litigation and legal proceedings. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management, but that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. Therefore, it is possible that an unfavorable resolution of one or more pending litigation or other contingencies could have a material adverse effect on the Company's consolidated financial statements in a future fiscal period. Management's assessment of current litigation and other legal proceedings, including the corresponding accruals, could change because of the discovery of facts with respect to legal actions or other proceedings pending against the Company which are not presently known. Adverse rulings or determinations by judges, juries, governmental authorities or other parties could also result in changes to management's assessment of current liabilities and contingencies. Accordingly, the ultimate costs of resolving these claims may be substantially higher or lower than the amounts reserved.

On June 11, 2013, the Company entered into a Settlement and Memorandum of Agreement (the "Agreement") with the United States Department of Justice and the United States Drug Enforcement Administration ("DEA") that settled and resolved all administrative and civil matters arising out of DEA's previously-disclosed concerns relating to the Company's distribution and dispensing of controlled substances. Under the terms of the Agreement, the Company paid an \$80 million settlement amount, surrendered its DEA registrations for six pharmacies in Florida until May 26, 2014, and for its Jupiter, Florida distribution center until September 13, 2014, and agreed to implement certain remedial actions. In addition, the Company dismissed with prejudice its petition with the United States Court of Appeals for the District of Columbia Circuit that challenged certain enforcement authority of the DEA. On July 31, 2013 and August 13, 2013, putative shareholders filed derivative actions in federal court in the Northern District of Illinois against the Walgreens Board of Directors and Walgreen Co. as a nominal defendant (collectively, the "defendants"), arising out of the Company's June 2013 settlement with the DEA described above. The actions assert claims for breach of fiduciary duty on the grounds that the directors allegedly should have prevented the events that led to the settlement. The plaintiffs filed an amended consolidated complaint on October 4, 2013, pursuant to which they sought damages and other relief on behalf of the Company. The defendants filed their motion to dismiss on December 3, 2013. Subsequent thereto, the plaintiffs filed an opposition brief on February 7, 2014 and the defendants filed their reply brief on March 10, 2014. In June 2014, the parties executed a settlement term sheet reflecting an agreement in principle to settle this matter, subject to, among other things, the execution of final settlement documentation and court approval. On September 11, 2014, the defendants, denying all wrongdoing and liability, entered into a Stipulation and Agreement of Settlement whereby the Company agreed to certain corporate governance measures and the payment of up to \$3.5 million for plaintiffs' counsel fees and costs in exchange for a complete release of all claims against all defendants. The Court entered a final order approving the Stipulation and Agreement of Settlement on December 16, 2014. The settlement of this matter did not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On December 5 and 12, 2014, putative shareholders filed class actions in federal court in the Northern District of Illinois against the Walgreens Board of Directors, Walgreen Co., and Walgreens Boots Alliance, Inc. arising out of the Company's definitive proxy statement/prospectus filed with the SEC in connection with the special meeting of Walgreens shareholders on December 29, 2014. The actions assert claims that the definitive proxy statement/prospectus was false or misleading in various respects. On December 23, 2014, solely to avoid the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, Walgreens entered into a memorandum of understanding with the plaintiffs in both actions, pursuant to which Walgreens made certain supplemental disclosures. The proposed settlement is subject to, among other things, court approval.

On December 29, 2014, a putative shareholder filed a derivative action in federal court in the Northern District of Illinois against certain current and former directors and officers of Walgreen Co., and Walgreen Co. as a nominal defendant, arising out of certain public statements the Company made regarding its fiscal 2016 goals. The action asserts claims for breach of fiduciary duty, waste and unjust enrichment. The defendants plan to file a motion to dismiss.

### **13. Stock Compensation Plans**

The Walgreen Co. Omnibus Incentive Plan (the "Omnibus Plan") which became effective in fiscal 2013, provides for incentive compensation to the Company's non-employee directors, officers and employees, and consolidates into a single plan several previously existing equity compensation plans. A total of 60.4 million shares became available for delivery under the Omnibus Plan.

In connection with the Reorganization, the Omnibus Plan was assumed by the Company and each Walgreens stock option, restricted stock unit award, performance share award, deferred stock unit award, and common stock converted automatically into an award with respect to the number of shares of common stock of the Company on a one-for-one basis. The Company's awards continue to be subject to the same terms and conditions as those that were applicable to such award immediately prior to their conversion. The Company did not record any incremental compensation expense related to the conversion.

The Company granted 15,458 and 4,117,968 stock options under the Omnibus Plan for the three and six month periods ended February 28, 2015, respectively, compared to 149,684 and 6,534,762 stock options granted under the Omnibus Plan in the same three and six month periods ended last year. Stock-based compensation expense, which includes stock option, restricted stock unit, and performance share grants, was \$34 million for the three month and \$65 million for the six month periods ended February 28, 2015, compared to \$31 million and \$52 million for the same periods last year. Compensation expense for any individual quarter may not be representative of compensation expense for the entire fiscal year. Stock options granted in the current fiscal year had a weighted-average grant-date fair value of \$14.64 using weighted average volatility, dividend yield and expected option life assumptions of 25.51%, 1.79% and 6.68 years, respectively, using the Black Scholes option pricing model. In accordance with ASC Topic 718 Compensation – Stock Compensation, compensation expense is recognized on a straight-line basis over the employee's vesting period or to the employee's retirement eligible date, if earlier. The recognized retiree eligible income recorded in the three and six month periods ended February 28, 2015, was \$3 million and \$2 million respectively, compared to expense of \$5 million and \$8 million for the same periods in the prior year.

The Company granted 227,220 and 1,132,171 restricted stock units under the Omnibus Plan for the three and six month periods ended February 28, 2015, respectively, compared to 30,122 and 641,009 restricted stock units granted under the Omnibus Plan in the same three and six month periods last year. Restricted stock units granted in the current fiscal year had a weighted average grant date stock price of \$74.61. Dividends issued under the program, paid in the form of additional restricted stock units, totaled 16,886 units for the three months and 37,421 units for the six months ended February 28, 2015 versus 19,159 units and 40,457 units in the same periods last year. The Company also granted 3,688 and 484,011 performance shares under the Omnibus Plan for the three month and six month periods ended February 28, 2015 versus 5,807 and 702,939 performance shares in the same periods last year. Performance shares granted in the current fiscal year had a weighted average grant date stock price of \$66.82. In accordance with ASC Topic 718, compensation expense is recognized on a straight line basis based on a three year cliff vesting schedule for restricted stock unit awards and on a straight line basis over a three year performance period, based on performance targets, for performance share awards. For the three and six month periods ended February 28, 2015, the Company recognized \$28 million and \$47 million, of expense related to these plans, respectively. In the same periods last year, the Company recognized \$16 million and \$26 million of expense, respectively.

The intrinsic value for options exercised was \$153 million for the three month and \$226 million for the six month periods ended February 28, 2015, respectively. The total fair value of options vested were \$1 million for the three month and \$51 million for the six month periods ended February 28, 2015, respectively.

Cash received from the exercise of options was \$132 million for the three months and \$226 million for the six months ended February 28, 2015, respectively. The related tax benefit realized was \$58 million for the three months and \$85 million for the six months ended February 28, 2015, respectively.

#### **14. Retirement Benefits**

The Company sponsors several retirement plans, including defined benefit plans, defined contribution plans and a postretirement health plan. Pursuant to the Second Step Transaction, the Company assumed a number of retirement benefit plans in the UK and other countries. The Company valued the assumed pension assets and liabilities on the acquisition date and will use an August 31 measurement date for its pension plans.

##### *Defined Benefit Pension Plans (non-US plans)*

The principal defined benefit pension plan is the Boots Pension Plan covering certain employees in the United Kingdom (the "Boots Plan"). The Boots Plan is a funded final salary defined benefit plan providing pensions and death benefits to members. The Boots Plan was closed to future accrual effective July 1, 2010 with pensions calculated based on salaries up until that date. The Boots Plan is governed by a trustee board, which is independent of the Company. The plan is subject to a full funding actuarial valuation on a triennial basis. The Company also has two smaller defined benefit plans in the UK, both of which were closed to future accruals effective July 1, 2010. Other defined benefit pension plans include several smaller plans in Germany, France and Guernsey.

The obligation related to the Company's pension plans was acquired as a result of the Second Step Transaction. The pension costs presented for 2015 represent the costs for the period from December 31, 2014 through February 28, 2015. Prior to December 31, 2014, Alliance Boots was accounted for as an equity method investee and as such, pension costs were included for fiscal 2014 and fiscal 2015 prior to the date of the Second Step Transaction within Equity earnings in Alliance Boots.

Components of net periodic pension cost for the defined benefit pension plans (in millions):

	<b>Three and Six Months Ended February 28, 2015</b>	
	<b>Boots Pension Plan</b>	<b>Other Pension Plans</b>
Service cost	\$ -	\$ 1
Interest cost	52	1
Expected return on plan assets	(43)	-
Settlements	-	1
<b>Total net periodic pension cost</b>	<b>\$ 9</b>	<b>\$ 3</b>

The Company made cash contributions to its defined benefit pension plans of \$85 million from the date of the Second Step Transaction to February 28, 2015 which primarily related to committed deficit funding payments triggered by the Second Step Transaction. The Company plans to contribute an additional \$65 million to its defined benefit pension plans in fiscal 2015.

##### *Defined Contribution Plans*

The principal retirement plan for U.S. employees is the Walgreen Profit-Sharing Retirement Trust, to which both the Company and participating employees contribute. The Company's contribution, which has historically related to adjusted FIFO earnings before interest and taxes and a portion of which is in the form of a guaranteed match, is determined annually at the discretion of the Board of Directors. The profit-sharing provision was a benefit of \$21 million for the three months and expense of \$54 million for the six months ended February 28, 2015, respectively compared to expense of \$85 million and \$165 million in the same periods last year. The benefit in the current period was due to a change in the discretionary portion of the profit sharing calculation.

The Company also assumed a contract based defined contribution arrangement known as the Alliance Boots Retirement Savings Plan, to which both the Company and participating employees contribute. The cost recognized in the Consolidated Condensed Statements of Earnings from the date of the Second Step Transaction through February 28, 2015 was \$22 million.

##### *Postretirement Healthcare Plan*

The Company provides certain health insurance benefits to retired U.S. employees who meet eligibility requirements, including age, years of service and date of hire. The costs of these benefits are accrued over the service life of the employee. The Company's postretirement health benefit plan is not funded.

Components of net periodic benefit cost for the postretirement health benefit plan (in millions):

	<b>Postretirement Health Benefit Plan</b>			
	<b>Three Months Ended February 28,</b>		<b>Six Months Ended February 28,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Service cost	\$ 2	\$ 2	5	\$ 4
Interest cost	4	4	8	8
Amortization of actuarial loss	5	3	10	6
Amortization of prior service cost	(6)	(6)	(12)	(11)
<b>Total postretirement benefit cost</b>	<b>\$ 5</b>	<b>\$ 3</b>	<b>11</b>	<b>\$ 7</b>

### **15. Earnings Per Share**

The dilutive effect of outstanding stock options on earnings per share is calculated using the treasury stock method. Stock options are anti-dilutive and excluded from the earnings per share calculation if the exercise price exceeds the average market price of the common shares. Outstanding options to purchase common shares that were anti-dilutive and excluded from the second quarter earnings per share calculation totaled 3,437,516 and 6,347,469 at February 28, 2015 and 2014, respectively. Anti-dilutive shares excluded from the year to date earnings per share calculation were 4,957,390 and 4,343,079 in fiscal 2015 and 2014, respectively.

### **16. Depreciation and Amortization**

The Company has recorded the following depreciation and amortization expense in the Consolidated Condensed Statements of Earnings (in millions):

	<b>Three Months Ended February 28,</b>		<b>Six Months Ended February 28,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Depreciation expense	\$ 311	\$ 258	\$ 567	\$ 520
Intangible asset and other amortization	196	73	259	143
<b>Total depreciation and amortization expense</b>	<b>\$ 507</b>	<b>\$ 331</b>	<b>\$ 826</b>	<b>\$ 663</b>

As discussed in Note 7, Acquisitions, the Company completed the acquisition of remaining 55% interest in Alliance Boots on December 31, 2014, as a result of which the financial results of Alliance Boots were fully consolidated into the results of the Company. The Company previously accounted for its 45% interest in Alliance Boots as an equity method investment. The total depreciation and amortization expense of the Company for the three and six month periods ended February 28, 2015 include the depreciation and amortization expense relating to the preliminary acquisition date fair values of Alliance Boots assets effective as of the date of the Second Step Transaction including all \$106 million of inventory step-up amortization.

### **17. Supplemental Cash Flow Disclosures**

As a result of the Second Step Transaction the Company had the following non-cash transactions in the six month period ended February 28, 2015: \$9.0 billion for debt assumed; \$11.0 billion for the Company's common stock issued; \$2.6 billion of consideration attributable to WBAD; \$8.3 billion related to the fair value of the Company's 45% investment in Alliance Boots; \$25.8 billion in fair value of assets acquired; and \$19.8 billion in fair value of liabilities and noncontrolling interests assumed. Significant non-cash transactions for the six month period ended February 28, 2014 included \$282 million for additional capital lease obligations.

Cash interest paid for the six month period ended February 28, 2015 was \$90 million compared to \$67 million in the same period in the prior year. Cash paid for income taxes was \$553 million and \$674 million in the six months ended February 28, 2015 and 2014, respectively.

**18. Accumulated Other Comprehensive Income (Loss)**

The following is a summary of net changes in accumulated other comprehensive income by component and net of tax for the three and six month periods ended February 28, 2015 and 2014 (in millions):

	Post-retirement Liability	Unrecognized Gains on Available- for-Sale Investments	Unrealized Loss on Cash Flow Hedges	Share of Alliance Boots OCI	Cumulative Translation Adjustments	Total
Balance at November 30, 2014	\$ 14	\$ 206	\$ (39)	\$ (92)	\$ (35)	\$ 54
Other comprehensive income (loss) before reclassification adjustments	(8)	140	2	(89)	(358)	(313)
Amounts reclassified from accumulated OCI	-	-	(1)	230	80	309
Tax benefit (provision)	-	(50)	(1)	(49)	(18)	(118)
Net other comprehensive income (loss)	\$ (8)	\$ 90	\$ -	\$ 92	\$ (296)	\$ (122)
Balance at February 28, 2015	\$ 6	\$ 296	\$ (39)	\$ -	\$ (331)	\$ (68)

	Post-retirement Liability	Unrecognized Gains on Available- for-Sale Investments	Unrealized Loss on Cash Flow Hedges	Share of Alliance Boots OCI	Cumulative Translation Adjustments	Total
Balance at August 31, 2014	\$ 15	\$ 107	\$ (27)	\$ (113)	\$ 154	\$ 136
Other comprehensive income (loss) before reclassification adjustments	(10)	297	(18)	(57)	(648)	(436)
Amounts reclassified from accumulated OCI	-	-	(1)	230	80	309
Tax benefit (provision)	1	(108)	7	(60)	83	(77)
Net other comprehensive income (loss)	\$ (9)	\$ 189	\$ (12)	\$ 113	\$ (485)	\$ (204)
Balance at February 28, 2015	\$ 6	\$ 296	\$ (39)	\$ -	\$ (331)	\$ (68)

	Post-retirement Liability	Unrecognized Gains on Available- for-Sale Investments	Unrealized Loss on Cash Flow Hedges	Share of Alliance Boots OCI	Cumulative Translation Adjustments	Total
Balance at November 30, 2013	\$ 71	\$ 85	\$ -	\$ (132)	\$ 104	\$ 128
Other comprehensive income (loss) before reclassification adjustments	(3)	(27)	-	(30)	156	96
Tax benefit (provision)	1	(22)	-	11	(40)	(50)
Net other comprehensive income (loss)	\$ (2)	\$ (49)	\$ -	\$ (19)	\$ 116	\$ 46
Balance at February 28, 2014	\$ 69	\$ 36	\$ -	\$ (151)	\$ 220	\$ 174

	Post-retirement Liability	Unrecognized Gains on Available- for-Sale Investments	Unrealized Loss on Cash Flow Hedges	Share of Alliance Boots OCI	Cumulative Translation Adjustments	Total
Balance at August 31, 2013	\$ 63	\$ 1	\$ -	\$ (95)	\$ (61)	\$ (92)
Other comprehensive income (loss) before reclassification adjustments	9	57	-	(86)	407	387
Tax benefit (provision)	(3)	(22)	-	30	(126)	(121)
Net other comprehensive income (loss)	\$ 6	\$ 35	\$ -	\$ (56)	\$ 281	\$ 266
Balance at February 28, 2014	\$ 69	\$ 36	\$ -	\$ (151)	\$ 220	\$ 174

**19. Segment Reporting**

Prior to December 31, 2014, the Company's operations were within one reportable segment. As a result of the closing of the Second Step Transaction on December 31, 2014, (see Note 1, Organization, and Note 2, Basis of Presentation), the Company has realigned its operations into three reportable segments: Retail Pharmacy USA, Retail Pharmacy International, and Pharmaceutical Wholesale. The reportable segments have

been identified based on the financial data utilized by the Company's Acting Chief Executive Officer (the chief operating decision maker) to assess segment performance and allocate resources among the Company's reportable segments. The chief operating decision maker uses operating income to assess segment profitability.

- The Retail Pharmacy USA segment consists of the legacy Walgreens business, which includes the operation of retail drugstores and convenient care clinics, in addition to providing specialty and infusion and respiratory pharmacy services. Revenues for the segment are principally derived from the sale of prescription drugs and a wide assortment of general merchandise, including non-prescription drugs, beauty products, photo finishing, seasonal merchandise, greeting cards and convenience foods.
- The Retail Pharmacy International segment consists primarily of the legacy Alliance Boots pharmacy-led health and beauty stores, optical practices, and related contract manufacturing operations. Stores are located in the UK, Mexico, Chile, Thailand, Norway, Republic of Ireland, The Netherlands and Lithuania. Revenues for the segment are principally derived from the sale of prescription drugs and retail health, beauty, toiletries and other consumer products.
- The Pharmaceutical Wholesale segment consists of the legacy Alliance Boots pharmaceutical wholesaling and distribution businesses. Wholesale operations are located in France, UK, Germany, Turkey, Spain, Russia, The Netherlands, Egypt, Norway, Romania, Czech Republic and Lithuania. Revenues for the segment are principally derived from wholesaling and distribution of a comprehensive offering of brand-name pharmaceuticals (including specialty pharmaceutical products) and generic pharmaceuticals, health and beauty products, home healthcare supplies and equipment, and related services to pharmacies and other healthcare providers.

The accounting policies of the segments are in accordance with Note 2, Basis of Presentation.

The results of operations for each reportable segment include synergy benefits, including WBAD operations and an allocation of corporate-related overhead costs. The "Eliminations and Unallocated Items" column contains corporate-related items not allocable to the reportable segments, as the information is not utilized by the chief operating decision maker to assess segment performance and allocate resources.

The segment information for the three and six month periods ended February 28, 2015 reflects the operating results of the Company's new business segments. The Company began recording revenue and expense transactions using the new segments effective January 1, 2015. Beginning January 1, 2015, synergy benefits including WBAD operations have been allocated to the Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale segments on a "source of procurement benefit" basis. Under this method, the synergy benefits are allocated to the segment whose purchase gave rise to the benefit. A synergy arising on the purchase of an item for use in an entity in the Retail Pharmacy USA segment is recognized in the Retail Pharmacy USA segment and similarly for the Retail Pharmacy International and Pharmaceutical Wholesale segments. Procurement service income related to third parties is recognized in the Pharmaceutical Wholesale segment. Corporate costs have been allocated to segments based on their respective gross profit as compared to the combined company.

The Company has determined that it is impracticable to restate segment information for the three and six month periods ended February 28, 2014 as well as to provide disclosures under both the old basis and new basis of reporting for certain items. Specifically, WBAD operations historically have been recorded in the Retail Pharmacy USA segment and not restated as it is impracticable to separate the information to the individual reportable segments. Equity earnings from Alliance Boots prior to the completion of the Second Step Transaction have been recorded within the Retail Pharmacy USA segment. The equity earnings of the 45% interest in Alliance Boots have not been separated into the Retail Pharmacy International and Pharmaceutical Wholesale segments for the prior periods as it is impracticable. Additionally, comparative information has not been restated to reflect the 45% equity interest in Alliance Boots.

The following table reflects results of operations of the Company's reportable segments (in millions):

	<u>Retail Pharmacy</u>			<u>Eliminations and Unallocated Items</u>	<u>Consolidated</u>
	<u>USA</u>	<u>International</u>	<u>Pharmaceutical Wholesale</u>		
<b>Three Months Ended February 28, 2015</b>					
Sales to external customers	\$ 21,048	\$ 2,017	\$ 3,508	\$ -	\$ 26,573
Intersegment sales	-	30	357	(387)	-
Total Sales	21,048	2,047	3,865	(387)	26,573
Cost of sales	15,302	1,294	3,478	(383)	19,691
Gross Profit	5,746	753	387	(4)	6,882
Selling, general and administrative expenses	4,555	745	306	-	5,606
Equity earnings in Alliance Boots	101	-	-	-	101
Operating Income	<u>\$ 1,292</u>	<u>\$ 8</u>	<u>\$ 81</u>	<u>\$ (4)</u>	<u>\$ 1,377</u>
<b>Three Months Ended February 28, 2014</b>					
Sales to external customers	\$ 19,605	\$ -	\$ -	\$ -	\$ 19,605
Intersegment sales	-	-	-	-	-
Total Sales	19,605	-	-	-	19,605
Cost of sales	13,955	-	-	-	13,995
Gross Profit	5,650	-	-	-	5,650
Selling, general and administrative expenses	4,569	-	-	-	4,569
Equity earnings in Alliance Boots	136	-	-	-	136
Operating Income	<u>\$ 1,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,217</u>
<b>Six Months Ended February 28, 2015</b>					
Sales to external customers	\$ 40,602	\$ 2,017	\$ 3,508	\$ -	\$ 46,127
Intersegment sales	-	30	357	(387)	-
Total Sales	40,602	2,047	3,865	(387)	46,127
Cost of sales	29,560	1,294	3,478	(383)	33,949
Gross Profit	11,042	753	387	(4)	12,178
Selling, general and administrative expenses	9,011	745	306	-	10,062
Equity earnings in Alliance Boots	315	-	-	-	315
Operating Income	<u>\$ 2,346</u>	<u>\$ 8</u>	<u>\$ 81</u>	<u>\$ (4)</u>	<u>\$ 2,431</u>
<b>Six Months Ended February 28, 2014</b>					
Sales to external customers	\$ 37,934	\$ -	\$ -	\$ -	\$ 37,934
Intersegment sales	-	-	-	-	-
Total Sales	37,934	-	-	-	37,934
Cost of sales	27,132	-	-	-	27,132
Gross Profit	10,802	-	-	-	10,802
Selling, general and administrative expenses	8,948	-	-	-	8,948
Equity earnings in Alliance Boots	330	-	-	-	330
Operating Income	<u>\$ 2,184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,184</u>
<b>Total assets:</b>					
February 28, 2015	\$ 77,466	\$ 22,131	\$ 13,706	\$ (41,946)	\$ 71,357
August 31, 2014	44,275	-	-	(7,005)	37,270

The following table reconciles the operating income from each reportable segment to earnings before interest and income tax provision (in millions):

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>February 28, 2015</u>	<u>February 28, 2014</u>	<u>February 28, 2015</u>	<u>February 28, 2014</u>
Operating income:				
Retail Pharmacy USA	\$ 1,292	\$ 1,217	\$ 2,346	\$ 2,184
Retail Pharmacy International	8	-	8	-
Pharmaceutical Wholesale	81	-	81	-
Eliminations/Other	(4)	-	(4)	-
Gain on previously held equity interest	706	-	706	-
Other (expense) income	504	(59)	703	166
Earnings Before Interest and Tax provision (EBIT)	<u>\$ 2,587</u>	<u>\$ 1,158</u>	<u>\$ 3,840</u>	<u>\$ 2,350</u>

## **20. Recent Accounting Pronouncements**

In November 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-17, Pushdown Accounting. This ASU provides companies with the option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The election to apply pushdown accounting can be made either in the period in which the change of control occurred, or in a subsequent period. This ASU is effective as of November 18, 2014. The adoption did not have a material impact on the Company's results of operations, cash flows or financial position.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, as a new Topic, ASC Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is expected to be effective for annual periods beginning after December 15, 2017 (fiscal 2019) and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the effect of adopting this new accounting guidance but does not expect adoption will have a material impact on the Company's results of operations, cash flows or financial position.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU raises the threshold for a disposal to qualify as discontinued operations and requires new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. Under the new standard, companies report discontinued operations when they have a disposal that represents a strategic shift that has or will have a major impact on operations or financial results. This update will be applied prospectively and is effective for annual periods, and interim periods within those years, beginning after December 15, 2014 (fiscal 2016). Early adoption is permitted provided the disposal was not previously disclosed. This update will not have a material impact on the Company's reported results of operations and financial position. The impact is non-cash in nature and will not affect the Company's cash position.

## **21. Supplemental Guarantor Condensed Consolidating Financial Information**

The notes listed below are unsecured, unsubordinated debt obligations of WBA ("Parent Company") and rank equally in right of payment with all other unsecured and unsubordinated indebtedness of WBA from time to time outstanding. The notes are fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Walgreens, a 100% owned subsidiary ("Guarantor Subsidiary"). Additionally, on December 31, 2014, WBA fully and unconditionally guaranteed the outstanding notes issued by Walgreens on an unsecured and unsubordinated basis. The guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of WBA and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of WBA.

The Walgreens guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of Walgreens and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens from time to time outstanding. The purpose of the guarantee is to protect the notes against structural subordination to certain indebtedness of Walgreens. The Walgreens guarantee will automatically terminate, and the obligations of Walgreens under the Walgreens guarantee will be unconditionally released and discharged, if and when (i) the aggregate outstanding principal amount of Capital Markets Indebtedness (as defined), including the Existing Notes (as defined), and Commercial Bank Indebtedness (as defined), in each case, of Walgreens is less than \$2.0 billion and (ii) Walgreens does not guarantee any Capital Markets Indebtedness (other than the notes or the Euro/Sterling Notes (as defined)) or Commercial Bank Indebtedness, in each case, of WBA. In addition, the Walgreens guarantee will automatically terminate, and the obligations of Walgreens under the Walgreens guarantee will be unconditionally released and discharged, with respect to any series of outstanding notes, upon (i) repayment of such series of outstanding notes in full, (ii) the satisfaction and discharge of the indenture with respect to such series of outstanding notes or (iii) the defeasance or covenant defeasance of such series of outstanding notes in accordance with the terms of the indenture. Once released in accordance with its terms, the Walgreens guarantee will not subsequently be required to be reinstated.

**Notes Issued**

<b>(in millions)</b>	<b>Maturity Date</b>	<b>Interest Rate</b>
\$ 750	May 18, 2016	Variable; three-month U.S. dollar LIBOR, reset quarterly, plus 45 basis points
750	November 17, 2017	Fixed 1.750%
1,250	November 18, 2019	Fixed 2.700%
1,250	November 18, 2021	Fixed 3.300%
2,000	November 18, 2024	Fixed 3.800%
500	November 18, 2034	Fixed 4.500%
1,500	November 18, 2044	Fixed 4.800%
<u>\$ 8,000</u>		

**Notes Issued (in**

<b>millions)</b>	<b>Maturity Date</b>	<b>Interest Rate</b>
Euro Notes:		
€ 750	November 20, 2026	Fixed 2.125%
Pound Sterling Notes:		
£ 400	November 20, 2020	Fixed 2.875%
300	November 20, 2025	Fixed 3.600%
<u>£ 700</u>		

The condensed consolidating financial information of the Guarantor Subsidiary is presented below.

This condensed consolidating financial information presents intercompany investments using the equity method. Under this method, investments are recorded at cost and adjusted for the ownership share of a subsidiary's cumulative results of operations, capital contributions and distributions, and other equity changes. There are no significant restrictions on the ability of the Guarantor Subsidiary to make distributions to the Company. The condensed consolidating financial information of the Guarantor Subsidiary should be read in connection with the Company's consolidated financial statements and related notes of which this note is an integral part.

**STATEMENT OF EARNINGS**  
**(UNAUDITED)**  
(In millions)

	<b>Three Months Ended February 28, 2015</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Net sales	\$ 14,379	\$ 12,545	\$ -	\$ (351)	\$ 26,573
Cost of sales	9,949	10,033	-	(291)	19,691
Gross Profit	4,430	2,512	-	(60)	6,882
Selling, general and administrative expenses	4,596	1,117	(47)	(60)	5,606
Equity earnings in Alliance Boots	-	101	-	-	101
Operating Income (loss)	(166)	1,496	47	-	1,377
Gain on previously held equity interest	-	706	-	-	706
Other income (expense)	(69)	575	(2)	-	504
Earnings (loss) before Interest and Tax Provision	(235)	2,777	45	-	2,587
Interest expense, net	106	6	32	-	144
Earnings (loss) Before Income Tax Provision	(341)	2,771	13	-	2,443
Income tax provision	(171)	557	5	-	391
Post tax earnings from equity method investments	-	8	-	-	8
Equity in income of subsidiaries	2,222	-	2,052	(4,274)	-
Net Earnings (loss)	2,052	2,222	2,060	(4,274)	2,060
Net earnings attributable to noncontrolling interests	-	18	-	-	18
Net Earnings (loss) Attributable to Walgreens Boots Alliance, Inc.	<u>\$ 2,052</u>	<u>\$ 2,204</u>	<u>\$ 2,060</u>	<u>\$ (4,274)</u>	<u>\$ 2,042</u>

**STATEMENT OF EARNINGS**  
**(UNAUDITED)**  
(In millions)

	<b>Three Months Ended February 28, 2014</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Net sales	\$ 13,364	\$ 6,363	\$ -	\$ (122)	\$ 19,605
Cost of sales	9,027	4,985	-	(57)	13,955
Gross Profit	4,337	1,378	-	(65)	5,650
Selling, general and administrative expenses	4,095	539	-	(65)	4,569
Equity earnings in Alliance Boots	-	136	-	-	136
Operating Income	242	975	-	-	1,217
Gain on previously held equity interest	-	-	-	-	-
Other income (expense)	-	(59)	-	-	(59)
Earnings Before Interest and Tax Provision	242	916	-	-	1,158
Interest expense, net	45	(8)	-	-	37
Earnings Before Income Tax Provision	197	924	-	-	1,121
Income tax provision	69	322	-	-	391
Equity in income of subsidiaries	602	-	-	(602)	-
Net Earnings (loss)	730	602	-	(602)	730
Net earnings attributable to noncontrolling interests	-	14	-	-	14
Net Earnings (loss) Attributable to Walgreens Boots Alliance, Inc.	<u>\$ 730</u>	<u>\$ 588</u>	<u>\$ -</u>	<u>\$ (602)</u>	<u>\$ 716</u>

**STATEMENT OF EARNINGS**  
**(UNAUDITED)**  
(In millions)

	Six Months Ended February 28, 2015				
	Guarantor/ Issuer Subsidiary	Non- guarantor Subsidiaries	Parent Company	Consolidating Adjustments	Consolidated
Net sales	\$ 27,702	\$ 19,168	\$ -	\$ (743)	\$ 46,127
Cost of sales	19,160	15,416	-	(627)	33,949
Gross Profit	8,542	3,752	-	(116)	12,178
Selling, general and administrative expenses	8,608	1,617	(47)	(116)	10,062
Equity earnings in Alliance Boots	-	315	-	-	315
Operating Income (loss)	(66)	2,450	47	-	2,431
Gain on previously held equity interest	-	706	-	-	706
Other income (expense)	(166)	871	(2)	-	703
Earnings (loss) Before Interest and Tax Provision	(232)	4,027	45	-	3,840
Interest expense, net	153	-	46	-	199
Earnings (loss) Before Income Tax Provision	(385)	4,027	(1)	-	3,641
Income tax provision	(190)	902	-	-	712
Post tax earnings from equity method investments	-	8	-	-	8
Equity in income of subsidiaries	3,133	-	2,938	(6,071)	-
Net Earnings (loss)	2,938	3,133	2,937	(6,071)	2,937
Net earnings attributable to noncontrolling interests	-	45	-	-	45
Net Earnings (loss) Attributable to Walgreens Boots Alliance, Inc.	<u>\$ 2,938</u>	<u>\$ 3,088</u>	<u>\$ 2,937</u>	<u>\$ (6,071)</u>	<u>\$ 2,892</u>

**STATEMENT OF EARNINGS**  
**(UNAUDITED)**  
(In millions)

	<b>Six Months Ended February 28, 2014</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Net sales	\$ 25,872	\$ 12,278	\$ -	\$ (216)	\$ 37,934
Cost of sales	17,599	9,632	-	(99)	27,132
Gross Profit	8,273	2,646	-	(117)	10,802
Selling, general and administrative expenses	7,753	1,312	-	(117)	8,948
Equity earnings in Alliance Boots	-	330	-	-	330
Operating Income (loss)	520	1,664	-	-	2,184
Gain on previously held equity interest	-	-	-	-	-
Other income (expense)	-	166	-	-	166
Earnings Before Interest and Tax Provision	520	1,830	-	-	2,350
Interest expense, net	90	(12)	-	-	78
Earnings Before Income Tax Provision	430	1,842	-	-	2,272
Income tax provision	163	647	-	-	810
Equity in income of subsidiaries	1,195	-	-	(1,195)	-
Net Earnings (loss)	1,462	1,195	-	(1,195)	1,462
Net earnings attributable to noncontrolling interests	-	23	-	-	23
Net Earnings (loss) Attributable to Walgreens Boots Alliance, Inc.	<u>\$ 1,462</u>	<u>\$ 1,172</u>	<u>\$ -</u>	<u>\$ (1,195)</u>	<u>\$ 1,439</u>

**STATEMENT OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
(In millions)

	<b>Three Months Ended February 28, 2015</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Comprehensive Income					
Net Earnings (loss)	\$ 2,052	\$ 2,222	\$ 2,060	\$ (4,274)	\$ 2,060
Other comprehensive income (loss), net of tax:					
Postretirement liability	(1)	(7)	-	-	(8)
Unrealized gain (loss) on cash flow hedges	-	(1)	1	-	-
Changes in unrecognized gain (loss) on available-for-sale investments	-	90	-	-	90
Share of other comprehensive income (loss) of Alliance Boots	-	92	-	-	92
Currency translation adjustments	-	(301)	-	-	(301)
Other Comprehensive Income (loss) of subsidiaries	(127)	-	(128)	255	-
Total Other Comprehensive Income (loss)	(128)	(127)	(127)	255	(127)
Total Comprehensive Income (loss)	1,924	2,095	1,933	(4,019)	1,933
Comprehensive income attributable to noncontrolling interests	-	13	-	-	13
Comprehensive income attributable to Walgreens Boots Alliance, Inc.	\$ 1,924	\$ 2,082	\$ 1,933	\$ (4,019)	\$ 1,920

**STATEMENT OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
(In millions)

	<b>Six Months Ended February 28, 2015</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Comprehensive Income					
Net Earnings (loss)	\$ 2,938	\$ 3,133	\$ 2,937	\$ (6,071)	\$ 2,937
Other comprehensive income (loss), net of tax:					
Postretirement liability	(2)	(7)	-	-	(9)
Unrealized gain (loss) on cash flow hedges	27	(1)	(38)	-	(12)
Changes in unrecognized gain (loss) on available-for-sale investments	-	189	-	-	189
Share of other comprehensive income (loss) of Alliance Boots	-	113	-	-	113
Currency translation adjustments	-	(490)	-	-	(490)
Other Comprehensive Income (loss) of subsidiaries	(196)	-	(171)	367	-
Total Other Comprehensive Income (Loss)	(171)	(196)	(209)	367	(209)
Total Comprehensive Income (loss)	2,767	2,937	2,728	(5,704)	2,728
Comprehensive income attributable to noncontrolling interests	-	40	-	-	40
Comprehensive income attributable to Walgreens Boots Alliance, Inc.	\$ 2,767	\$ 2,897	\$ 2,728	\$ (5,704)	\$ 2,688

**STATEMENT OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
(In millions)

	<b>Three Months Ended February 28, 2014</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Comprehensive Income					
Net Earnings (loss)	\$ 730	\$ 602	\$ -	\$ (602)	\$ 730
Other comprehensive income (loss), net of tax:					
Postretirement liability	(2)	-	-	-	(2)
Unrealized gain (loss) on cash flow hedges	-	-	-	-	-
Changes in unrecognized gain (loss) on available-for-sale investments	-	(49)	-	-	(49)
Share of other comprehensive income (loss) of Alliance Boots	-	(19)	-	-	(19)
Currency translation adjustments	-	116	-	-	116
Other Comprehensive Income (loss) of subsidiaries	48	-	-	(48)	-
Total Other Comprehensive Income (loss)	46	48	-	(48)	46
Total Comprehensive Income (loss)	776	650	-	(650)	776
Comprehensive income attributable to noncontrolling interests	-	14	-	-	14
Comprehensive income attributable to Walgreens Boots Alliance, Inc.	\$ 776	\$ 636	\$ -	\$ (650)	\$ 762

**STATEMENT OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
(In millions)

	<b>Six Months Ended February 28, 2014</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Comprehensive Income					
Net Earnings (loss)	\$ 1,462	\$ 1,195	\$ -	\$ (1,195)	\$ 1,462
Other comprehensive income (loss), net of tax:					
Postretirement liability	6	-	-	-	6
Unrealized gain (loss) on cash flow hedges	-	-	-	-	-
Changes in unrecognized gain (loss) on available-for-sale investments	-	35	-	-	35
Share of other comprehensive income (loss) of Alliance Boots	-	(56)	-	-	(56)
Currency translation adjustments	-	281	-	-	281
Other Comprehensive Income (loss) of subsidiaries	260	-	-	(260)	-
Total Other Comprehensive Income (loss)	266	260	-	(260)	266
Total Comprehensive Income (loss)	1,728	1,455	-	(1,455)	1,728
Comprehensive income attributable to noncontrolling interests	-	23	-	-	23
Comprehensive income attributable to Walgreens Boots Alliance, Inc.	\$ 1,728	\$ 1,432	\$ -	\$ (1,455)	\$ 1,705

**CONSOLIDATED CONDENSED BALANCE SHEETS**  
**(UNAUDITED)**  
(In millions)

February 28, 2015

	<u>Guarantor/ Issuer Subsidiary</u>	<u>Non- guarantor Subsidiaries</u>	<u>Parent Company</u>	<u>Consolidating Adjustments</u>	<u>Consolidated</u>
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 1,840	\$ 1,165	\$ -	\$ -	\$ 3,005
Accounts receivable, net	2,027	4,990	-	-	7,017
Inventories	4,396	4,983	-	-	9,379
Current intercompany loan receivable	12,930	26,428	20,720	(60,078)	-
Other current assets	533	1,005	11	(235)	1,314
Total Current Assets	<u>21,726</u>	<u>38,571</u>	<u>20,731</u>	<u>(60,313)</u>	<u>20,715</u>
<b>Non-Current Assets:</b>					
Property, plant and equipment, at cost, less accumulated depreciation and amortization	6,500	9,146	-	-	15,646
Equity investment in Alliance Boots	-	-	-	-	-
Goodwill	8,382	8,662	-	-	17,044
Intangible assets	286	11,939	-	-	12,225
Other non-current assets	162	5,561	4	-	5,727
Non-current intercompany loan receivable	-	3,725	19,113	(22,838)	-
Investment in subsidiaries	32,379	-	27,039	(59,418)	-
Total Non-Current Assets	<u>47,709</u>	<u>39,033</u>	<u>46,156</u>	<u>(82,256)</u>	<u>50,642</u>
<b>Total Assets</b>	<b><u>\$ 69,435</u></b>	<b><u>\$ 77,604</u></b>	<b><u>\$ 66,887</u></b>	<b><u>\$ (142,569)</u></b>	<b><u>\$ 71,357</u></b>
<b>Liabilities &amp; Equity</b>					
<b>Current Liabilities:</b>					
Short-term borrowings	\$ 757	\$ 304	\$ -	\$ -	\$ 1,061
Trade accounts payable	4,355	5,938	-	-	10,293
Current intercompany loan payable	12,258	24,604	23,216	(60,078)	-
Accrued expenses and other liabilities	2,508	2,153	479	-	5,140
Income taxes	-	225	206	(235)	196
Total Current Liabilities	<u>19,878</u>	<u>33,224</u>	<u>23,901</u>	<u>(60,313)</u>	<u>16,690</u>
<b>Non-Current Liabilities:</b>					
Long-term debt	3,737	128	12,136	-	16,001
Deferred income taxes	283	3,406	-	-	3,689
Non-current intercompany loan payable	15,983	6,855	-	(22,838)	-
Other non-current liabilities	2,515	1,400	36	-	3,951
Total Non-Current Liabilities	<u>22,518</u>	<u>11,789</u>	<u>12,172</u>	<u>(22,838)</u>	<u>23,641</u>
<b>Equity:</b>					
Total Walgreens Boots Alliance, Inc. Shareholders' Equity	27,039	32,379	30,814	(59,418)	30,814
Noncontrolling interests	-	212	-	-	212
Total Equity	<u>27,039</u>	<u>32,591</u>	<u>30,814</u>	<u>(59,418)</u>	<u>31,026</u>
<b>Total Liabilities &amp; Equity</b>	<b><u>\$ 69,435</u></b>	<b><u>\$ 77,604</u></b>	<b><u>\$ 66,887</u></b>	<b><u>\$ (142,569)</u></b>	<b><u>\$ 71,357</u></b>

**CONSOLIDATED CONDENSED BALANCE SHEETS**  
**(UNAUDITED)**  
(In millions)

	August 31, 2014				
	<u>Guarantor/ Issuer Subsidiary</u>	<u>Non- guarantor Subsidiaries</u>	<u>Parent Company</u>	<u>Consolidating Adjustments</u>	<u>Consolidated</u>
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 2,224	\$ 422	\$ -	\$ -	\$ 2,646
Accounts receivable, net	1,860	1,358	-	-	3,218
Inventories	4,301	1,755	-	-	6,076
Current intercompany loan receivable	6,755	8,277	-	(15,032)	-
Other current assets	176	141	-	(15)	302
Total Current Assets	<u>15,316</u>	<u>11,973</u>	<u>-</u>	<u>(15,047)</u>	<u>12,242</u>
<b>Non-Current Assets:</b>					
Property, plant and equipment, at cost, less accumulated depreciation and amortization	6,932	5,325	-	-	12,257
Equity investment in Alliance Boots	-	7,336	-	-	7,336
Goodwill	343	2,016	-	-	2,359
Intangible assets	417	763	-	-	1,180
Other non-current assets	252	1,644	-	-	1,896
Non-current intercompany loan receivable	-	3,560	-	(3,560)	-
Investment in subsidiaries	23,250	-	-	(23,250)	-
Total Non-Current Assets	<u>31,194</u>	<u>20,644</u>	<u>-</u>	<u>(26,810)</u>	<u>25,028</u>
<b>Total Assets</b>	<u>\$ 46,510</u>	<u>\$ 32,617</u>	<u>\$ -</u>	<u>\$ (41,857)</u>	<u>\$ 37,270</u>
<b>Liabilities &amp; Equity</b>					
<b>Current Liabilities:</b>					
Short-term borrowings	\$ 766	\$ 8	\$ -	\$ -	\$ 774
Trade accounts payable	3,850	465	-	-	4,315
Current intercompany loan payable	8,277	6,755	-	(15,032)	-
Accrued expenses and other liabilities	3,044	657	-	-	3,701
Income taxes	-	120	-	(15)	105
Total Current Liabilities	<u>15,937</u>	<u>8,005</u>	<u>-</u>	<u>(15,047)</u>	<u>8,895</u>
<b>Non-Current Liabilities:</b>					
Long-term debt	3,726	10	-	-	3,736
Deferred income taxes	404	676	-	-	1,080
Non-current intercompany loan payable	3,560	-	-	(3,560)	-
Other non-current liabilities	2,370	572	-	-	2,942
Total Non-Current Liabilities	<u>10,060</u>	<u>1,258</u>	<u>-</u>	<u>(3,560)</u>	<u>7,758</u>
<b>Equity:</b>					
Total Walgreens Boots Alliance, Inc. Shareholders' Equity	20,513	23,250	-	(23,250)	20,513
Noncontrolling interests	-	104	-	-	104
Total Equity	<u>20,513</u>	<u>23,354</u>	<u>-</u>	<u>(23,250)</u>	<u>20,617</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$ 46,510</u>	<u>\$ 32,617</u>	<u>\$ -</u>	<u>\$ (41,857)</u>	<u>\$ 37,270</u>

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
(In millions)

	<b>Six Months Ended February 28, 2015</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>Cash Flows from Operating Activities</b>	\$ 1,011	\$ 1,254	\$ 72	\$ -	\$ 2,337
<b>Cash Flows from Investing Activities :</b>					
Additions to property, plant and equipment	(302)	(341)	-	-	(643)
Proceeds from sale of assets	121	458	-	-	579
Return of restricted cash	-	74	-	-	74
Alliance Boots acquisition, net of cash received	-	-	(4,461)	-	(4,461)
Other business and intangible asset acquisitions, net of cash received	(27)	(65)	-	-	(92)
Purchases of short-term investments held to maturity	-	(29)	-	-	(29)
Proceeds from short-term investments held to maturity	-	29	-	-	29
Investment in AmerisourceBergen	-	-	-	-	-
Other	(165)	-	-	-	(165)
Net cash used for investing activities	<u>(373)</u>	<u>126</u>	<u>(4,461)</u>	<u>-</u>	<u>(4,708)</u>
<b>Cash Flows from Financing Activities :</b>					
Payments of short-term borrowings	-	(324)	(6)	-	(330)
Proceeds from issuance of long-term debt	-	-	12,279	-	12,279
Payments of long-term debt	-	(7,817)	-	-	(7,817)
Stock purchases	(500)	-	(94)	-	(594)
Proceeds related to employee stock plans	154	-	139	-	293
Cash dividends paid	(642)	-	-	-	(642)
Intra-company financing activities, net	(36)	7,817	(7,781)	-	-
Other	2	(286)	(76)	-	(360)
Net cash (used for) provided by financing activities	<u>(1,022)</u>	<u>(610)</u>	<u>4,461</u>	<u>-</u>	<u>2,829</u>
Effect of exchange rate changes on cash and cash equivalents	-	(27)	(72)	-	(99)
<b>Changes in Cash and Cash Equivalents :</b>					
Net (decrease) increase in cash and cash equivalents	(384)	743	-	-	359
Cash and cash equivalents at beginning of period	2,224	422	-	-	2,646
Cash and cash equivalents at end of period	<u>\$ 1,840</u>	<u>\$ 1,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,005</u>

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(In millions)**

	<b>Six Months Ended February 28, 2014</b>				
	<b>Guarantor/ Issuer Subsidiary</b>	<b>Non- guarantor Subsidiaries</b>	<b>Parent Company</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>Cash Flows from Operating Activities</b>	\$ 471	\$ 766	\$ -	\$ -	\$ 1,237
<b>Cash Flows from Investing Activities :</b>					
Additions to property, plant and equipment	(342)	(301)	-	52	(591)
Proceeds from sale of assets	201	60	-	(52)	209
Proceeds from sale of business	-	-	-	-	-
Business and intangible asset acquisitions, net of cash received	(254)	(43)	-	-	(297)
Purchases of short-term investments held to maturity	-	(34)	-	-	(34)
Proceeds from short-term investments held to maturity	-	34	-	-	34
Investment in AmerisourceBergen	-	(430)	-	-	(430)
Other	-	(59)	-	-	(59)
Net cash used for investing activities	<u>(395)</u>	<u>(773)</u>	<u>-</u>	<u>-</u>	<u>(1,168)</u>
<b>Cash Flows from Financing Activities :</b>					
Stock purchases	(205)	-	-	-	(205)
Proceeds related to employee stock plans	416	-	-	-	416
Cash dividends paid	(597)	-	-	-	(597)
Other	(12)	-	-	-	(12)
Net cash (used for) provided by financing activities	<u>(398)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(398)</u>
<b>Changes in Cash and Cash Equivalents :</b>					
Net (decrease) increase in cash and cash equivalents	(322)	(7)	-	-	(329)
Cash and cash equivalents at beginning of period	1,771	335	-	-	2,106
Cash and cash equivalents at end of period	<u>\$ 1,449</u>	<u>\$ 328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,777</u>

**22. Subsequent Events**

On January 20, 2015, Walgreen Co., announced that it had signed a definitive agreement with Madison Dearborn Partners ("MDP"), under which MDP would acquire a majority interest in Walgreens Infusion Services. The transaction closed on April 7, 2015. Walgreens Infusion Services became a new independent, privately-held company. MDP owns a majority interest in the new company. WBA owns a significant minority interest and has representatives on the company's board of directors. At February 28, 2015, the Company had approximately \$300 million (primarily accounts receivable and inventory) classified as current assets held for sale, approximately \$900 million (primarily goodwill and intangible assets) classified as long-term assets available for sale and approximately \$100 million classified as current liabilities held for sale all related to Walgreens Infusion Services operations.

On April 8, 2015, the Company's Board of Directors approved a plan to implement a new restructuring program (the "restructuring program") as part of an initiative to reduce costs and increase operating efficiencies. The restructuring program implements and builds on the planned three-year, \$1.0 billion cost-reduction initiative previously announced by Walgreen Co. on August 6, 2014 and includes a number of elements designed to help the Company to achieve profitable growth through increased cost efficiencies. The Company has identified additional opportunities for cost savings that increase the total expected cost savings of the restructuring program by \$500 million to a projected \$1.5 billion by the end of fiscal 2017. Significant areas of focus include plans to close approximately 200 stores across the USA; reorganize corporate and field operations; drive operating efficiencies; and streamline information technology and other functions. The actions under the restructuring program focus primarily on the Company's Retail Pharmacy USA division, and are expected to be substantially completed by the end of fiscal 2017.

The Company currently estimates that it will recognize cumulative pre-tax charges to its GAAP financial results of between \$1.6 billion and \$1.8 billion, including costs associated with lease obligations and other real estate payments, asset impairments and employee termination and other business transition and exit costs. The Company expects to incur pre-tax charges of between \$525 million and \$600 million for real estate costs, including lease obligations (net of estimated sublease income), between \$650 million and \$725 million for asset impairment charges relating primarily to asset write-offs from store closures, information technology, inventory and other non-operational real estate asset write-offs, and between \$425 million and \$475 million for employee severance and other business transition and exit costs. The Company estimates that approximately 60% of the cumulative pre-tax charges will result in future cash expenditures, primarily related to lease and other real estate payments and employee separation costs.

As the program is implemented, the restructuring charges will be recognized as the costs are incurred over time in accordance with GAAP.

The amounts and timing of all estimates are subject to change until finalized. The actual amounts and timing may vary materially based on various factors.



## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein and the consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Walgreen Co. Form 10-K, as amended, for the year ended August 31, 2014. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" below. References herein to the "Company", "we", "us", or "our" refer to Walgreens Boots Alliance, Inc. and its subsidiaries from and after the effective time of the Reorganization (as defined below) on December 31, 2014 and, prior to that time, to its predecessor Walgreen Co. and its subsidiaries, except as otherwise indicated or the context otherwise requires.*

### **INTRODUCTION**

On December 31, 2014, Walgreens Boots Alliance, Inc. ("WBA" or "Walgreens Boots Alliance") became the successor of Walgreen Co. ("Walgreens") pursuant to a merger to effect a reorganization of Walgreen Co. into a holding company structure (the "Reorganization") with Walgreens Boots Alliance becoming the parent holding company. Pursuant to the Reorganization, Walgreens became a wholly owned subsidiary of Walgreens Boots Alliance, a newly-formed Delaware corporation, and each issued and outstanding share of Walgreens common stock, par value \$0.078125, converted on a one-to-one basis into Walgreens Boots Alliance common stock, par value \$0.01.

On December 31, 2014, following the completion of the Reorganization, Walgreens Boots Alliance completed the acquisition of the remaining 55% of Alliance Boots GmbH ("Alliance Boots") that Walgreens did not previously own (the "Second Step Transaction," and, together with the Reorganization, the "Transactions") in exchange for £3.133 billion in cash and 144,333,468 shares of WBA common stock pursuant to the Purchase and Option Agreement dated June 18, 2012, as amended (the "Purchase and Option Agreement"). Alliance Boots became a consolidated subsidiary and ceased being accounted for under the equity method immediately upon completion of the Second Step Transaction. For financial reporting and accounting purposes, Walgreens Boots Alliance was the acquirer of Alliance Boots. The consolidated financial statements (and other data, such as prescriptions filled) reflect the results of operations and financial position of Walgreens and its subsidiaries for periods prior to December 31, 2014 and of Walgreens Boots Alliance and its subsidiaries for periods after the closing of the Reorganization on December 31, 2014.

Walgreens Boots Alliance is the first global pharmacy-led health, and wellbeing enterprise. Our purpose is to help people across the world lead healthier and happier lives.

Together with our equity method investments:

- we have a presence in over 25 countries and are the largest retail pharmacy, health and daily living destination in the U.S. and Europe
- we are a global leader in pharmacy-led health and wellbeing retail with more than 13,100 stores in 11 countries
- we are one of the largest global pharmaceutical wholesale and distribution networks with more than 350 distribution centers delivering to more than 200,000 pharmacies, doctors, health centers and hospitals each year in 19 countries
- we are one of the world's largest purchasers of prescription drugs and other health and wellbeing products
- we employ more than 370,000 employees, of which more than 100,000 are healthcare providers.

Our portfolio of retail and business brands includes Walgreens, Duane Reade, Boots and Alliance Healthcare, as well as increasingly global health and beauty product brands, including No7 and Botanics. Our brands portfolio is enhanced by our in-house new product research and development and manufacturing capabilities.

We also seek to further drive innovative ways to address global health and wellness challenges. We are well positioned to expand customer offerings in existing markets and become the health and wellbeing partner of choice in emerging markets.

### **SEGMENTS**

Historically, Walgreens operations were within one reportable segment. Following the completion of the Reorganization and the Second Step Transaction on December 31, 2014, we organized our operations to reflect our new structure. Our operations are now organized into three divisions, which are also our reportable segments:

- Retail Pharmacy USA;
- Retail Pharmacy International; and
- Pharmaceutical Wholesale.

### **Retail Pharmacy USA**

Our Retail Pharmacy USA division operated 8,232 drugstores in 50 states, the District of Columbia, Puerto Rico and the US Virgin Islands at February 28, 2015, forming the largest drugstore chain in the USA. The Retail Pharmacy USA division's principal retail pharmacy brands are Walgreens and Duane Reade. As of August 31, 2014, approximately 76% of the population of the U.S. lived within five miles of a Walgreens drugstore.

We sell prescription drugs and a wide assortment of general merchandise, including non-prescription drugs, beauty products, photofinishing, seasonal merchandise, greeting cards and convenience foods. We provide customers with convenient, omni-channel access to consumer goods and services, pharmacy, and health and wellness services in communities across America. We offer our products and services through drugstores, as well as through mail, telephone and online. We also provide specialty pharmacy, home infusion and respiratory services and operate retail clinics. We have recently signed a definitive agreement with Madison Dearborn Partners ("MDP") to sell a majority interest Walgreens Infusion Services. The transaction closed on April 7, 2015. Walgreens Infusion Services became a new independent, privately-held company. MDP owns a majority interest in the new company. WBA owns a significant minority interest and has representatives on the company's board of directors.

Our websites receive an average of approximately 60 million visits per month. Integrated with our e-commerce platform, the Walgreens mobile application allows customers to refill prescriptions through scan technology, receive text messages alerting when a refill is due and other retail functionality, such as photo and shopping features.

Our services help improve health outcomes for patients and manage costs for payers including employers, managed care organizations, health systems, pharmacy benefit managers and the public sector. Our stores sell branded and own brand general merchandise. In addition, Walgreens Take Care Health Systems subsidiary is a manager of in-store convenient care clinics (Healthcare Clinic), with more than 400 locations throughout the USA.

The components of the segment's sales for the year ended August 31, 2014 were 64% pharmacy and 36% retail.

Overall, we filled approximately 699 million prescriptions (including immunizations) in fiscal 2014. Adjusted to 30-day equivalents, prescriptions filled were 856 million in fiscal 2014. Third party sales, where reimbursement is received from managed care organizations, governmental agencies and private insurance, were 96.5% of fiscal 2014 prescription sales.

We utilize our retail network as a channel to provide health and wellness services to our customers and patients, as illustrated by our ability to play a significant role in providing flu vaccines and other immunizations.

We have more than 73,000 healthcare service providers, including pharmacists, pharmacy technicians, nurse practitioners and other health related professionals.

Our loyalty program, Balance® Rewards, is designed to reward our most valuable customers and encourage shopping in stores and online and allows customers the opportunity to earn points for purchasing select merchandise, in addition to receiving special pricing on select products when shopping with a rewards card. Customers have the ability to instantly redeem rewards at our stores or through Walgreens.com. We had 85 million active members as of February 28, 2015. An active member is defined as someone who has used their card in the last six months.

AmerisourceBergen Corporation ("AmerisourceBergen") began to supply and distribute all branded pharmaceutical products that we historically sourced from distributors and suppliers, effective September 1, 2013. In calendar year 2014, AmerisourceBergen began to supply and distribute increasingly significant levels of generic pharmaceutical products that in the past we self-distributed. At August 31, 2014, the transition to AmerisourceBergen was substantially complete.

Our sales, gross profit margin and gross profit dollars are impacted by, among other things, both the percentage of prescriptions that we fill that are generic and the rate at which new generic drugs are introduced to the market. In general, generic versions of drugs generate lower total sales dollars per prescription, but higher gross profit margins and gross profit dollars, as compared with patent-protected brand name drugs. The positive impact on gross profit margins and gross profit dollars typically has been significant in the first several months after a generic version of a drug is first allowed to compete with the branded version, which is generally referred to as a "generic conversion". In any given year, the number of major brand name drugs that undergo a conversion from branded to generic status can vary, which can have a significant impact on our sales, gross profit margins and gross profit dollars. Because any number of factors outside of our control or ability to foresee can affect timing for a generic conversion, we face substantial uncertainty in predicting when such conversions will occur and what effect they will have on particular future periods. In fiscal 2014 and the through the second quarter of fiscal 2015, we experienced cost increases on a subset of generic drugs that historically experience deflation, some of which were significant. We expect this generic inflation to continue throughout the remainder of fiscal 2015.

The long-term outlook for prescription utilization is strong due in part to the aging population, the increasing utilization of generic drugs, the continued development of innovative drugs that improve quality of life and control healthcare costs, and the expansion of healthcare insurance coverage under the Patient Protection and Affordable Care Act (the "ACA"). The ACA seeks to reduce federal spending by altering the Medicaid reimbursement formula ("AMP") for multi-source drugs, and when implemented, is expected to reduce Medicaid reimbursements. State Medicaid programs are also expected to continue to seek reductions in reimbursements independent of AMP. We continuously face reimbursement pressure from pharmacy benefit management ("PBM") companies, health maintenance organizations, managed care organizations and other commercial third party payers; our agreements with these payers are regularly subject to expiration, termination or renegotiation. In addition, plan changes with rate adjustments often occur in January and our reimbursement arrangements may provide for rate adjustments at prescribed intervals during their term. We experienced lower reimbursement rates in the first six months of fiscal 2015, as compared to the same period last year.

We anticipate new generic introductions to increase on a year over year basis in fiscal 2015. The current environment of our pharmacy business also includes ongoing generic inflation, reimbursement pressure, and a shift in pharmacy mix toward 90-day at retail. Our 90-day at retail offering is typically at a lower margin than comparable 30-day prescriptions, but provides us the opportunity to increase business with patients with chronic prescription needs while offering increased convenience, helping facilitate improved prescription adherence and resulting in a lower cost to fill the 90-day prescription. In addition, because we decided to accept lower reimbursement rates in order to secure preferred relationships with Medicare Part D plans serving senior patients with significant pharmacy needs, our Medicare Part D reimbursement rates will decrease in calendar year 2015. We expect that these factors will have an adverse impact on gross profit dollar growth in our pharmacy business in fiscal 2015.

### ***Retail Pharmacy International***

Our Retail Pharmacy International division (excluding equity method investments) has pharmacy-led health and beauty retail businesses in eight countries, each focused on helping people look and feel their best. We operate 4,559 retail stores, and have grown our online presence significantly in recent years. In Europe, we are a market leader. Our principal retail brands are Boots in the UK, Thailand, Norway, the Republic of Ireland and The Netherlands, and Benavides in Mexico and Ahumada in Chile.

As of February 28, 2015, retail stores by country are as follows:

<b>Country</b>	<b>Retail Stores</b>
United Kingdom	2,511
Mexico	1,019
Chile	444
Thailand	255
Norway	157
Republic of Ireland	80
The Netherlands	67
Lithuania	26
<b>Total</b>	<b>4,559</b>

Our retail stores are conveniently located and our pharmacists are well placed to provide a significant role in the provision of healthcare services, working closely with other primary healthcare providers in the communities we serve.

The Boots omni-channel offering is differentiated from that of competitors due to the product brands we own, such as No7, Boots Pharmaceuticals, Botanics and Soap & Glory and 'only at Boots' exclusive products, together with our long established reputation for trust and customer care. Our brands portfolio is enhanced by our in-house product research and development and manufacturing capabilities.

In addition, Boots in the UK is one of the leaders in the optical market, with 633 practices, of which 180 operated on a franchise basis at February 28, 2015. Approximately 30% of practices are located in Boots stores with the balance being standalone optical practices.

The components of the segment's sales are Pharmacy (being the retail sale of prescription drugs and provision of services) and Retail (being the sale of healthcare products including non-prescription drugs, beauty, toiletries and general merchandise). For the months of January and February 2015, Pharmacy and Retail sales represented 38% and 62% of total segment sales, respectively. The segment's sales are subject to the influence of seasonality, particularly the Christmas selling period. This seasonality will affect the segment's proportion of sales between Retail and Pharmacy during certain periods.

The Boots Advantage Card loyalty program, where customers earn points on purchases for redemption at a later date, continues to be a key element of the Boots offering. As of February 28, 2015, the number of active Boots Advantage Card members totaled 16 million. An active member is defined as someone who has used their card in the last six months.

### ***Pharmaceutical Wholesale***

Our Pharmaceutical Wholesale division (excluding equity method investments), which mainly operates under the Alliance Healthcare brand, supplies medicines, other healthcare products and related services to more than 140,000 pharmacies, doctors, health centers and hospitals each year from 299 distribution centers in 12 countries as of February 28, 2015.

Our wholesale businesses seek to provide high core service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability at competitive prices. We also offer customers innovative added-value services to help pharmacists develop their own businesses. This includes membership of Alphega Pharmacy, our pan-European network for independent pharmacies, which at February 28, 2015 had over 6,500 members.

In addition to the wholesale of medicines and other healthcare products, our businesses provide services to pharmaceutical manufacturers who are increasingly seeking to gain greater control over their product distribution, while at the same time outsourcing noncore activities. These services include pre-wholesale and contract logistics (mainly under the Alloga brand), direct deliveries to pharmacies, and innovative and specialized healthcare services, covering clinical homecare, medicine support, dispensing services, medicine preparation and clinical trial support (mainly under the Alcura brand).

Combined with local engagement, scale is very important in pharmaceutical wholesaling. In addition to being the largest pharmaceutical wholesaler and distributor in Europe, we rank as one of the top three in market share in many of the individual countries in which we operate.

### **COMPARABILITY**

As a result of the completion of the Second Step Transaction on December 31, 2014, there are a number of items that affect comparability for the Company. Historically, Walgreens operations were within one reportable segment that included the results of Walgreens and corporate costs, along with the full consolidated results of WBAD and equity earnings from Walgreen Co.'s 45 percent interest in Alliance Boots (on a three-month reporting lag). Upon completion of the Second Step Transaction, the Company eliminated the three-month reporting lag and has recast prior period results assuming no lag. Additionally, the Company, as discussed above, now reports results in three segments. Segmental reporting includes the allocation of synergy benefits, including WBAD's results, and the combined corporate costs for periods subsequent to December 31, 2014. The Company has determined that it is impracticable to allocate historical results to the current segmental presentation.

Following the combination, the Company has eliminated the three-month reporting lag and has recast prior period results with no lag. The combination on December 31, 2014 also means fiscal 2015 second quarter reporting includes the results of Alliance Boots for two months (January and February) on a fully consolidated basis and one month (December) as equity income from Walgreen Co.'s pre-merger 45 percent interest.

The Company's balance sheet now reflects the full consolidation of Alliance Boots assets and liabilities as a result of the close of the combination on December 31, 2014. The Company's purchase accounting remains preliminary as contemplated by GAAP and, as a result, there may be upon further review future changes to the value, as well as allocation, of the acquired assets and liabilities, goodwill and the gain on the previously held equity interest.

Year-over-year comparisons of results require consideration of the foregoing factors and are not directly comparable.

In addition, the Company's sales performance is affected by a number of factors including, amongst others, our sales performance during holiday periods and during the cough, cold and flu season, significant weather conditions, timing of our own or competitor discount programs and pricing actions, levels of reimbursement from governmental agencies and other third party health providers and general economic conditions in the markets in which we operate.

### **AMERISOURCEBERGEN CORPORATION RELATIONSHIP**

On March 19, 2013, Walgreens, Alliance Boots and AmerisourceBergen, announced various agreements and arrangements, including a ten-year pharmaceutical distribution agreement between Walgreens and AmerisourceBergen pursuant to which branded and generic pharmaceutical products will be sourced from AmerisourceBergen; an agreement which provides AmerisourceBergen the ability to access generics and related pharmaceutical products through WBAD, a global sourcing enterprise; and agreements and arrangements pursuant to which we have the right, but not the obligation, to purchase a minority equity position in AmerisourceBergen and gain associated representation on AmerisourceBergen's Board of Directors in certain circumstances. In addition to the information in this report, please refer to our Current Report on Form 8-K filed on March 20, 2013, for more detailed information regarding these agreements and arrangements.

At February 28, 2015, the Company owned approximately 5.2% of the outstanding common shares in AmerisourceBergen and had appointed one member to AmerisourceBergen's Board of Directors.

### **SYNERGIES**

Combined synergies related to the Company's strategic transactions with Alliance Boots were approximately \$491 million in fiscal 2014. For the six months ended February 28, 2015 combined synergies were \$310 million. Combined synergies are currently estimated to be approximately \$650 million in fiscal 2015. See "Cautionary Note Regarding Forward-Looking Statements" below.



**STORE CLOSURES AND RESTRUCTURING PROGRAMS**

On March 24, 2014, the Board of Directors approved a plan to close underperforming stores in efforts to optimize and focus resources within our Retail Pharmacy USA operations in a manner intended to increase shareholder value. As of February 28, 2015, we have closed 68 locations, one of which was closed in the first six months of fiscal 2015. No charges related to this plan have been recognized for the three month period ended February 28, 2015. Pre-tax charges recognized in the six months ended February 28, 2015 were \$17 million, primarily related to lease termination costs. This store optimization plan is expected to result in an annual operating income benefit of \$40 million to \$50 million beginning in fiscal 2015. The amounts and timing of all estimates are subject to change. The actual amounts and timing may vary materially based on various factors, including the timing and number of store closings; the timing and amount of sublease income and other lease expense; factors relating to real estate including sale proceeds; asset write-downs and other factors affecting inventory value; changes in management's assumptions; and other factors. See "Cautionary Note Regarding Forward-Looking Statements" below.

On April 8, 2015, our Board of Directors approved a plan to implement a new restructuring program (the "restructuring program") as part of an initiative to reduce costs and increase operating efficiencies. The restructuring program implements and builds on the planned three-year, \$1.0 billion cost-reduction initiative previously announced by Walgreen Co. on August 6, 2014 and includes a number of elements designed to help achieve profitable growth through increased cost efficiencies. We have identified additional opportunities for cost savings that increase the total expected cost savings of the restructuring program by \$500 million to a projected \$1.5 billion by the end of fiscal 2017. Significant areas of focus include plans to close approximately 200 stores across the USA; reorganize corporate and field operations; drive operating efficiencies; and streamline information technology and other functions. The actions under the restructuring program focus primarily on our Retail Pharmacy USA division, and are expected to be substantially completed by the end of fiscal 2017.

We currently estimate that it will recognize cumulative pre-tax charges to our GAAP financial results of between \$1.6 billion and \$1.8 billion, including costs associated with lease obligations and other real estate payments, asset impairments and employee termination and other business transition and exit costs. We expect to incur pre-tax charges of between \$525 million and \$600 million for real estate costs, including lease obligations (net of estimated sublease income), between \$650 million and \$725 million for asset impairment charges relating primarily to asset write-offs from store closures, information technology, inventory and other non-operational real estate asset write-offs, and between \$425 million and \$475 million for employee severance and other business transition and exit costs. We estimate that approximately 60% of the cumulative pre-tax charges will result in future cash expenditures, primarily related to lease and other real estate payments and employee separation costs.

As the program is implemented, the restructuring charges will be recognized as the costs are incurred over time in accordance with GAAP. We intend to treat charges related to this plan as special items impacting comparability of results in our quarterly earnings releases.

The amounts and timing of all estimates are subject to change until finalized. The actual amounts and timing may vary materially based on various factors. See "Cautionary Note Regarding Forward-Looking Statements" below.

**EXECUTIVE SUMMARY**

The following table presents the key financial statistics for the Company for the three and six months ended February 28, 2015 and 2014, respectively. All periods have been recasted for removal of the three-month reporting lag. Additionally, as a result of the completion of the Second Step Transaction, the Company ceased recording equity earnings in Alliance Boots on December 31, 2014. As such the three month period ending February 28, 2015 only includes equity earnings in Alliance Boots for the month of December 2014 and includes the full consolidation of Alliance Boots results for the months of January and February 2015. The six month period ended February 28, 2015 includes equity earnings in Alliance Boots from September 1, 2014 through December 31, 2014 and the full consolidation of Alliance Boots results for the months of January and February 2015.

	(in millions, except per share amounts)			
	Three Months Ended		Six Months Ended	
	February 28, 2015	February 28, 2014	February 28, 2015	February 28, 2014
Net sales	\$ 26,573	\$ 19,605	\$ 46,127	\$ 37,934
Gross Profit	6,882	5,650	12,178	10,802
Selling, general and administrative expenses	5,606	4,569	10,062	8,948
Operating Income	1,377	1,217	2,431	2,184
Adjusted Operating Income (Non-GAAP measure) <sup>(1)</sup>	1,840	1,408	2,958	2,472
Earnings Before Interest and Tax Provision	2,587	1,158	3,840	2,350
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	2,042	716	2,892	1,439
Net Earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted	1.93	0.74	2.88	1.49
Adjusted Net Earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (Non-GAAP measure) <sup>(1)</sup>	1.18	0.97	1.98	1.69

	Percentage Increases/(Decreases)			
	Three Months Ended		Six Months Ended	
	February 28, 2015	February 28, 2014	February 28, 2015	February 28, 2014
Net sales	35.5	5.1	21.6	5.5
Gross Profit	21.8	0.8	12.7	0.9

Selling, general and administrative expenses	22.7	1.6	12.4	0.6
Operating Income	13.1	(3.5)	11.3	6.4
Adjusted Operating Income (Non-GAAP measure) <sup>(1)</sup>	30.7	(1.2)	19.7	0.0
Earnings Before Interest and Tax Provision	123.4	(8.2)	63.4	14.6
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	185.2	(8.9)	101.0	14.8
Net Earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted	160.8	(9.8)	93.3	12.9
Adjusted Net Earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (Non-GAAP measure) <sup>(1)</sup>	21.6	(1.0)	17.2	0.0

	Percent to Net Sales			
	Three Months Ended		Six Months Ended	
	February 28, 2015	February 28, 2014	February 28, 2015	February 28, 2014
Gross Margin	25.9	28.8	26.4	28.5
Selling, general and administrative expenses	21.1	23.3	21.8	23.6

<sup>(1)</sup> See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with generally accepted accounting principles in the United States ("GAAP").

### **WBA RESULTS OF OPERATIONS**

Our results for the three months ended February 28, 2015 as compared to the prior year's period are primarily impacted by the Second Step Transaction which resulted in a gain on our 45% previously held equity interest in Alliance Boots and the full consolidation of Alliance Boots results of operations beginning December 31, 2014. For the three months ended February 28, 2015, the full consolidation of Alliance Boots January and February 2015 operations increased our net sales by 28.1%, gross profit by 20.1%, selling general and administrative expense by 23.0% and operating income by 7.0%. For the six months ended February 28, 2015, the full consolidation of Alliance Boots January and February 2015 operations increased our net sales by 14.6%, gross profit by 10.5%, selling general and administrative expense by 11.8% and operating income by 3.9%.

Net earnings attributable to Walgreens Boots Alliance, Inc. for the quarter ended February 28, 2015 were \$2.0 billion, or \$1.93 per diluted share as compared to \$716 million, or \$0.74 per diluted share in the comparable prior year period. Net earnings attributable to Walgreens Boots Alliance, Inc. for the six months ended February 28, 2015 were \$2.9 billion, or \$2.88 per diluted share as compared to \$1.4 billion, or \$1.49 per diluted share in the comparable prior year period. The increase in net earnings per diluted share for the three and six month period ended February 28, 2015 was primarily attributable to a gain on our 45% previously held equity interest in Alliance Boots and the full consolidation of January and February 2015 Alliance Boots operations, increased sales in our Retail Pharmacy USA division increased income from our warrants to acquire AmerisourceBergen common stock and a lower effective income tax rate. These increases were partially offset by lower Retail Pharmacy USA gross margins and a higher interest expense.

As a result of acquiring the remaining 55% interest in Alliance Boots, our previously held 45% interest was remeasured to fair value, resulting in a gain of \$706 million in the three and six month periods ended February 28, 2015. The fair value of the previously held equity interest in Alliance Boots was determined using the Income Approach methodology. The fair value measurement of the previously held equity interest is based on significant inputs not observable in the market. The fair value estimates for the previously held equity interest are based on (a) projected discounted cash flows, (b) historical and projected financial information, and (c) synergies including cost savings, as relevant, that market participants would consider when estimating the fair value of the previously held equity interest in Alliance Boots.

Other income (expense) for the three and six month periods ended February 28, 2015 was income of \$504 million and \$703 million, respectively. With the completion of the Second Step Transaction, fair value adjustments related to the AmerisourceBergen warrants held by Alliance Boots are now recorded within other income (expense) rather than equity earnings in Alliance Boots. The change in fair value of our AmerisourceBergen warrants resulted in recording income of \$559 million in the quarter and \$849 million for the six month period, primarily attributable to the change in the price of AmerisourceBergen's common stock. In addition, we recorded \$5 million and \$10 million in the quarter and six month periods, respectively, of other income relating to the amortization of the deferred credit associated with the initial value of the warrants. Additionally, for the three and six months ended February 28, 2015, we have recorded losses on derivative contracts that were not designated as accounting hedges of \$60 million and \$156 million, respectively. The losses primarily relate to foreign currency forward contracts entered into in consideration of the delivery of foreign cash consideration related to the Second Step Transaction.

Interest was a net expense of \$144 million in the current quarter and \$199 million year to date compared to \$37 million and \$78 million for the prior quarter and year to date, respectively. The increase in interest expense is primarily due to the notes we issued to fund a portion of the cash consideration payable in connection with the Second Step Transaction and to subsequently refinance substantially all of Alliance Boots outstanding borrowings following completion of the Second Step Transaction.

The effective tax rate for the three months ended February 28, 2015 was 16.0% compared to 34.9% for the prior year's quarter. The decrease in the effective tax rate is primarily attributable to recording discrete tax benefits related to the gain on our previously held equity investment in Alliance Boots. In addition, as a result of our acquiring the remaining 55% interest in Alliance Boots which we did not previously own, our estimated annual effective tax rate decreased due to incremental foreign source income taxed at lower rates and additional favorable permanent book-tax differences. We also recognized other, net discrete period tax benefits during the quarter.

The effective tax rate for the six month period ended February 28, 2015, was 19.6% compared to 35.7% in the prior year's period. The decrease is primarily attributable to recording discrete tax benefits related to the gain on our previously held equity investment in Alliance Boots, incremental foreign source income taxed at lower rates, additional favorable permanent book-tax differences, discrete tax benefits related to previously unrecognized capital loss deferred tax assets as a result of recognizing capital gain income from sale-leaseback transactions and other net discrete period tax benefits.

WBA Adjusted Net Earnings Per Diluted Share (Non-GAAP measure)

Adjusted net earnings per diluted share for the three months ended February 28, 2015 was \$1.18, an increase of 21.6% from \$0.97 for the comparable prior year's period. Adjusted net earnings per diluted share for the six months ended February 28, 2015 was \$1.98, an increase of 17.2% from \$1.69 for the prior year's six month period. The increase in adjusted net earnings per diluted share for the three and six month periods ended February 28, 2015 was primarily attributable to the full consolidation of January and February 2015 Alliance Boots operations, increased sales and lower selling, general and administrative expenses in our Retail Pharmacy USA division and a lower effective income tax rate. These increases were partially offset by lower Retail Pharmacy USA gross margins and a higher interest expense. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

**RESULTS OF OPERATIONS BY SEGMENT**

***Retail Pharmacy USA***

All periods have been recasted for removal of the three-month reporting lag previously applied to reporting equity earnings in Alliance Boots. Additionally, as a result of the completion of the Second Step Transaction, the Company ceased recording equity earnings in Alliance Boots as of December 31, 2014. As such the three month period ending February 28, 2015 only includes equity earnings from Alliance Boots for the month of December 2014 and includes the full consolidation of Alliance Boots results for the months of January and February 2015. The six month period ended February 28, 2015 includes equity earnings in Alliance Boots from September 1, 2014 through December 31, 2014.

	(in millions, except location amounts)			
	Three Months Ended		Six Months Ended	
	February 28, 2015	February 28, 2014	February 28, 2015	February 28, 2014
Total sales	\$ 21,048	\$ 19,605	\$ 40,602	\$ 37,934
Gross Profit	5,746	5,650	11,042	10,802
Selling, general and administrative expenses	4,555	4,569	9,011	8,948
Operating Income	1,292	1,217	2,346	2,184
Adjusted Operating Income (Non-GAAP measure) <sup>(1)</sup>	1,598	1,408	2,716	2,472
Number of Prescriptions <sup>(2)</sup>	182	175	363	350
30 Day Equivalent Prescriptions <sup>(2)(3)</sup>	224	214	446	427
Number of Locations at period end	8,333	8,681	8,333	8,681

	Percentage Increases/(Decreases)			
	Three Months Ended		Six Months Ended	
	February 28, 2015	February 28, 2014	February 28, 2015	February 28, 2014
Total sales	7.4	5.1	7.0	5.5
Gross Profit	1.7	0.8	2.2	0.9
Selling, general and administrative expenses	(0.3)	1.6	0.7	0.6
Operating Income	6.2	(3.5)	7.4	6.4
Adjusted Operating Income (Non-GAAP measure) <sup>(1)</sup>	13.5	(1.2)	9.9	0.0
Comparable Drugstore Sales	6.9	4.3	6.3	4.8
Pharmacy Sales	10.1	7.0	9.5	7.2
Comparable Pharmacy Sales	9.7	5.8	8.9	6.5
Retail Sales	2.8	2.2	2.6	2.7
Comparable Retail Sales	2.5	2.0	2.0	2.2
Comparable Number of Prescriptions <sup>(2)</sup>	4.2	(0.4)	3.5	1.4
Comparable 30 Day Equivalent Prescriptions <sup>(2)(3)</sup>	5.0	2.2	4.6	3.8

	Percent to Net Sales			
	Three Months Ended		Six Months Ended	
	February 28, 2015	February 28, 2014	February 28, 2015	February 28, 2014
Gross Margin	27.3	28.8	27.2	28.5
Selling, general and administrative expenses	21.6	23.3	22.2	23.6

(1) See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure and related disclosures.

(2) Includes immunizations.

(3) Includes the adjustment to convert prescriptions greater than 84 days to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.

#### Sales for the Three Months Ended February 28, 2015 and 2014

The Retail Pharmacy USA division's sales for the quarter ended February 28, 2015, increased by 7.4% to \$21.0 billion. Sales increased from new stores, each of which includes an indeterminate amount of market-driven price changes, and higher comparable store sales. Sales in comparable drugstores were up 6.9% in the quarter ended February 28, 2015. Comparable drugstores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or a natural disaster in the past twelve months. Relocated and acquired stores are not included as comparable stores for the first twelve months after the relocation or acquisition.

Prescription sales increased by 10.1% in the current quarter and represented 64.4% of the division's sales. In the prior year's quarter, prescription sales were up 7.0% and represented 62.2% of the division's sales. Comparable drugstore prescription sales were up 6.9% in the current quarter compared to an increase of 4.3% in the prior year's quarter. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 1.4% in the current quarter versus reductions of 1.3% in the same periods last year. The effect of generics on sales was a reduction of 0.8% in the current quarter compared to a reduction of 0.7% for the prior year's quarter. Third party sales, where reimbursement is received from managed care organizations, governmental agencies, employers or private insurers, were 96.4% of prescription sales for the three month period ended February 28, 2015 compared to 96.2% for the three month period last year. The total number of prescriptions (including immunizations) filled for the current quarter was approximately 182 million compared to 175 million for the same period last year. Prescriptions (including immunizations) adjusted to 30 day equivalents were 224 million in the current quarter versus 214 million in last year's quarter.

Retail sales increased 2.8% for the current quarter and were 35.6% of the division's sales. In comparison, prior retail sales increased 2.2% for the quarter and comprised 37.8% of the division's sales. Comparable drugstore retail sales increased 2.5% for the current quarter compared to an increase of 2.0% in the prior period. The increase in comparable retail sales in the current quarter was primarily attributed to an increase in basket size partially offset by lower customer traffic.

Sales for the Six Months Ended February 28, 2015 and 2014

The Retail Pharmacy USA division's sales for the six months ended February 28, 2015, increased by 7.0% to \$40.6 billion. Sales increased from new stores, each of which includes an indeterminate amount of market-driven price changes, and higher comparable store sales. Sales in comparable drugstores were up 6.3% in the six months ended February 28, 2015. We operated 8,333 locations (8,232 drugstores) as of February 28, 2015, compared to 8,681 locations (8,210 drugstores) a year earlier. Prior year's locations included 366 worksite health and wellness centers, which were part of the Take Care Employer business in which we sold a majority interest in fiscal 2014.

Prescription sales increased by 9.5% in the six month period ended February 28, 2015, and represented 65.5% of the division's sales. In the prior year's period, prescription sales were up 7.2% and represented 63.4% of the division's sales. Comparable drugstore prescription sales were up 6.3% in the six month period ended February 28, 2015 compared to an increase of 4.8% in the prior year's period. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 1.6% in the current six month period versus reductions of 1.1% in the same periods last year. The effect of generics on sales was a reduction of 0.9% in the current six month period compared to a reduction of 0.6% for the prior year's period. Third party sales, where reimbursement is received from managed care organizations, governmental agencies, employers or private insurers, were 96.5% of prescription sales for the six month period ended February 28, 2015 compared to 96.2% for the six month period last year. The total number of prescriptions (including immunizations) filled for the six month period ended February 28, 2015 was approximately 363 million compared to 350 million for the same period last year. Prescriptions (including immunizations) adjusted to 30 day equivalents were 446 million in the current six month period versus 427 million in last year's period.

Retail sales increased 2.6% for the six months ended February 28, 2015 and were 34.5% of the division's sales. In comparison, retail sales in the prior year's six month period increased 2.7% and comprised 36.6% of the division's sales. Comparable drugstore retail sales increased 2.0% for the current six month period compared to an increase of 2.2% in the prior year's period.

Operating Income for the Three Months Ended February 28, 2015 and 2014

Retail Pharmacy USA division's operating income for the three months ended February 28, 2015 increased 6.2% to \$1.3 billion. The increase is primarily due to higher sales, partially offset by having equity earnings in Alliance Boots for one month versus three months in the comparable period. As a result of the Second Step Transaction, the division only reported equity earnings in Alliance Boots for the month of December 2014.

Gross margin as a percent of sales was 27.3% in the current quarter compared to 28.8% in the comparable quarter last year. Pharmacy margins were negatively impacted in the quarter by lower third-party reimbursements; generic drug price inflation; an increase in Medicare Part D mix including the strategy to continue driving 90-day prescriptions at retail; and the mix of specialty drugs, which carry a lower margin percentage. The decrease in pharmacy margins was partially offset by additional brand-to-generic drug conversions compared with the prior year period. Retail margins were positively impacted in the current quarter primarily from the seasonal, non-prescription drug and beverage and snack categories partially offset by the electronics categories.

Selling, general and administrative expenses as a percentage of sales were 21.6% for the current quarter compared to 23.3% in the same period a year ago. As a percentage of sales, expenses in the current quarter were lower primarily due to store labor efficiencies, lower profit sharing expense and store occupancy costs, partially offset by higher costs related to asset impairments and transaction costs.

Operating Income for the Six Months Ended February 28, 2015 and 2014

Retail Pharmacy USA division's operating income for the six months ended February 28, 2015 was \$2.3 billion, an increase of 7.4% compared to the prior period. The increase is primarily due to higher sales, partially offset by having equity earnings in Alliance Boots for four months versus six months in the comparable period. As a result of the Second Step Transaction, the division only reported equity earnings in Alliance Boots for the four months of September through December 2014.

Gross margin as a percent of sales was 27.2% in the six months ended February 28, 2015 compared to 28.5% in the comparable period in the prior year. Pharmacy margins were negatively impacted by lower third-party reimbursements; generic drug price inflation; an increase in Medicare Part D mix including the strategy to continue driving 90-day prescriptions at retail; and the mix of specialty drugs, which carry a lower margin percentage. The decrease in pharmacy margins was partially offset by additional brand-to-generic drug conversions compared with the prior year period. Retail margins were positively impacted primarily from the beverage and snack, grocery and household categories, partially offset by the electronics and photofinishing categories.

Selling, general and administrative expenses as a percentage of sales were 22.2% for the six months ended February 28, 2015 compared to 23.6% in the same period a year ago. As a percentage of sales, expenses were lower primarily due to store labor efficiencies, lower profit sharing expense and store occupancy costs partially offset by higher costs related to asset impairments and transaction costs.

**Adjusted Operating Income (Non-GAAP measure) for the Three Months Ended February 28, 2015 and 2014**

Retail Pharmacy USA division's adjusted operating income for the three months ended February 28, 2015 increased 13.4% to \$1.6 billion. The increase is primarily due to higher sales and lower selling, general and administrative expenses partially offset by having equity earnings in Alliance Boots for one month versus three months in the comparable period. As a result of the Second Step Transaction, the division only reported equity earnings in Alliance Boots for the month of December 2014. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

**Adjusted Operating Income (Non-GAAP measure) for the Six Months Ended February 28, 2015 and 2014**

Retail Pharmacy USA division's adjusted operating income for the six months ended February 28, 2015 was \$2.7 billion, an increase of 9.9% compared to the prior period. The increase is primarily due to higher sales and lower selling, general and administrative expenses partially offset by having equity earnings in Alliance Boots for four months versus six months in the comparable period. As a result of the Second Step Transaction, the division only reported equity earnings in Alliance Boots for the four months of September through December 2014. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

***Retail Pharmacy International***

	(in millions)			
	Three Months Ended		Six Months Ended	
	February		February	
	February 28, 2015	28, 2014	February 28, 2015	28, 2014
Total sales	\$ 2,047	NA	\$ 2,047	NA
Gross Profit	753	NA	753	NA
Selling, general and administrative expenses	745	NA	745	NA
Operating Income	8	NA	8	NA
Adjusted Operating Income (Non-GAAP measure) <sup>(1)</sup>	125	NA	125	NA

	Percent to Net Sales			
	Three Months Ended		Six Months Ended	
	February		February	
	February 28, 2015	28, 2014	February 28, 2015	28, 2014
Gross Margin	36.8	NA	36.8	NA
Selling, general and administrative expenses	36.4	NA	36.4	NA

NA Not applicable

<sup>(1)</sup> See "--Non-GAAP Measures" below for reconciliations to the most directly comparable GAAP measure and related disclosures.

The businesses included in our Retail Pharmacy International division were acquired as part of the Second Step Transaction. Because the results of Alliance Boots have been fully consolidated only since December 31, 2014 and the businesses that comprise the Retail Pharmacy International division are legacy Alliance Boots businesses, this segment had no comparable prior period financial results and no discussion of comparability can be presented.

***Pharmaceutical Wholesale***

	(in millions)			
	Three Months Ended		Six Months Ended	
	February		February	
	February 28, 2015	28, 2014	February 28, 2015	28, 2014
Total sales	\$ 3,865	NA	\$ 3,865	NA
Gross Profit	387	NA	387	NA
Selling, general and administrative expenses	306	NA	306	NA
Operating Income	81	NA	81	NA
Adjusted Operating Income (Non-GAAP measure) <sup>(1)</sup>	121	NA	121	NA

	Percent to Net Sales			
	Three Months Ended		Six Months Ended	
	February 28, 2015	February 28, 2014	February 28, 2015	February 28, 2014
Gross Margin	10.0	NA	10.0	NA
Selling, general and administrative expenses	7.9	NA	7.9	NA

NA Not applicable

(1) See "--Non-GAAP Measures" below for reconciliations to the most directly comparable GAAP measure and related disclosures.

The businesses included in our Pharmaceutical Wholesale Segment were acquired as part of the Second Step Transaction. Because the results of Alliance Boots have been fully consolidated only since December 31, 2014 and the businesses that comprise the Pharmaceutical Wholesale division are legacy Alliance Boots businesses, this segment had no comparable prior period financial results and no discussion of comparability can be presented.

### **NON-GAAP MEASURES**

The following tables provide reconciliations of adjusted operating income and adjusted net earnings per common share attributable to Walgreens Boots Alliance, Inc. which are non-GAAP financial measures, as defined under SEC rules, to the most directly comparable financial measures calculated and presented in accordance with GAAP. The Company has provided these non-GAAP financial measures, which are not calculated or presented in accordance with GAAP, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with GAAP. These supplemental non-GAAP financial measures are presented because management has evaluated the Company's financial results both including and excluding the adjusted items and believe that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the Company's business from period to period and trends in the Company's historical operating results. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented.

	(in millions)				
	Three months ended February 28, 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 1,292	\$ 8	\$ 81	\$ (4)	\$ 1,377
Asset impairment	110	-	-	-	110
Acquisition-related amortization <sup>(1)</sup>	67	117	33	-	217
LIFO provision	55	-	-	-	55
Acquisition-related costs	52	-	7	-	59
Optimization costs	16	-	-	-	16
Decrease in fair market value of warrants	6	-	-	-	6
Adjusted Operating Income (Non-GAAP measure)	\$ 1,598	\$ 125	\$ 121	\$ (4)	\$ 1,840

(1) Includes \$106 million (Retail Pharmacy International \$100 million and Pharmaceutical Wholesale \$6 million) of inventory fair value step-up amortization. No additional amortization related to the inventory step-up is expected in future quarters.

(in millions)

	Three months ended February 28, 2014				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 1,217	\$ -	\$ -	\$ -	\$ 1,217
Acquisition-related amortization	94	-	-	-	94
LIFO provision	51	-	-	-	51
Acquisition-related costs	17	-	-	-	17
Optimization costs	2	-	-	-	2
Decrease in fair market value of warrants	27	-	-	-	27
Adjusted Operating Income (Non-GAAP measure)	<u>\$ 1,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,408</u>

(in millions)

	Six months ended February 28, 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 2,346	\$ 8	\$ 81	\$ (4)	\$ 2,431
Asset impairment	110	-	-	-	110
Acquisition-related amortization <sup>(1)</sup>	156	117	33	-	306
LIFO provision	107	-	-	-	107
Acquisition-related costs	76	-	7	-	83
Optimization costs	44	-	-	-	44
Increase in fair market value of warrants	(123)	-	-	-	(123)
Adjusted Operating Income (Non-GAAP measure)	<u>\$ 2,716</u>	<u>\$ 125</u>	<u>\$ 121</u>	<u>\$ (4)</u>	<u>\$ 2,958</u>

<sup>(1)</sup> Includes \$106 million (Retail Pharmacy International \$100 million and Pharmaceutical Wholesale \$6 million) of inventory fair value step-up amortization. No additional amortization related to the inventory step-up is expected in future quarters.

(in millions)

	Six months ended February 28, 2014				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 2,184	\$ -	\$ -	\$ -	\$ 2,184
Acquisition-related amortization	183	-	-	-	183
LIFO provision	109	-	-	-	109
Acquisition-related costs	42	-	-	-	42
Optimization costs	26	-	-	-	26
Increase in fair market value of warrants	(72)	-	-	-	(72)
Adjusted Operating Income (Non-GAAP measure)	<u>\$ 2,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,472</u>

	Three Months Ended		Six Months Ended	
	February 28, 2015	February 28, 2014	February 28, 2015	February 28, 2014
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (GAAP)	\$ 1.93	\$ 0.74	\$ 2.88	\$ 1.49
Gain on previously held equity interest	(0.77)	-	(0.81)	-
Transaction foreign currency hedging loss	0.07	-	0.16	-
Acquisition-related amortization	0.15	0.06	0.21	0.12
Asset impairment	0.07	-	0.08	-
LIFO provision	0.04	0.04	0.08	0.08
Alliance Boots equity method non-cash tax	0.04	0.06	0.07	0.10
Acquisition-related costs	0.04	0.01	0.06	0.03
Optimization costs	0.01	-	0.03	0.02
Prefunded interest expense	0.02	-	0.03	-
(Increase)/decrease in fair market value of warrants	(0.35)	0.06	(0.65)	(0.15)
Partial release of capital loss valuation allowance	-	-	(0.09)	-
Adjusted tax rate true-up	(0.07)	-	(0.07)	-
Adjusted net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (Non-GAAP measure)	\$ 1.18	\$ 0.97	\$ 1.98	\$ 1.69

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$3.0 billion (including \$760 million in foreign jurisdictions) at February 28, 2015, compared to \$1.8 billion (including \$104 million in foreign jurisdictions) at February 28, 2014. Short-term investment objectives are primarily to minimize risk and maintain liquidity. To attain these objectives, investment limits are placed on the amount, type and issuer of securities. Investments are principally in U.S. Treasury market funds and AAA rated money market funds.

Our long-term capital policy is to maintain a strong balance sheet and financial flexibility; reinvest in our core strategies; invest in strategic opportunities that reinforce our core strategies and meet return requirements; and return surplus cash flow to shareholders in the form of dividends and share repurchases over the long term.

Net cash provided by operating activities for the six months ended February 28, 2015 was \$2.3 billion compared to \$1.2 billion for the comparable prior year's period. The increase was primarily a result of changes in working capital balances compared to the prior year's period. Cash provided by operations and the issuance of debt are the principal sources of funds for expansion, investments, acquisitions, remodeling programs, dividends to shareholders and stock repurchases.

Net cash used for investing activities was \$4.7 billion for the six month period ended February 28, 2015, compared to \$1.2 billion in the comparable prior year's period. The Alliance Boots acquisition used \$4.5 billion of cash in the current period. Other business acquisitions at February 28, 2015 were \$92 million versus \$297 million at February 28, 2014. Other business acquisitions in the current period include primarily the purchase of prescription files. Business acquisitions in the prior year's period include the purchase of the regional drugstore chain Kerr Drug and affiliates.

For the six months ended February 28, 2015, additions to property, plant and equipment were \$643 million compared to \$591 million in the prior year's period. Capital expenditures by reporting segment were as follows:

	For the six months ended February 28,	
	2015	2014
Retail Pharmacy USA	\$ 550	\$ 591
Retail Pharmacy International <sup>(1)</sup>	82	-
Pharmaceutical Wholesale <sup>(1)</sup>	11	-
Total	\$ 643	\$ 591

<sup>(1)</sup> Our Retail Pharmacy International and Pharmaceutical Wholesale segments were acquired as part of the Second Step Transaction in which we acquired the 55% of Alliance Boots that we did not already own on December 31, 2014. As a result of the timing of the acquisition, only two months (January and February 2015) of capital expenditures have been reported.

For the six month period ended February 28, 2015, our Retail Pharmacy USA segment opened or acquired 71 locations compared to 167 locations for the comparable period last year. Prior period acquisitions included Kerr Drug, which contributed 76 drugstore locations as well as a specialty pharmacy and a distribution center. Significant Retail Pharmacy International capital expenditures primarily relate to investments in our stores and information technology projects. Pharmaceutical Wholesale capital expenditures primarily relate to information technology projects.

Additionally, investing activities for the six month period ended February 28, 2014, included the purchase of AmerisourceBergen common stock for \$430 million. No AmerisourceBergen common stock was purchased in the current six month period.

Net cash provided by financing activities for the six months ended February 28, 2015 was \$2.8 billion compared to a use of cash of \$398 million in the comparable prior year's period. In the six month period ended February 28, 2015, we received proceeds from public offerings of \$8.0 billion of U.S. dollar denominated debt, approximately \$2.0 billion of Euro and Pound Sterling denominated debt and borrowed approximately \$2.2 billion on a Pound Sterling denominated term loan. The proceeds from these offerings and funds from the term loan were used to fund a portion of the cash consideration payable in connection with the Second Step Transaction, refinance substantially all of Alliance Boots outstanding borrowings following the completion of the Second Step Transaction and pay related fees and expenses. We repurchased shares to support the needs of the employee stock plans totaling \$500 million in the six month period ended February 28, 2015, compared to \$205 million in last year's comparable period. Additionally, we purchased \$94 million of stock related to the 2014 stock repurchase program during the six month period ended February 28, 2015. No purchases related to the 2014 stock repurchase program were made during the comparable prior year's period. Proceeds related to employee stock plans were \$293 million during the six months ended February 28, 2015, compared to \$416 million for the comparable period last year. Cash dividends paid were \$642 million during the first six months of fiscal 2015 versus \$597 million for the same period a year ago.

In connection with our capital policy, the Board of Directors has authorized share repurchase programs and set a long-term dividend payout ratio target between 30 and 35 percent of net earnings attributable to Walgreens Boots Alliance, Inc. In August 2014, our Board of Directors authorized the 2014 stock repurchase program which allows for the repurchase of up to \$3.0 billion of the Company's common stock prior to its expiration on August 31, 2016. We have purchased 1.2 million shares under the 2014 stock repurchase program in the first six months of fiscal 2015.

We determine the timing and amount of repurchases based on our assessment of various factors including prevailing market conditions, alternate uses of capital, liquidity, the economic environment and other factors. The timing and amount of these purchases may change at any time and from time to time. We have repurchased, and may from time to time in the future repurchase, shares on the open market through Rule 10b5-1 plans, which enable a company to repurchase shares at times when it otherwise might be precluded from doing so under insider trading laws.

We periodically borrow under our commercial paper program and may continue to borrow under it in future periods. There were no commercial paper borrowings outstanding at February 28, 2015 or 2014. We had average daily short-term borrowings of \$4 million of commercial paper outstanding at a weighted average interest rate of 0.02% for the six months ended February 28, 2015. For the six month period ended February 28, 2014, we had average daily short-term borrowings of \$14 million of commercial paper outstanding at a weighted average interest rate of 0.23%.

On November 10, 2014, WBA and Walgreens entered into a term loan credit agreement (the "Term Loan Agreement") which provides the ability to borrow up to £1.45 billion on an unsecured basis. As of February 28, 2015, we have borrowed £1.45 billion (\$2.2 billion at the February 28, 2015 spot rate of \$1.54 to £1) under the Term Loan Agreement. Borrowings under the Term Loan Agreement bear interest at a fluctuating rate per annum equal to the reserve adjusted LIBOR plus an applicable margin based on our credit ratings.

On November 10, 2014, WBA and Walgreens entered into a five-year unsecured, multicurrency revolving credit agreement (the "Revolving Credit Agreement"), replacing prior Walgreens agreements dated July 20, 2011 and July 23, 2012. The new unsecured revolving credit agreement initially totaled \$2.25 billion, of which \$375 million was available for the issuance of letters of credit. On December 29, 2014, upon the affirmative vote of the majority of common shares of Walgreens represented and entitled to vote at the Walgreens special meeting of shareholders to approve the issuance of the shares necessary to complete the Second Step Transaction, the available credit increased to \$3.0 billion, of which \$500 million is available for the issuance of letters of credit. The issuance of letters of credit reduces the aggregate amount otherwise available under the Revolving Credit Agreement for the making of revolving loans. Borrowings under the Revolving Credit Agreement will bear interest at a fluctuating rate per annum equal to, at our option, the alternate base rate or the reserve adjusted LIBOR, in each case, plus an applicable margin calculated based on our credit ratings. Our ability to access these facilities is subject to compliance with the terms and conditions of the credit facilities, including financial covenants. The covenants require us to maintain certain financial ratios related to the proportion of consolidated debt to total capitalization and priority debt, along with limitations on the sale of assets and purchases of investments. At February 28, 2015, we were in compliance with all such covenants. At February 28, 2015, there were no borrowings or letters of credit issued against the revolving credit facility. Total upfront fees related to the Term Loan Agreement and Revolving Credit Agreement were \$14 million. We pay a facility fee to the financing banks to keep these lines of credit active.

On December 19, 2014, WBA and Walgreens entered into a Revolving Credit Agreement (the "364-Day Credit Agreement") with the lenders party thereto. The 364-Day Credit Agreement is a 364-day unsecured, multicurrency revolving facility. The aggregate commitment of all lenders under the 364-Day Credit Agreement is \$750 million. At February 28, 2015, there were no borrowings against the 364-Day Credit Agreement.

Walgreens as co-obligor guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of Walgreens Boots Alliance under the Term Loan Agreement, the Revolving Credit Agreement, and the 364-Day Credit Agreement, which guarantee will remain in full force and effect until certain conditions are met.

As of April 8, 2015, our credit ratings were:

Rating Agency	Long-Term Debt Rating	Commercial Paper Rating	Outlook
Moody's	Baa2	P-2	Stable
Standard & Poor's	BBB	A-2	Stable

In assessing our credit strength, both Moody's and Standard & Poor's consider our business model, capital structure, financial policies and financial performance. Our credit ratings impact our borrowing costs, access to capital markets and operating lease costs. The rating agency ratings are not recommendations to buy sell or hold our debt securities or commercial paper. Each rating may be subject to revision or withdrawal at any time by the assigning rating agency and should be evaluated independently of any other rating.

Pursuant to our arrangements with AmerisourceBergen, we have the right, but not the obligation, to purchase a minority equity position in AmerisourceBergen over time pursuant to open market purchases and warrants to acquire AmerisourceBergen common stock. WBA, through WAB Holdings, LLC, a fully consolidated entity, can acquire up to 19,859,795 shares, which represents approximately 7% of the outstanding AmerisourceBergen common stock on a fully diluted basis, assuming exercise in full of the warrants. The amount of permitted open market purchases is subject to increase in certain circumstances. We have purchased a total of approximately 11.5 million AmerisourceBergen shares in the open market. We have funded and plan to continue funding these purchases over time through cash contributions to WAB Holdings. Share purchases may be made from time to time in open market transactions or pursuant to instruments and plans complying with Rule 10b5-1.

If we elect to exercise the two warrants issued by AmerisourceBergen in full, WBA would, subject to the terms and conditions of such warrants, be required to make a cash payment of approximately \$1.2 billion in connection with the exercise of the first warrant during a six-month period beginning in March 2016 and \$1.2 billion in connection with the exercise of the second warrant during a six-month period beginning in March 2017. Our ability to invest in equity in AmerisourceBergen above certain thresholds is subject to the receipt of regulatory approvals.

We believe that cash flow from operations, availability under our existing credit facilities and arrangements, current cash and investment balances and our ability to obtain other financing, if necessary, will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities, dividend payments and debt service obligations for at least the next 12 months. Our cash requirements are subject to change as business conditions warrant and opportunities arise. The timing and size of any new business ventures or acquisitions that we complete may also impact our cash requirements.

See Item 7A (Qualitative and Quantitative Disclosures about Market Risk) below for a discussion of certain financing and market risks.

#### OFF-BALANCE SHEET ARRANGEMENTS

We do not have any unconsolidated special purpose entities and, except as described herein, we do not have significant exposure to any off – balance sheet arrangements. The term "off – balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

At February 28, 2015, we have issued \$406 million in letters of credit, primarily related to insurance obligations. We also have \$47 million of guarantees to various suppliers outstanding at February 28, 2015.

Both on – balance sheet and off – balance sheet financing alternatives are considered when pursuing our capital structure and capital allocation objectives.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Upon completion of the Second Step Transaction we assumed the contractual obligations and commitments of Alliance Boots. We assumed approximately \$9.0 billion of debt which was substantially repaid in January 2015. See Note 9, Short-Term Borrowings and Long-Term Debt for further information. Additionally, we assumed lease obligations related to Alliance Boots operations, see Note 4, Leases and Store Closures for further information. Except as described herein, as of February 28, 2015 there have been no other material changes, outside of the ordinary course of business, in our outstanding contractual obligations disclosed in our Form 10-Q for the fiscal quarter ended November 30, 2014.

## CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates. Management believes that any reasonable deviation from those judgments and estimates would not have a material impact on our consolidated financial position or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of earnings and corresponding balance sheet accounts would be necessary. These adjustments would be made in future statements. For a discussion of the Company's significant accounting policies, please see our Annual Report on Form 10-K, as amended, for the fiscal year ended August 31, 2014. Some of the more significant estimates include goodwill and other intangible asset impairment, allowance for doubtful accounts, vendor allowances, asset impairments, liability for closed locations, liability for insurance claims, cost of sales and income taxes. We use the following methods to determine our estimates:

**Goodwill and other intangible asset impairment** – Goodwill and other indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As part of our impairment analysis for each reporting unit, we engage a third party appraisal firm to assist in the determination of estimated fair value for each reporting unit. This determination includes estimating the fair value using both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows and discount rates. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping.

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which we compete; the discount rates; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among other things, purchased prescription files, customer relationships, pharmacy licenses and trade names. Although we believe our estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both.

We also compared the sum of the estimated fair values of the reporting units to the Company's total value as implied by the market value of the Company's equity and debt securities. This comparison indicated that, in total, our assumptions and estimates were reasonable. However, future declines in the overall market value of the Company's equity and debt securities may indicate that the fair value of one or more reporting units has declined below its carrying value.

Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1% change in estimated future cash flows would change the estimated fair value of the reporting unit by approximately 1%. The estimated long-term rate of net sales growth can have a significant impact on the estimated future cash flows, and therefore, the fair value of each reporting unit. Of the other key assumptions that impact the estimated fair values, most reporting units have the greatest sensitivity to changes in their estimated discount rates. The Company believes that its estimates of future cash flows and discount rates are reasonable, but future changes in the underlying assumptions could differ due to the inherent uncertainty in making such estimates.

Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine impairment.

**Allowance for doubtful accounts** – The provision for bad debt is based on both historical write-off percentages and specifically identified receivables. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine the allowance.

**Vendor allowances** – Vendor allowances are principally received as a result of purchases, sales or promotion of vendors' products. Allowances are generally recorded as a reduction of inventory and are recognized as a reduction of cost of sales when the related merchandise is sold. Those allowances received for promoting vendors' products are offset against advertising expense and result in a reduction of selling, general and administrative expenses to the extent of advertising incurred, with the excess treated as a reduction of inventory costs. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine vendor allowances.

**Asset impairments** – The impairment of long-lived assets is assessed based upon both qualitative and quantitative factors, including years of operation and expected future cash flows, and tested for impairment annually or whenever events or circumstances indicate that a certain asset may be impaired. If the future cash flows reveal that the carrying value of the asset group may not be recoverable, an impairment charge is immediately recorded. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine asset impairments.

**Liability for closed locations** – The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine the liability.

**Liability for insurance claims** – The liability for insurance claims is recorded based on estimates for claims incurred and is not discounted. The provisions are estimated in part by considering historical claims experience, demographic factors and other actuarial assumptions. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine the liability.

**Cost of sales and inventory** – Drugstore cost of sales in the Retail Pharmacy USA segment is derived based on point-of-sale scanning information with an estimate for shrinkage and adjusted based on periodic inventory counts. Inventories are valued at the lower of cost or market determined by the last-in, first-out ("LIFO") method for the Retail Pharmacy USA segment and on a first-in first-out ("FIFO") basis for inventory in the Retail Pharmacy International and Pharmaceutical Wholesale segments except for retail inventory in the Retail Pharmacy International segment, which is valued using the retail method. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine cost of sales or inventory.

**Equity method investments** - We use the equity method to account for investments in companies if the investment provides the ability to exercise significant influence, but not control, over operating and financial policies of the investee. Our proportionate share of the net income or loss of these companies is included in consolidated net earnings. Judgment regarding the level of influence over each equity method investment includes considering key factors such as our ownership interest, representation on the board of directors, participation in policy-making decisions and material purchase and sale transactions.

**Pension and Postretirement Benefits** - We have various defined benefit pension plans that cover some of our foreign employees. We also have postretirement healthcare plans that cover qualifying domestic employees. Eligibility and the level of benefits for these plans varies depending participants' status, date of hire and or length of service. Our pension and postretirement expenses and valuations are dependent on assumptions used by our actuaries in calculating those amounts. These assumptions include discount rates, healthcare cost trends, long-term return on plan assets, retirement rates, mortality rates and other factors.

Our policy is to fund our pension plans in accordance with applicable regulations. Our postretirement plans are not funded.

**Income taxes** – We are subject to routine income tax audits that occur periodically in the normal course of business. U.S. federal, state, local and foreign tax authorities raise questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the tax benefits associated with our various tax filing positions, we record a tax benefit for uncertain tax positions using the highest cumulative tax benefit that is more likely than not to be realized. Adjustments are made to our liability for unrecognized tax benefits in the period in which we determine the issue is effectively settled with the tax authorities, the statute of limitations expires for the return containing the tax position or when more information becomes available. Our liability for unrecognized tax benefits, including accrued penalties and interest, is primarily included in other long-term liabilities and current income taxes on our consolidated balance sheets and in income tax expense in our consolidated statements of earnings.

In determining our provision for income taxes, we use an annual effective income tax rate based on full-year income, permanent differences between book and tax income, and statutory income tax rates. The effective income tax rate also reflects our assessment of the ultimate outcome of tax audits in addition to any foreign-based income deemed to be taxable in the United States. Discrete events such as audit settlements or changes in tax laws are recognized in the period in which they occur. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine the amounts recorded for income taxes.

#### **RECENT ACCOUNTING PRONOUNCEMENTS**

In November 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-17, Pushdown Accounting. This ASU provides companies with the option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The election to apply pushdown accounting can be made either in the period in which the change of control occurred, or in a subsequent period. This ASU is effective as of November 18, 2014. The adoption did not have a material impact on the Company's results of operations, cash flows or financial position.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, as a new Topic, ASC Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is expected to be effective for annual periods beginning after December 15, 2017 (fiscal 2019) and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the effect of adopting this new accounting guidance but does not expect adoption will have a material impact on the Company's results of operations, cash flows or financial position.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU raises the threshold for a disposal to qualify as discontinued operations and requires new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. Under the new standard, companies report discontinued operations when they have a disposal that represents a strategic shift that has or will have a major impact on operations or financial results. This update will be applied prospectively and is effective for annual periods, and interim periods within those years, beginning after December 15, 2014 (fiscal 2016). Early adoption is permitted provided the disposal was not previously disclosed. This update will not have a material impact on the Company's reported results of operations and financial position. The impact is non-cash in nature and will not affect the Company's cash position.

#### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report and other documents that we file or furnish with the Securities and Exchange Commission contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management's assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, on the Company's website or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls, conference calls and other communications. Statements that are not historical facts are forward-looking statements, including, without limitation, statements regarding our future financial and operating performance, as well as forward-looking statements concerning our integration of Alliance Boots, corporate efficiency initiatives, our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and their possible effects, estimates of the impact of developments on our earnings, earnings per share and other financial and operating metrics, cough/cold and flu season, prescription volume, pharmacy sales trends, prescription margins, generic prescription drug inflation, number and location of new store openings, network participation, vendor, payer and customer relationships and terms, possible new contracts or contract extensions, competition, economic and business conditions, outcomes of litigation and regulatory matters, the level of capital expenditures, industry trends, demographic trends, growth strategies, financial results, cost reduction initiatives, impairment or other charges, acquisition and joint venture synergies, competitive strengths and changes in legislation or regulations. Words such as "expect," "likely," "outlook," "forecast," "guidance," "preliminary," "would," "could," "should," "can," "will," "project," "intend," "plan," "goal," "target," "continue," "sustain," "synergy," "on track," "believe," "seek," "estimate," "anticipate," "may," "possible," "assume," variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that could cause actual results to vary materially from those indicated, including, but not limited to those relating to our ability to successfully integrate operations, systems and employees following completion of the strategic combination of Walgreens and Alliance Boots, the impact of private and public third-party payers efforts to reduce prescription drug reimbursements, the impact of generic prescription drug inflation, the timing and magnitude of the impact of branded to generic drug conversions, our ability to realize anticipated synergies and achieve anticipated financial, tax and operating results, our ability to realize expected savings and benefits in the amounts and at the times anticipated, our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and their possible effects, the occurrence of any event, change or other circumstance that could give rise to the termination, cross-termination or modification of any of our contractual obligations, the amount of costs, fees, expenses and charges incurred in connection with strategic transactions, the risks associated with supply arrangements, the risks associated with international business operations, the risks associated with governance and control matters, the risks associated with equity investments in AmerisourceBergen including whether the warrants to invest in AmerisourceBergen will be exercised and the ramifications thereof, changes in vendor, payer and customer relationships and terms, changes in network participation and reimbursement and other terms, the operation and growth of our customer loyalty programs, changes in economic and business conditions generally or in the markets in which we participate, competition, risks associated with new business areas and activities, risks associated with acquisitions, joint ventures, strategic investments and divestitures, including those associated with cross-border transactions and the integration of large, complex businesses, the ability to realize anticipated results from capital expenditures and cost reduction and restructuring initiatives, the timing and amount of any impairment or other charges, whether the costs associated with restructuring activities will exceed current estimates, our ability to realize expected savings and benefits from restructuring activities in the amounts and at the times anticipated, changes in management's assumptions, the risk of unexpected costs, liabilities or delays, subsequent adjustments to preliminary purchase accounting determinations, outcomes of legal and regulatory matters, and changes in legislation, regulations or interpretations thereof. These and other risks, assumptions and uncertainties are described in Item 1A (Risk Factors) below and in other reports that we file or furnish with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the initial publication of such statement, whether as a result of new information, future events, changes in assumptions or otherwise.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

#### ***Interest Rate Risk***

We are exposed to interest rate volatility with regard to existing debt issuances. Primary exposures include U.S. Treasury rates, LIBOR and commercial paper rates. From time to time, we use interest rate swaps and forward-starting interest rate swaps to hedge our exposure to the impact of interest rate changes on existing debt and future debt issuances respectively, to reduce the volatility of our financing costs and, based on current and projected market conditions, achieve a desired proportion of fixed versus floating-rate debt. Generally under these swaps, we agree with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts based on an agreed upon notional principal amount.

We also use interest rate caps to protect from rising interest rates on existing floating-rate debt. Information regarding our interest rate swaps, forward starting interest rate swaps, and interest rate caps transactions are set forth in Note 10, Financial Instruments to our Consolidated Condensed Financial Statements. These financial instruments are sensitive to changes in interest rates. On February 28, 2015, we had approximately \$3 billion in long-term debt obligations that had floating interest rates. A one percentage point increase or decrease in interest rates for the various debt held by the Company would increase or decrease the annual interest expense we recognize and the cash we pay for interest expense by approximately \$30 million. The amounts exclude the impact of any associated interest rate swaps, forward starting interest rate swaps, and interest rate caps.

#### ***Foreign Currency Exchange Rate Risk***

As a result of the Second Step Transaction fluctuations in foreign currency exchange rates, primarily with respect to the British Pound Sterling, Euro, Mexican Peso, Chilean Peso, Norwegian Krone, Turkish Lira and certain other foreign currencies, may affect the Company's net investment in foreign subsidiaries and may cause fluctuations in cash flows related to foreign denominated transactions. We are also exposed to the translation of foreign currency earnings to the U.S. dollar. We enter into foreign currency forward contracts to hedge against the effect of exchange rate fluctuations on non-functional currency cash flows of certain entities denominated in foreign currencies. These transactions are almost exclusively less than 12 months in maturity. In addition, we enter into foreign currency forward contracts that are not designated in hedging relationships to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany financing transactions). As circumstances warrant, we also use basis swaps as hedging instruments to hedge portions of our net investments in foreign operations. The foreign currency derivative instruments are sensitive to changes in exchange rates. A 1% increase or decrease in exchange rates would increase or decrease our pre-tax income by approximately \$16 million due to changes in the value of foreign currency instruments. Excluded from the computation were anticipated transactions, foreign currency trade payables and receivables, and net investments in foreign subsidiaries, which the abovementioned instruments are intended to partially hedge.

### **Equity Price Risk**

Changes in AmerisourceBergen common stock price and equity volatility may have a significant impact on the value of the warrants to acquire AmerisourceBergen common stock described in Note 10, Financial Instruments to our unaudited Consolidated Condensed Financial Statements. As of February 28, 2015, a one dollar change in AmerisourceBergen's common stock would, holding other factors constant, increase or decrease the fair value of the Company's warrants by \$44 million. Additionally, the Company holds an investment in AmerisourceBergen common stock. As of February 28, 2015, a one dollar change in AmerisourceBergen common stock would increase or decrease the fair value of the Company's investment by \$11 million.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of the Company's management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Upon completion of the Second Step Transaction on December 31, 2014, Alliance Boots became a consolidated subsidiary and ceased being accounted for under the equity method. As this occurred during the second quarter of fiscal 2015, the scope of management's assessment of the effectiveness of the Company's disclosure controls and procedures did not include the internal controls over financial reporting of Alliance Boots. This exclusion is in accordance with the SEC Staff's general guidance that an assessment of a recently acquired business may be omitted from the scope of management's assessment for one year following the acquisition. Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Control over Financial Reporting**

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by the Company's management, including its CEO and CFO, except as noted below, no changes during the quarter ended February 28, 2015 were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. As a result of the closing of the Second Step Transaction, the Company has incorporated internal controls over significant processes specific to the acquisition that it believes to be appropriate and necessary in consideration of the level of related integration. As the post-closing integration continues, the Company will continue to review the internal controls and processes of Alliance Boots and may take further steps to integrate such controls and processes with those of the Company.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information in response to this item is incorporated herein by reference to Note 12, Commitments and Contingencies of the Consolidated Condensed Financial Statements of this Quarterly Report.

### **Item 1A. Risk Factors**

In addition to the other information in this report and our other filings with the SEC, you should carefully consider the risks described below, which could materially and adversely affect our business operations, financial condition and results of operations. These risks are not the only risks that we face. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

**Reductions in third party reimbursement levels, from private or governmental agency plans, for prescription drugs could reduce our margin on pharmacy sales and could have a significant adverse effect on our profitability. In addition, a shift in pharmacy mix toward lower margin plans and programs could adversely affect our profitability.**

The substantial majority of the prescriptions we fill are reimbursed by third party payers, including private and governmental agency payers. The continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies, governmental agencies, and other third party payers to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation relating to how drugs are priced, may adversely impact our profitability. In the United States, plan changes with rate adjustments often occur in January and our reimbursement arrangements may provide for rate adjustments at prescribed intervals during their term. In addition, some of these entities may offer pricing terms that we may not be willing to accept or otherwise restrict our participation in their networks of pharmacy providers. In the United States, certain provisions of the Deficit Reduction Act of 2005 (the "DRA") sought to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs ("AMP"). While those reductions did not go into effect, the Patient Protection and Affordable Care Act ("ACA"), which was signed into law on March 23, 2010, enacted a modified reimbursement formula for multi-source drugs. The modified formula, when implemented, is expected to reduce Medicaid reimbursements, which could adversely affect our revenues and profits. There have also been a number of other recent proposals and enactments by the federal government and various states to reduce Medicare Part D and Medicaid reimbursement levels in response to budget deficits. We expect other similar proposals in the future.

In addition, a shift in the mix of pharmacy prescription volume toward programs offering lower reimbursement rates could adversely affect our profitability. Our Retail Pharmacy USA division experienced a shift in pharmacy mix toward 90-day at retail in fiscal 2014 and that trend continued into fiscal 2015. Our 90-day at retail offering for patients with chronic prescription needs typically is at a lower margin than comparable 30-day prescriptions. Additionally, we decided to accept lower reimbursement rates in order to secure preferred relationships with Medicare Part D plans serving senior patients with significant pharmacy needs. If we are not able to generate additional prescription volume and other business from patients participating in these programs sufficient to offset the impact of lower reimbursement, our gross profit will be adversely affected.

**Our profitability can be significantly adversely affected by a decrease in the introduction of new brand name and generic prescription drugs.**

Our sales and profit margins can be adversely affected by the introduction of new brand name and generic drugs. New brand name drugs can result in increased drug utilization and associated sales revenues, while the introduction of lower priced generic alternatives typically results in relatively lower sales revenues, but higher gross profit margins. Accordingly, a decrease in the number of significant new brand name drugs or generics successfully introduced could adversely affect our results of operations.

**Generic drug inflation could have a significant adverse effect on our profitability in the United States.**

Overall increases in the amounts we pay to procure generic drugs, commonly referred to as generic drug inflation, could have a significant adverse effect on our profitability in the United States. In addition, our gross profit margins would be adversely affected by continued generic inflation to the extent we are not able to offset such cost increases. We experienced a shift from historical patterns of deflation in generic drug costs to inflation in fiscal 2014. During fiscal 2014, we experienced cost increases on a subset of generic drugs and in some cases these increases were significant. We expect generic inflation to continue in fiscal 2015. Our existing reimbursement arrangements with payers in the United States generally provide us with only limited protection against cost increases in our generic drug procurement costs. We are seeking to address this through changes in our contracting strategies and negotiations with our vendors and payers. We cannot assure you that we will be able to mitigate the impact of increased inventory acquisition costs, in whole or in part. Failure to fully offset any such increased prices and costs or to modify our activities to mitigate the impact could have a significant adverse effect on our gross profit margins.

**We derive a significant portion of our sales in the United States from prescription drug sales reimbursed by pharmacy benefit management companies.**

We derive a significant portion of our sales in the United States from prescription drug sales reimbursed through prescription drug plans administered by pharmacy benefit management ("PBM") companies. PBM companies typically administer multiple prescription drug plans that expire at various times and provide for varying reimbursement rates. There can be no assurance that we will continue to participate in any particular pharmacy benefit manager network in any particular future time period. If our participation in the prescription drug programs administered by one or more of the large PBM companies is restricted or terminated, we expect that our sales would be adversely affected, at least in the short term. If we are unable to replace any such lost sales, either through an increase in other sales or through a resumption of participation in those plans, our operating results may be materially adversely affected. For example, we were not part of the pharmacy provider network of Express Scripts, Inc., one of the largest PBMs in the United States, for more than eight months in 2012, which led most patients in plans administered by Express Scripts that we formerly served to transition to a new pharmacy and caused us to lose significant sales and adversely affected our operating results. When we exit a pharmacy provider network and later resume network participation, there can be no assurance that we will achieve any particular level of business on any particular pace. In addition, in such circumstances we may incur increased marketing and other costs in connection with initiatives to regain former patients and attract new patients covered by in-network plans. When we exit a pharmacy provider network and later resume network participation, there also can be no assurance that all clients of the PBM sponsor of the network will choose to include us again in their pharmacy network initially or at all.

**Consolidation and strategic alliances in the healthcare industry could adversely affect our businesses, competitive positioning, financial condition and results of operations.**

Many organizations in the healthcare industry, including pharmacy benefit managers, have consolidated in recent years to create larger healthcare enterprises with greater bargaining power, which has resulted in greater pricing pressures. For example, in 2012, two of the three largest pharmacy benefit managers in the United States, Medco Health Solutions, Inc. and Express Scripts, Inc., merged. The resulting entity is the largest pharmacy benefit manager in the United States. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further pressure on the prices for our products and services. If these pressures result in reductions in our prices, our businesses will become less profitable unless we are able to achieve corresponding reductions in costs or develop profitable new revenue streams. Strategic alliances in the healthcare industry also impact our businesses and competitive positioning. For example, following the announcement of our agreement with AmerisourceBergen providing for, among other things, generic drug purchasing by Walgreens, Alliance Boots and AmerisourceBergen through the Walgreens Boots Alliance Development GmbH global sourcing joint venture, two of our retail pharmacy competitors subsequently established relationships with other pharmaceutical drug wholesalers relating to generic drug procurement. In addition, further consolidation among generic drug manufacturers could lead to increased generic drug inflation in the future. We expect that market demand, government regulation, third-party reimbursement policies, government contracting requirements, and societal pressures will continue to cause the healthcare industry to evolve, potentially resulting in further business consolidations and alliances among the industry participants we engage with, which may adversely impact our business operations, financial condition and results of operations.

**The anticipated strategic and financial benefits of our acquisition of Alliance Boots may not be realized.**

Walgreens and Alliance Boots entered into the Purchase and Option Agreement, and consummated the first and second step transactions contemplated thereby, with the expectation that the transactions would result in various benefits, including, among other things, procurement cost savings and operating efficiencies, revenue synergies, innovation, sharing of best practices and a strengthened market position that may serve as a platform for future growth. The processes and initiatives needed to achieve these potential benefits are complex, costly and time consuming, and we have not previously completed a transaction comparable in size or scope. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately. Achieving the expected benefits of the Alliance Boots transaction is subject to a number of significant challenges and uncertainties, including, without limitation, whether unique corporate cultures will work collaboratively in an efficient and effective manner, the coordination of geographically separate organizations, the possibility of faulty assumptions underlying expectations regarding potential synergies and the integration process, unforeseen expenses or delays, and competitive factors in the marketplace. Prior to the Alliance Boots acquisition on December 31, 2014, Alliance Boots was a privately-held company and was not subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended and other federal securities laws, and the compliance obligations of the Sarbanes–Oxley Act of 2002. As permitted in accordance with the SEC Staff's general guidance, the scope of management's assessment of the effectiveness of the Company's disclosure controls and procedures will not include the internal controls over financial reporting of Alliance Boots for the year following the acquisition. Compliance with the new obligations as a result of Alliance Boots becoming a part of a public company may require significant resources and management attention. In addition, some current and prospective employees may experience uncertainty about their roles within the combined company, which may adversely affect our ability to retain or recruit key managers and other employees. The recent completion of the Second Step Transaction also potentially could cause disruptions in our businesses.

We could also encounter unforeseen transaction and integration-related costs or other circumstances such as unforeseen liabilities or other issues existing or arising with respect to the business of Alliance Boots or otherwise resulting from the transaction. Many of these potential circumstances are outside of our control and any of them could result in increased costs, decreased revenue, decreased synergies and the diversion of management time and attention. If we are unable to achieve our objectives within the anticipated time frame, or at all, the expected benefits may not be realized fully or at all, or may take longer to realize than expected, which could have a material adverse impact on our business operations, financial condition and results of operations and the price of our common stock. In addition, we have incurred significant transaction costs related to the acquisition and have incurred and will continue to incur integration and related costs as we integrate the Alliance Boots businesses. These integration and acquisition-related costs, including legal, accounting, financial and tax advisory and other fees and costs, may be higher than expected and some of these costs may be material.

**Our acquisition of Alliance Boots significantly increased our exposure to the risks of operating internationally.**

Prior to the first step transaction in August 2012, substantially all of our operations were conducted within the United States and its territories. The completion of the Second Step Transaction in December 2014 greatly increased the importance of international business to our future operations, growth and prospects. A substantial portion of Alliance Boots revenues are generated in the European Union and neighboring countries and substantially all of Alliance Boots revenues are generated outside the United States. Our international business operations are subject to a number of risks, including:

- compliance with a wide variety of foreign laws and regulations, including retail and wholesale pharmacy, licensing, tax, foreign trade, intellectual property, privacy and data protection, currency, political and other business restrictions and requirements and local laws and regulations, whose interpretation and enforcement vary significantly among jurisdictions and can change significantly over time;
- additional U.S. and other regulation of non-domestic operations, including regulation under the Foreign Corrupt Practices Act, the U.K. Bribery Act and other anti-corruption laws;
- potential difficulties in managing foreign operations, enforcing agreements and collecting receivables through foreign legal systems;
- price controls imposed by foreign countries;
- tariffs, duties or other restrictions on foreign currencies or trade barriers imposed by foreign countries;
- potential adverse tax consequences, including tax withholding laws and policies and restrictions on repatriation of funds to the United States;
- fluctuations in currency exchange rates, including uncertainty regarding the Euro;
- impact of recessions and economic slowdowns in economies outside the United States, including foreign currency devaluation, higher interest rates, inflation, and increased government regulation or ownership of traditional private businesses;
- the instability of foreign economies, governments and currencies and unexpected regulatory, economic or political changes in foreign markets; and
- developing and emerging markets may be especially vulnerable to periods of instability and unexpected changes, and consumers in those markets may have relatively limited resources to spend on products and services.

These factors can also adversely affect our payers, vendors and customers in international markets, which in turn can negatively impact our businesses. We cannot assure you that one or more of these factors will not have a material adverse effect on our business operations, results of operation or financial condition.

**We are more exposed to currency exchange rate fluctuations and risks following completion of the Second Step Transaction, as an increased proportion of our assets, liabilities and earnings are denominated in foreign currencies.**

Prior to August 2012, substantially all of our operations were conducted within the United States and its territories. The first step transaction increased the potential impact of currency exchange rate fluctuations on our businesses. Following the completion of the Second Step Transaction in December 2014, our financial results are more exposed to currency exchange rate fluctuations and an increased proportion of our assets, liabilities and earnings are denominated in non-U.S. dollar currencies.

We have transaction currency exposures relating to the import and export of goods in currencies other than businesses' functional currencies. We also have translation currency exposures relating to profits and net assets denominated in currencies other than the U.S. dollar. We present our financial statements in U.S. dollars and have a significant proportion of net assets and income in non-U.S. dollar currencies, primarily pounds sterling and the euro, as well as a range of emerging market currencies. Our financial results and capital ratios can therefore be sensitive to movements in foreign exchange rates. Due to the constantly changing currency exposures to which we are subject and the volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations. A depreciation of non-U.S. dollar currencies relative to the U.S. dollar could have a significant adverse impact on our financial results. Moreover, any favorable impacts to profit margins or financial results experienced from time to time from fluctuations in foreign currency exchange rates may be unsustainable over time.

We may from time to time, in some instances enter into foreign currency contracts or other derivative instruments intended to hedge some or all of the foreign currency fluctuation risks, which subjects us to the risks associated with such derivative contracts and instruments. Additionally, we may (and currently) use foreign currency borrowings to hedge some of our foreign currency fluctuation risks. The periodic use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. We cannot assure you that fluctuations in foreign currency exchange rates, including particularly the strengthening of the U.S. dollar against major currencies or the currencies of large developing countries, will not materially affect our consolidated financial results.

**We use a single wholesaler of branded and generic pharmaceutical drugs as our primary source of such products for our Retail Pharmacy USA division. A disruption in this relationship could adversely affect our business and financial results.**

On March 19, 2013, the Company, Alliance Boots and AmerisourceBergen announced various agreements and arrangements, including a ten-year pharmaceutical distribution agreement between Walgreens and AmerisourceBergen pursuant to which Walgreens sources branded and generic pharmaceutical products from AmerisourceBergen; an agreement which provides AmerisourceBergen the ability to access generics and related pharmaceutical products through Walgreens Boots Alliance Development GmbH, a global sourcing enterprise established by Walgreens and Alliance Boots; and agreements and arrangements pursuant to which we have the right, but not the obligation, to purchase a minority equity position in AmerisourceBergen and gain associated representation on AmerisourceBergen's board of directors in certain circumstances. In the United States, AmerisourceBergen began to distribute all branded pharmaceutical products that Walgreens historically sourced from suppliers and distributors, effective September 1, 2013. In the second quarter of fiscal 2014, AmerisourceBergen began supplying and distributing generic pharmaceutical products that Walgreens previously self-distributed. The levels of generic pharmaceuticals distributed increased throughout the fiscal year and AmerisourceBergen supplied and distributed substantially all of these pharmaceuticals for our Retail Pharmacy USA division as of August 31, 2014.

Our business in the United States may be adversely affected by any operational, financial or regulatory difficulties that AmerisourceBergen experiences. If AmerisourceBergen's operations are seriously disrupted for any reason, whether due to a natural disaster, labor disruption, regulatory action, computer or operational systems or otherwise, it could adversely affect our business in the United States and our sales and profitability. Our distribution agreement with AmerisourceBergen is subject to early termination in certain circumstances, and, upon the expiration or termination of the agreement, there can be no assurance that we or AmerisourceBergen will be willing to renew the agreement or enter into a new agreement, on terms favorable to us or at all. We believe that alternative sources of supply for most generic and brand-name pharmaceuticals are readily available, except to the extent that brand-name drugs are available to the market exclusively through the manufacturer. We believe we could obtain and qualify alternative sources, including through resuming self-distribution for many products, for substantially all of the prescription drugs we sell on an acceptable basis, and accordingly that the impact of any disruption would be temporary. However, there can be no assurance we would be able to engage alternative supply sources or implement self-distribution processes on a timely basis or on terms favorable to us, or effectively manage these transitions, any of which could adversely affect our business operations, financial condition and results of operations.

**The anticipated strategic and financial benefits of our relationship with AmerisourceBergen may not be realized.**

Walgreens entered into the arrangement with AmerisourceBergen and Alliance Boots with the expectation that the transactions contemplated thereby would result in various benefits including, among other things, procurement cost savings and operating efficiencies, innovation and sharing of best practices. The processes and initiatives needed to achieve these potential benefits are complex, costly and time-consuming. Many of the anticipated synergies and expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Achieving the anticipated benefits from the arrangement is subject to a number of significant challenges and uncertainties, including the possibility of faulty assumptions underlying expectations, processes and initiatives, or the inability to realize and/or delays in realizing potential benefits and synergies, whether unique corporate cultures of separate organizations will work collaboratively in an efficient and effective manner, unforeseen expenses or delays, and competitive factors in the marketplace.

In addition, we have the right, but not the obligation, under the transactions contemplated by the Framework Agreement dated as of March 18, 2013 by and among the Company, Alliance Boots and AmerisourceBergen (the Framework Agreement) to invest in the equity of AmerisourceBergen. There can be no assurance that we will complete any specific level of such potential equity investments in AmerisourceBergen, or exercise our warrants to acquire AmerisourceBergen common stock when they are exercisable, or that if completed, that such investments will ultimately be profitable. If such investments are completed and the price of AmerisourceBergen common stock subsequently declines substantially, we could experience a loss on or impairment of such investment, which could adversely affect our financial condition and results of operations. We could also encounter unforeseen costs, circumstances or issues existing or arising with respect to the transactions and collaboration we anticipate resulting from the Framework Agreement. Many of these potential circumstances are outside of our control and any of them could result in increased costs, decreased revenue, decreased synergies and the diversion of management time and attention. If we are unable to achieve our objectives within the anticipated time frame, or at all, the expected benefits may not be realized fully or at all, or may take longer to realize than expected, which could have a material adverse impact on our business operations, financial condition and results of operations and the price of our common stock.

**From time to time, we make investments in companies over which we do not have sole control, including our investment in AmerisourceBergen. Some of these companies may operate in sectors that differ from our current operations and have different risks.**

From time to time, we make debt or equity investments in other companies that we may not control or over which we may not have sole control. For example, while we beneficially own approximately 5% of the outstanding common stock and have a designee serving on the board of directors of AmerisourceBergen, we do not and will not have the ability to control day-to-day operations of that company. Although the businesses in which we have made noncontrolling investments often have a significant health and daily living or prescription drug component, some of them operate in businesses that are different from our primary lines of business and/or operate in different geographic markets than we do. Investments in these businesses, among other risks, subject us to the operating and financial risks of the businesses we invest in and to the risk that we do not have sole control over the operations of these businesses. From time to time, we may make additional investments in or acquire other entities that may subject us to similar risks. The completion of the Second Step Transaction increased our and our stockholders' effective interest in certain joint ventures and other investments of Alliance Boots over which Alliance Boots does not exercise control, including Guangzhou Pharmaceuticals Corporation and Nanjing Pharmaceutical Company Limited in China and Alliance Healthcare Portugal. We rely on the internal controls and financial reporting controls of these entities and their failure to maintain effectiveness or comply with applicable standards may adversely affect us. Investments in entities over which we do not have sole control, including joint ventures and strategic alliances, present additional risks such as having differing objectives from our partners or the entities in which we are invested, or becoming involved in disputes, or competing with those persons.

**Changes in economic conditions could adversely affect consumer buying practices and reduce our revenues and profitability.**

Our performance has been, and may continue to be, adversely impacted by adverse changes in global, national, regional or local economic conditions and consumer confidence. These conditions can also adversely affect our key vendors and customers. The current economic environment has had a significant impact on consumer behavior that could persist even as the economy recovers. External factors that affect consumer confidence and over which we exercise no influence include unemployment rates, levels of personal disposable income, global, national, regional or local economic conditions and acts of war or terrorism. Changes in economic conditions and consumer confidence could adversely affect consumer preferences, purchasing power and spending patterns. A decrease in overall consumer spending as a result of changes in economic conditions could adversely affect our retail and pharmacy sales and negatively impact our profitability. All these factors could impact our revenues, operating results and financial condition.

**European economic conditions together with austerity measures being taken by certain European governments could adversely affect us.**

The acquisition of Alliance Boots significantly increased our exposure to economic conditions in Europe. A further slowdown within the European economy could affect our businesses in Europe by reducing the prices our customers may be able or willing to pay for our products and services or by reducing the demand for our products and services, either of which could result in a significant adverse impact on our results of operations. In addition, in many European countries, the government provides or subsidizes healthcare to consumers and regulates pharmaceutical prices, patient eligibility, and reimbursement levels to control costs for the government-sponsored healthcare system. In recent years, in response to the economic environment and financial crisis in Europe, a number of European governments have announced or implemented austerity measures to reduce healthcare spending and constrain overall government expenditures. These measures, which include efforts aimed at reforming healthcare coverage and reducing healthcare costs, continue to exert pressure on the pricing of and reimbursement timelines for pharmaceuticals and may cause our customers to purchase fewer of our products and services and reduce the prices they are willing to pay. Countries with existing healthcare-related austerity measures may impose additional laws, regulations, or requirements on the healthcare industry. In addition, European governments that have not yet imposed healthcare-related austerity measures may impose them in the future. New austerity measures may be similar to or vary from existing austerity measures and could have a significant adverse effect on our international businesses and results of operations.

**The industries in which we operate are highly competitive and further increases in competition could adversely affect us.**

The level of competition among retail pharmacies and pharmaceutical wholesalers is high. Changes in market dynamics or actions of competitors or manufacturers, including industry consolidation, could adversely impact us. Our retail pharmacy businesses face intense competition from local, regional and national companies, including other drugstore and pharmacy chains, independent drugstores and pharmacies, mail-order prescription providers and various other retailers such as grocery stores, convenience stores, department stores, mass merchants and dollar stores, many of which are aggressively expanding in markets we serve. Businesses in our Pharmaceutical Wholesale division face intense competition from direct competitors and alternative supply sources such as importers and manufacturers who supply direct to pharmacies. As competition increases in the markets in which we operate, a significant increase in general pricing pressures could occur, and this could require us to reevaluate our pricing structures to remain competitive. Any failure to anticipate and timely and appropriately respond to evolving market conditions could result in decreased revenue and negatively affect our profitability.

**If the merchandise and services that we offer fail to meet customer needs, our sales may be adversely affected.**

We could be adversely affected by changes in consumer spending levels, shopping habits and preferences, including attitudes towards our retail and product brands. The success of our retail pharmacy businesses depends on our ability to offer a superior shopping experience, a quality assortment of available merchandise and superior customer service. We must identify, obtain supplies of, and offer to our customers, attractive, innovative and high-quality merchandise on a continuous basis. Our products and services must satisfy the needs and desires of our customers, whose preferences may change in the future. It is difficult to predict consistently and successfully the products and services our customers will demand. If we misjudge either the demand for products and services we sell or our customers' purchasing habits and tastes, we may be faced with excess inventories of some products and missed opportunities for products and services we chose not to offer. In addition, our sales may decline or we may be required to sell the merchandise we have obtained at lower prices. Failure to timely identify or effectively respond to changing consumer tastes, preferences and spending patterns could negatively affect our relationship with our customers, the demand for our products and services and our market share.

**Our private brand offerings expose us to various additional risks.**

In addition to brand name products, we offer our customers private brand products that are not available from other retailers. We seek to continue to grow our exclusive private brand offerings as part of our growth strategy, including through expanded offering of Boots No7 and other brands owned or licensed on an exclusive basis. Maintaining consistent product quality, competitive pricing, and availability of our private brand offerings for our customers is important in developing and maintaining customer loyalty. We have invested in our development and procurement resources and marketing efforts relating to these private brand offerings. Although we believe that our private brand products offer value to our customers at each price point and typically provide us with higher gross margins than comparable national brand products we sell, the expansion of our private brand offerings also subjects us to certain risks in addition to those discussed elsewhere in this section, such as: potential product liability risks and mandatory or voluntary product recalls; our ability to successfully protect our proprietary rights and successfully navigate and avoid claims related to the proprietary rights of third parties; our ability to successfully administer and comply with applicable contractual obligations and regulatory requirements; and other risks generally encountered by entities that source, sell and market exclusive branded offerings for retail. An increase in sales of our private brands may also adversely affect sales of our vendors' products, which, in turn, could adversely affect our relationship with certain of our vendors. Any failure to adequately address some or all of these risks could have a significant adverse effect on our businesses, results of operations and financial condition.

**If we do not successfully develop and maintain a relevant omni-channel experience for our customers, our businesses and results of operations could be adversely impacted.**

Omni-channel retailing is rapidly evolving and we must keep pace with changing customer expectations and new developments by our competitors. Our customers are increasingly using computers, tablets, mobile phones, and other devices to shop online. As part of our omni-channel strategy, we are making technology investments in our websites and applications for mobile phones and other electronic devices. If we are unable to make, improve, or develop relevant customer-facing technology in a timely manner, our ability to compete and our results of operations could be adversely affected. In addition, if our online activities or our other customer-facing technology systems do not function as designed, we may experience a loss of customer confidence, data security breaches, lost sales, or be exposed to fraudulent purchases, any of which could adversely affect our businesses, reputation and results of operations.

**Our ability to grow our retail pharmacy businesses may be constrained by our inability to find suitable new store locations at acceptable prices or by the expiration of our current leases.**

Our ability to grow our retail pharmacy businesses may be constrained if suitable new store locations cannot be identified with lease terms or purchase prices that are acceptable to us. We compete with other retailers and businesses for suitable locations for our stores. Local land use and other regulations applicable to the types of stores we desire to construct may impact our ability to find suitable locations and influence the cost of constructing our stores. The expiration of leases at existing store locations may adversely affect us if the renewal terms of those leases are unacceptable to us and we are forced to close or relocate stores. Further, changing local demographics at existing store locations may adversely affect revenue and profitability levels at those stores.

**A significant disruption in our computer systems could adversely affect our operations.**

We rely extensively on our computer systems to manage our ordering, pricing, point-of-sale, pharmacy fulfillment, inventory replenishment, customer loyalty programs, finance and other processes. Our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, vandalism, natural disasters, catastrophic events and human error, and our disaster recovery planning cannot account for all eventualities. If any of our systems are damaged, fail to function properly or otherwise become unavailable, we may incur substantial costs to repair or replace them, and may experience loss or corruption of critical data and interruptions or delays in our ability to perform critical functions, which could adversely affect our businesses and results of operations. In addition, we are currently making, and expect to continue to make, substantial investments in our information technology systems and infrastructure, some of which are significant. Upgrades involve replacing existing systems with successor systems, making changes to existing systems, or cost-effectively acquiring new systems with new functionality. Implementing new systems carries significant potential risks, including failure to operate as designed, potential loss or corruption of data or information, cost overruns, implementation delays, disruption of operations, and the potential inability to meet business and reporting requirements. While we are aware of inherent risks associated with replacing these systems and believe we are taking reasonable action to mitigate known risks, there can be no assurance that these technology initiatives will be deployed as planned or that they will be timely implemented without disruption to our operations. We also could be adversely affected by any significant disruption in the systems of key payers or vendors.

**If we do not maintain the privacy and security of sensitive customer and business information, we could damage our reputation, incur substantial additional costs and become subject to litigation.**

The protection of customer, employee, and company data is critical to our businesses. Cybersecurity risks, such as a significant breach of customer, employee, or company data, could attract a substantial amount of media attention, damage our customer relationships and reputation and result in lost sales, fines or lawsuits. Throughout our operations, we receive, retain and transmit certain personal information that our customers provide to purchase products or services, fill prescriptions, enroll in promotional programs, participate in our customer loyalty programs, register on our websites, or otherwise communicate and interact with us. In addition, aspects of our operations depend upon the secure transmission of confidential information over public networks. Although we deploy a layered approach to address information security threats and vulnerabilities designed to protect confidential information against data security breaches, a compromise of our data security systems or of those of businesses with whom we interact, which results in confidential information being accessed, obtained, damaged or used by unauthorized or improper persons, could harm our reputation and expose us to regulatory actions and claims from customers, financial institutions, payment card associations and other persons, any of which could materially and adversely affect our business operations, financial position and results of operations. In addition, a security breach could require that we expend substantial additional resources related to the security of information systems and disrupt our businesses.

The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and changing requirements across businesses. Compliance with changes in privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes. If we or those with whom we share information fail to comply with these laws and regulations or experience a data security breach, our reputation could be damaged and we could be subject to additional litigation and regulatory risks. Our security measures may be undermined due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our data systems and misappropriate business and personal information. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of intrusion, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and potentially have an adverse effect on our businesses.

**Our growth strategy is partially dependent upon acquisitions, joint ventures and other strategic investments, some of which may not prove to be successful.**

We have grown, in part, through acquisitions in recent years and expect to continue to acquire or invest in businesses that build on or are deemed complementary to our existing businesses or further our growth strategies. Acquisitions involve numerous risks, including difficulties in integrating the operations and personnel of the acquired companies, distraction of management from overseeing our existing operations, difficulties in entering markets or lines of business in which we have no or limited direct prior experience, the possible loss of key employees and customers and difficulties in achieving the synergies we anticipated. Any failure to select suitable acquisitions at fair prices, conduct appropriate due diligence and successfully integrate the acquired company, including particularly when acquired businesses operate in new geographic markets or areas of business, could adversely impact our performance. These transactions may also cause us to significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition or investment, issue common stock that would dilute our current stockholders' percentage ownership, or incur asset write-offs and restructuring costs and other related expenses. Acquisitions, joint ventures and strategic investments involve numerous other risks, including potential exposure to unknown liabilities of acquired or investee companies, as well as undetected internal control, regulatory or other issues, or additional costs not anticipated at the time the transaction was completed. In connection with acquisitions, joint ventures or strategic investments outside the United States, we may from time to time, in some instances enter into foreign currency contracts or other derivative instruments intended to hedge some or all of the foreign currency fluctuation risks, which subjects us to the risks associated with such derivative contracts and instruments. No assurance can be given that our acquisitions, joint ventures and other strategic investments will be successful and will not materially adversely affect our business operations, financial condition or results of operations.

**Changes in healthcare regulatory environments may adversely affect our businesses.**

Political, economic and regulatory influences are subjecting the healthcare industry to significant changes that could adversely affect our results of operations. In recent years, the healthcare industry has undergone significant changes in an effort to reduce costs and government spending. These changes include an increased reliance on managed care; cuts in certain Medicare and Medicaid funding in the United States and the funding of governmental payers in foreign jurisdictions; consolidation of competitors, suppliers and other market participants; and the development of large, sophisticated purchasing groups. We expect the healthcare industry to continue to change significantly in the future. Some of these potential changes, such as a reduction in governmental funding at the state or federal level for certain healthcare services or adverse changes in legislation or regulations governing prescription drug pricing, healthcare services or mandated benefits, may cause customers to reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services. We expect continued governmental and private payer pressure to reduce pharmaceutical pricing. Changes in pharmaceutical manufacturers' pricing or distribution policies could also significantly reduce our profitability.

The ACA was enacted in 2010 to provide health insurance coverage to millions of previously uninsured Americans through a combination of insurance market reforms, an expansion of Medicaid, subsidies and health insurance mandates. While certain provisions of the ACA took effect immediately, others have delayed effective dates or require further rulemaking action by governmental agencies to implement, which is not yet complete. Future rulemaking under the ACA or otherwise could increase regulation of pharmacy services, result in changes to pharmacy reimbursement rates, and otherwise change the way we do business. We cannot predict the timing or impact of any future rulemaking, but any such rulemaking could have an adverse impact on our results of operations.

**We are subject to governmental regulations and other legal requirements in the United States and in the other countries in which we operate. A significant change in, or noncompliance with, these regulations and requirements could have a material adverse effect on our reputation and profitability.**

We operate in a highly regulated environment and could be adversely affected by changes to existing legal requirements, new legal requirements and/or any failure to comply with applicable regulations. Businesses in our Pharmaceutical Wholesale division are subject to a range of regulations relating to such things as product margins, product traceability and the conditions under which products must be stored. Our retail pharmacy and health and wellness services businesses are subject to numerous country, state and local regulations including licensing and other requirements for pharmacies and reimbursement arrangements. The regulations to which we are subject include, but are not limited to: country, and state registration and regulation of pharmacies; dispensing and sale of controlled substances and products containing pseudoephedrine; applicable governmental payer regulations including Medicare and Medicaid; privacy regulations including the Health Insurance Portability and Accountability Act ("HIPAA"); the ACA; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous substances; regulations regarding food and drug safety including those of the U.S. Food and Drug Administration ("FDA") and Drug Enforcement Administration ("DEA"), trade regulations including those of the U.S. Federal Trade Commission, and consumer protection and safety regulations including those of the Consumer Product Safety Commission, as well as state regulatory authorities, governing the availability, sale, advertisement and promotion of products we sell; anti-kickback laws; data privacy and security laws; false claims laws; laws against the corporate practice of medicine; and foreign, national and state laws governing the practice of the profession of pharmacy. For example, in the United States the DEA, FDA and various other regulatory authorities regulate the distribution of pharmaceuticals and controlled substances. We are required to hold valid DEA and state-level licenses, meet various security and operating standards and comply with the Controlled Substance Act and its accompanying regulations governing the sale, dispensing, disposal, holding and distribution of controlled substances. The DEA, FDA and state regulatory authorities have broad enforcement powers, including the ability to seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. For example, in June 2013, the Company entered into a settlement agreement with the DEA and the United States Department of Justice relating to controlled substance matters that required the Company to pay \$80 million and implement certain remedial actions. We are also governed by foreign, national and state laws of general applicability, including laws regulating matters of working conditions, health and safety and equal employment opportunity. In addition, we could have exposure if we are found to have infringed another party's intellectual property rights.



Changes in laws, regulations and policies and the related interpretations may alter the landscape in which we do business and may affect our costs of doing business. The impact of new laws, regulations and policies generally cannot be predicted, and changes in applicable laws, regulations and policies may require extensive system and operational changes, be difficult to implement, increase our operating costs and require significant capital expenditures. Untimely compliance or noncompliance with applicable laws and regulations could result in the imposition of civil and criminal penalties that could adversely affect the continued operation of our businesses, including: suspension of payments from government programs; loss of required government certifications; loss of authorizations to participate in or exclusion from government programs, including the Medicare and Medicaid programs in the United States; loss of licenses; and significant fines or monetary penalties. Any failure to comply with applicable regulatory requirements in the United States or in any of the countries in which we operate could result in significant legal and financial exposure, damage our reputation, and have an adverse effect on our businesses.

**Should a product liability issue, recall or personal injury issue arise it may damage our reputation, which may result in a material adverse effect on our business operations and financial condition and adversely affect our ability to maintain adequate product or other liability insurance coverage. If we fail or are unable to maintain adequate product or other liability insurance coverage for any reason, it may also result in a material adverse effect on our business operations and financial condition.**

We could be adversely impacted by the supply of defective products, including the infiltration of counterfeit products into the supply chain, errors in re-labelling of products, product tampering, product recall and contamination or product mishandling issues. Through our pharmacies, we are also exposed to risks relating to the services we provide. Errors in the dispensing and packaging of pharmaceuticals could lead to serious injury or death. Product liability or personal injury claims may be asserted against us with respect to any of the products or pharmaceuticals we sell or services we provide. Our healthcare clinics also involve exposure to professional liability claims related to medical care. Should a product or other liability issue arise, the coverage limits under our insurance programs and the indemnification amounts available to us may not be adequate to protect us against claims. We also may not be able to maintain this insurance on acceptable terms in the future. Damage to our reputation in the event of a product liability or personal injury issue or judgment against us or a product recall could have a significant adverse effect on our business operations, financial condition and results of operations.

**We have significant outstanding debt; our debt will increase if we incur additional debt in the future and do not retire existing debt.**

We have outstanding debt and other financial obligations and significant unused borrowing capacity. As of February 28, 2015, we had approximately \$17 billion of outstanding indebtedness, including short-term borrowings. Our debt level and related debt service obligations could have negative consequences, including:

- requiring us to dedicate significant cash flow from operations to the payment of principal, interest and other amounts payable on our debt, which would reduce the funds we have available for other purposes, such as working capital, capital expenditures, acquisitions, share repurchases and dividends;
- making it more difficult or expensive for us to obtain any necessary future financing for working capital, capital expenditures, debt service requirements, debt refinancing, acquisitions or other purposes;
- reducing our flexibility in planning for or reacting to changes in our industry and market conditions;
- making us more vulnerable in the event of a downturn in our business operations; and
- exposing us to interest rate risk given that a portion of our debt obligations is at variable interest rates.

We may incur or assume significantly more debt in the future, in connection with acquisitions, strategic investments or otherwise. For example, we incurred significant additional debt in connection with the Second Step Transaction. If we add new debt and do not retire existing debt, the risks described above could increase. We also could be adversely impacted by any failure to renew or replace, on terms acceptable to us or at all, existing funding arrangements when they expire and any failure to satisfy applicable covenants.

Our long-term debt obligations include covenants that may adversely affect our ability and the ability of certain of our subsidiaries to incur certain secured indebtedness or engage in certain types of sale and leaseback transactions. In addition, our existing credit agreements require Walgreens Boots Alliance to maintain as of the last day of each fiscal quarter a ratio of consolidated debt to total capitalization not to exceed a certain level. Our ability to comply with these restrictions and covenants may be affected by events beyond our control. If we breach any of these restrictions or covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, our outstanding indebtedness could be declared immediately due and payable. Following the completion of the Second Step Transaction, Alliance Boots and its subsidiaries became indirect subsidiaries of Walgreens Boots Alliance and therefore became subject to these restrictions and covenants and will become subject to any restrictions and covenants contained in the any debt incurred by Walgreens Boots Alliance. However, Alliance Boots and its subsidiaries are not subject to the aforementioned restrictions and covenants in Walgreen Co.'s existing debt incurred prior to the Second Step Transaction.

**Our credit ratings are important to us.**

The major credit rating agencies have assigned us and our corporate debt investment grade credit ratings. These ratings are based on a number of factors, which include their assessment of our financial strength and financial policies. We aim to maintain investment grade ratings as they serve to lower our borrowing costs and facilitate our access to a variety of lenders and other creditors, including landlords for our leased stores, on terms that we consider advantageous to our businesses. However, there can be no assurance that any particular rating assigned to us will remain in effect for any given period of time or that a rating will not be changed or withdrawn by a rating agency, if in that rating agency's judgment, future circumstances relating to the basis of the rating so warrant. Incurrence of additional debt by us could adversely affect our credit ratings. Any downgrade of our credit ratings could adversely affect our cost of funds, liquidity, competitive position and access to capital markets.

**As a holding company, Walgreens Boots Alliance is dependent on funding from its operating subsidiaries to pay dividends and other obligations.**

Walgreens Boots Alliance is a holding company with no business operations of its own. Its only significant asset is the outstanding capital stock of its subsidiaries. As a result, it is dependent on funding from its subsidiaries, including Walgreens and Alliance Boots, to meet its obligations. Additionally, Walgreens Boots Alliance's subsidiaries may be restricted in their ability to pay cash dividends or to make other distributions to Walgreens Boots Alliance, which may limit the payment of cash dividends or other distributions to the holders of Walgreens Boots Alliance common stock. Credit facilities and other debt obligations of Walgreens Boots Alliance, as well as statutory provisions, may further limit the ability of Walgreens Boots Alliance and its subsidiaries to pay dividends.

**Our quarterly results may fluctuate significantly.**

Our operating results have historically varied on a quarterly basis and may continue to fluctuate significantly in the future. Factors that may affect our quarterly operating results include, but are not limited to, seasonality, the timing of the introduction of new generic and brand name prescription drugs, inflation including with respect to generic drug procurement costs, the timing and severity of the cough, cold and flu season, changes in payer reimbursement rates and terms, significant acquisitions, dispositions, joint ventures and other strategic initiatives, asset impairments, the relative magnitude of our LIFO provision in any particular quarter, fluctuations in the value of our warrants to acquire AmerisourceBergen common stock, foreign currency fluctuations, prolonged severe weather in key markets, and the other risk factors discussed under this Item 1A. Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and investors should not rely on the results of any particular quarter as an indication of our future performance.

**Our businesses are seasonal in nature, and adverse events during the holiday and cough, cold and flu seasons could impact our operating results negatively.**

Our businesses are seasonal in nature, with the second fiscal quarter (December, January and February) typically generating a higher proportion of retail sales and earnings than other fiscal quarters. We purchase significant amounts of seasonal inventory in anticipation of the holiday season. Adverse events, such as deteriorating economic conditions, higher unemployment, higher gas prices, public transportation disruptions, or unanticipated adverse weather could result in lower-than-planned sales during key selling seasons. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, windstorms or other extreme weather conditions over a prolonged period could make it difficult for our customers to travel to our stores and increase our snow removal and other costs. This could lead to lower sales or to unanticipated markdowns, negatively impacting our financial condition and results of operations. In addition, both prescription and non-prescription drug sales are affected by the timing and severity of the cough, cold and flu season which can vary considerably from year to year.

**Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial condition and results of operations.**

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our businesses, including, but not limited to, revenue recognition, asset impairment, impairment of goodwill and other intangible assets, inventories, vendor rebates and other vendor consideration, lease obligations, self-insurance liabilities, tax matters, unclaimed property laws and litigation and other contingent liabilities are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. For example, changes in accounting standards and the application of existing accounting standards particularly related to the measurement of fair value as compared to carrying value for the Company's reporting units, including goodwill, intangible assets and investments in equity interests, including investments held by our equity method investees, may have an adverse effect on the Company's financial condition and results of operations. Factors that could lead to impairment of goodwill and intangible assets include significant adverse changes in the business climate and declines in the financial condition of a reporting unit. Factors that could lead to impairment of investments in equity interests of the companies in which we invested or the investments held by those companies include a prolonged period of decline in their operating performance or adverse changes in the economic, regulatory and legal environments of the countries they operate in. New accounting guidance also may require systems and other changes that could increase our operating costs and/or change our financial statements. For example, implementing future accounting guidance related to leases, revenue and other areas impacted by the current convergence project between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") could require us to make significant changes to our lease management system or other accounting systems, and could result in changes to our financial statements.

**The amount of goodwill and other intangible assets we have recorded as a result of acquisitions substantially increased following completion of the Second Step Transaction. In the future, our goodwill or other intangible assets may become impaired, which could result in material non-cash charges to our results of operations.**

As of August 31, 2014 we had \$3.5 billion of goodwill and other intangible assets. We completed the Transactions on December 31, 2014. As of February 28, 2015, we had \$29.3 billion of goodwill and other intangible assets based on the preliminary purchase accounting for the Alliance Boots acquisition. Walgreens Boots Alliance accounts for the Transactions using the purchase method of accounting in accordance with GAAP, with the purchase price paid allocated to recognize the acquired assets and liabilities at their fair value. While the fair values and associated purchase price allocation will be finalized following completion of the valuation analyses for the Transactions, our goodwill and other intangible assets has increased substantially following completion of the Transactions.

At least annually, or whenever events or changes in circumstances indicate a potential impairment in the carrying value as defined by GAAP, we will evaluate this goodwill and other intangible assets for impairment by first assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the reporting unit is less than the carrying amount. Estimated fair values could change if, for example, there are changes in the business climate, unanticipated changes in the competitive environment, adverse legal or regulatory actions or developments, changes in capital structure, cost of debt, interest rates, capital expenditure levels, operating cash flows, or market capitalization. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could require material non-cash charges to our results of operations and have a material adverse effect on our financial results.

**We are involved in a number of legal proceedings and audits and, while we cannot predict the outcomes of such proceedings and other contingencies with certainty, some of these outcomes could adversely affect our business operations, financial condition and results of operations.**

We are involved in legal proceedings and subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the course of our businesses (see the discussion of Legal Proceedings in Note 12, Commitments and Contingencies to the Consolidated Financial Statements included in this Form 10-Q). Legal proceedings, in general, and securities and class action litigation, in particular, can be expensive and disruptive. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. From time to time, we are also involved in legal proceedings as a plaintiff involving antitrust, tax, contract, intellectual property and other matters. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, and the costs incurred in litigation can be substantial, regardless of the outcome. Substantial unanticipated verdicts, fines and rulings do sometimes occur. As a result, we could from time to time incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations in the period in which the amounts are accrued and/or our cash flows in the period in which the amounts are paid. The outcome of some of these legal proceedings and other contingencies could require us to take, or refrain from taking, actions which could negatively affect our operations. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources.

**Violations of anti-bribery, anti-corruption and/or international trade laws to which we are subject could have a material adverse effect on our business operations, financial position, and results of operations.**

We are subject to laws concerning our business operations and marketing activities in foreign countries where we conduct business. For example, we are subject to the U.S. Foreign Corrupt Practices Act (the "FCPA"), U.S. export control and trade sanction laws, and similar anti-corruption and international trade laws in certain foreign countries, such as the U.K. Bribery Act, any violation of which could create substantial liability for us and also harm our reputation. The FCPA generally prohibits U.S. companies and their officers, directors, employees, and intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business abroad or otherwise obtaining favorable treatment. The FCPA also requires that U.S. public companies maintain books and records that fairly and accurately reflect transactions and maintain an adequate system of internal accounting controls. If we are found to have violated the FCPA, or any other anti-bribery, anti-corruption or international trade laws, we may face sanctions including civil and criminal fines, disgorgement of profits, and suspension or debarment of our ability to contract with governmental agencies or receive export licenses. From time to time, we may face audits or investigations by one or more domestic or foreign governmental agencies relating to our international business activities, compliance with which could be costly and time-consuming, and could divert our management and key personnel from our business operations. An adverse outcome under any such investigation or audit could subject us to fines or other penalties, which could adversely affect our business operations, financial position, and results of operations.

**We could be subject to adverse changes in tax laws, regulations and interpretations or challenges to our tax positions.**

We are a large corporation with operations in the United States and numerous other markets across the globe. As such, we are subject to tax laws and regulations of the United States federal, state and local governments in the United States and various foreign jurisdictions. We compute our income tax provision based on enacted tax rates in the jurisdictions in which we operate. As the tax rates vary among jurisdictions, a change in earnings attributable to the various jurisdictions in which we operate could result in an unfavorable change in our overall tax provision. From time to time, legislative initiatives are proposed that could adversely affect our tax positions, effective tax rate, tax payments or financial condition. In addition, tax laws are complex and subject to varying interpretations. Any change in enacted tax laws, rules or regulatory or judicial interpretations, any adverse outcome in connection with tax audits in any jurisdiction or any change in the pronouncements relating to accounting for income taxes could adversely affect our effective tax rate, tax payments and results of operations.

**Our insurance program may expose us to unexpected costs and negatively affect our financial performance.**

We use a combination of insurance and self-insurance to provide for potential liability for workers' compensation, automobile and general liability, property, director and officers' liability, and employee healthcare benefits. Provisions for losses related to self-insured risks generally are based upon actuarially determined estimates. Any actuarial projection of losses is subject to a high degree of variability. Changes in legal claims, trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency of insurance carriers, and changes in discount rates could all adversely affect our financial condition, results of operations and cash flows.

**Changes in assumptions used in calculating pension assets and liabilities could adversely impact our results of operations and financial position.**

We operate certain defined benefit pension plans in the United Kingdom, which were closed to new entrants in 2010. The valuation of the pension plan's assets and liabilities partly depends on assumptions based on the financial markets as well as longevity and employee retention rates. This valuation is particularly sensitive to material changes in the value of equity, bond and other investments held by the pension plans, changes in the corporate bond yields which are used in the measurement of the liabilities, changes in market expectations for long-term price inflation and new evidence on projected longevity rates. Funding requirements and the income statement impact relating to these pension plans are also influenced by these factors. Adverse changes in the assumptions used to calculate the value of pension assets and liabilities, including lower than expected pension fund investment returns and/or increased life expectancy of plan participants, or regulatory change could require us to increase the funding of its defined benefit pension plans or incur higher expenses, which would adversely impact our results of operations and financial position.

**The SP Investors and KKR Investors may have significant voting influence over matters requiring stockholder approval.**

We issued an aggregate of approximately 227.7 million shares of common stock to Alliance Boots stockholders as partial consideration for the acquisition of Alliance Boots, comprised of 83.4 million shares in connection with the closing of the first step transaction on August 2, 2012 and 144.3 million shares in connection with the closing of the Second Step Transaction on December 31, 2014. These issuances collectively represented approximately 20.8% of the outstanding shares Walgreens Boots Alliance common stock as of February 28, 2015. Based on information provided in SEC filings, including a Schedule 13D filed on December 31, 2014 and a Schedule 13D/A filed on January 20, 2015 by AB Acquisitions Holdings Limited ("AB Acquisitions"), Alliance Santé Participations S.A. ("ASP"), NEWCIP S.A. ("NEWCIP") and Stefano Pessina, as of January 20, 2015, Mr. Pessina had sole or shared voting power over an aggregate of 213,986,209 shares, comprised of: (i) 74,296,870 shares held directly and of record by ASP; and (ii) 139,689,339 shares held directly and of record by AB Acquisitions. NEWCIP is the sole shareholder of ASP and Mr. Pessina holds 100% voting control over NEWCIP; accordingly each of NEWCIP and Mr. Pessina may be deemed to beneficially own the 74,296,870 shares held directly and of record by ASP. ASP holds of record 50% of the voting power and approximately 34.7% of the share capital of AB Acquisitions. As a result, ASP (and by virtue of their direct and indirect control of ASP, NEWCIP and Mr. Pessina) may be deemed to share beneficial ownership of the voting power and the dispositive power over the 139,689,339 shares held directly and of record by AB Acquisitions with the KKR Sprint 2006 Limited, KKR Sprint European II Limited and KKR Sprint KPE Limited, who collectively, with their affiliates, hold of record the other 50% of the voting power and approximately 31.1% of the share capital of AB Acquisitions.

Each of ASP, NEWCIP and Mr. Pessina disclaims beneficial ownership over such shares, except to the extent of ASP's pecuniary interest therein. As of January 20, 2015, ASP (and by virtue of its direct and indirect control of ASP, NEWCIP and Mr. Pessina) had a pecuniary interest in 63,162,110 of the 139,689,339 shares held directly and of record by AB Acquisitions. Based on information provided in SEC filings, as of December 31, 2014, entities affiliated with KKR had a pecuniary interest in 43,500,611 of the 139,689,339 shares held by AB Acquisitions (representing their collective interest in approximately 31.1% of the share capital of AB Acquisitions).

It is expected that AB Acquisitions will distribute the cash and shares received by it in connection with the closing of the Second Step Transaction to Stefano Pessina and certain of his affiliates (the "SP Investors"), Kohlberg Kravis Roberts & Co. L.P. ("KKR", and together with certain of its affiliates, the "KKR Investors") and the other investors in AB Acquisitions, subject to certain timing considerations. AB Acquisitions may not distribute any of the shares of Walgreens Boots Alliance common stock it received on completion of the Second Step Transaction to its investors until September 30, 2015, the date that is nine months after the completion of the Second Step Transaction and, unless the SP Investors and the KKR Investors have elected to put certain guarantees in place, may not distribute more than 10% of such shares until December 31, 2015, the date that is twelve months after the completion of the Second Step Transaction. Accordingly, because the SP Investors and the KKR Investors control 100% of the voting stock of AB Acquisitions, until the date that AB Acquisitions distributes to its investors the shares of Walgreens Boots Alliance received on the completion of the Second Step Transaction, the SP Investors and the KKR Investors may control the voting power of all such shares.

In connection with the closing of the first step transaction on August 2, 2012, we entered into a Shareholders Agreement regarding, among other things, certain rights and obligations of KKR with respect to the Company and of the SP Investors as stockholders of the Company (as amended, the "Company Shareholders Agreement"). Under the Company Shareholders Agreement, for so long as the SP Investors and the KKR Investors continue to meet certain beneficial ownership thresholds and subject to certain other conditions, the SP Investors and the KKR Investors, respectively, will each be entitled to designate one nominee to the Board for inclusion in Walgreens' slate of directors. Mr. Pessina currently serves as the designee of the SP Investors and Mr. Dominic Murphy currently serves as the designee of the KKR Investors. Moreover, the SP Investors and the KKR Investors have agreed to, for so long as each of the SP Investors and the KKR Investors have the right to designate a nominee for election to the Board of Directors of the Company (as described above), vote all of their shares of common stock in accordance with the Board's recommendation on matters submitted to a vote of the Company's stockholders (including with respect to the election of directors). Whether or not subject to these voting provisions, the SP Investors' and/or the KKR Investors' significant interest in our common stock could be determinative in matters submitted to a vote by our stockholders. The influence of the SP Investors and/or the KKR Investors could result in Walgreens Boots Alliance taking actions that some other stockholders do not support or failing to take actions that some other stockholders support.

**Shares issued to significant Alliance Boots stockholders in connection with the first step transaction are no longer subject to contractual transfer restrictions, and the additional shares issued in connection with the Second Step Transaction will become available for future sale after the lapse of contractual transfer restrictions.**

In connection with the closing of the first step transaction on August 2, 2012, we issued approximately 83.4 million shares of our common stock to Alliance Boots shareholders and entered into the Shareholders Agreement. These shares represented approximately 7.6% of our outstanding shares as of February 28, 2015. In connection with the closing of the Second Step Transaction on December 31, 2014, we issued approximately 144.3 million additional shares of our common stock to Alliance Boots shareholders. These shares represented approximately 13.2% of our outstanding shares as of February 28, 2015. Pursuant to the Company Shareholders Agreement, certain significant Alliance Boots shareholders, including the SP Investors and the KKR Investors, are subject to various contractual restrictions that generally prohibit them from transferring their shares for specified time periods. The transfer restrictions pursuant to the Company Shareholders Agreement applicable to shares issued to the SP Investors and the KKR Investors in connection with the first step transaction lapsed upon the closing of the Second Step Transaction on December 31, 2014. With respect to the 144.3 million shares of our common stock issued in connection with the Second Step Transaction closing on December 31, 2014, the Alliance Boots shareholders receiving such shares (including the SP Investors and the KKR Investors) are subject to certain restrictions on transfer under the Company Shareholders Agreement until September 30, 2015, the date nine months after the closing of the Second Step Transaction. We also granted, pursuant to the Company Shareholders Agreement, certain Alliance Boots shareholders, including the SP Investors and the KKR Investors, the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act of 1933, as amended ("Securities Act"), covering resales of our common stock held by them or to "piggyback" on a registration statement in certain circumstances. These shares also may be sold pursuant to Rule 144 under the Securities Act, depending on their holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates. The sale, or possibility of the sale, of a substantial number of shares of our common stock into the market could cause the market price of our common stock to decline.

**Conflicts of interest, or the appearance of conflicts of interest, may arise because certain of our directors and officers are also directors of AB Acquisitions.**

As of March 31, 2015 and as described above, AB Acquisitions was the holder of 139,689,339 shares of our common stock. Mr. Pessina, our Executive Vice Chairman and Acting CEO and a director of the Company, Mr. Dominic Murphy, who is a director of the Company and partner of KKR, and Mr. Marco Pagni and Ms. Ornella Barra, who are executive officers of the Company, serve on the Board of Directors of AB Acquisitions. This ownership overlap and the fact that certain of our directors and officers also serve as directors of AB Acquisitions could create, or appear to create, potential conflicts of interest when the Company's directors and officers and AB Acquisitions' directors face decisions that could have different implications for the Company and AB Acquisitions. For example, potential conflicts of interest could arise if a dispute were to arise between the Company and AB Acquisitions in connection with indemnification or other provisions of the Purchase and Option Agreement, as amended, or the Company Shareholders Agreement. Potential conflicts of interest could also arise in connection with any current or future arrangements between the Company and AB Acquisitions or any of their respective affiliates. While our contractual arrangements place restrictions on the parties' conduct in certain situations and related party transactions are subject to review and approval by independent directors in accordance with our related party transaction approval procedures, the potential for a conflict of interest exists and such persons may have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting both companies.

**The certificate of incorporation and bylaws of Walgreens Boots Alliance, Delaware law and/or Company agreements with certain stockholders may impede the ability of Walgreens Boots Alliance stockholders to make changes to the Walgreens Boots Alliance Board of Directors or impede a takeover, which could deprive the stockholders of the opportunity to receive a premium for their shares.**

Several provisions of our certificate of incorporation and bylaws and the Delaware General Corporation Law could make it difficult for stockholders to change the composition of the Walgreens Boots Alliance Board of Directors. In addition, the same and other provisions may discourage, delay or prevent a merger, consolidation or acquisition that stockholders may consider favorable. See also the risk factor above "The SP Investors and KKR Investors may have significant voting influence over matters requiring stockholder approval." Under the Company Shareholders Agreement, the SP Investors and the KKR Investors have agreed to, for so long as each of the SP Investors and the KKR Investors have the right to designate a nominee for election to the Board of Directors of the Company, vote all of their shares of common stock in accordance with the Walgreens Boots Alliance Board of Directors' recommendation on matters submitted to a vote of its stockholders (including with respect to the election of directors). In addition, under the Nomination and Support Agreement (the "Nomination and Support Agreement") pursuant to which, among other things, on September 5, 2014, Barry Rosenstein of JANA Partners LLC ("JANA") was appointed to the Board, JANA is subject to certain standstill restrictions until the later of 45 days prior to the advance notice deadline for the Company's 2016 annual meeting of stockholders and 15 days after Mr. Rosenstein is no longer a member of the Board, subject to early termination of the standstill period in the event of an uncured material breach of the Nomination and Support Agreement by the Company. The standstill period will be extended if the Company voluntarily agrees to nominate Mr. Rosenstein at the 2016 annual meeting of stockholders, and any successive annual meeting of stockholders, and Mr. Rosenstein agrees to serve as a director nominee. During the standstill period, JANA is subject to customary standstill and voting obligations, including, among other things, that JANA and its affiliates and controlled associates will vote all voting securities which they are entitled to vote in favor of all incumbent directors nominated by the Board and in accordance with the recommendation of the Board on other matters, other than certain matters specified in the Nomination and Support Agreement. These provisions are not intended, however, to make Walgreens Boots Alliance immune from takeovers and instead are intended to protect Walgreens Boots Alliance stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with them and by providing the Board of Directors with more time to assess any potential acquisition proposal.

**The market price of our common stock may be volatile.**

The market price of shares of our common stock may be volatile. Broad general economic, political, market and industry factors may adversely affect the market price of the shares, regardless of our actual operating performance. In addition to the other risk factors identified in this Item 1A, factors that could cause fluctuations in the price of the shares include:

- actual or anticipated variations in quarterly operating results and the results of competitors;
- changes in financial estimates by Walgreens Boots Alliance or by any securities analysts that might cover Walgreens Boots Alliance;
- conditions or trends in the industry, including regulatory changes or changes in the securities marketplace;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- additions or departures of key personnel; and
- issuances or sales of Walgreens Boots Alliance common stock, including sales of shares by its directors and officers or its key investors, including the SP Investors and/or the KKR Investors.

**There are a number of additional business risks that could adversely affect our financial results.**

Many other factors could adversely affect our financial results, including:

- If we are unsuccessful in establishing effective advertising, marketing and promotional programs, our sales or sales margins could be negatively affected.
- Our operating costs may be subject to increases outside the control of our businesses, whether due to inflation, new or increased taxes, adverse fluctuations in foreign currency exchange rates, changes in market conditions or otherwise.
- Our success depends on our continued ability to attract and retain store and management and professional personnel, and the loss of key personnel could have an adverse effect on the results of our operations, financial condition or cash flow.
- Natural disasters, severe weather conditions, terrorist activities, global political and economic developments, war, health epidemics or pandemics or the prospect of these events can impact our operations or damage our facilities in affected areas or have an adverse impact on consumer confidence levels and spending in our stores.
- The long-term effects of climate change on general economic conditions and the pharmacy industry in particular are unclear, and changes in the supply, demand or available sources of energy and the regulatory and other costs associated with energy production and delivery may affect the availability or cost of goods and services, including natural resources, necessary to run our businesses.

- The products we sell are sourced from a wide variety of domestic and international vendors, and any future inability to find qualified vendors and access products in a timely and efficient manner could adversely impact our businesses.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- (c) The following table provides information about purchases by the Company during the quarter ended February 28, 2015 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act. Subject to applicable law, share purchases may be made in open market transactions, privately negotiated transactions, or pursuant to instruments and plans complying with Rule 10b5-1.

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Programs (1)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Program (1)
12/1/14 - 12/31/14	-	-	-	\$ 3,000,000,000
1/1/15 - 1/31/15	-	-	-	3,000,000,000
2/1/15 - 2/28/15	1,193,841	\$ 79.15	1,193,841	2,905,507,325
Total	1,193,841	\$ 79.15	1,193,841	\$ 2,905,507,325

- (1) In August 2014, the Board of Directors approved the 2014 share repurchase program which allows for the purchase of up to \$3.0 billion of the Company's common stock prior to its expiration on August 31, 2016.

**Item 6. Exhibits**

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit No.	Description	SEC Document Reference
2.1	Amendment No. 1, dated December 23, 2014, to the Reorganization Agreement and Plan of Merger, dated October 17, 2014, by and among Walgreen Co., Walgreens Boots Alliance, Inc. and Ontario Merger Sub, Inc.	Incorporated by reference to Exhibit 2.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on December 24, 2014.
2.2	Amendment No. 2, dated December 29, 2014, to the Reorganization Agreement and Plan of Merger, dated October 17, 2014, as amended December 23, 2014, by and among Walgreen Co., Walgreens Boots Alliance, Inc. and Ontario Merger Sub, Inc.	Incorporated by reference to Exhibit 2.3 to Walgreens Boots Alliance, Inc.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2014 (File No. 001-36759) filed with the SEC on December 30, 2014.
3.1	Amended and Restated Certificate of Incorporation of Walgreens Boots Alliance, Inc.	Incorporated by reference to Exhibit 3.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K-12B (File No. 001-36759) filed with the SEC on December 31, 2014.

3.2	Amended and Restated Bylaws of Walgreens Boots Alliance, Inc.	Incorporated by reference to Exhibit 3.2 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
4.1	Form of Guarantee of Walgreens Boots Alliance, Inc.	Incorporated by reference to Exhibit 4.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
10.1*	Walgreens Boots Alliance, Inc. 2013 Omnibus Incentive Plan (as amended and restated effective December 31, 2014).	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
10.2*	Form of Restricted Stock Unit Award agreement (effective January 2015).	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on January 21, 2015.
10.3*	Form of Performance Share Award agreement (effective January 2015).	Incorporated by reference to Exhibit 10.2 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on January 21, 2015.
10.4*	Form of Stock Option Award agreement (effective January 2015).	Incorporated by reference to Exhibit 10.3 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on January 21, 2015.
10.5*	Form of Restricted Stock Unit Agreement, as amended (Special Transition Awards).	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on December 24, 2014.
10.6*	Form of Restricted Stock Unit Agreement (Messrs. Skinner and Pessina).	Filed herewith.
10.7*	Walgreens Boots Alliance, Inc. Executive Deferred Profit-Sharing Plan (as amended and restated effective December 31, 2014).	Incorporated by reference to Exhibit 10.3 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
10.8*	Walgreens Boots Alliance, Inc. Executive Severance and Change in Control Plan (as amended and restated effective December 31, 2014).	Incorporated by reference to Exhibit 10.4 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
10.9*	Walgreens Boots Alliance, Inc. 2011 Cash-Based Incentive Plan (as amended and restated effective December 31, 2014).	Incorporated by reference to Exhibit 10.5 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
10.10*	Walgreens Boots Alliance, Inc. Management Incentive Plan (as amended and restated effective December 31, 2014).	Incorporated by reference to Exhibit 10.6 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
10.11*	Rules of the Alliance Boots 2012 Long Term Incentive Plan, as amended.	Filed herewith.
10.12*	Form of Award Agreement for Alliance Boots 2012 Long Term Incentive Plan.	Filed herewith.

10.13*	Alliance Boots Senior Management Annual Incentive Plan 2014/2015 – Bonus Scheme Rules (Groups/Divisions).	Filed herewith.
10.14*	Employment Agreement between Alliance UniChem Plc and George Fairweather, dated March 28, 2002.	Filed herewith.
10.15*	Agreement between Alliance Boots plc and George Fairweather, dated July 31, 2006.	Filed herewith.
10.16*	Employment Agreement between Alliance UniChem Services Limited and Marco Pagni, dated June 1, 2005.	Filed herewith.
10.17*	Letter Agreement with Marco Pagni, dated May 14, 2012.	Filed herewith.
10.18*	Service Agreement between Boots UK Limited and Alex Gourlay, dated January 29, 2009.	Filed herewith.
10.19*	Letter Agreement between Alliance Boots Management Services Limited and Alex Gourlay, dated June 28, 2010.	Filed herewith.
10.20*	Employment Agreement between Alliance UniChem Plc and Ornella Barra dated December 10, 2002.	Filed herewith.
10.21*	Agreement among Alliance Boots plc, Alliance UniChem Plc and Ornella Barra dated July 31, 2006.	Filed herewith.
10.22*	Novation of Services Agreement among Alliance Boots Holdings Limited, Alliance Boots Management Services MC S.A.M and Ornella Barra, dated June 1, 2013.	Filed herewith.
10.23*	Service Agreement between Boots Management Services Limited and Simon Roberts, dated July 11, 2013.	Filed herewith.
10.24*	Services Agreement between Boots Management Services Limited and Ken Murphy, dated October 1, 2013.	Filed herewith.
10.25*	Summary of Retention Arrangement with Jan Stern Reed.	Filed herewith.
10.26*	Retirement Agreement and Release between Walgreens Boots Alliance, Inc., Walgreen Co. and Gregory D. Wasson.	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on January 14, 2015.
10.27*	Consulting Services Agreement between Walgreens Boots Alliance, Inc. and Timothy R. McLevish.	Incorporated by reference to Exhibit 99.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on January 30, 2015.
10.28*	Form of Restricted Stock Unit Agreement (McLevish).	Filed herewith.

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10.29*	Offer Letter agreement between Stefano Pessina and Walgreens Boots Alliance, Inc.	Filed herewith.
10.30	Revolving Credit Agreement, dated as of December 19, 2014, among Walgreen Co., Walgreens Boots Alliance, Inc., the lenders from time to time party thereto and Mizuho Bank, Ltd., as administrative agent.	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on December 24, 2014.
12	Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
18	Letter from Independent Registered Public Accounting Firm Regarding Change in Accounting Principle.	Filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished herewith.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished herewith.
101.INS	XBRL Instance Document.	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith.

\* Management contract or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Walgreens Boots Alliance, Inc.  
(Registrant)

Dated : April 9, 2015

/s/ George Fairweather  
George Fairweather  
Executive Vice President and Global Chief Financial Officer  
(Chief Financial and Principal Accounting Officer)

**WALGREENS BOOTS ALLIANCE, INC.**

**2013 OMNIBUS INCENTIVE PLAN**

**RESTRICTED STOCK UNIT AWARD AGREEMENT**

These materials, which may include descriptions of company stock plans, prospectuses and other information and documents, and the information they contain, are provided by Walgreens Boots Alliance, Inc., not by Fidelity, and are not an offer or solicitation by Fidelity for the purchase of any securities or financial instruments. These materials were prepared by Walgreens Boots Alliance, Inc., which is solely responsible for their contents and for compliance with legal and regulatory requirements. Fidelity is not connected with any offering or acting as an underwriter in connection with any offering of securities or financial instruments of Walgreens Boots Alliance, Inc. Fidelity does not review, approve or endorse the contents of these materials and is not responsible for their content.

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**WALGREENS BOOTS ALLIANCE, INC.  
2013 OMNIBUS INCENTIVE PLAN  
RESTRICTED STOCK UNIT AWARD AGREEMENT**

Participant Name:

Participant ID:

Grant Date:

Units Granted:

Vesting: Acceptance Date:

Electronic Signature:

This document (referred to below as this "Agreement") spells out the terms and conditions of the Restricted Stock Unit Award (the "Award") granted to you by Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), pursuant to the Walgreens Boots Alliance, Inc. 2013 Omnibus Incentive Plan (the "Plan") on and as of the Grant Date designated above. Except as otherwise defined herein, capitalized terms used in this Agreement have the respective meanings set forth in the Plan. For purposes of this Agreement, "Employer" means the entity (the Company or the Affiliate) that employs you on the applicable date. The Plan, as it may be amended from time to time, is incorporated into this Agreement by this reference.

You and the Company agree as follows:

1. Grant of Restricted Stock Units. Pursuant to the approval and direction of the Compensation Committee of the Company's Board of Directors (the "Committee"), the Company hereby grants you the number of Restricted Stock Units specified above (the "Restricted Stock Units"), subject to the terms and conditions of the Plan and this Agreement.

2. Restricted Stock Unit Account and Dividend Equivalents. The Company will maintain an account (the "Account") on its books in your name to reflect the number of Restricted Stock Units awarded to you as well as any additional Restricted Stock Units credited as a result of Dividend Equivalents. The Account will be administered as follows:

(a) The Account is for recordkeeping purposes only, and no assets or other amounts shall be set aside from the Company's general assets with respect to such Account.

(b) As of each record date with respect to which a cash dividend is to be paid with respect to shares of Company common stock par value US\$.01 per share ("Stock"), the Company will credit your Account with an equivalent amount of Restricted Stock Units determined by dividing the value of the cash dividend that would have been paid on your Restricted Stock Units if they had been shares of Stock, divided by the value of Stock on such date.

(c) If dividends are paid in the form of shares of Stock rather than cash, then your Account will be credited with one additional Restricted Stock Unit for each share of Stock that would have been received as a dividend had your outstanding Restricted Stock Units been shares of Stock.

(d) Additional Restricted Stock Units credited via Dividend Equivalents shall vest or be forfeited at the same time as the Restricted Stock Units to which they relate.

3. Restricted Period. The period prior to the vesting date with respect each Restricted Stock Unit is referred to as the “Restricted Period.” Subject to the provisions of the Plan and this Agreement, unless vested or forfeited earlier as described in Section 4, 5, 6 or 7 of this Agreement, as applicable, your Restricted Stock Units will become vested and be settled as described in Section 8 below, as of the vesting date or dates indicated in the introduction to this Agreement, provided the performance goal in this Section 3 (“Performance Goal”) is satisfied as of the end of the applicable performance period. The Performance Goal will be established and certified by the Committee and cover one or more Company performance goals over the course of the second half of the Company’s 2015 fiscal year. If the Performance Goal is not attained as of the end of this performance period, the Restricted Stock Units awarded hereunder shall be thereupon forfeited.

4. Disability or Death. If during the Restricted Period you have a Termination of Service by reason of Disability or death, then the Restricted Stock Units will become fully vested as of the date of your Termination of Service and the Vesting Date shall become the date of your Termination of Service. Any Restricted Stock Units becoming vested by reason of your Termination of Service by reason of Disability or death shall be settled as provided in Section 8.

5. Retirement. If during the Restricted Period you have a Termination of Service by reason of retirement from the Company’s Board of Directors, as reasonably determined by the Committee, then, subject to satisfaction of the Performance Goal, the Restricted Stock Units will become fully vested as of the later of the end of the performance period for the Performance Goal and the date of your Termination of Service, and the Vesting Date shall become that date of full vesting. Any Restricted Stock Units becoming vested by reason of your retirement shall be settled as provided in Section 8.

6. Termination of Service Following a Change in Control. If during the Restricted Period there is a Change in Control of the Company and within the one-year period thereafter you have a Termination of Service initiated by your Employer other than for Cause (as defined in Section 7), then your Restricted Stock Units shall become fully vested, and they shall be settled in accordance with Section 9. For purposes of this Section 6, a Termination of Service initiated by your Employer shall include a Termination of Employment for Good Reason under - and pursuant to the terms and conditions of – the Walgreens Boots Alliance, Inc. Executive Severance and Change in Control Plan, but only to the extent applicable to you as an eligible participant in such Plan.

7. Other Termination of Service. If during the Restricted Period you have a voluntary or involuntary Termination of Service for any reason other than as set forth in Section 4, 5 or 6 above or Section 9 below, as determined by the Committee, then you shall thereupon forfeit any Restricted Stock Units that are still in a Restricted Period on your termination date. For purposes of this Agreement, “Cause” means any one or more of the following, as determined by the Committee in its sole discretion:

- (a) your commission of a felony or any crime of moral turpitude;
- (b) your dishonesty or material violation of standards of integrity in the course of fulfilling your duties to the Company or any Affiliate;

(c) your material violation of a material written policy of the Company or any Affiliate violation of which is grounds for immediate termination;

(d) your willful and deliberate failure to perform your duties to the Company or any Affiliate in any material respect, after reasonable notice of such failure and an opportunity to correct it; or

(e) your failure to comply in any material respect with the United States ("U.S.") Foreign Corrupt Practices Act, the U.S. Securities Act of 1933, the U.S. Securities Exchange Act of 1934, the U.S. Sarbanes-Oxley Act of 2002, the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the U.S. Truth in Negotiations Act, or any rules or regulations thereunder.

8. Settlement of Vested Restricted Stock Units. Subject to the requirements of Section 13 below, as promptly as practicable after the applicable Vesting Date, whether occurring upon your Separation from Service or otherwise, but in no event later than 75 days after the Vesting Date, the Company shall transfer to you one share of Stock for each Restricted Stock Unit becoming vested at such time, net of any applicable tax withholding requirements in accordance with Section 10 below; provided, however, that, if you are a Specified Employee at the time of Separation from Service, then to the extent your Restricted Stock Units are deferred compensation subject to Section 409A of the Code, settlement of which is triggered by your Separation from Service (other than for death), payment shall not be made until the date which is six months after your Separation from Service.

Notwithstanding the foregoing, if you are resident or employed outside of the U.S., the Company, in its sole discretion, may provide for the settlement of the Restricted Stock Units in the form of:

(a) a cash payment (in an amount equal to the Fair Market Value of the Stock that corresponds with the number of vested Restricted Stock Units) to the extent that settlement in shares of Stock (i) is prohibited under local law, (ii) would require you, the Company or an Affiliate to obtain the approval of any governmental or regulatory body in your country of residence (or country of employment, if different), (iii) would result in adverse tax consequences for you, the Company or an Affiliate or (iv) is administratively burdensome; or

(b) shares of Stock, but require you to sell such shares of Stock immediately or within a specified period following your Termination of Service (in which case, you hereby agree that the Company shall have the authority to issue sale instructions in relation to such shares of Stock on your behalf).

9. Settlement Following Change in Control. Notwithstanding any provision of this Agreement to the contrary, the Company may, in its sole discretion, fulfill its obligation with respect to all or any portion of the Restricted Stock Units that become vested in accordance with Section 6 above, by:

(a) delivery of (i) the number of shares of Stock that corresponds with the number of Restricted Stock Units that have become vested or (ii) such other ownership interest as such shares of Stock that correspond with the vested Restricted Stock Units may be converted into by virtue of the Change in Control transaction;

(b) payment of cash in an amount equal to the Fair Market Value of the Stock that corresponds with the number of vested Restricted Stock Units at that time; or

(c) delivery of any combination of shares of Stock (or other converted ownership interest) and cash having an aggregate Fair Market Value equal to the Fair Market Value of the Stock that corresponds with the number of Restricted Stock Units that have become vested at that time.

Settlement shall be made as soon as practical after the Restricted Stock Units become fully vested under Section 6, but in no event later than 30 days after such date.

10. Responsibility for Taxes; Tax Withholding.

(a) You acknowledge that, regardless of any action taken by the Company or your Employer, the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), is and remains your responsibility and may exceed the amount actually withheld by the Company or your Employer. You further acknowledge that the Company and/or your Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including, but not limited to, the grant, vesting or settlement of the Award, the subsequent sale of shares of Stock acquired pursuant to such settlement and the receipt of any Dividend Equivalents and/or dividends; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you are subject to Tax-Related Items in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, you acknowledge that the Company and/or your Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant taxable or tax withholding event, as applicable, you agree to make adequate arrangements satisfactory to the Company and/or your Employer to satisfy all Tax-Related Items. In this regard, you authorize the Company, your Employer or its agent to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (i) withholding from your wages or other cash compensation paid to you by the Company and/or your Employer; (ii) withholding from proceeds of the sale of shares of Stock acquired upon settlement of the Award either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization without further consent); or (iii) withholding from the shares of Stock to be delivered upon settlement of the Award that number of shares of Stock having a Fair Market Value equal to (but not in excess of) the minimum amount required by law to be withheld.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable statutory minimum withholding rates (as determined by the Company in good faith and in its sole discretion) or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash and will have no entitlement to the share equivalent. If the obligation for Tax-Related Items is satisfied by withholding from the shares of Stock to be delivered upon settlement of the Award, for tax purposes, you are deemed to have been issued the full number of shares of Stock subject to the vested Award, notwithstanding that a number of the shares of Stock are held back solely for the purpose of paying the Tax-Related Items.

You agree to pay to the Company or your Employer any amount of Tax-Related Items that the Company or your Employer may be required to withhold or account for as a result of your participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the shares of Stock (or cash payment) or the proceeds from the sale of shares of Stock if you fail to comply with your obligations in connection with the Tax-Related Items.

11. Nontransferability. During the Restricted Period and thereafter until Stock is transferred to you in settlement thereof, you may not sell, transfer, pledge, assign or otherwise alienate or hypothecate the Restricted Stock Units whether voluntarily or involuntarily or by operation of law, other than by beneficiary designation effective upon your death, or by will or by the laws of intestacy.

12. Rights as Shareholder. You shall have no rights as a shareholder of the Company with respect to the Restricted Stock Units until such time as a certificate of stock for the Stock issued in settlement of such Restricted Stock Units has been issued to you or such shares of Stock have been recorded in your name in book entry form. Until that time, you shall not have any voting rights with respect to the Restricted Stock Units. Except as provided in Section 9 above, no adjustment shall be made for dividends or distributions or other rights with respect to such shares for which the record date is prior to the date on which you become the holder of record thereof. Anything herein to the contrary notwithstanding, if a law or any regulation of the U.S. Securities and Exchange Commission or of any other body having jurisdiction shall require the Company or you to take any action before shares of Stock can be delivered to you hereunder, then the date of delivery of such shares may be delayed accordingly.

13. Securities Laws. If a Registration Statement under the U.S. Securities Act of 1933, as amended, is not in effect with respect to the shares of Stock to be delivered pursuant to this Agreement, you hereby represent that you are acquiring the shares of Stock for investment and with no present intention of selling or transferring them and that you will not sell or otherwise transfer the shares except in compliance with all applicable securities laws and requirements of any stock exchange on which the shares of Stock may then be listed.

14. Not a Public Offering. If you are resident outside the U.S., the grant of the Restricted Stock Units is not intended to be a public offering of securities in your country of residence (or country of employment, if different). The Company has not submitted any registration statement, prospectus or other filings with the local securities authorities (unless otherwise required under local law), and the grant of the Restricted Stock Units is not subject to the supervision of the local securities authorities.

15. Insider Trading/Market Abuse Laws. Your country of residence may have insider trading and/or market abuse laws that may affect your ability to acquire or sell shares of Stock under the Plan during such times you are considered to have "inside information" (as defined in the laws in your country). These laws may be the same or different from any Company insider trading policy. You acknowledge that it is your responsibility to be informed of and compliant with such regulations, and you are advised to speak to your personal advisor on this matter.

16. Repatriation: Compliance with Law. If you are resident or employed outside the U.S., as a condition of the Award, you agree to repatriate all payments attributable to the shares of Stock and/or cash acquired under the Plan in accordance with applicable foreign exchange rules and regulations in your country of residence (and country of employment, if different). In addition, you agree to take any and all actions, and consent to any and all actions taken by the Company and its Affiliates, as may be required to allow the Company and its Affiliates to comply with local laws, rules and/or regulations in your country of residence (and country of employment, if different). Finally, you agree to take any and all actions as may be required to comply with your personal obligations under local laws, rules and/or regulations in your country of residence and country of employment, if different).

17. No Advice Regarding Grant. No employee of the Company is permitted to advise you regarding your participation in the Plan or your acquisition or sale of the shares of Stock underlying the Restricted Stock Units. You are hereby advised to consult with your own personal tax, legal and financial advisors before taking any action related to the Plan.

18. Change in Stock. In the event of any change in Stock, by reason of any stock dividend, recapitalization, reorganization, split-up, merger, consolidation, exchange of shares, or of any similar change affecting Stock, the number of Restricted Stock Units subject to this Agreement shall be equitably adjusted by the Committee.

19. Nature of the Award. In accepting the Award, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and limited in duration, and it may be modified, amended, suspended or terminated by the Company, in its sole discretion, at any time;

(b) the grant of the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;

(c) all decisions with respect to future Awards or other grants, if any, will be at the sole discretion of the Company, including, but not limited to, the form and timing of the Award, the number of shares subject to the Award, and the vesting provisions applicable to the Award;

(d) the Award and your participation in the Plan shall not create a right to employment or be interpreted as forming an employment or service contract with the Company or any Affiliate and shall not interfere with the ability of the Company, your Employer or an Affiliate, as applicable, to terminate your employment or service relationship;

(e) you are voluntarily participating in the Plan;

(f) the Award and the shares of Stock subject to the Award are not intended to replace any pension rights or compensation;

(g) the Award, the shares of Stock subject to the Award and the value of same, is an extraordinary item of compensation outside the scope of your employment (and employment contract, if any) and is not part of normal or expected compensation for any purpose, including, without limitation, calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(h) the future value of the shares of Stock underlying the Award is unknown, indeterminable and cannot be predicted with certainty;

(i) unless otherwise determined by the Committee in its sole discretion, a Termination of Service shall be effective from the date on which active employment or service ends and shall not be extended by any statutory or common law notice of termination period;

(j) no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from a Termination of Service (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any), and in consideration of the grant of the Award to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, your Employer or any Affiliate, waive your ability, if any, to bring any such claim, and release the Company, the Employer and all Affiliates from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim;

(k) unless otherwise provided herein, in the Plan or by the Company in its discretion, the Award and the benefits evidenced by this Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Stock of the Company; and

(l) neither the Company nor any Affiliate shall be liable for any foreign exchange rate fluctuation between your local currency and the U.S. dollar that may affect the value of the Award or of any amounts due to you pursuant to the settlement of the Award or the subsequent sale of any shares of Stock acquired upon settlement of the Award.

20. Committee Authority; Recoupment. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate for the administration of the Plan and this Agreement, including the enforcement of any recoupment policy, all of which shall be binding upon you and any claimant. Any inconsistency between this Agreement and the Plan shall be resolved in favor of the Plan.

21. Consent to Collection/Processing/Transfer of Personal Data. Pursuant to applicable personal data protection laws, the Company hereby notifies you of the following in relation to your personal data and the collection, processing and transfer of such data in relation to the Company's grant of the Restricted Stock Units and your participation in the Plan. The collection, processing and transfer of personal data is necessary for the Company's administration of the Plan and your participation in the Plan, and your denial and/or objection to the collection, processing and transfer of personal data may affect your participation in the Plan. As such, you voluntarily acknowledge and consent (where required under applicable law) to the collection, use, processing and transfer of personal data as described herein:

(a) The Company and your Employer hold certain personal information about you, including (but not limited to) your name, home address and telephone number, date of birth, social security number or other employee identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all entitlements to shares of Stock awarded, canceled, purchased, vested, unvested or outstanding in your favor, for the purpose of managing and administering the Plan ("Data"). The Data may be provided by you or collected, where lawful, from the Company, its Affiliates and/or third parties, and the Company and your Employer will process the Data for the exclusive purpose of implementing, administering and managing your participation in the Plan. The Data processing will take place through electronic and non-electronic means according to logics and procedures strictly correlated to the purposes for which Data are collected and with confidentiality and security provisions as set forth by applicable laws and regulations in your country of residence (or country of employment, if different). Data processing operations will be performed minimizing the use of personal and identification data when such operations are unnecessary for the processing purposes sought. Data will be accessible within the organization only by those persons requiring access for purposes of the implementation, administration and operation of the Plan and for the participation in the Plan.

(b) The Company and your Employer will transfer Data internally as necessary for the purpose of implementation, administration and management of your participation in the Plan, and the Company and/or your Employer may further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. These recipients may be located in the European Economic Area, or elsewhere throughout the world, such as the United States. You hereby authorize (where required under applicable law) the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, as may be required for the administration of the Plan and/or the subsequent holding of the shares of Stock on your behalf, to a broker or other third party with whom you may elect to deposit any shares of Stock acquired pursuant to the Plan.

(c) You may, at any time, exercise your rights provided under applicable personal data protection laws, which may include the right to (i) obtain confirmation as to the existence of the Data, (ii) verify the content, origin and accuracy of the Data, (iii) request the integration, update, amendment, deletion or blockage (for breach of applicable laws) of the Data, (iv) oppose, for legal reasons, the collection, processing or transfer of the Data which is not necessary or required for the implementation, administration and/or operation of the Plan and your participation in the Plan, and (v) withdraw your consent to the collection, processing or transfer of Data as provided hereunder (in which case, your Restricted Stock Units will become null and void). You may seek to exercise these rights by contacting your Human Resources manager or the Company's Human Resources Department, who may direct the matter to the applicable Company privacy official.

22. Addendum to Agreement. Notwithstanding any provision of this Agreement to the contrary, the Restricted Stock Units shall be subject to any special terms and conditions for your country of residence (and country of employment, if different) as set forth in the addendum to the Agreement, attached hereto as Exhibit A (the "Addendum"). Further, if you transfer your residence and/or employment to another country reflected in the Addendum, the special terms and conditions for such country will apply to you to the extent the Company determines, in its sole discretion, that the application of such terms and conditions is necessary or advisable to comply with local laws, rules and/or regulations or to facilitate the operation and administration of the Restricted Stock Units and the Plan (or the Company may establish alternative terms and conditions as may be necessary or advisable to accommodate your transfer). The Addendum shall constitute part of this Agreement.

23. Additional Requirements . The Company reserves the right to impose other requirements on the Restricted Stock Units, any shares of Stock acquired pursuant to the Restricted Stock Units and your participation in the Plan to the extent the Company determines, in its sole discretion, that such other requirements are necessary or advisable in order to comply with local laws, rules and/or regulations or to facilitate the operation and administration of the Restricted Stock Units and the Plan. Such requirements may include (but are not limited to) requiring you to sign any agreements or undertakings that may be necessary to accomplish the foregoing.

24. Amendment or Modification, Waiver . Except as set forth in the Plan, no provision of this Agreement may be amended or waived unless the amendment or waiver is agreed to in writing, signed by you and by a duly authorized officer of the Company. No waiver of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

25. Electronic Delivery . The Company may, in its sole discretion, deliver by electronic means any documents related to the Award or your future participation in the Plan. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

26. Governing Law and Jurisdiction . This Agreement is governed by the substantive and procedural laws of the state of Illinois. You and the Company shall submit to the exclusive jurisdiction of, and venue in, the courts in Illinois in any dispute relating to this Agreement without regard to any choice of law rules thereof which might apply the laws of any other jurisdictions.

27. English Language . If you are resident in a country where English is not an official language, you acknowledge and agree that it is your express intent that this Agreement, the Plan and all other documents, notices and legal proceedings entered into, given or instituted pursuant to the Award, be drawn up in English. If you have received this Agreement, the Plan or any other documents related to the Award translated into a language other than English, and if the meaning of the translated version is different than the English version, the English version will control.

28. Conformity with Applicable Law . If any provision of this Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

29. Successors. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall, upon your death, acquire any rights hereunder.

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This Agreement contains highly sensitive and confidential information. Please handle it accordingly.

Please read the attached Exhibit A. Once you have read and understood this Agreement and Exhibit A, please click the acceptance box to certify and confirm your agreement to be bound by the terms and conditions of this Agreement and Exhibit A, and to acknowledge your receipt of the Prospectus, the Plan and this Agreement and your acceptance of the terms and conditions of the Award granted hereunder.

**EXHIBIT A****ADDENDUM TO THE  
WALGREENS BOOTS ALLIANCE, INC. 2013 OMNIBUS INCENTIVE PLAN  
RESTRICTED STOCK UNIT AWARD AGREEMENT**

In addition to the terms of the Plan and the Agreement, the Award is subject to the following additional terms and conditions to the extent you reside and/or are employed in one of the countries addressed herein. Pursuant to Section 22 of the Agreement, if you transfer your residence and/or employment to another country reflected in this Addendum, the additional terms and conditions for such country (if any) will apply to you to the extent the Company determines, in its sole discretion, that the application of such terms and conditions is necessary or advisable in order to comply with local laws, rules and/or regulations or to facilitate the operation and administration of the Restricted Stock Units and the Plan (or the Company may establish alternative terms as may be necessary or advisable to accommodate your transfer). All defined terms contained in this Addendum shall have the same meaning as set forth in the Plan and the Agreement.

**FRANCE**

Use of English Language. You acknowledge that it is your express wish that the Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. *Vous reconnaissez avoir expressément exigé la rédaction en anglais de la présente Convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relatifs à, ou suite à, la présente Convention.*

**MEXICO**

1. Commercial Relationship. You expressly recognize that your participation in the Plan and the Company's grant of Restricted Stock Units does not constitute an employment relationship between you and the Company. You have been granted the Restricted Stock Units as a consequence of the commercial relationship between the Company and the Affiliate in Mexico that employs you, and the Company's Affiliate in Mexico is your sole employer. Based on the foregoing, you expressly recognize that (a) the Plan and the benefits you may derive from your participation in the Plan does not establish any rights between you and the Company's Affiliate in Mexico that employs you, (b) the Plan and the benefits you may derive from your participation in the Plan are not part of the employment conditions and/or benefits provided by the Company's Affiliate in Mexico that employs you, and (c) any modifications or amendments of the Plan by the Company, or a termination of the Plan by the Company, shall not constitute a change or impairment of the terms and conditions of your employment with the Company's Affiliate in Mexico that employs you.

2. Extraordinary Item of Compensation. You expressly recognize and acknowledge that your participation in the Plan is a result of the discretionary and unilateral decision of the Company, as well as your free and voluntary decision to participate in the Plan in accordance with the terms and conditions of the Plan, the Agreement and this Addendum. As such, you acknowledge and agree that the Company, in its sole discretion, may amend and/or discontinue your participation in the Plan at any time and without any liability. The Award, the shares of Stock subject to the Award and the value of same is an extraordinary item of compensation outside the scope of your employment contract, if any, and is not part of your regular or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits, or any similar payments, which are the exclusive obligations of the Company's Affiliate in Mexico that employs you.

**MONACO**

Use of English Language. You acknowledge that it is your express wish that the Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. *Vous reconnaissez avoir expressément exigé la rédaction en anglais de la présente Convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relatifs à, ou suite à, la présente Convention.*

**NETHERLANDS**

Exclusion of Claim. You acknowledge and agree that you will have no entitlement to compensation or damages insofar as such entitlement arises or may arise from your ceasing to have rights under or to be entitled to the Restricted Stock Units, whether or not as a result of your Termination of Service (whether such termination is in breach of contract or otherwise), or from the loss or diminution in value of the Restricted Stock Units. Upon the grant of Restricted Stock Units, you shall be deemed irrevocably to have waived any such entitlement.

**SPAIN**

1. Acknowledgement of Discretionary Nature of the Plan; No Vested Rights. This provision supplements the terms of the Agreement:

In accepting the Award, you acknowledge that you consent to participation in the Plan and have received a copy of the Plan.

You understand that the Company has unilaterally, gratuitously and in its sole discretion granted Restricted Stock Units under the Plan to individuals who may be employees of the Company or its Affiliates throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any of its Affiliates on an ongoing basis. Consequently, you understand that the Restricted Stock Units are granted on the assumption and condition that the Restricted Stock Units and the shares of Stock acquired upon settlement of the Restricted Stock Units shall not become a part of any employment contract (either with the Company or any of its Affiliates) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, you understand that this grant would not be made to you but for the assumptions and conditions referenced above; thus, you acknowledge and freely accept that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, the Award shall be null and void.

Further, you understand and agree that the vesting of the Restricted Stock Units is expressly conditioned on your continued and active rendering of service, such that upon a Termination of Service, the Restricted Stock Units may cease vesting immediately, in whole or in part, effective on the date of your Termination of Service (unless otherwise specifically provided in Section 4, 5 or 6 of the Agreement). This will be the case, for example, even if (a) you are considered to be unfairly dismissed without good cause; (b) you are dismissed for disciplinary or objective reasons or due to a collective dismissal; (c) you terminate service due to a change of work location, duties or any other employment or contractual condition, (d) you terminate service due to a unilateral breach of contract by the Company or an Affiliate. Consequently, upon a Termination of Service for any of the above reasons, you may automatically lose any rights to Restricted Stock Units that were not vested on the date of your Termination of Service, as described in the Plan and Agreement.

You acknowledge that you have read and specifically accept the conditions referred to in the Agreement regarding the impact of a Termination of Service on your Award.

2. Termination for Cause. “Cause” shall be defined as indicated in Section 7 of the Agreement, irrespective of whether the termination is or is not considered a fair termination (i.e., “despido procedente”) under Spanish legislation.

## UNITED KINGDOM

1. Responsibility for Taxes; Tax Withholding. The following provision supplements Section 10 of the Agreement:

If payment or withholding of the income tax due in connection with the Award is not made within ninety (90) days after the end of the U.K. tax year in which the event giving rise to the income tax liability occurred or such other period specified in Section 222 (1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003 (the “Due Date”), the amount of any uncollected income tax shall constitute a loan owed by you to your Employer, effective as of the Due Date. You agree that the loan will bear interest at the then-current official rate of Her Majesty’s Revenue & Customs (“HMRC”), it shall be immediately due and repayable, and the Company or Employer may recover it at any time thereafter by any of the means referred to in Section 10 of the Agreement. Notwithstanding the foregoing, if you are a director or executive officer of the Company (within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), will not be eligible for a loan to cover the income tax liability. In the event that you are a director or executive officer and the income tax is not collected from or paid by you by the Due Date, the amount of any uncollected income tax may constitute a benefit to you on which additional income tax and national insurance contributions (“NICs”) will be payable. You will be responsible for paying and reporting any income tax due on this additional benefit directly to HMRC under the self-assessment regime, and for reimbursing the Company or your Employer (as applicable) the value of any employee NICs due on this additional benefit.

2. Exclusion of Claim. You acknowledge and agree that you will have no entitlement to compensation or damages insofar as such entitlement arises or may arise from your ceasing to have rights under or to be entitled to the Restricted Stock Units, whether or not as a result of your Termination of Service (whether such termination is in breach of contract or otherwise), or from the loss or diminution in value of the Restricted Stock Units. Upon the grant of Restricted Stock Units, you shall be deemed irrevocably to have waived any such entitlement.

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By clicking the acceptance box for this grant agreement, I acknowledge receipt of the Restricted Stock Unit Award Agreement to which this Addendum is attached as Exhibit A, and I agree to the terms and conditions expressed in this Addendum.

**RULES OF THE  
ALLIANCE BOOTS 2012 LONG TERM INCENTIVE PLAN**

**(Adopted by the Board of  
AB Acquisitions UK Topco Limited  
on 22 May 2013)**

**( Amended by the Board of  
AB Acquisitions UK Topco Limited  
on 24 December 2014)**

**ALLEN & OVERY**

**Allen & Overy LLP**

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## **1. DEFINITIONS AND INTERPRETATION**

### **1.1 Definitions**

The words and expressions used in the Rules which have initial capital letters have the meanings set out in Appendix 1.

### **1.2 Interpretation**

The headings in the Rules are for convenience and should be ignored when construing the Rules. Unless the context requires otherwise, words in the singular are deemed to include the plural and vice versa and words implying either gender are deemed to include both genders.

Reference in the Rules to any statutory provisions are to those provisions as amended or re-enacted from time to time, and include any regulations or other subordinate legislation made under them.

## **2. GRANT OF AWARDS**

### **2.1 Operation of the Plan**

The Board will, from time to time, set the policies for the Company's operation and administration of the Plan within the terms of the Rules. The policies may include the determination of:

- (a) the Eligible Employees who may be granted Awards;
- (b) the value, at its Date of Grant, of an Eligible Employee's Award;
- (c) what performance condition(s) (if any) will apply to the vesting of an Award or Part of an Award and how the performance condition(s) will be measured; and
- (d) how Awards are granted.

### **2.2 Eligible Employees**

An Eligible Employee may be recommended from time to time for the grant of an Award. The grant of an Award to an Eligible Employee does not create any right or expectation of the grant of a further Award in the future.

### **2.3 Grant of Awards**

The Board will determine:

- (i) which Eligible Employees will be granted Awards under the Plan; and
- (ii) the value of an Award at its Date of Grant.

An Award will be granted so that it constitutes a binding agreement between the Participant and the Company. A single deed of grant may be executed in favour of any number of Participants. There will be no payment for the grant of an Award. The first Awards granted under the Plan will be granted to take effect from 1 August 2012.

## **2.4 When Awards can be granted**

Awards may be granted at any time that the Board determines appropriate, but subject always to any restrictions imposed by any applicable statute, order or regulation. No Award can be granted after the Plan Period.

## **2.5 Approvals and consents**

The grant of an Award will be subject to obtaining any approval or consent required under any applicable regulations or enactments.

## **2.6 Notification of grant**

A Participant will be notified of the grant of an Award and be advised of the Date of Grant, the number of Shares under the Share Part of the Award, the condition to which any Part of the Award is subject (or when those conditions will be set) and the Performance Period of the Award. Participants may also be advised where the information relating to their Awards can be accessed or obtained electronically.

## **2.7 Awards personal to Participants**

An Award is personal to the Participant to whom it is granted and may not, nor may any rights in respect of it, be transferred, assigned, charged or otherwise disposed of to any person except that, on the death of a Participant, an Award may be transmitted to the Participant's personal representatives. The grant of an Award is confidential to a Participant and may not be disclosed to any person other than the Participant's spouse or legal or financial adviser or to comply with any applicable laws or regulations.

## **2.8 Disclaimer of Awards**

A Participant may disclaim all or part of an Award by notice in writing to the Grantor within 30 days after the Date of Grant. No consideration will be paid for the disclaimer of the Award. To the extent that an Award is disclaimed, it will be treated for all purposes as never having been granted.

## **3. CONDITIONS**

### **3.1 General**

Each Part of an Award will, unless the Board decides otherwise, be subject to a condition selected by the Board which will normally have to be met before the relevant Part of the Award can vest. Any condition:

- (a) must be stated in writing either at the Date of Grant or any later date determined by the Board;
- (b) may be amended or substituted if one or more events occur which cause the Board to consider that an amended or substituted condition would be more appropriate; and
- (c) may be waived if anything happens which causes the Board reasonably to consider that it should be waived.

### **3.2 Group Target**

The Group Target Part of an Award will be subject to a performance condition based on the trading profit performance of the Group excluding profits and costs directly attributed to the synergy programme (the **TP Target** ), for each of the years (or other shorter periods) comprised in the Performance Period of the Award (with the first Performance Period commencing 1 April 2012). Such percentage of the value of the Group Target Part as is determined by the Board will be subject to the TP Target for any year (or other period) in the Performance Period. As soon as reasonably practicable following:

- (a) the start of any year in the Performance Period the Board will determine the TP Target for that year; and
- (b) the end of the any year (or other period) in the Performance Period the Remuneration Committee will determine whether the TP Target for that year (or other period) has been met and whether that element of the Group Target Part of an Award allocated to that year (or other period) will vest on the Normal Vesting Date.

### **3.3 Synergy Target**

The Synergy Target Part of an Award will be subject to a performance condition based on the synergy targets set for each year (or other shorter periods) (the **Synergy Target** ), comprised in the Performance Period of the Award. Such percentage of the value of the Synergy Target Part of an Award as is determined by the Board will be subject to the Synergy Target for any year (or other period) in the Performance Period. As soon as reasonable practicable following:

- (a) the start of any year in the Performance Period the Board will determine the Synergy Target for that year; and
- (b) the end of any year (or other period) in the Performance Period the Board will determine whether the Synergy Target for that year (or other period) has been met and whether that element of the Synergy Target Part of an Award allocated to that year (or other period) will vest on the Normal Vesting Date.

### **3.4 Share Part**

Notwithstanding any other Rule the Share Part of an Award will only vest:

- (a) if the Participant remains in Employment on the date of the Second Step Acquisition; or
- (b) pursuant to Rule 4.5 (Death).

### **3.5 No Re-testing**

There will be no re-testing of the condition applicable to any Part of an Award.

## **4. VESTING OF AWARDS**

### **4.1 Normal rule for vesting**

Subject to Rule 4.9 and except as otherwise provided in this Rule 4 and in Rule 5, an Award will vest:

- (a) in respect of the Group Target Part and the Synergy Target Part on the earlier of:

- (i) its Normal Vesting Date; and
  - (ii) the day immediately before the date of the Second Step Acquisition; and
- (b) in respect of the Share Part only on the day immediately before the date of the Second Step Acquisition,

provided that, in each case, the Participant is then in Employment and subject to the additional vesting conditions in Rules 6.1 and 6.2. A Participant's Award will not vest under this Rule 4 if, at the time it would otherwise have vested, the Participant has been suspended from Employment pending an investigation under the disciplinary procedures applicable to the Participant. The Award may vest, subject to the Rules, following the resolution and dependent on the outcome of the disciplinary procedures.

#### **4.2 Vesting following ceasing to be in Employment (Good Leaver)**

Subject to Rules 4.9, 4.10 and 5, if a Participant ceases to be in Employment before an Award has vested due to:

- (a) disability, ill health or injury;
- (b) Retirement;
- (c) Redundancy;
- (d) the company which employs the Participant ceasing to be a Group Company;
- (e) the transfer or sale of the undertaking or part-undertaking in which the Participant is employed to a person who is not a Group Company; or
- (f) any other circumstances determined by the Board,

the Share Part of the Participant's Award(s) will, unless the Board, in its absolute discretion, determines otherwise, be forfeited in its entirety and the Group Target Part and the Synergy Target Part may, at the discretion of the Board, vest either on the Normal Vesting Date or immediately on the Participant ceasing to be in Employment, provided that to the extent Vested, a US Award will be payable only with respect to the Normal Vesting Date or, if the Participant ceases to be in Employment after the Second Step Acquisition, on the first anniversary of the Second Step Acquisition. If the Board determines that the Share Part of a Participant's Award(s) will not be forfeited it may impose any condition(s) on the continuance of the Share Part that it deems appropriate.

#### **4.3 Cessation of Employment in other circumstances**

If a Participant ceases to be in Employment in any circumstances other than those referred to in Rule 4.2 or 4.5 the Participant's Award (s) will not vest and will lapse on the Participant ceasing to be in Employment.

#### **4.4 Pregnancy**

For the purposes of Rules 4.2 and 5, a Participant who leaves Employment because of pregnancy will cease Employment on the date on which she indicates either that she does not intend to return to work or that she will not be returning to work. If the Participant gives no indication, she will cease Employment on the date specified under any applicable law or in the terms of her Employment, if she has not then returned to work.

#### 4.5 Death

If a Participant dies:

(a) the Group Target Part and the Synergy Target Part of the Award(s) held by the Participant will, subject to Rules 4.9 and 4.10, vest on the date of death; and

(b) the Share Part of the Award(s) may vest to the extent determined by the Board,

and any consequent cash and Shares will be transferred to the Participant's personal representatives.

#### 4.6 Corporate transactions

Subject to Rules 4.9, 4.10 and 5 the Group Target Part and the Synergy Target Part (but not the Share Part) of an Award will vest on the date:

(a) **Takeover** : on which an offeror (together with others, if any, acting in concert with the offeror) obtains Control of the Company as a result of (i) making a general offer to acquire all of the issued ordinary shares of the Company or all of the shares of the Company which are of the same class as the Shares and which, in either case, are not at the time owned by the offeror or any company Controlled by the offeror and/or persons acting in concert with the offeror; or (ii) obtaining Control of the Parent or ultimate holding company of the Company as a result of making a general offer to acquire all of the issued ordinary shares of the relevant company;

(b) **Section 979 notice** : a person first becomes bound or entitled to acquire Shares under sections 979 to 982 of the Companies Act 2006, or would be so entitled but for the fact that there were no dissenting shareholders; and

(c) **Compromise or arrangement under section 899** : when the court sanctions a compromise or arrangement between the Company and its shareholders under section 899 of the Companies Act 2006.

#### 4.7 Reorganisation

Other than in the event of the Second Step Acquisition, if a company (the **Successor Company** ) has obtained Control of the Company, and the shareholders of the Successor Company immediately after it has obtained Control are substantially the same as the shareholders of the Company immediately before that event Awards will not vest pursuant to Rule 4.6 but will continue unaffected.

#### 4.8 Winding up

Subject to Rules 4.9, 4.10 and 5, 5 the Group Target Part and the Synergy Target Part (but not the Share Part) of an Award will vest:

(a) immediately before the passing of a resolution for the voluntary winding-up of the Company; or

(b) on the Court making an order for the winding-up of the Company.

This Rule 4.8 will not apply where the winding-up in either case is for the purpose of a reconstruction or amalgamation.

#### **4.9 Conditions**

An Award will only vest under Rules 4.1, 4.2, 4.5, 4.6 or 4.8 if, and to the extent that, the conditions imposed under Rule 3 have been satisfied at the date of the relevant event, or any earlier date determined by the Board, unless those conditions are waived pursuant to Rule 3.1(c). Where the Board is required to determine the extent of vesting of an Award following the occurrence of an event under which the Award vests before its Normal Vesting Date, the Board will be as constituted before the occurrence of the relevant event.

#### **4.10 Pro rata reduction**

The number of Shares in respect of which the Share Part of an Award will vest pursuant to Rules 4.2, 4.5 and 4.6, will be reduced on a pro rata basis to take account of the time that has elapsed between the Date of Grant and the date of the relevant event as a proportion of the period between the Date of Grant and the expiry of the Performance Period. However, the Board will have discretion to determine that an Award will vest as to either a greater or lesser number of Shares than it would otherwise have done pursuant to this Rule 4.10 if it believes that there are circumstances that warrant such a determination.

#### **4.11 Reduction of number of Shares subject to an Award**

If, subsequent to the grant of an Award, facts become known to the Board which, in its opinion, would justify a reduction in the value of an Award, the Board can reduce the cash payable and/or the number of Shares subject to the Award to take account of this. If the Board exercises its discretion under this Rule 4.11, it will confirm this in writing to the affected Participant and, if necessary, the Trustee. For the avoidance of doubt:

- (a) if the Board exercises this discretion, the Award will be deemed to have been granted over the lower cash amount and/or number of Shares and the vesting of the Award in accordance with the Rules will be by reference to this reduced cash amount and number of Shares; and
- (b) the discretion under this Rule 4.11 will only be capable of exercise by the Board if there has been no change of Control of the Company. However, if, as a result of any change of Control, the Company has a new holding company which immediately after the change of Control has substantially the same shareholders and proportionate shareholdings as the Company did before, the discretion under this Rule 4.11 will be capable of exercise by the remuneration committee of the board of directors of the new holding company.

### **5. LAPSE OF AWARDS**

#### **5.1 Lapse of Awards**

An Award will lapse on the earliest of:

- (a) the date on which a Participant ceases to be in Employment in any circumstances other than those referred to in Rules 4.2 and Rule 4.5;
- (b) the Participant being deprived of the legal or beneficial ownership of the Award by operation of law, or doing or omitting to do anything which causes him to be so deprived or being declared bankrupt; or

- (c) the Participant breaching or attempting to breach Rule 2.7.

## **5.2 Lapse where no or partial vesting**

Where, as a result of the application of Rules 3 or 4.9, an Award has not vested or has only vested in part, the part of the Award that has not vested will lapse immediately.

## **6. CONSEQUENCES OF VESTING**

### **6.1 Consequences of vesting of Awards**

Subject to the remainder of this Rule 6 and Rule 10.7, the cash and/or Shares subject to any Part of an Award in respect of which that Part of the Award has vested in accordance with Rule 4.1 will be paid or delivered, as appropriate, to the Participant (or the Participant's nominee) within 30 days following the date of vesting of that Part of an Award. For a US Award, to the extent of vesting under section 4.6 or 4.8, the portion of such Award that has vested will be paid or delivered within 30 days of such date if the event triggering vesting constitutes a Change in Control as defined in section 409A of the US Code or a liquidation event, in either case allowing for a termination of all US Awards for purposes of Treas. Reg. 1.409A-3(j)(4)(ix) (or a successor provision), or, in all other circumstances, within 30 days of Normal Vesting Date.

### **6.2 Vesting of Group Target Part and Synergy Target Part following the Second Step Acquisition**

If the Group Target Part and Synergy Target Part of an Award vest as a consequence of the Second Step Acquisition one third of the cash in respect of which each of those Parts has vested will be deferred and become payable on the first anniversary of the Second Step Acquisition, provided the relevant Participant remains in Employment on that date. For Awards other than US Awards the amount of cash deferred may be paid earlier, at the discretion of the Board, if the Participant ceases to be employed in any of the circumstances specified in Rule 4.2 before the due date for payment.

### **6.3 Delivery of net number of Shares**

Before the vesting of the Share Part of an Award the Company may determine to reduce the number of Shares in respect of which that Part of the Award will vest by a number that has a value at least (in its estimation) equal to the liability of the Participant to any income tax and social contributions that would have arisen in connection with the vesting of the Share Part of the Award, so that the Award becomes an entitlement to receive both the reduced number of Shares and a cash amount (the **Cash Amount**) equal to the value of the number of Shares by which the Share Part of the Award is reduced (the **Adjusted Award**) and procure that the relevant Group Company) applies such of the Cash Amount as is necessary in making a payment directly to the relevant taxing authority to discharge the liability of the Participant to income tax and social security contributions that arises as a result of the vesting of the Adjusted Award (with any surplus cash being returned to the Participant).

This Rule 6.3 will not apply to Awards made in any jurisdiction where the application of this Rule would cause:

- (a) the grant of the Award to be unlawful or for it to fall outside any applicable securities law exemption; or
- (b) adverse tax consequences for the Participant and/or any Group Company.

#### **6.4 Satisfaction of Share Part in cash**

Subject to Rule 10.7, the Company may, following the vesting of the Share Part of an Award, make a cash payment equal to the Market Value of the Shares in respect of which the Award had vested in lieu of the Participant's right to receive Shares pursuant to Rule 6.1.

#### **6.5 Consents**

The delivery of any Shares or cash under the Plan will be subject to obtaining any approval or consent required under any applicable regulations or enactment.

#### **6.6 Ranking of Shares**

Shares acquired by a Participant under the Plan will rank equally in all respects with the Shares then in issue, except that they will not be entitled to any rights attaching to Shares by reference to a record date falling before the day on which the Participant is entered on Walgreen's register of shareholders in respect of those Shares.

### **7. ADJUSTMENT OF AWARDS**

#### **7.1 Variation in shares**

If there is a Variation, the number and/or type of Shares over which an Award is granted may be adjusted in the manner the Company determines but so that the underlying economic value of the Share Part of the Award remains unchanged.

#### **7.2 Notifying Participants**

The Company will take any steps it considers necessary to notify Participants of any adjustments made under Rule 7.1.

### **8. ADMINISTRATION**

#### **8.1 Administration of the Plan**

The Plan will be administered by the Board. The Board has full authority, consistent with the Rules, to administer the Plan, including authority to interpret and construe any provision of the Plan and to adopt any regulations for administering the Plan and any documents it thinks necessary or appropriate. The Board's decision on any matter concerning the Plan will be final and binding.

#### **8.2 Costs**

The Participating Companies will bear the costs of introducing and operating the Plan (including, but not limited to, stamp duty, stamp duty reserve tax and any other costs relating to the transfer of Shares on the vesting of the Share Part of an Award) in the proportions determined by the Company. The Company may require any Participating Company to enter into an agreement which obliges that company to reimburse the Company for any costs borne by the Company, directly or indirectly, in respect of Participants who are employed by the Participating Company.

#### **8.3 Shares to cover Awards**

The Company will ensure that sufficient Shares are available to satisfy all outstanding Awards.

## **8.4 Notices**

Any notice or other communication in connection with the Plan will be in writing and may be given:

- (a) by personal delivery; or
- (b) by sending it by post:
  - (i) in the case of a company, to its registered office or other address that it notifies in writing; and
  - (ii) in the case of an individual, to the individual's last known address or, where the individual is a director or employee of a Group Company, either to the individual's last known address or to the address of the place of business at which the individual performs the whole or substantially the whole of the duties of the individual's office or employment; or
- (c) by sending it by email or any form of electronic transfer acceptable to the Board:
  - (i) in the case of a company, to the email address or other number or address that the company notifies; and
  - (ii) in the case of an individual, to the individual's last known email address or, where the individual is a director or employee of a Group Company, to the individual's workplace email address.

## **8.5 Time of service of notice**

Any notice under Rule 8.4 will be given:

- (a) if delivered, at the time of delivery;
- (b) if posted, at 10.00am on the second business day after it was put into the post; or
- (c) if sent by email or any other form of electronic transfer, at the time of despatch.

In proving service of notice, it will be sufficient to prove that delivery was made or that the envelope containing it was properly addressed, prepaid and posted or that the email or other form of electronic transfer was properly addressed and despatched, as appropriate.

## **8.6 Local currency equivalent**

The Board may determine for any relevant jurisdiction the exchange rate between UK £ Sterling and the relevant currency to be applied where it is necessary to convert from UK £ Sterling to that currency or vice versa for the purposes of the Plan.

## **9. AMENDMENT**

### **9.1 Board's power to amend the Plan**

Subject to the provisions of this Rule 9, the Board can at any time amend any of the provisions of the Plan in any respect.

## **9.2 Participants' approval**

No amendment will be made under Rule 9.1 which would abrogate or materially affect adversely the subsisting rights of a Participant unless it is made:

- (a) with the written consent of Participants who hold Awards under the Plan to acquire 75 per cent. of the Shares which would be delivered if all of the Awards granted and subsisting under the Plan vested; or
- (b) by a resolution of a meeting of Participants passed by not less than 75 per cent. of the Participants who attend and vote either in person or by proxy,

and, for the purposes of this Rule 9.2, the provisions of the articles of association of the Company and of the Companies Act 2006 relating to shareholder meetings will apply with the necessary changes.

## **9.3 Permitted amendments**

Rule 9.2 will not apply to any amendment which is:

- (a) minor and to benefit the administration of the Plan;
- (b) to take account of any changes in legislation; or
- (c) to obtain or maintain favourable tax, exchange control or regulatory treatment for the Company, any Group Company or any present or future Participant.

## **9.4 Overseas Eligible Employees**

The Board may adopt additional sections of the Plan applicable in any jurisdiction, under which Awards may be subject to additional and/or modified terms and conditions, having regard to any securities, exchange control or taxation laws, regulations or practice which may apply to the Participant, the Company or any Group Company. Any additional section must conform to the basic principles of the Plan. Any additional section and all Awards granted under that section will be governed by and construed in accordance with the laws of England. The Plan is intended to comply with section 409A of the US Code with respect to any US Awards and should be interpreted in accordance with that intention.

## **9.5 Notice of amendments**

Participants will be given written notice of any material amendments to the Plan made under this Rule 9 which affect them as soon as reasonably practicable after they have been made.

## **10. GENERAL**

### **10.1 Termination of the Plan**

The Plan will terminate at the end of the Plan Period or at any earlier time determined by the Board. Termination of the Plan will not affect Awards granted before termination.

## **10.2 Funding the Plan**

The Company and any Group Company may provide money to the Trustees or any other person to enable them to acquire Shares to be held for the purposes of the Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by any applicable law.

## **10.3 Rights of Participants and Eligible Employees**

Nothing in the Plan will give any officer or employee of any Group Company any right to participate in the Plan. Participation in one grant does not imply a right to participate or be considered for participation in a later grant. The rights and obligations of any individual under the terms of his office or employment with a Group Company will not be affected by the individual's participation in the Plan nor any right which he may have to participate under it. A Participant holding an Award will not have any rights of a shareholder of Walgreens with respect to that Award or the Shares subject to it.

## **10.4 No rights to compensation or damages**

A Participant waives all and any rights to compensation or damages for the termination of his office or employment with a Group Company for any reason whatsoever (including unlawful termination of employment) insofar as those rights arise or may arise from his ceasing to have rights under the Plan as a result of that termination or from the loss or diminution in value of such rights or entitlements. Nothing in the Plan or in any document executed under it will give any person any right to continue in employment or will affect the right of any Group Company to terminate the employment of any Participant or Eligible Employee or any other person without liability at any time, with or without cause, or will impose on the Company, any Group Company, the Board, the Remuneration Committee or the Trustees or their respective agents and employees any liability in connection with the loss of a Participant's benefits or rights under the Plan or as a result of the exercise of a discretion under the Plan for any reason as a result of the termination of the Participant's Employment.

## **10.5 The benefits of Rules 10.3 and 10.4**

The benefit of Rules 10.3 and 10.4 is given to the Company, for itself and as trustee and agent of all the Group Companies. The Company will hold the benefit of these Rules on trust and as agent for each of them and may assign the benefit of this Rule 10.5 to any of them.

## **10.6 Share Rights**

Any Shares acquired on the exercise of Awards will be subject to the governing documents of Walgreens from time to time.

## **10.7 Withholding for tax and social security contributions**

Any Group Company, former Group Company or Trustee may withhold such amounts and/or make such arrangements as it considers necessary to meet any liability to taxation or social security contributions for which it or any other Group Company or former Group Company is liable to account in connection with the vesting of Awards, including the delivery of a reduced number of Shares pursuant to Rule 6.3 or the sale of Shares on behalf of a Participant, unless the Participant discharges the liability.

## **10.8 Severability**

The invalidity or non-enforceability of one or more provisions of the Plan will not affect the validity or enforceability of the other provisions of the Plan.

## **10.9 Third parties**

The Plan confers no benefit, right or expectation on an individual who is not a Participant. No third party has any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Plan. Any other right or remedy which a third party may have is unaffected by this Rule 10.9.

## **10.10 Data protection**

All Eligible Employees agree, as a condition of their participation in the Plan, that any personal data in relation to them may be held by a Group Company and/or the Trustees and passed on to a third party broker, registrar, administrator and/or future purchaser of the Company for all purposes relating to the operation or administration of the Plan, including to countries or territories outside the European Economic Area.

## **10.11 Value of benefit**

Any benefits received under the Plan are not pensionable. No benefit or value associated with or received in respect of an Award granted to a Participant under the Plan will be included or otherwise taken into account as part of any calculation undertaken for severance purposes.

## **11. GOVERNING LAW**

These Rules will be governed by and construed in accordance with the laws of England. All Participants, the Company and any other Group Company will submit to the jurisdiction of the English courts in relation to any dispute arising under the Plan.

## APPENDIX 1

### DEFINITIONS

#### Appendix 1

this Appendix 1 which forms part of the Rules;

#### Award

an award will be comprised of three parts, being the rights to receive:

- (a) a cash amount based on the achievement of performance relating to the Group excluding synergies, which will comprise approximately 50 per cent. of the value of the Award at its Date of Grant (the **Group Target Part**);
- (b) a cash amount based on the achievement of synergy targets, which will comprise approximately 25 per cent. of the value of the Award at its Date of Grant (the **Synergy Target Part**); and
- (c) a number of Shares based on continued employment with the Group to the date of the Merger, which will comprise approximately 25 per cent. of the value of the Award at its Date of Grant (the **Share Part**),

and **Part of an/the Award** will be construed accordingly;

#### Board

the board of directors of Alliance Boots International Limited, registered in England and Wales under no. 6166738 or a duly authorised committee of that board;

#### Company

AB Acquisitions UK Topco Limited, registered in England and Wales under no. 06166727;

#### Control

in relation to a body corporate, the power of a person to secure:

- (a) by means of the holding of shares or the possession of voting power in or in relation to that or any other body corporate; or
- (b) by virtue of any power conferred by the articles of association or other document regulating that or any other body corporate,

that the affairs of the first-mentioned body corporate are conducted in accordance with the wishes of that person, and **Controlled** will be construed accordingly;

<b>Date of Grant</b>	with respect to an Award, the date on which it is granted under Rule 2;
<b>Dealing Day</b>	any day on which the New York Stock Exchange is open for the transaction of business;
<b>Eligible Employee</b>	any person who, at the Date of Grant, is an employee of a Group Company;
<b>Employment</b>	employment as an employee of a Group Company;
<b>Group Company</b>	the Parent, and any company which is either a subsidiary undertaking of the Parent or an associate of the Parent (where <b>subsidiary undertaking</b> has the meaning given in section 1162 of the Companies Act 2006 and <b>associate</b> is as defined in International Accounting Standard 28 <i>Investments in Associates and joint ventures (as amended)</i> );
<b>Group Target Part</b>	has the meaning given in the definition of Award;
<b>Market Value</b>	in relation to a Share on any day means an amount equal to its middle market quotation as derived from the New York Stock Exchange;
<b>Second Step Acquisition</b>	the date of completion of the Second Step Acquisition as defined in the Purchase and Option Agreement by and among Alliance Boots GmbH, AB Acquisitions Holdings Limited and Walgreen Co dated 18 June 2012. If the Second Step Acquisition does not constitute a Change in Control for the purposes of section 409A of the US Code, all US Awards will vest as otherwise provided in these Rules, but will be payable only with respect to the Normal Vesting Date;
<b>Normal Vesting Date</b>	with respect to an Award means the date when the Remuneration Committee or the Board, as appropriate, determines whether the conditions applicable to the Group Target Part and the Synergy Target Part have been met for the last Financial Year of the Performance Period of the Award;
<b>Parent</b>	Alliance Boots GmbH;
<b>Participant</b>	an individual who has been granted an Award including, if relevant, the Participant's personal representatives;
<b>Participating Company</b>	a Group Company whose Eligible Employee(s) have been granted or are proposed to be granted (an) Award(s);

<b>Performance Period</b>	with respect to an Award the period of consecutive years (or other periods) for which the Award is expressed to be granted;
<b>Phantom Award</b>	an Award granted pursuant to Appendix 2;
<b>Plan</b>	the Alliance Boots 2012 Long Term Incentive, as amended from time to time in accordance with the Rules;
<b>Plan Period</b>	the period starting on 1 August 2012 and ending on the tenth anniversary of that date;
<b>Redundancy</b>	<p>the termination of a Participant's Employment attributable wholly or mainly to the fact that:</p> <ul style="list-style-type: none"> <li>(a) the employer has ceased or intends to cease: <ul style="list-style-type: none"> <li>(i) to carry on the business for the purpose of which the employee was employed; or</li> <li>(ii) to carry out that business in the place the employee was employed; or</li> </ul> </li> <li>(b) the requirements of that business: <ul style="list-style-type: none"> <li>(i) for employees to carry out work of a particular kind; or</li> <li>(ii) to carry out that work in the place where the employee was employed,</li> </ul> </li> </ul> <p>have ceased or diminished or are expected to cease or diminish;</p>
<b>Remuneration Committee</b>	the remuneration committee of the board of directors of Alliance Boots GmbH;
<b>Retirement</b>	retirement with the agreement of the Participant's employing company;
<b>Rules</b>	the rules of the Plan as amended from time to time;
<b>Share</b>	a fully paid ordinary share in the capital of Walgreens;
<b>Share Part</b>	has the meaning given in the definition of Award;
<b>Synergy Target Plan</b>	has the meaning given in the definition of Award;

<b>Trustees</b>	the trustee or trustees of any employee benefit trust which operates in conjunction with the Plan;
<b>US Award</b>	the portion of any Award that is subject to US income tax and not otherwise exempt from section 409A;
<b>US Code</b>	the United States Internal Revenue Code of 1986, as amended;
<b>Variation</b>	in relation to the equity share capital of Walgreens, a capitalisation issue, an offer or invitation made by way of rights, a subdivision, consolidation, reduction, demerger, or distribution in specie or any other variation in its share capital; and
<b>Walgreens</b>	Walgreen Co.

## APPENDIX 2

### PHANTOM AWARDS

This Appendix 2 constitutes the schedule to the Plan under which Awards may be granted to Participants over a number of notional Shares, giving those Participants the right to a payment in cash only in respect of the Share Part of the Award, calculated in accordance with this Appendix 2, and subject to the terms and provisions of this Appendix 2.

1. The Rules shall apply to the grant of Awards under this Appendix 2, except as specified in this Appendix 2.

2. The following Rules shall be deleted:

2.1 Rule 6.3.

2.2 Rule 6.4.

2.3 Rule 6.6.

2.4 Rule 8.3.

2.5 Rule 9.4.

2.6 Rule 10.2.

2.7 Rule 10.6

and the Rules will be renumbered accordingly.

3. Rule 6.1 will be deleted and replaced by the following:

"Subject to the remainder of this Rule 6 and Rule 10.7, within 30 days following the date of vesting of an Award, the Participant will receive a cash sum equal to the Market Value of the Shares, calculated on the date of vesting, subject to the Share Part of the Award in respect of which it has vested."

4. Rule 6.5 will be deleted and replaced by the following:

"The delivery of any cash under the Plan will be subject to obtaining any necessary approval or consent required under any applicable regulations or enactment."

5. Rule 8.2 will be deleted and replaced by the following:

"The Participating Companies will bear the costs of introducing and operating the Plan. The Company may require any Participating Company to enter into an agreement which obliges that company to reimburse the Company for any costs borne by the Company, directly or indirectly, in respect of Participants who are employed by the Participating Company."

6. Rule 10.7 will be deleted and replaced with the following:

"Any Group Company, former Group Company or the Trustee may withhold such amounts and/or make such arrangements as it considers necessary to meet any liability to taxation or social security contributions for which it or any other Group Company or former Group Company is liable to account in connection with the vesting of Awards."

7. In Appendix I (Definitions) the following will apply:

(a) The definition of " **Award** " will be amended by deleting the wording in (c) and replacing it with the following wording:

"a cash sum by reference to a number of Shares based on continued employment with the Group to the date of the Merger, which will comprise approximately 25 per cent. of the value of the Award at its Date of Grant (the **Share Part** );"

(b) The definition of "Share" will be deleted and replaced by:

"a notional fully paid ordinary share in the capital of Walgreens;"



Sedley Place, 4<sup>th</sup> Floor  
361 Oxford Street  
London  
W1C 2JL

XXXX

Dear X

**The Alliance Boots 2012 Long Term Incentive Plan (the “Plan”)**

I am pleased to provide you with details of an award (the “Award”) granted to you today (the “**Date of Grant**”) under the Plan. The Plan has been designed to reward participants for the continued performance of the Alliance Boots Group, for the delivery of synergies and to align participants with Walgreens through the award of Walgreen shares as part of the Plan.

**Grant of Award**

The Award comprises three separate parts:

- the Group Target Part which is a cash award and has a maximum value of **£X** ;
- the Synergy Target Part, which is a cash award and has a maximum value of **£X** ; and
- the Share Part which is an award of **X** Walgreen shares.

Based on the current Walgreen share price of \$50 per share, the Award has an aggregate value at the Date of Grant of **£X** .

The effective start date of the Plan is 1 August 2012 (The “Effective Date of the Plan”). Each Part of the Award is described more fully below.

**Group Target Part**

The Group Target Part of your Award is subject to a performance condition based on the budget trading profit performance of the Group excluding trading profit from the joint synergy programme with Walgreens (the “**TP Target**”). The performance measurement periods are the respective years ending in March 2013, March 2014, March 2015 and the period from April 2015 to July 2015 (each being a “**Performance Period**”).

At the end of each Performance Period the Remuneration Committee will determine whether the TP Target has been achieved for the Executive Directors of Alliance Boots GmbH, and the same performance measure will apply to the other participants. The table below sets out the portion of the Group Target Part of the Award for each Performance Period:

<b>Performance Periods</b>	<b>% of Group Target Part vesting if TP Target achieved</b>
1 April 2012 to 31 March 2013	22.3%
1 April 2013 to 31 March 2014	33.3%
1 April 2014 to 31 March 2015	33.3%
1 April 2015 to 31 July 2015	11.1%
	100.0%

If the TP Target is not met for any Performance Period then the amount of the Group Target Part of your Award for that Performance Period is nil.

If the merger with Walgreens is completed, two thirds of the total amount vested will be paid immediately, with the remaining third paid one year later if you are still employed by the merged group. If the merger takes place during a Performance Period then the portion vesting will be pro rated. If the merger does not take place by the end of the Performance Periods, then the amount vested will be immediately paid in full.

Any payment due to you in respect of the Group Target Part of your Award will be made to you, net of applicable income taxes and social security contributions.

### **Synergy Target Part**

The Synergy Target Part of your Award is subject to a performance condition based on a synergy target (the “ **Synergy Target** ”). The performance measurement periods are the respective years ending in August 2013, August 2014, August 2015 (each being a “ **Performance Period** ”).

At the end of each Performance Period it will be determined whether the Synergy Target has been achieved. The table below sets out the portion of the Synergy Target Part of the Award for each Performance Period:

<b>Performance Periods</b>	<b>% of Synergy Target Part vesting if Synergy Target achieved</b>
1 August 2012 to 31 August 2013	33.3%
1 September 2013 to 31 August 2014	33.3%
1 September 2014 to 31 August 2015	33.3%
	100.0%

If the Synergy Target is not met for any Performance Period then the amount of the Synergy Target Part of your Award for that Performance Period is nil.

If the merger with Walgreens is completed, two thirds of the total amount vested will be paid immediately, with the remaining third paid one year later if you are still employed by the merged group. If the merger takes place during a Performance Period then the portion vesting will be pro rated. If the merger does not take place by the end of the Performance Periods, then the amount vested will be immediately paid in full.

Any payment due to you in respect of the Synergy Target Part of your Award will be made to you, net of applicable income taxes and social security contributions.

### **Share Part**

There is no performance condition associated with the Share Part of your Award. It will vest if the merger with Walgreens is completed and you remain in employment with the Alliance Boots Group (and are not working your notice or are on garden leave from your employer) on the date of completion of the merger with Walgreens.

The transfer of any shares to you under the Share Part of your Award will be made under arrangements that ensure that any applicable income tax and social security contributions that arise in connection with the transfer will be withheld.

### **Cessation of Employment**

If you cease to be employed for any reason other than those mentioned below (or you are working a notice period or are on garden leave from your employer) before the award vests, the Share Part, the Group Target Part and the Synergy Target Part of your Award will lapse.

If you cease to be employed by the Group due to death, disability, retirement, redundancy, or the company or business in which your work ceasing to be part of the Group, the Group Target Part and the Synergy Target Part may vest subject to the extent determined by the Board as defined in the rules of the Plan.

**Plan Rules**

Your Award is made subject to the terms of the Plan and in the event of any discrepancy between the content of this letter and the terms of the Plan, the terms of the Plan will prevail.

A copy of the rules of the Plan is available from Frank Standish. Please e-mail a request to frank.standish@allianceboots.com if you wish to receive a copy.

**This Award is personal to you and it must be kept confidential. Failure to keep details of this Award confidential will result in its forfeiture .**

**Taxation**

A general summary of the tax position for this award in your jurisdiction is enclosed.

**The summary is intended only as a general guide to the taxation position in your jurisdiction and does not constitute tax or legal advice. It has been prepared on the basis of current legislation and revenue practice as at the date of this letter, which may change in the future. If you are in any doubt as to your personal tax position or as to how the legislation works in relation to your own particular circumstances, you should contact your personal tax adviser.**

If you have any questions about the Plan or the award granted to you under it, please contact Frank Standish on XXXXXX or email XXXXXX.

Yours sincerely,

Stefano Pessina

Dominic Murphy

For and on behalf of Alliance Boots



**Senior Management Annual Incentive Plan**

**2014/2015**

**Bonus Scheme Rules**

**(Group & Division)**

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## 1. ELIGIBILITY

### Country

Eligibility for a business/country senior management incentive plan should include the Managing Director/Country Manager plus their immediate management team as approved by the Alliance Healthcare Chief Executive in conjunction with the Divisional HR Director.

### Division

Eligibility for a division senior management incentive plan should include the division head's immediate management team as approved by the Alliance Healthcare Chief Executive in conjunction with the Divisional HR Director.

### Group

Eligibility for participating in the plans for Group employees is restricted to Senior Group Employees plus other employees selected by the relevant Group Executive Director in conjunction with the Group HR Director on a discretionary basis.

## 2. BONUS PLAN DESIGN

Bonuses will be calculated using the following formula and weight factors:

<b>Total Bonus =</b>	<b>Business performance bonus</b>	<b>60% Weight</b>
	<b>+ Individual performance bonus</b>	<b>40% Weight</b>

## 3. PERFORMANCE MEASURES

The performance measures used reflect the specific priorities for this performance year and are also a selection of particular and relevant organisational unit measures.

The primary measures of business performance will be based on key criteria for each business, as defined in the annual budget.

For **Business Performance** objectives a separate and unit specific table is provided for each relevant organisational unit.

**Individual Performance** Rating from 5 to 1. An individual performance rating of 1 will result in no bonus. The ratings are as follows: 1 = Did not meet expectations on the most important objectives, 2 = Met expectations on most objectives, 3 = Met the objectives, 4 = Met the objectives and exceeded expectations on some objectives, 5 = Significantly exceeded expectations on the objectives.

The definitions will be used consistently across the business and are as per the group reporting system Cognos.

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Individual performance will be based on the Alliance Boots Senior Management appraisal process and rating.

#### 4. **SETTING TARGETED PAYMENTS**

The aim of an annual incentive plan is to deliver a competitive bonus payment, compared to similar roles within the local market, for the achievement of a challenging performance target. It will be assumed that all approved targets include an appropriate degree of stretch. For details please see respective unit specific bonus table.

#### 5. **MINIMUM THRESHOLD**

Bonus payments in respect of each performance measure, either business or individual, should commence to accrue once an acceptable level of performance has been achieved. For example:

- No bonus will be paid to individuals if the business performance for those businesses shown on the bonus schedule fail to reach the minimum threshold for bonus payments.
- No bonus will be paid to individuals with a performance rating of 1.
- Where an individual's performance rating is 2, the Managing Director/Country Manager will have the discretion to recommend that the relevant business bonus should also be reduced by up to 50%.
- Where an individual's performance rating is 2, the Divisional Executive Director will have the discretion to recommend that the relevant divisional bonus should also be reduced by up to 50%.
- Where an individual's performance rating is 2, the Group Executive Director will have the discretion to recommend that the relevant group bonus should also be reduced by up to 50%.

#### 6. **BONUSES AND COMPANY PENSION SCHEMES**

Annual bonuses will not be pensionable.

#### 7. **REVIEW AND APPROVAL PROCESS**

Plans for each organisational unit will be approved by the relevant Executive Director in agreement with the Group Finance Director and the HR Director.

#### 8. **ADMINISTRATION AND CONDITIONS FOR PAYMENT**

- The Plan will run for an accounting year (01.04.14-31.3.15). The Plan is discretionary and the Company reserves the right to withdraw or vary the Plan at the end of any review period. Participation in the Plan in any one year will be at the sole discretion of the relevant Executive Director.

- Any payment under the Plan will be paid with the June payroll, after the results for the year have been confirmed.
- At the discretion of the Executive Director new employees commencing during the year will be eligible to join the Plan on a pro-rata basis for whole months worked, provided they have commenced employment prior to 1 January 2015.
- Individuals transferring to positions which are eligible for the Plan, or moving to positions covered by a different country or division or group scheme, will be eligible for a reward for the relevant position(s) on a pro-rata basis for whole months worked, provided they have worked for at least three months in the role. The subsequent reward will be based on the appropriate salary for each role carried out. If they have worked for less than three months in the new role, the full year's award will be based on their previous role and salary.
- Personal Bonuses will be prorated for any periods of paid or unpaid leave of absence, such as Parental Leave, Maternity Leave, Time off for family emergencies, sickness etc.
- Participants leaving the Group's employment, for any reason, before payment falls due, or employees under notice at that time, will forfeit any right to a bonus payment from the Plan. However, bonuses for members retiring or leaving the Group early due to ill-health retirement will be paid at the discretion of the Division Executive Director.
- The relevant Executive Director reserves the right to exercise discretion in interpreting the rules of the Plan.

**DATED 28th March 2002**

**Alliance UniChem Plc**

and

**George Rollo Fairweather**

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**EMPLOYMENT AGREEMENT**

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**AN AGREEMENT** made this TWENTY-EIGHTH day of March 2002

**BETWEEN:**

1. 'the Company': **Alliance UniChem Plc** (registered number: 2515178) whose registered office is at Alliance House, 2 Heath Road, Weybridge, Surrey KT13 8AP;
2. 'the Executive': **George Rollo Fairweather** of [ADDRESS]

**OPERATIVE PROVISIONS**

**1. Interpretation**

- 1.1 In this Agreement, the headings and marginal headings to the clauses are for convenience only and have no legal effect.
- 1.2 Any reference in this Agreement to any Act or delegated legislation includes any statutory modification or re-enactment of it or the provision referred to.
- 1.3 Any reference in this Agreement to a person shall include a reference to a firm and corporation and vice versa and any reference to the singular shall include the plural and vice versa.
- 1.4 In this Agreement:

'Alliance UniChem'	means Alliance UniChem Plc (registered number 2515178)
'the Board'	means the Board of Directors of the Company from time to time and includes any committee of the Board duly appointed by it
'Businesses'	means all and any trades or other commercial activities of the Company or any Group Company: <ol style="list-style-type: none"><li>(a) with which the Executive (or any other employee, of the Company or any Group Company, on his behalf or under his instructions) shall have been concerned or involved to any material extent at any time during the period of 12 months ending on the Termination Date; or</li><li>(b) which the Company or any Group Company shall at the Termination Date have determined to carry on in the immediate or foreseeable future and in relation to which the Executive shall at the Termination Date possess any Confidential Business Information</li></ol>

'Chief Executive'	means any person or persons jointly holding such office of Alliance UniChem from time to time and includes any person(s) exercising substantially the functions of a chief executive officer of Alliance UniChem
'Company Invention'	means any improvement, invention or discovery made by the Executive which applying the provisions of section 39 of the Patents Act 1977 in the determination of ownership is, as between the parties, the property of the Company
'Company Secretary'	means the company secretary of Alliance UniChem from time to time
'Confidential Business Information'	means Trade Secrets and all other confidential information of the Company and/or any Group Company, both of which include but are not limited to the following: all and any Corporate Information, Marketing Information, Technical Information and other information (whether or not recorded in documentary form or on computer disk or tape) to which the Company or any Group Company attaches an equivalent level of confidentiality or in respect of which it owes an obligation of confidentiality to any third party which the Executive shall acquire at any time during his employment by the Company but which does not form part of the Executive's own stock in trade
'Corporate Information'	means all and any information (whether or not recorded documentary form or on computer disk or tape) relating to financial projections and targets, financial details and accounts, budgets, the business methods, corporate and business plans, management systems, finances, maturing new business opportunities or research and development projects of the Company or any Group Company
'Customer'	means any person (other than those listed in Schedule 2 hereto (if any) which the parties acknowledge have been introduced by the Executive to the Company) who or which shall be at or have been during the six month period immediately preceding the Termination Date negotiating with the Company or any Group Company for the supply of any Restricted Products or the provision of any Restricted Services or to whom or which the Company or any Group Company shall at any time during the period of one year prior to the Termination Date have supplied any Restricted Products or provided any Restricted Services

'Executive Scheme'	means the Alliance UniChem share option scheme approved by shareholders on 21st May 1997, as the same is currently in force and the same may from time to time hereafter be amended modified or replaced
'Group Company'	means Alliance UniChem and any "subsidiary" company of the Company and any "subsidiary undertaking" the Company (as such expressions are defined by sections 736, 736A, 258 and 259 of the Companies Act 1985) and any other company which for the time being is a company having an ordinary share capital (as defined in section 832 of the Income and Corporation Taxes Act 1988) of which not less than 25 per cent is owned directly or indirectly by the Company applying the provisions of section 838 of the Income and Corporation Taxes Act 1988 in the determination of ownership
'Incentive Scheme'	means the Alliance UniChem share incentive plan approved by shareholders on 12th June 1998, as the same is currently in force and the same may from time to time hereafter be amended modified or replaced
'Marketing Information'	means all and any information (whether or not recorded in documentary form or on computer disk or tape) relating to the marketing or sales of any past, present or future product or service of the Company or any Group Company including without limitation sales targets and statistics, market share and pricing statistics, marketing surveys and plans, market research reports, marketing and advertising plans and materials, marketing and advertising requirements, sales techniques, price list, discount structures, pricing policies, commissions, the names, addresses, telephone numbers, contact names and identities of Customers and potential customers of any suppliers and potential suppliers to the Company or any Group Company, the nature of their business operations, their requirements for any product or service sold by the Company or any Group Company and all confidential aspects of their business relationship with the Company or any Group Company

'Material Interest'	<p>means:</p> <ul style="list-style-type: none"> <li>(a) the holding of any position as director, officer, employee, consultant, partner, sub-contractor, principal or agent or any other position in any person which enables the Executive directly or indirectly to exercise influence;</li> <li>(b) the direct or indirect control or ownership (whether jointly or alone) of any shares (or any voting rights attached to them) or debentures save for the ownership for investment purposes only of not more than 3 per cent of the issued ordinary shares of any company whose shares are listed on any recognised investment exchange (as defined in section 207 of the Financial Services Act 1986); or</li> <li>(c) the direct or indirect provision of any financial assistance (as defined in section 152 of the Companies Act 1985)</li> </ul>
'Pension Scheme'	means the Alliance UniChem pension scheme established by an interim trust deed dated 25th July 1974, as the same may from time to time be amended modified or replaced
'the 1993 Scheme'	means the Alliance UniChem pension scheme for higher rate employees established by a trust deed dated 7th November 1994, as the same is currently in force and as the same may from time to time be amended modified or replaced and which scheme is not, and is not currently intended to be, approved by the Inland Revenue
'Remuneration Committee'	the remuneration committee of Alliance UniChem
'Restricted Area'	means England, Scotland and Wales

‘Restricted Period’	means 12 months from the Termination Date unless the Company has enforced its rights pursuant to clause 16.8.1, in which case ‘Restricted Period’ shall be that period from the Termination Date which aggregated with the period of time during which the Company has enforced its rights under clause 16.8.1 shall amount to 12 months
‘Restricted Products’	means all and any products of a kind that shall be dealt in, produced, marketed or sold by the Company or any Group Company from time to time in the ordinary course of the Businesses
‘Restricted Services’	means all and any services of a kind that shall be provided by the Company or any Group Company from time to time in the ordinary course of the Businesses
‘Shares’	means ordinary shares of ten pence each in the capital of Alliance UniChem being shares available for subscription pursuant to the Executive Scheme
‘Technical Information’	means all and any trade secrets, secret formulae, processes, inventions, designs, know-how, discoveries, technical specifications and other technical information (whether or not recorded in documentary form or on computer disk or tape) relating to the creation, development, production or supply of any past, present or future product or service of the Company or any Group Company
‘Trade Secrets’	means confidential information which is rightly described or regarded by the Company as a trade secret or which it is reasonably apparent is so commercially sensitive as to be a trade secret
‘Termination Date’	means the date on which the Executive shall cease to be employed by the Company

## **2. Appointment and duration**

- 2.1 The Company appoints the Executive and the Executive agrees to act as Group Finance Director. The Executive accepts that the Company may at its discretion require him to perform (without any additional remuneration) other lawful duties or tasks not within the scope his normal duties and the Executive agrees to perform those duties or undertake those tasks as if they were specifically required under this Agreement.

- 2.2 The appointment shall be deemed to have commenced on 1st April 2002 and shall continue (subject to earlier termination as provided in this Agreement) until terminated by the Company giving to the Executive not less than 12 months prior written notice expiring at any time or by the Executive giving to the Company not less than 12 months prior written notice expiring at any time.
- 2.3 The Executive warrants that by virtue of entering into this Agreement or any other agreements or arrangements made or to be made between the Company or any Group Company and him he will not be in breach of any express or implied terms of any contract with or of any other obligation to any third party binding upon him.

### **3. Duties of the Executive**

- 3.1 The Executive shall at all times during the period of this Agreement:
- 3.1.1 devote so much of his time, attention and ability as the Board considers necessary to the duties of his appointment;
  - 3.1.2 faithfully and diligently perform those duties and exercise such powers consistent with them which are from time to time assigned to or vested in him;
  - 3.1.3 obey all lawful and reasonable directions of the Board;
  - 3.1.4 use his best endeavours to promote the interests of the Company and its Group Companies; and
  - 3.1.5 not at any time make any malicious statement relating to the Company or any Group Company or any other statement likely to be harmful to the Company or any Group Company.
- 3.2 The Executive shall (without further remuneration) if and for so long as the Company requires during the period of this Agreement:
- 3.2.1 carry out the duties of his employment on behalf of any Group Company;
  - 3.2.2 act as an officer of any Group Company or hold any other appointment or office as nominee or representative of the Company or any Group Company;
  - 3.2.3 carry out such duties and the duties attendant on any such appointments as if they were duties to be performed by him on behalf of the Company.

### **4. Reporting**

- 4.1 The Executive shall report directly to the Chief Executive and shall at all times keep the Chief Executive promptly and fully informed (in writing if so requested) of his conduct of the business or affairs of the Company and its Group Companies and provide such explanations as the Chief Executive may require.

## 5. Place of work and residence

- 5.1 The Executive shall perform his duties at the head office of the Company from time to time (currently located at Alliance House, 2 Heath Road, Weybridge, Surrey) and/or at such other place of business of the Company or of any Group Company as the Company requires whether inside or outside the United Kingdom. The Executive acknowledges that the Company may require him to permanently relocate to work at any head office or other place of business of the Company and/or any Group Company, within a 25 mile radius of the Company's current head office, but save as aforesaid the Executive shall not be obliged to permanently relocate his place of work. The Company shall not without his prior consent require the Executive to go to or reside anywhere outside the United Kingdom except for occasional visits in the ordinary course of his duties.

## 6. Pay

- 6.1 During his appointment the Company shall pay to the Executive a salary at the rate of £310,000 per year which shall accrue day-to-day and be payable by equal monthly instalments in arrears on or about the 22nd day of each month. The salary shall be deemed to include any fees which may be receivable by the Executive as a director of the Company, if applicable, or any Group Company and shall also be deemed to include any fees receivable by the Executive in respect of any other company or unincorporated body in which he holds office as nominee or representative of the Company or any Group Company.
- 6.2 The Remuneration Committee shall review the Executive's salary from time to time and the rate of salary may be increased by such amount if any as they may resolve.
- 6.3 The Company may in its absolute discretion establish (and from time to time determine, vary or replace) a performance related remuneration scheme for the Executive. Any such scheme shall be discretionary, shall not be a contractual entitlement and the Company shall have no liability to the Executive for failure to establish, pay out under or maintain any such scheme. Without prejudice to the generality of the foregoing, the duration and terms and conditions of any such scheme (including without limitation targets and related payments) shall be as the Company may from time to time in its absolute discretion expressly notify the Executive in writing.

## 7. The Incentive Scheme and Executive Scheme

- 7.1 The Executive may be entitled to subscribe for such number of Shares as the Remuneration Committee may from time to time determine and notify the executive in writing, subject to the terms and conditions of the incentive Scheme and / or the Executive Scheme and **PROVIDED THAT:**
- 7.1.1 prior to any subscription by the Executive he complies with all relevant Inland Revenue regulations and the Company obtains such approval from the Inland Revenue as the Remuneration Committee thinks fit; and

7.1.2 prior to any subscription the Remuneration Committee approves such proposed subscription.

The Company shall be entitled from time to time to amend modify or replace the Incentive Scheme or the Executive Scheme provided that the terms and conditions of any such amended modified or replacement scheme are no less favourable to the Executive than those in force prior to any such amendment modification or replacement

## **8. Pension**

8.1 The Executive shall be entitled to be and remain a member of the Pension Scheme subject to the terms of its deeds and rules from time to time details of which are available from the Company Secretary. For so long as the Executive is a member of the Pension Scheme, the Executive shall also be entitled to become and remain a member of the 1993 Scheme, subject to the terms of its deed and rules from time to time, details of which are available from the Company Secretary.

8.2 The Company shall be entitled at any time to terminate the Pension Scheme and/or the 1993 Scheme (as the case may be) or the Executive's membership thereof subject to providing the Executive with the benefit of an equivalent pension scheme ('the New Scheme') each and every benefit of which shall be no less favourable than the accrued and future benefits provided or to be provided to the Executive under the Pension Scheme or the 1993 Scheme (as the case may be). The Company shall be entitled to amend or modify the Pension Scheme and/or the 1993 Scheme provided that the benefits provided or to be provided under such amended or modified scheme are no less favourable than the accrued benefits provided or to be provided before any such amendment or modification took effect.

8.3 In the event of the death of the Executive while still employed by the Company, the Company shall pay a sum equal to four times his annual salary on the date of his death. The sum payable under this clause 8.3 shall be reduced by any cash sum payable under the Trust of the Pension Scheme less any cash sum constituting a refund of his compulsory contributions to the Pension Scheme.

## **9. Insurance Benefits**

9.1 The Executive shall be entitled to participate at the Company's expense:

9.1.1 for his own benefit in the Company's permanent health insurance scheme; and

9.1.2 for his own, his spouse's and his dependant children's benefit in the Company's private medical expenses insurance scheme; and

9.1.3 for his own, his spouse's and his dependant children's benefit in the Company's personal accident and travel insurance scheme,

subject always to the rules of such schemes from time to time, details of which are available from the Company Secretary.

9.2 The Company shall be entitled to vary or replace any such schemes referred to in clause 9.1 from time to time provided always that the benefits provided under any such varied or replacement scheme are in all material respects (in the Company's reasonable opinion) at least as beneficial to the Executive as the schemes thereby varied or replaced. Notwithstanding the foregoing, if in the reasonable opinion of the Company (whose opinion shall be conclusive) the continuation of any of the benefits set out in this clause 9.2 is not reasonably practicable (including without limitation by reason of the cost thereof) the Company shall be entitled to terminate the provision of any such benefits.

## **10. Car**

10.1 Subject to the Executive holding a current full driving licence the Company shall provide the Executive, for business and private use by him, his spouse and any other driver holding a current full driving licence previously approved by the Company, with a car of a make, model and specification selected by the Company which in the opinion of the Board is commensurate with the current status of the Executive (taking account of any promotions or demotions) and the image of the Company.

10.2 The Company shall bear all insurance costs standing and running expenses of the car with the exception of the cost of fuel and recovery where the car is used outside the United Kingdom for private purposes.

10.3 The Company shall replace such car with the same or equivalent model in accordance with the Company's car policy in effect from time to time.

10.4 The Executive shall always comply with all regulations laid down by the Company from time to time with respect to company cars and shall forthwith notify the Company of any accidents involving his company car and of any charges for parking or driving offences which are brought against him or, in relation to the use of the car brought against any person authorised to use the car as provided in clause 10.1. On the termination of his employment whether lawfully or unlawfully the Executive shall forthwith return his company car (and all sets of keys therefor) clean and in good interior and exterior condition to the Company at its head office.

10.5 Subject to clause 10.6, the Executive may elect to take a cash sum as an alternative to the benefit detailed in clauses 10.1 to 10.4. The sum will be:

10.5.1 in accordance with the Company's car cash alternative policy in effect from time to time;

10.5.2 paid in arrears in twelve equal instalments at the same time as his pay as detailed in clause 6.1;

10.5.3 excluded for the purpose of calculating any other benefit under this Agreement, other than at the sole discretion of the Company.

10.6 If the Executive chooses a car, he may elect to take the cash alternative under clause 10.5 at the time the car is due to be replaced under clause 10.3. If he elects to take the cash alternative under clause 10.5, he may rescind his election to be effective from any 1st January.

## **11. Expenses**

- 11.1 The Company shall reimburse to the Executive on a monthly basis all travelling, hotel, entertainment and other expenses reasonably incurred by him in the proper performance of his duties subject to the Executive complying with such guidelines or regulations issued by the Company from time to time in this respect and to the production to the Company of such vouchers or other evidence of actual payment of such expenses as the Company may reasonably require.
- 11.2 Where the Company issues a company sponsored credit or charge card to the Executive he shall use such card only for expenses reimbursable under clause 11.1 above, and shall return it to the Company forthwith on the termination of his employment (or if so required by the Company on the giving by either party of notice to terminate his employment, whether lawfully or not).
- 11.3 If, in the Company's reasonable opinion, it is necessary or appropriate for the Executive to be and remain a member of a recognised professional regulatory body for the better performance of the Executive's duties, then:
- 11.3.1 the Company shall pay the appropriate subscription and the annual membership fee, to permit the Executive to be and remain a member of such body;
- 11.3.2 the Company shall pay the cost of any fees for continuing education or training that is necessary to permit the Executive to continue as a member of any such body.

## **12. Holiday**

- 12.1 In addition to public holidays the Executive is entitled to 30 working days paid holiday in each holiday year from 1st January to 31st December to be taken at such time or times as are agreed with the Chief Executive. The Executive shall not without the prior consent of the Chief Executive carry forward any unused part of his holiday entitlement to a subsequent holiday year.
- 12.2 For the holiday year during which his employment commences or terminates, the Executive is entitled to 2 1/2 working days holiday for each complete calendar month of his employment by the Company during that holiday year. On the termination of his employment for whatever reason, the Executive shall not be entitled to pay in lieu of outstanding holiday entitlement (save if his employment has been terminated by the Company in breach of the terms and/or conditions of his employment) and the Executive shall be required to repay to the Company any holiday pay received in excess of his actual entitlement.

### **13. Incapacity**

- 13.1 If the Executive shall be prevented by illness (including mental disorder) injury or other incapacity from properly performing his duties hereunder he shall report this fact forthwith to the Chief Executive and if the Executive is so prevented for seven or more consecutive days he shall provide a medical practitioner's statement on the eighth day and weekly thereafter so that the whole period of incapacity is certified by such statements. Immediately following his return to work after a period of absence due to incapacity the Executive shall complete a self-certification form available from the Company Secretary's office detailing the reason for his absence.
- 13.2 If the Executive shall be absent from his duties hereunder due to illness (including mental disorder) injury or other incapacity duly certified in accordance with the provisions of clause 13.1 hereof, he shall be paid his full remuneration hereunder for up to 180 working days' absence in any period of 12 consecutive months and thereafter such remuneration, if any, as the Board shall from time to time determine provided that all such remuneration shall be inclusive of any Statutory Sick Pay to which the Executive is entitled or other benefits recoverable by the Executive (whether or not recovered) may be deducted therefrom.
- 13.3 For Statutory Sick Pay purposes the executive's qualifying days shall be his normal working days.
- 13.4 At any time during the period of this employment the Executive shall at the request and expense of the Company permit himself to be examined by a registered medical practitioner (if in the Company's reasonable opinion any such examination is necessary or appropriate), such medical practitioner to be selected by the Company. The Executive authorises such medical practitioner to disclose to and discuss with the Company's medical adviser the results of such examination ("the Results") and any matters which arise from it in order that the Company's medical adviser can notify the Company of any matters which, in his opinion, might hinder or prevent the Executive (if during a period of incapacity) from returning to work for any period or (in other circumstances) from properly performing any duties of his appointment at any time. Subject to the provisions of law or professional conduct prohibiting disclosures of the Results to the Executive, the Executive shall be entitled to be informed of the Results.
- 13.5 The Company may terminate the Executive's employment on the grounds of incapacity, as set out in clause 16 hereof.

### **14. Acknowledgements by the Executive**

- 14.1 The Executive acknowledges:
- 14.1.1 that the Company and each Group Company possesses a valuable body of Confidential Business Information;
  - 14.1.2 that the Company will give him access to Confidential Business Information in order that he may carry out the duties of his appointment;

- 14.1.3 that the duties of his employment include, without limitation, a duty of trust and confidence and a duty to act at all times in the best interests of the Company;
- 14.1.4 that the Company requires all its senior employees to accept restrictions which are similar to those set out in clauses 15 and 17 for its and each of their mutual protection;
- 14.1.5 that the disclosure of any Confidential Business Information to any customer or actual or potential competitor of the Company or any Group Company could place such company at a serious competitive disadvantage and could cause immeasurable (financial and other) damage to the Businesses;
- 14.1.6 that if during the Restricted Period he was to hold any Material Interest in a Customer or any actual or potential competitor of the Company or any Group Company, it would place such company at a serious competitive disadvantage and would cause immeasurable (financial and other) damage to the Businesses.

**15. Obligations during employment**

15.1 Inventions

- 15.1.1 If at any time during his employment the Executive (whether alone or with any other person or persons) makes any invention which relates either directly or indirectly to the Businesses the Executive shall promptly disclose to the Company full details, including drawings and models, of such invention to enable the Company to determine whether or not it is a Company Invention.
- 15.1.2 If the invention is a Company Invention, the Executive shall hold it in trust for the Company and, at the request and expense of the Company, do all things necessary or desirable to enable the Company or its nominee to obtain for itself the full benefit of and to secure patent or other appropriate forms of protection for the Company Invention throughout the world.
- 15.1.3 Decisions as to the patenting and exploitation of any Company Invention shall be at the sole discretion of the Company.
- 15.1.4 The Executive irrevocably appoints the Company to be his attorney in his name and on his behalf to executive documents. and/or deeds to use the Executive's name and to do all things which may be necessary or desirable for the Company to obtain for itself or its nominee the full benefit of the provisions of clauses 15.1.2 and 15.2.2 and a certificate in writing signed by the Chief Executive that any instrument or act falls within the authority hereby conferred shall be conclusive evidence that such is the case so far as any third party is concerned.

15.2 Copyright etc.

- 15.2.1 The Executive shall promptly disclose to the Company all copyright works or designs originated, conceived, written or made by him alone or with others (except only those works originated, conceived, written or made by him wholly outside his normal working hours which are wholly unconnected with his appointment) and shall hold them in trust for the Company until such rights shall be fully and absolutely vested in the Company.
- 15.2.2 The Executive hereby assigns to the Company by way of future assignment all copyright, design right and other proprietary rights (if any) for the full terms thereof throughout the world in respect of all copyright works and designs originated, conceived, written or made by the Executive (except only those works originated, conceived, written or made by the Executive wholly outside his normal working hours which are wholly unconnected with his appointment) during the period of his appointment with the Company.
- 15.2.3 The Executive hereby irrevocably and unconditionally waives in favour of the Company any and all moral rights conferred on him by Chapter IV of Part I of the Copyright Designs and Patents Act 1988 for any work in which copyright or design right is vested in the Company whether by clause 15.2.2 or otherwise.
- 15.2.4 The Executive shall, at the request and expense of the Company, do all things necessary or desirable to substantiate the rights of the Company under clauses 15.2.2 and 15.2.3.

15.3 Share dealings

- 15.3.1 The Executive shall comply, where relevant, with every rule of law, every requirement of the London Stock Exchange and every regulation of the Company from time to time in force in relation to dealings in the shares, debentures or other securities of the Company or any Group Company and unpublished price sensitive information affecting the shares, debentures or other securities of the Company and any Group Company or any other company and, in relation to overseas dealings, the Executive shall also comply with all laws of the state and all regulations of the stock exchange, market or dealing system in which such dealings take place.
- 15.3.2 The Executive shall not (and shall procure so far as he is able that his spouse and children shall not) deal or become or cease to be interested (within the meaning of Part I of Schedule 7 to the Companies Act 1985) in any securities of the Company or any Group Company except in accordance with any Company rules or guidelines from time to time relating to securities transactions by directors.

15.4 Conflict of interest

15.4.1 The Executive agrees that during the period of his appointment with the Company, he shall:

15.4.1.1 abide by any lawful relevant Company policy that may be promulgated from time to time;

15.4.1.2 not directly or indirectly disclose to any person, firm or company or use other than for any legitimate purposes of the Company or any Group Company any Confidential Business Information and the Executive shall use all due care and diligence to prevent any unauthorised disclosure or use of any Confidential Business Information;

15.4.1.3 not without the Board's prior written permission hold any Material Interest in any person firm or company which:

(a) is or shall be in competition with any of the businesses carried on by the Company and/or any Group Company from time to time;

(b) impairs or might reasonably be thought by the Board to impair his ability to act at all times in the best interests of the Company; or

(c) requires or might reasonably be thought by the Board to require him to disclose any Confidential Business Information in order properly to discharge his duties to or to further his interest in such person, firm or company;

15.4.1.4 not directly or indirectly receive or obtain in respect of any goods or services sold or purchased or other business transacted (whether or not by him) by or on behalf of the Company or any Group Company any discount, rebate, commission or other inducement (whether in cash or in kind) which is not authorised by any Company rules or guidelines from time to time and if he or any person firm or company in which he holds any Material Interest shall obtain any such discount, rebate, commission or inducement, he shall immediately account to the Company for the discount rebate commission or other inducement so received;

15.4.1.5 not (other than for the proper performance of his duties) without the prior authority of the Board remove from the Company and/or any Group Company's premises or copy or allow others to copy the contents of any document, computer disk, tape, memory device, notebook or other tangible item (whether or not eye-readable) which contains any Confidential Business Information or which belongs to the Company or any Group Company;

- 15.4.1.6 return to the Company upon request and, in any event, at the Termination Date all documents, papers, computer disks, tapes, other reusable material, memory devices, notebooks and other tangible items in his possession or under his control (including without limitation those referred to in clause 15.4.2) which belong to the Company or any Group Company or which contain or refer to any Confidential Business Information;
- 15.4.1.7 if so lawfully requested by the Board at any time delete or return to the Company, as the Company may require, all Confidential Business Information from any computer disks, tapes or other reusable material in his possession or under his control and destroy or return to the Company, as the Company may require, all other documents and tangible items in his possession or under his control which contain or refer to any Confidential Business Information.
- 15.4.2 All documents, notes, the contents of all computer discs and tapes, memoranda, records and writing and made by the Executive relating to the business of the Company and/or any Group Company shall be and remain the property of the Company and/or any Group Company to whose business they relate and shall be returned to the company to whom they belong forthwith upon request.
- 15.5 General
  - 15.5.1 The restriction contained in clauses 15.4.1.2 and 17.3:
    - 15.5.1.1 will not restrict the Executive from disclosing (but only to the proper recipient) any Confidential Business Information which the Executive is required to disclose by law or any order of the court of any relevant regulatory body, provided that the Executive shall, unless obliged by law, have given prior written notice to the Company of the requirement and of the information to be disclosed and allowed the Company an opportunity to comment on the requirement before making the disclosure; and
    - 15.5.1.2 will not apply to Confidential Business Information which is in or which comes into the public domain otherwise than as a result of an unauthorised disclosure by the Executive or any other person who owes the Company and/or any Group Company an obligation of confidentiality in relation to the information disclosed.

15.6 Further restrictions

15.6.1 The Executive shall not during his employment (save in a purely social capacity or with the prior express written consent of the Chief Executive) make any contact, whether formal or informal, written or oral, with any of the Company or Group Company's past, current or prospective suppliers of goods for resale, customers or clients for any purpose (including but not limited to an intention to set up a competing business or to seek employment) other than for the legitimate business interests of the Company or Group Company.

15.6.2 The Executive shall not during his employment directly or indirectly:

15.6.2.1 solicit or endeavour to entice away from the Company or any Group Company an employee or consultant, or discourage from being employed or engaged by the Company or any Group Company any person who is an employee or consultant of or, to the knowledge of the Executive, a prospective employee or consultant of the Company or any Group Company; or

15.6.2.2 employ or engage or procure another person to employ or engage any such person.

15.7 The restrictions set out in this clause 15 are without prejudice to the other duties whether fiduciary or otherwise owed to the Company or any Group Company whether express or implied.

**16. Termination of agreement**

16.1 Automatic termination

This Agreement shall automatically terminate:

16.1.1 on the Executive reaching his retirement age being his 60th birthday; or

16.1.2 if the Executive is or becomes a director of the Company and the Executive becomes prohibited by law from being a director; or

16.1.3 if the Executive is or becomes a director of the Company and the Executive resigns his office as a director; or

16.1.4 if the Executive is or becomes a director of the Company and the office of director of the Company held by the Executive is vacated pursuant to the Company's Articles of Association (save if the vacation shall be caused by illness (including mental disorder) or injury) or if the Executive is otherwise duly removed from his office of director.

## 16.2 Suspension

In order to investigate a complaint against the Executive of misconduct the Company is entitled, but shall not be obliged, to suspend the Executive on full pay for so long as may be necessary to carry out a proper investigation and hold a disciplinary hearing. During the period of suspension the Company shall not be obliged to provide work for the Executive and may require the Executive to comply with such conditions as the Company may specify in relation to attending at or remaining away from the places of business of the Company and/or the Group Companies during the period of suspension.

## 16.3 Immediate dismissal

The Company may by notice terminate this Agreement with immediate effect if the Executive:

- 16.3.1 commits any act of gross misconduct or any other material breach of the obligations of his employment or (after written warning) repeats or continues any breach of such obligations; or
- 16.3.2 is guilty of any conduct which in the reasonable opinion of the Board brings him, the Company or any Group Company into disrepute; or
- 16.3.3 is convicted of any criminal offence (excluding an offence under road traffic legislation in the United Kingdom or elsewhere for which he is not sentenced to any term of imprisonment whether immediate or suspended); or
- 16.3.4 commits any act of dishonesty whether relating to the Company, any Group Company, any of its or their employees or otherwise; or
- 16.3.5 becomes bankrupt or makes any arrangement or composition with his creditors generally (under the provisions of the Insolvency Act 1986); or
- 16.3.6 becomes of unsound mind or a patient as defined in either section 112 or 145 of the Mental Health Act 1983 or has been admitted to a hospital in pursuance of an application made under that Act; or
- 16.3.7 contravenes any model code from time to time applicable to directors and/or employees of the Company.

## 16.4 Dismissal on short notice

The Company may terminate this Agreement as follows:

- 16.4.1 notwithstanding clause 13.2 by not less than 6 months' prior notice given at any time while the Executive is incapacitated by ill-health or accident from performing his duties under this Agreement and he has been so incapacitated for a period or periods aggregating more than 180 working days in the preceding 12 months. Provided that the Company shall withdraw any such notice if during the currency of the notice the Executive returns to full time duties and provides a medical practitioner's certificate satisfactory to the Board to the effect that he has fully recovered his health and that no recurrence of his illness or incapacity can reasonably be anticipated.

16.4.2 by not less than one month's prior notice if the Executive has been offered but has refused to agree to the transfer of this Agreement by way of novation to a person, firm or company which has acquired or agreed to acquire the whole or substantially the whole of any undertaking (as defined in the Transfer of Undertakings (Protection of Employment) Regulations 1981) in which he is employed to any extent.

16.5 Resignation on a change in control

The Executive shall be entitled to terminate his employment by giving to the Company not less than 3 months prior notice at any time within one month after a Change in Control of the Company that was at any time opposed by the Board. For the purposes of this clause, a person shall have "Control" of the Company if he or it holds, directly or indirectly, shares which together with shares held by any persons acting in concert with him or it carry 50 per cent or more of the voting rights of the Company and "Change in Control" shall be interpreted accordingly. Words and phrases defined in the City Code on Takeovers and Mergers shall have the same meaning in this clause 16.5.

16.6 Pay in lieu

On notice being served for any reason to terminate this Agreement or at any time thereafter during the currency of such notice the Company shall be entitled at its absolute discretion (but not obliged) to pay to the Executive his salary and other remuneration (if any) (at the rate then payable under clause 6 hereof) for the unexpired portion of the duration of his appointment or entitlement to notice as may be the case.

16.7 Miscellaneous

On the termination of this Agreement for whatever reason, the Executive shall at the request of the Company:

16.7.1 resign from all and any offices which he may hold as a director of the Company or of any Group Company and from all other appointments or offices which he holds as nominee or representative of the Company or any Group Company; and

16.7.2 transfer without payment to the Company or as the Company may direct any qualifying shares provided by it to him;

and if he should fail to do so within seven days the Company is hereby irrevocably authorised to appoint some person in his name and on his behalf to sign any documents or do any things necessary or requisite to effect such resignation(s) and/or transfer(s).

16.8 Provisions applicable during a notice period

- 16.8.1 In the event that either party gives notice to terminate the appointment of the Executive then for a period not exceeding 12 months the Company shall be under no obligation to vest in or assign to the Executive any powers or duties or to provide any work for the Executive and without prejudice to the generality of the foregoing the Company may in its absolute discretion require the Executive to perform only such duties as it may allocate to him (including without limitation research projects or any other work whether or not directly related to the Executive's duties) or not to perform any of his duties under this Agreement or to work in such other capacities as the Company may require (commensurate with the Executive's status) and/or to exclude him from any premises of the Company or of any Group Company (without providing any reason therefor) provided always that throughout any such period the Executive's salary (and other contractual remuneration, if any) under clause 6 and other contractual benefits shall not cease to be paid or provided (unless and until his employment shall be terminated).
- 16.8.2 Action taken on the part of the Company (as referred to in clause 16.8.1) shall not constitute a breach of this Agreement of any kind whatsoever in respect of which the Executive has any claim against the Company.
- 16.8.3 If the Executive fails to make himself available for work during any period of notice of termination of the Executive's employment, other than at the request of the Company pursuant to clause 16.8.1 or with the express permission in writing of the Chief Executive, the Company reserves the right to deduct one day's salary (and any amount payable under any discretionary performance related remuneration scheme pursuant to clause 6.3) for each day of each such absence.
- 16.8.4 If and insofar as the Company exercises its rights under clause 16.8.1 so as to exclude the Executive from the premises of the Company during the notice period, then the Executive may carry out other activities (for persons other than the Company or any other Group Company) subject to obtaining the previous express written consent of the Chief Executive which consent may be given subject to such terms and conditions as he may determine (each of which shall be deemed a condition of this Agreement) and such consent, if given may be revoked at any time. Provided that the Executive has provided the Chief Executive (and at all times kept the Chief Executive up to date and fully informed) on the basis of the utmost good faith, with full particulars of the nature of any interest and the likely demand it will make on his time and abilities, the consent of the Chief Executive to the Executive undertaking any other activities shall not be unreasonably withheld or revoked where, in the reasonable opinion of the Chief Executive the giving or failing to revoke consent would not materially adversely affect the interests of the Company or any Group Company or the full performance by the Executive of his duties hereunder or such duties, if any, as the Company may require the Executive to perform pursuant to clause 16.8.1.

## **17. Obligations after employment**

17.1 The Executive shall not within the Restricted Area directly or indirectly:

- 17.1.1 without prior express consent in writing of the Chief Executive (as referred to in clause 17.2) during the Restricted Period, hold any Material Interest in any business (including without limitation in any Customer) which is or shall be wholly or partly in competition with any of the Businesses including without limitation those listed in Schedule 3 and their respective subsidiaries and holding companies (as defined in sections 736 and 736A of the Companies Act 1985) (being companies in which the parties acknowledge that the Executive would inevitably give his new employer an unfair advantage vis-à-vis the Company in view of his embedded knowledge of the Company and those companies' status as head-on competitors of the Company;
- 17.1.2 without the prior express consent in writing of the Chief Executive (as referred to in clause 17.2) during the Restricted Period, hold any Material Interest in any person, firm or company which requires or might reasonably be thought by the Company to require him to disclose or make use of any Confidential Business Information in order properly to discharge his duties to or to further his interest in such person, firm or company;
- 17.1.3 without the prior express consent in writing of the Chief Executive (as referred to in clause 17.2) during the Restricted Period, seek in any capacity whatsoever (either alone or jointly with any other person and whether on his own account or in partnership with others or as an officer employee agent of or consultant to any other person) any business, orders or custom for any Restricted Products or Restricted Services from any Customer;
- 17.1.4 without the prior express consent in writing of the Chief Executive (as referred to in clause 17.2) during the Restricted Period, accept in any capacity whatsoever (either alone or jointly with any other person and whether on his own account or in partnership with others or as an officer employee agent of or consultant to any other person) orders for any Restricted Products or Restricted Services from any Customer;
- 17.1.5 at any time after the Termination Date (either alone or jointly with any other person and whether on his own account or in partnership with others or as an officer employee agent of or consultant to any other person) interfere or seek to interfere or take such steps as may interfere with the continuance of supplies to the Company and/or any Group Company which are at the Termination Date or have within 12 months prior to the Termination Date been supplying goods, components, materials or supplies to the Company and/or any Group Company;

- 17.1.6 at any time before or after the Termination Date (either alone or jointly with any other person and whether on his own account or in partnership with others or as an officer employee agent of or consultant to any other person) induce or seek to induce by any means involving the disclosure or use of Confidential Business Information any Customer to cease dealing with the Company or any Group Company or to restrict or vary the terms upon which it deals with the Company or any Group Company;
- 17.1.7 for the period of 12 months after the Termination Date (either alone or jointly with any other person and whether on his own account or in partnership with others or as an officer employee agent of or consultant to any other person) solicit or entice away or seek to solicit or entice away from the Company or any Group Company any person who is and was at the Termination Date employed by the Company or any Group Company to work in any of the Businesses as a director senior manager or salesperson and/or who reported directly or indirectly to the Executive;
- 17.1.8 at any time after the Termination Date represent himself or permit himself to be held out by any person firm or company as being in anyway connected with or interested in the Company or any Group Company (save as the holder of Shares if such be the case);
- 17.1.9 at any time after the Termination Date disclose or make use of any Trade Secrets while such Trade Secrets remain in the nature of trade secrets.
- 17.2 The consent of the Chief Executive to the Executive having any interest or engaging in any of the matters referred to in clause 17.1.1, 17.1.2, 17.1.3 and/or 17.1.4 may be given subject to such terms and conditions as he may specify (each of which shall be deemed a condition of this Agreement) and such consent if given may be revoked at any time. Provided that the Executive has provided the Chief Executive (and at all times kept him fully up to date and informed) on the basis of the utmost good faith with full particulars of the nature of any interest or other activity as referred to in clause 17.1.1, 17.1.2, 17.1.3 and/or 17.1.4, the consent of the Chief Executive to the Executive having any such interest or undertaking any such activity shall not be unreasonably withheld or revoked where in the reasonable opinion of the Chief Executive the giving or failing to revoke consent would be:
- 17.2.1 immaterial in relation to the Businesses;
- 17.2.2 immaterial in relation to the level of business orders or custom for Restricted Products and/or Restricted Services from any Customer.

- 17.3 The Executive shall not at any time after the Termination Date directly or indirectly disclose to any person, firm or company or make use of any Confidential Business Information.
- 17.4 The Executive agrees that the restrictions contained in clauses 17.1, 17.3 and 15 are reasonable and necessary for the protection of legitimate interests of the Company and each Group Company and that, having regard to those interests, those restrictions do not work harshly on him. It is nevertheless agreed that if any of those restrictions shall taken together or separately be held to be void or ineffective for any reason but would be held to be valid and effective if part of the wording were deleted, or the period or area of application reduced, that restriction shall apply with such deletions or with such reduced period or area of application as may be necessary to make it valid and effective.
- 17.5 The restrictions contained in each sub-clause of clauses 17.1, 17.3 and 15 shall be construed as separate and individual restrictions and shall each be capable of being severed without prejudice to the other restrictions or to the remaining provisions of this Agreement.
- 17.6 The Executive has given the undertakings contained in clauses 17.1, 17.3 and 15 to the Company for itself and as trustee for each Group Company and the Executive will at the request and cost of the Company enter into direct undertakings with any Group Company which correspond to the undertakings in clauses 17.1, 17.3 and 15, or which are less onerous only to the extent necessary (in the opinion of the Company or its legal advisors) to ensure that such undertakings are valid and enforceable.
- 17.7 The Company shall not be entitled to rely on the covenants contained in clauses 17.1.1 to 17.1.8 (inclusive) if the Company has committed a repudiatory breach of this Agreement.

## **18. General**

### **18.1 Other terms or benefits**

- 18.1.1 The provisions of the Company's standard terms and conditions of employment, contained in the Company's Staff Handbook (as amended from time to time) (the "Staff Handbook"), shall be terms of the Executive's employment except to the extent that they are inconsistent with this Agreement. In the case of a conflict between this Agreement and the Staff Handbook the provisions of this Agreement shall prevail. The Staff Handbook is available from the Company Secretary.
- 18.1.2 This Agreement sets out all the salary and other benefits to which the Executive is entitled and any other benefits are non-contractual, are provided in the absolute discretion of the Company and may be withdrawn at any time.

## 18.2 Statutory particulars

The further particulars of terms of employment not contained in the body of this Agreement which must be given to the Executive in compliance with Part 1 of the Employment Rights Act 1966 are given in Schedule 1 hereto.

## 18.3 Prior agreements

This Agreement together with the Staff Handbook sets out the entire agreement and understanding of the parties and is in substitution for any previous contracts of employment or for services between the Company or any of its Group Companies and the Executive (which shall be deemed to have been terminated by mutual consent) but without prejudice to the rights of the Company or any Group Company in connection with any prior breach thereof. This Agreement supersedes and replaces any terms and conditions contained in any offer letter or other correspondence between the Company and/or any Group Company and the Executive.

## 18.4 Accrued rights

The expiration or termination of this Agreement shall not operate to affect such of the provisions of this Agreement as are expressed to operate or have effect after then and shall be without prejudice to any accrued rights or remedies of the parties.

## 18.5 Proper law

The laws of England and Wales shall govern the validity construction and performance of this Agreement.

## 18.6 Acceptance of jurisdiction

All disputes claims or proceedings between the parties relating to the validity construction or performance of this Agreement shall be subject to the non-exclusive jurisdiction of the courts of England and Wales to which the parties irrevocably submit.

## 18.7 Notices

Any notice to be given by a party under this Agreement must be in writing and, without prejudice to any other effective mode of service, may be given by delivery at or by sending by first class post or other faster postal or courier service or facsimile transmission or other means of telecommunication in permanent written form (provided the addressee has his or its own facilities for receiving such transmissions) to the last known postal address or relevant telecommunications number of the other party. Where notice is given by first class post or fast postal service it shall be deemed to have been received two business days after posting (excluding the day of posting). Where notice is given by courier service it shall be deemed served on the business day after that on which it has been delivered into the custody of the relevant courier company. Where notice is given by facsimile transmission or other means of telecommunication as aforesaid, it shall be deemed to have been received on the day of sending if such day is a business day and if not on the next succeeding business day. To prove the giving of a notice it shall be sufficient to show it was despatched. A notice shall have effect from the sooner of its actual or deemed receipt by the addressee. For the purpose of this clause 'business day' shall mean any day other than a Saturday, Sunday or public holiday in England, Scotland or Wales.

18.8 Consent

Where any provision of this Agreement refers to consent being required from the Company, any director or the Chief Executive, "consent" shall be deemed to mean express consent in writing and all such provisions shall be construed accordingly.

**IN WITNESS** whereof the duly authorised signatory of the Company has executed this Agreement the day and year first before written and the Executive has executed this Agreement as his deed the day and year first before written.

## **SCHEDULE 1**

### **Part I Employment Rights Act 1996**

The following information is given to supplement the information given in the body of the Agreement in order to comply with the requirements of Part -I of the Employment Rights Act 1996.

1. The Executive's employment by the Company commenced on 2<sup>nd</sup> April 2002.
2. No employment of the Executive with a previous employer counts as part of the Executive's continuous employment with the Company and his continuous employment began on 2<sup>nd</sup> April 2002.
3. The Executive's hours of work are the normal hours of the Company from 9.00am to 5.00pm Monday to Friday each week together with such additional hours as may be necessary so as properly to fulfil his duties.
4. A Contracting-Out Certificate pursuant to the provisions of the Social Security Pensions Act 1975 is held by the Company in respect of the executive's employment.
5. The disciplinary rules applicable to the Executive are contained in the Company's Staff Handbook that is available from the Company Secretary.
6. If the Executive is dissatisfied with any disciplinary decision relating to him or if the Executive has any grievance relating to his employment, this must be raised with the Chief Executive (either orally or in writing). If the Executive is dissatisfied with the decision of the Chief Executive, he must (within 5 days of the decision of the Chief Executive) request in writing to the Company Secretary a meeting with the Board. A meeting date will be communicated to the Executive and he will be invited to attend such meeting together with another person if the executive so wishes. The decision of the Board at such meeting will be notified to the executive within 5 days of such meeting and the decision of the Board will be final.
7. There are no collective agreements applicable to the Executive's employment.

**SIGNED** by: )

authorised signatory for and on behalf of )

Alliance UniChem Plc )

In the presence of:- )

*J. Hamill*

/s/ Lucienne Greig

Name Lucienne Greig

Address 39 Esher Road  
East Molesey  
KT8 0AH

Occupation Personal Assistant

**EXECUTED** as a Deed: )

By the said )

George Rollo Fairweather )

In the presence of:- )

*George Rollo Fairweather*

/s/ Philip Damian Brown

Name Philip Damian Brown

Address Ash House Fairfield Avenue  
Staines

Occupation Chartered Secretary

**THIS AGREEMENT IS DATED 31 JULY 2006****BETWEEN**

- (1) **Alliance Boots plc** whose registered office is at Sedley Place, 4<sup>th</sup> Floor, 361 Oxford Street, London, W1C 2JL;
- (2) **Alliance UniChem Plc** whose registered office is at 2 The Heights, Brooklands, Weybridge, Surrey, KT13 0NY; and
- (3) **GEORGE ROLLO FAIRWEATHER** of [ADDRESS] (“The Executive”).

**WHEREAS**

- (A) The Executive is employed by Alliance UniChem Plc under the terms of a Service Agreement dated 28 March 2002 (“the Service Agreement”).
- (B) On 31 July 2006 the merger of Boots Group PLC and Alliance UniChem Plc was completed and Boots Group PLC changed its name to Alliance Boots plc.

**IT IS AGREED BETWEEN THE PARTIES AS FOLLOWS**

1. On 31 July 2006 the Executive’s Service Agreement with Alliance UniChem Plc terminated by mutual consent.
2. With immediate effect thereafter a New Service Agreement commenced between the Executive and Alliance Boots plc (“the New Service Agreement”). The New Service Agreement was agreed to be on identical terms to the Service Agreement save for the removal of the restriction under clause 17.1.1 in relation to Boots. The Executive’s continuity of employment is preserved and all references to Alliance UniChem Plc contained in the Service Agreement shall be construed as references to Alliance Boots plc in the New Service Agreement.

**IN WITNESS WHEREOF THIS AGREEMENT HAS BEEN SIGNED BY OR ON BEHALF OF THE PARTIES.**

/s/ Marco Pagni

**For Alliance Boots plc**

/s/ Marco Pagni

**For Alliance UniChem Plc**

/s/ George R. Fairweather

**GEORGE ROLLO FAIRWEATHER**

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**DATED 1<sup>st</sup> June 2005**

**Alliance UniChem Services Limited**

and

**Marco Pagni**

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**EMPLOYMENT AGREEMENT**

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**BETWEEN:**

1. 'the Company': **Alliance UniChem Services Limited** (registered number: 4611581) whose registered office is at 2 The Heights, Brooklands, Weybridge, Surrey, KT13 0NY ;
2. 'the Executive': **Marco Pagni** of [ADDRESS].

**1. Effect of certain words and expressions**

- 1.1 Certain words and expressions have particular meanings in this Agreement. Please refer to Schedule 1.

**2. Appointment**

- 2.1 With effect from 15<sup>th</sup> July 2003, in consideration of the mutual covenants and agreements herein, the Company appoints the Executive and the Executive agrees to act as Group Counsel & Company Secretary. The Executive agrees that the Company may at its discretion require him to perform, without additional remuneration, other lawful duties or reasonable tasks not specifically within the scope of his normal duties but consistent with his seniority and professional skills and the Executive agrees to perform those duties/tasks. The Company may appoint someone to act jointly with the Executive in the performance of his duties.
- 2.2 The Executive represents that he is free to take up this employment and is not subject to any restriction that might hinder or prevent the full performance of his duties.
- 2.3 The Executive's continuous period of employment with the Company commenced on 15<sup>th</sup> July 2003.

**3. Hours of Work, Place of Work and Salary**

- 3.1 The Executive's hours of work shall be from 9.00am to 5.00pm, Monday to Friday. The Company shall, with effect from 1<sup>st</sup> January 2005 pay the Executive a salary of £210,000 gross per year, paid on or about the 22<sup>nd</sup> of each month in arrears. Salary includes any fees receivable by the Executive as officer, nominee or representative of the Company or any Group Company. No overtime pay will be paid for work outside normal hours. Salary will be reviewed annually. The Executive shall perform his duties at the head office from time to time of Alliance UniChem and may be required to travel abroad in the performance of his duties.
- 3.2 The limit on working time in regulation 4(1) of the Working Time Regulations 1998 will not apply to the Executive, unless the Executive or the Company gives to the other 3 months written notice to the contrary.

#### **4. Discretionary Bonus**

- 4.1 The Executive shall be eligible for a discretionary bonus determined by the Company in accordance with the Company's discretionary bonus arrangements from time to time, such arrangements to be communicated to the Executive from time to time. No bonus is payable:-
- 4.1.1 during or in respect of any period: (a) whilst the Executive is suspended under clause 14.7 or (b) in which the Company exercises its rights under clause 14.8;
  - 4.1.2 if on the date of payment the Executive's employment has terminated (for any reason) or he is serving any notice period;
  - 4.1.3 unless throughout the period in respect of which it is payable the Executive has been at work and performing his duties for the Company, save for authorised holiday.
- 4.2 Payment of bonus on one occasion shall not give rise to any right to or expectation of payment of any bonus thereafter.

#### **5. Shares**

- 5.1 Subject to clause 8, the Executive may be entitled to receive Share Options as the remuneration committee of Alliance UniChem may from time to time determine.

#### **6. Pension**

- 6.1 Subject to clause 8, the Executive shall be entitled to be and remain a member of the Defined Contribution Plan of the Alliance UniChem Group UK Pension Scheme. Further details of this scheme can be obtained from the Human Resources Department.

#### **7. Insurance and Other Benefits**

- 7.1 Subject to clause 8, the Executive shall be entitled to participate at the Company's expense:
- 7.1.1 for his own benefit in the Company's permanent health insurance scheme; and
  - 7.1.2 for his own, his spouse's and his dependant children's benefit in the Company's private medical expenses insurance scheme; and
  - 7.1.3 for his own, his spouse's and his dependant children's benefit in the Company's personal accident and travel insurance scheme.

7.2 Subject to clause 8: -

7.2.1 if the Executive is not a member of the Defined Contribution Plan referred to in clause 6.1, the Company will provide the Executive with a life assurance benefit equal to his basic pensionable salary at the date of his death;

7.2.2 if the Executive is a member of the Defined Contribution Plan referred to in clause 6.1, the Company will provide the Executive with a life assurance benefit equal to 3 times his basic pensionable salary at the date of his death.

## **8. Provisions applicable to clauses 5, 6 and 7**

8.1 The Executive's entitlement (if any) to be a member of, receive benefits and/or subscribe for shares under the Share Options, Defined Contribution Plan, life assurance and other schemes referred to in clauses 5, 6 and 7 ("the Schemes") is subject to all rules and terms and conditions of the relevant Scheme from time to time in force and as the same may be varied and/or replaced by the Company (or Alliance UniChem, in the case of the Share Options) and/or the provider of the relevant benefit. Further details regarding the Schemes are available from the Company. Reference to "the Schemes" includes the same as varied and/or replaced from time to time.

8.2 The Company (or Alliance UniChem, in the case of the Share Options) is entitled:-

8.2.1 to terminate all or any of the Schemes (with or without any replacement) and/or to replace the provider of and/or the nature or type of any benefits provided thereunder;

8.2.2 to terminate the Executive's employment notwithstanding that such termination may result in the Executive ceasing to be entitled to and/or being entitled only to reduced benefits under the Schemes.

## **9. Car**

9.1 The Executive's entitlement to be provided with a car is set out in the Company Car Policy, a copy of which is available from the Company.

9.2 Subject to the Company Car Policy, the Company shall bear all insurance costs standing and running expenses of the car with the exception of the cost of fuel and recovery where the car is used outside the United Kingdom for private purposes.

## **10. Expenses**

10.1 Subject to the Company's guidelines in relation to reimbursement of expenses, the Company shall reimburse to the Executive expenses reasonably incurred by him in the proper performance of his duties.

10.2 Any Company sponsored credit or charge card shall be used only for expenses reimbursable under clause 10.1 and shall be returned to the Company when requested.

**11. Holiday**

11.1 The Executive is entitled to 30 working days paid holiday in each holiday year to be taken at such time or times as are agreed with the person to whom the Executive reports.

**12. Incapacity**

12.1 If the Executive is prevented by illness injury or other incapacity from properly performing his duties he shall comply with the notification and certification procedure detailed in Section V of the Handbook.

12.2 If the Executive complies with clause 12.1, he will be paid his full remuneration hereunder for up to 180 working days' absence in any period of 12 consecutive months. The Executive will not be entitled to any other remuneration and any amounts paid in addition shall be entirely discretionary and if paid may be terminated at any time. All such remuneration will be inclusive of any Statutory Sick Pay or other benefits recoverable by the Executive.

**13. Intellectual Property Rights**

13.1 The Executive acknowledges that all intellectual property rights (including copyright and designs) of any nature made or developed by him at any time in the course of his employment with the Company (whether alone or with others, whether or not made during normal working hours and whether before or after the date of this Agreement) belong to and vest in the Company absolutely to the fullest extent permitted by law. The Executive further agrees to perform, without charge, all acts that may be required to perfect the Company's legal rights in any such intellectual property.

**14. Covenants during employment and confidential information**

14.1 The Executive agrees that during his employment he will not:-

14.1.1 (subject as otherwise provided in this clause 14.1.1) have any Material Interest in any other business and including in any business which is in competition (in whole or in part) with any business carried on by the Company or any Group Company and/or which may require the disclosure or use of Confidential Information. The Executive may have a Material Interest in another business (which is not in competition, as aforesaid, and will not require the disclosure or use of Confidential Information), if he obtains the prior written consent of the Company, such consent not to be unreasonably withheld;

14.1.2 other than for the proper performance of the Executive's duties remove from the Company's and/or any Group Company's premises or copy or allow others to remove or copy any Confidential Information or any other information which belongs to or relates to the businesses of the Company or any Group Company;

- 14.1.3 directly or indirectly (on his own behalf or on behalf of any other person) solicit or entice away any employee or consultant of the Company or any Group Company, or discourage any prospective employee or consultant from being employed or engaged by the Company or by any Group Company;
  - 14.1.4 directly or indirectly (on his own behalf or on behalf of any other person) solicit the business or custom of any past current or prospective customer or supplier of the Company and/or any Group Company;
  - 14.1.5 directly or indirectly (on his own behalf or on behalf of any other person) provide services and/or products to any past current or prospective customer of the Company and/or of any Group Company.
- 14.2 The Executive shall not during his employment save only in the proper performance of his duties directly or indirectly disclose to any person or use any Confidential Information and the Executive shall use all due care and diligence to prevent any loss, unauthorised disclosure or use of any Confidential Information.
- 14.3 The Executive shall not at any time after the termination of his employment directly or indirectly disclose to any person or make any use of any Confidential Information.
- 14.4 Nothing in this Agreement will prevent the disclosure or use of Confidential Information pursuant to an order of a court of competent jurisdiction or regulatory body with powers to compel disclosure.
- 14.5 Neither the Executive (nor any person in whom the Executive has a Material Interest) shall receive any money or other benefit from any customer or supplier of the Company or of any Group Company, which is in excess of £100 in value. The Executive will immediately advise the Company if any such money or other benefit in excess of £100 in value is received.
- 14.6 Nothing in this Agreement shall be taken to mean that the Company is obliged to provide the Executive with any work or that the Executive is entitled to perform work for the Company and/or any Group Company.
- 14.7 The Company shall be entitled at any time and from time to time to suspend the Executive and require the Executive not to attend work for such period as the Company, acting reasonably, may specify in order to investigate a suspected disciplinary matter or for any other reason considered appropriate by the Company (acting reasonably).
- 14.8 At any time during a notice given by either party to terminate the Executive's employment and at any time during this Agreement (in particular if the Executive purports to terminate his employment in breach of this Agreement) and for a period not exceeding 6 months:-
- 14.8.1 the Company may in its absolute discretion elect not to provide the Executive with any work (and the Executive shall have no right to perform any work) and the Company may in its absolute discretion require the Executive to perform such duties (if any) commensurate with the Executive's role as it thinks fit during normal working hours; and

- 14.8.2 the Company may in its absolute discretion exclude the Executive from its premises and the premises of any Group Company and may direct the Executive to cease all contact with any customers, suppliers, contractors or employees of the Company or any Group Company.
- 14.9 The Executive shall at all times when rights are exercised under clause 14.8 remain readily accessible and available for work and otherwise comply with this Agreement and in particular this clause 14.
- 14.10 The exercise by the Company of any rights under clause 14.8 shall not constitute a breach of this agreement of any kind whatsoever in respect of which the Executive has any claim against the Company. The Company's rights under clause 14.8 are without prejudice to any other rights and remedies available to the Company.
- 14.11 Throughout any period in which the Company exercises its rights under clause 14.8 the Executive shall continue to receive salary and other contractual benefits (but subject to clause 4.1.1), provided that if the Executive is not accessible and available for work, all rights to salary and other benefits in respect of the period of non-availability shall be forfeited.

## **15. Termination of agreement**

- 15.1 Subject to clauses 15.2 and 15.3 this Agreement may be terminated:
- 15.1.1 by the Company giving the Executive not less than 6 months prior written notice; or
  - 15.1.2 by the Executive giving the Company not less than 6 months prior written notice.
- 15.2 The Company has rights to terminate the Executive's employment as set out in the Handbook (eg for gross misconduct). In addition, the Company may terminate this Agreement (without notice or payment in lieu of notice) if the Executive:
- 15.2.1 fails or neglects to discharge his duties effectively and diligently or to carry out all lawful directions of the Chief Executive of Alliance UniChem and/or the Executive's business unit Managing Director or General Manager;
  - 15.2.2 commits any act of dishonesty or any act which may bring the Company into disrepute;
  - 15.2.3 becomes bankrupt or makes any arrangement or composition with his creditors generally; or

- 15.2.4 becomes of unsound mind or a patient under the Mental Health Act 1983 or has been admitted to a hospital in pursuance of an application made under that Act; or
- 15.2.5 contravenes any model code or relevant legislation or regulatory rules from time to time applicable to directors and/or employees of the Company and/or any Group Company.
- 15.3 This Agreement shall automatically terminate (without notice or payment in lieu of notice):
- 15.3.1 on the Executive reaching his retirement age being his 65th birthday; or
- 15.3.2 if the Executive is, at the relevant time, a director of the Company or any Group Company and the Executive ceases to hold such office of director because:
- (a) he becomes prohibited by law or any market regulation from being a director; or
  - (b) he resigns such office of director; or
  - (c) he is required to vacate such office of director pursuant to the Articles of Association of the Company or Group Company or if the Executive is duly removed from his office of director.
- 15.4 Notwithstanding clauses 12.2 and 15.1 to 15.3, the Company may terminate this Agreement by not less than 3 months' prior notice if the Executive is incapacitated by ill-health or accident from performing his duties under this Agreement for a period or periods aggregating more than 180 working days in the preceding 12 months.
- 15.5 On the giving of notice to terminate the Executive's employment or at any time during any notice period, the Company may in its absolute discretion (but is not obliged to) terminate the Executive's employment immediately by making a payment to the Executive in lieu of the Executive's basic salary under clause 3.1 (net of tax and national insurance) for the unexpired portion of the notice period.
- 15.6 On the termination of this Agreement for whatever reason, the Executive shall at the request of the Company:
- 15.6.1 resign from all and any offices which he may hold as a director, nominee or representative of the Company or any Group Company; and
- 15.6.2 transfer without payment to the Company or as the Company may direct any shares held by him as a nominee of the Company or any Group Company,

and if he should fail to do so within seven days the Company is hereby irrevocably authorised to appoint some person in his name and on his behalf to sign any documents or do any things necessary or requisite to effect such resignation(s) and/or transfer(s).

## **16. Obligations after employment**

16.1 The Executive shall not during the Restricted Period directly or indirectly:

16.1.1 hold any Material Interest in any business which is or shall be wholly or partly in competition with the Businesses in the Restricted Area including (to the extent that the same carry on a business in the Restricted Area which is competitive with the Businesses) those persons listed in Schedule 2 and their respective parent undertakings, subsidiary undertakings, subsidiaries, holding and associated companies (as defined in sections 258, 736 and 736A of the Companies Act 1985 and s.52 Companies Act 1989);

16.1.2 hold any Material Interest in any person, which requires him to disclose or make use of any Confidential Information.

16.2 The Executive shall not directly or indirectly whether as a principal, employee, partner, director, consultant, sub-contractor, shareholder or otherwise howsoever on his own behalf or on behalf of any other person during the Restricted Period in competition with the Company and/or any Group Company:

16.2.1 solicit any business, orders or custom for any Products or Services from any Customer;

16.2.2 solicit any business, orders or custom for any Products or Services from any Potential Customer;

16.2.3 accept any business orders or custom for any Products or Services from any Customer;

16.2.4 accept any business orders or custom for any Products or Services from any Potential Customer;

16.2.5 take such steps as may interfere with the continuance of supplies to the Company and/or any Group Company by any supplier;

16.2.6 solicit or entice away or seek to solicit or entice away from the Company or any Group Company (or knowingly assist or procure any other person to do so) any Employee or Contractor and whether or not such person would breach his or her contract of employment or engagement by reason of leaving the service of the Company or a Group Company as the case may be;

16.2.7 engage (or knowingly assist or procure any other person to engage) any Employee or Contractor.

- 16.3 The Executive shall not directly or indirectly whether as principal, employee, partner, director, consultant, sub-contractor, shareholder or otherwise howsoever on his own behalf or on behalf of any other person:-
- 16.3.1 at any time after the Termination Date induce or seek to induce by any means involving the disclosure or use of Confidential Information any Customer or any other customer or any supplier to cease dealing with, reduce its business with or vary or restrict the terms on which it will deal with the Company or any Group Company;
- 16.3.2 at any time after the Termination Date represent himself or permit himself to be held out by any person as being in any way connected with or interested in the Company or any Group Company (save as the holder of shares if such be the case).
- 16.4 The Executive acknowledges that any and all of his relationships from time to time with customers of the Company and/or any Group Company are the property of the Company and/or its Group Companies and that he has no interest, right or entitlement to maintain particular relationships or accounts with any particular customer of the Company and/or its Group Companies and that the Company or its Group Companies shall be entitled in its sole discretion from time to time (including during any period of notice) to require the Executive to terminate any or all such relationships, hand over any or all such relationships or accounts to persons nominated by the Company or its Group Companies (including to other employees of the Company or its Group Companies) and/or to seek to generate and maintain relationships or accounts with other existing or new customers.
- 16.5 The parties agree that the restrictions contained in clauses 14 and 16 are without prejudice to any other duties (fiduciary or otherwise) owed to the Company or any Group Company and are reasonable and necessary for the protection of legitimate interests of the Company and each Group Company and that, having regard to those interests, those restrictions do not work unreasonably on the Executive. It is nevertheless agreed that if any of those restrictions shall taken together or separately be held to be void or ineffective for any reason but would be held to be valid and effective if any restriction or restrictions or part of the wording were deleted then the said restriction shall apply with such deletions as may be necessary to make the same valid and effective.
- 16.6 The restrictions contained in each sub-clause of clauses 14 and 16 shall be construed as separate and individual restrictions and shall each be capable of being severed without prejudice to the other restrictions or to the remaining provisions of this Agreement.
- 16.7 The Executive has given the undertakings contained in clauses 14 and 16 to the Company for itself and as trustee for each Group Company and the Executive will at the request and cost of the Company enter into direct undertakings with any Group Company which correspond to the undertakings in clauses 14 and 16, or which are less onerous only to the extent necessary (in the opinion of the Company or its legal advisors) to ensure that such undertakings are valid and enforceable.

16.8 If the Company transfers all or any part of its business to a third party (“the transferee”), the restrictions contained in clauses 14 and 16 shall, with effect from the Executive becoming an employee of the transferee, apply to the Executive as if references to the Company included the transferee and references to any Group Company were construed accordingly and as if references to customers were to customers of the Company and/or the transferee and their respective Group Companies.

## **17. Data Protection**

17.1 The Executive agrees that by signing this Agreement, he has given consent to the Company processing personal data concerning the Executive in order to properly fulfil its obligations to the Executive under the Executive’s employment and as otherwise required by law in relation to the Executive’s employment in accordance with the Data Protection Act 1998 (“the DPA”). Such processing will principally be for personnel, administrative and payroll purposes.

17.2 The Executive acknowledges that, if the Executive is required at any time to work on behalf of the Company or a Group Company overseas, the Company may need to pass the Executive’s personal data to the person with whom it is working anywhere in the world and the Executive consents to the Company doing so.

17.3 In the event that the Company or any Group Company needs to process any “sensitive personal data” (as defined by the DPA) in relation to the Executive for its legitimate business needs, the Executive undertakes to sign on request such express consents as may be required to enable it to do so.

## **18. General**

18.1 The Handbook forms part of the terms and conditions of the Executive’s employment. This Agreement and the Handbook (and other matters referred to in the Handbook as having contractual effect) constitute the entire employment contract between the Company and the Executive and supersede and replace: (a) any and all previous terms and conditions of employment or for services between the Company or any Group Company and the Executive (all of which shall be deemed to have terminated with immediate effect by mutual consent, but without prejudice to any liability for any prior breach) and (b) the terms of any offer letter or other correspondence between the Executive and the Company relating to the Executive’s employment, If there are any inconsistencies between the provisions of this Agreement and the Handbook, the provisions of this Agreement shall prevail.

18.2 This Agreement and the Handbook set out all the salary and other benefits to which the Executive is entitled. Any other benefits provided are non-contractual and if provided are provided in the absolute discretion of the Company and may be withdrawn at any time.

18.3 The expiration or termination of this Agreement shall not affect the provisions of this Agreement as expressly or by implication are intended to have effect after that time and shall be without prejudice to any accrued rights or remedies of the parties.

- 18.4 The Company and the Executive agree that the Company may at any time on written notice to the Executive assign the benefit and the burden of this Agreement to another person being a Group Company at the time of such assignment. In so far as permitted by law, the Executive hereby waives any right or rights he may have, whether statutory or otherwise, to object to the Executive being employed by such new employer.
- 18.5 The disciplinary and grievance procedures which apply to the Executive are contained in the Handbook, a copy of which has been provided to the Executive. The Handbook also specifies the procedures applicable to the taking of disciplinary actions and any decision to dismiss the Executive.
- 18.6 If the Executive is dissatisfied with any disciplinary decision relating to him or wishes to appeal any decision to dismiss him or if the Executive has any grievance relating to his employment this must be raised with the Executive's manager or any person senior to him (either orally or in writing). The further steps in relation thereto are explained in the Handbook.
- 18.7 Nothing in this Agreement or otherwise will affect any statutory dispute resolution procedures which the law requires the Company to comply with. The relevant provisions of the Handbook will apply to the extent that they are additional to and not inconsistent with the requirements of any such statutory procedure.
- 18.8 The existence, effect and interpretation of this Agreement shall be governed by the laws of England and the parties submit to the exclusive jurisdiction of the courts of England.

**IN WITNESS** whereof the duly authorised signatory of the Company has executed this Agreement the day and year first before written and the Executive has executed this Agreement the day and year first before written.

## SCHEDULE 1

1.1 In this Agreement:

‘Alliance UniChem’	means Alliance UniChem Plc (registered number 2517178)
‘the Board’	means the Board of Directors of Alliance UniChem from time to time and includes any committee of the Board duly appointed by it
‘Businesses’	means all commercial activities of the Company or any <ul style="list-style-type: none"><li>(a) with which the Executive shall have been concerned or involved at any time during the period of 12 months ending on the Termination Date; or</li><li>(b) in respect of which the Executive possess Confidential Information; or</li><li>(c) which the Company or any Group Company shall at the Termination Date have determined to carry on or take any ownership interest in, in the immediate or foreseeable future and in relation to which the Executive shall at the Termination Date possess any Confidential Information</li></ul>
‘Company Car Policy’	means the Alliance UniChem Plc & UK Subsidiary Companies Company Car Policy of January 2004, as from time to time amended and/or replaced
‘Confidential Information’	means all confidential and/or trade secret information of the Company and/or any Group Company (whether or not recorded in any permanent or written form and whether or not marked as confidential) including marketing information, information relating to planned products/services, sales and pricing information, information relating to customers/suppliers (including names, contact details and actual or proposed business), financial corporate and strategic information, business projections and targets, business methods or plans, technical information, know how, inventions, research and development information and other information in respect of which the Company or any Group Company owes an obligation of confidentiality to any third party, but shall not include any information which is in or comes into the public domain otherwise than as a result of any unauthorised disclosure by the Executive or any other person who owes the Company and/or any Group Company an obligation of confidentiality in relation to the information disclosed

‘Customer’	<p>means any customer of the Company or of any Group Company:-</p> <ul style="list-style-type: none"> <li>(a) with whom the Executive has directly or indirectly dealt in the period of 12 months prior to the Termination Date; or</li> <li>(b) in respect of whom the Executive had knowledge of Confidential Information at the Termination Date; or</li> <li>(c) in respect of whom the Executive had as a result of his employment relationship developed a business relationship.</li> </ul>
“Employee or Contractor”	<p>means any person who is and was at the Termination Date employed or engaged (as an employee or self-employed contractor) by the Company or any Group Company to work in any of their businesses:-</p> <ul style="list-style-type: none"> <li>(a) at the same level as the Executive; or</li> <li>(b) whose total remuneration package (including salary bonus (contractual or discretionary) commission and all benefits in kind) was equal to or more than £50,000 (gross) in the period of 12 months prior to the Termination Date;</li> </ul>
‘Group Company’	<p>means any company which is from time to time an associate company of the Company within the meaning of s52 Companies Act 1989</p>
‘Handbook’	<p>means the Alliance UniChem Staff Handbook, as from time to time amended or replaced</p>
‘Material Interest’	<p>means:</p> <ul style="list-style-type: none"> <li>(a) the holding of any position as director, officer, employee, consultant, partner, sub-contractor, principal or agent; or any other position in or control over any person which enables the Executive directly or indirectly to exercise influence;</li> <li>(b) the direct or indirect control or ownership (whether jointly or alone) of any shares (or any voting rights attached to them) or debentures save for the ownership for investment purposes only of not more than 1 per cent of the issued ordinary shares of any company whose shares are listed on any recognised investment exchange (as defined in section 285 of the Financial Services and Markets Act 2000)</li> </ul>

'Potential Customer'	means any person with whom during the period of 6 months prior to the Termination Date the Company or any Group Company was in negotiation for the provision of Products or Services if the Executive had been directly or indirectly concerned in such negotiations and/or in respect of which negotiation the Executive had knowledge of Confidential Information at the Termination Date
'Products'	means products in the range of products supplied by the Company or any Group Company in the period of 12 months prior to the Termination Date
'Restricted Area'	means England, Scotland, Wales, Northern Ireland, Eire, the Channel Islands, France, Italy, Spain, Portugal, Holland, Norway, Switzerland, the Czech Republic, Turkey, Egypt, Germany, or any other country in which the Company or any Group Company has at the Termination Date a material business interest or is at the Termination Date planning to take a material business interest within 12 months of the Termination Date
'Restricted Period'	means 12 months from the Termination Date less any period in which the Company has enforced its rights pursuant to clause 14.8
'Services'	means services in the range of services supplied by the Company or any Group Company in the period of 12 months prior to the Termination Date
'Share Options'	means options to subscribe for ordinary shares of ten pence each in the capital of Alliance UniChem, pursuant to the Alliance UniChem 1997 Share Option Scheme as adopted on 21 <sup>st</sup> May 1997 and amended on 7 <sup>th</sup> March 2003 and as from time to time amended or replaced

'Termination Date'

means the date of termination of the Executive's employment with the Company.

1.2 In this Agreement any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.

**SIGNED** by:  
/s/ Marco Pagni  
Marco Pagni

**SIGNED** by  
/s/ Graham Wharton  
Graham Wharton  
For and on behalf of Alliance UniChem Services Ltd



Marco Pagni  
[ADDRESS]

14 May 2012

Dear Marco

**Amendment to Employment Agreement**

I am writing to advise you that at the May 2012 Remuneration Committee meeting, it was agreed to align your notice period with that of the other executive directors. Accordingly, the termination provision set out in your employment agreement dated 1 June 2005 was amended to increase the notice period to be given by the company to terminate your contract from six months to one year. For the avoidance of doubt, the six month notice period that you are required to serve on the company remains unchanged.

All other terms and conditions of your employment agreement dated 1 June 2005, as amended by the letter dated 14 June 2006, remain unaltered.

Yours sincerely

**/s/ Frank Standish**

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**Frank Standish**  
**Company Secretary**

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DATED 29 January 2009

Boots UK Limited

and

Alex Gourlay

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SERVICE AGREEMENT

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**AN AGREEMENT** made this 29<sup>th</sup> day of January 2009

**BETWEEN** :

‘The Company’: **Boots UK Limited** (registered number: 00928555) whose registered office is at 1 Thane Road, Nottingham, NG2 3AA; and

‘You’: **Alex Gourlay** of [ADDRESS].

**1. Effect of certain words and expressions**

1.1 Certain words and expressions have particular meanings in this Agreement. Please refer to Schedule 1.

**2. Appointment**

With effect from the date of this Agreement (the “Commencement Date”), in consideration of the mutual covenants and agreements herein, the Company appoints you and you agree to act as Managing Director of the Company. You agree that the Company may at its discretion require you to perform, without additional remuneration, other lawful duties or reasonable tasks not specifically within the scope of your normal duties but consistent with your seniority and professional skills and you agree to perform those duties/tasks. The Company may appoint someone to act jointly with you in the performance of your duties.

You shall at all times during this Agreement comply with all policies, procedures and practices of the Company from time to time notified to you by the Company.

2.1 At all times during the continuance of this Agreement you shall:

2.1.1 devote the whole of your working time and attention to the duties of the Appointment assigned to you from time to time;

2.1.2 use your best endeavours to promote and protect the interests of the Company and all Group Companies;

2.1.3 faithfully and diligently serve the Company and perform such duties and exercise such powers as may from time to time be assigned to or vested in you;

2.1.4 obey all reasonable and lawful directions given to you by or under authority of the Board;

2.1.5 make such reports to the Board on any matters within your knowledge concerning the affairs of the Company or any Group Company as are reasonably required.

2.2 You shall be a director of the Company and:

2.2.1 shall hold such Office as the Company may from time to time reasonably require;

2.2.2 (if the Company so requests and in any event on termination of the Appointment) shall immediately resign without claim for compensation from any Office held in the Company and/or any Group Company (but without prejudice to any rights you may have to claim compensation in respect of termination of the Appointment);

2.2.3 shall not do anything that would cause you to be disqualified from holding any Office;

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- 2.2.4 shall not (without the prior written approval of the Board) resign from any Office which you hold in the Company or any Group Company or any trusteeship which you hold as a result of the Appointment;
- 2.3 You hereby warrant that you are free to take up this employment and are not subject to any restriction that might hinder or prevent the full performance of your duties.
- 2.4 Your continuous period of employment with the Company commenced on 28 July 1980.

### **3. Hours of Work, Place of Work and Salary**

- 3.1 You shall work such hours as are reasonably necessary for the proper performance of your duties.
- 3.2 The Company shall, with effect from the Commencement Date, pay you a basic salary of £395,000 per year, paid by direct credit transfer to your nominated bank or building society on or around the 20<sup>th</sup> of each calendar month in arrears. Such basic salary includes any fees receivable by you as Officer, nominee or representative of the Company or any Group Company. You shall not be entitled to any directors' fees in addition to your basic salary. Your basic salary will be reviewed annually but the Company will be under no obligation to award an increase. The Company reserves the right to make deductions from your basic salary or other payments owed to you in order to recover any overpayments made to you in error.
- 3.3 Subject to clause 3.4, you shall perform your duties at the Company's Nottingham Support Office and you may be required to travel within the UK or abroad from time to time in the performance of your duties.
- 3.4 Due to the nature of the Company's business and the work you will be required to do, the Company may from time to time, on giving you reasonable notice, require you to work on a temporary or permanent basis at any of its offices or those of its Group Companies. The Company will pay your reasonable expenses incurred in connection with any temporary or permanent relocation.
- 3.5 Because of the autonomous nature of your role, the duration of your working time is not measured, monitored or determined by the Company and the limit on weekly working time set out in Regulation 4 of the Working Time Regulations 1998 does not apply to your employment.

### **4. Discretionary Bonus**

- 4.1 You may be eligible to participate in certain discretionary bonus schemes determined by the Company in accordance with the Company's discretionary bonus arrangements announced and communicated to you from time to time. In the event that the Company decides to operate any bonus scheme from time to time in which you are eligible to participate, no bonus is payable:
- 4.1.1 during or in respect of any period: (a) whilst you are suspended under clause 13.2 or (b) in which the Company exercises its rights under clause 13.3; or
- 4.1.2 if on the date of payment your employment has terminated (for any reason) or you are serving any notice period (whether such notice has been given by you or the Company).
- 4.2 Payment of bonus on one occasion shall not give rise to any right to or expectation of payment of any bonus thereafter.
- 4.3 Announcement of a bonus scheme on one occasion shall not give rise to any right to or expectation of an announcement of any bonus scheme or schemes thereafter.

**5. Pension**

- 5.1 The Company operates the Pension Scheme. You are eligible to continue to be a member of the Pension Scheme subject to the consent of the trustees of the Pension Scheme, the rules of the Pension Scheme (as may be amended from time to time) and Inland Revenue permitted limits. A copy of the rules of the Pension Scheme may be obtained from the Pensions Department.
- 5.2 There is a contracting out certificate in force in relation to your employment in respect of this Agreement under the provisions of the Pension Schemes Act 1993.

**6. Car**

- 6.1 You are entitled to be provided with a car on the terms set out in the Company Car Policy in force and as amended from time to time, a copy of which is available from Human Resources.

**7. Expenses**

- 7.1 Subject to the Company's guidelines in relation to reimbursement of expenses, the Company shall reimburse expenses reasonably incurred by you in the proper performance of your duties.
- 7.2 Any Company sponsored credit or charge card shall be used only for expenses reimbursable under clause 7.1 and shall be returned to the Company when requested.

**8. Holiday**

- 8.1 In addition to statutory holidays, you are entitled to take 30 working days holiday in each holiday year to be taken at such time or times as are agreed with the Board.
- 8.2 The holiday year is 1<sup>st</sup> April to 31<sup>st</sup> March.
- 8.3 You will forfeit any accrued but untaken holiday which has not been taken at the end of the holiday year but you will be entitled to carry forward up to one week's accrued but untaken holiday into the next holiday year with the agreement with the Board.
- 8.4 If your employment is terminated for whatever reason during a holiday year, other than in accordance with clause 12.2, your holiday entitlement will be calculated as being 1/12<sup>th</sup> of your annual holiday entitlement for each completed calendar month worked prior to termination.
- 8.5 The Company reserves the right to deduct any amount of holiday pay paid in excess of accrued entitlement from any sums due at termination or to require the reimbursement of any such amounts.
- 8.6 If either party serves notice to terminate this Agreement, the Company may require you to take any accrued but unused holiday entitlement during the notice period (whether or not you are on Garden Leave).
- 8.7 Further details regarding your holiday entitlement are set out in the Employee Handbook.

**9. Illness, injury or incapacity**

- 9.1 If you are prevented by illness injury or other incapacity from properly performing your duties, you must comply with the notification and certification procedure detailed in the Employee Handbook.
- 9.2 Information relating to the Company's non-contractual and discretionary Company Sick Pay scheme is contained within the Employee Handbook.

- 9.3 In the event that you are unable to attend work due to illness or injury because of the actionable negligence of a third party in respect of which damages are recoverable, you shall advise the Company forthwith and all payments made by the Company to you during such incapacity shall constitute a loan to you to the extent that any compensation recovered from the third party shall be repaid by you to the Company.
- 9.4 If you are absent from work due to illness, injury or incapacity for a consecutive period of 90 working days the Company may (without prejudice to the provisions of clause 2.1) appoint another person or persons to perform your duties until you return to work.

## **10. Intellectual Property Rights**

- 10.1 If whilst you are employed by the Company (whether or not in the course of your duties) you, whether alone or jointly, make or develop or modify any Intellectual Property in connection with or relating to or capable of being used or adapted for use in the business of the Company or any Group Company:
- 10.1.1 all rights to the Intellectual Property which subsist (or which may in the future subsist) will on creation, rest in and be the exclusive property of the Company;
- 10.1.2 to the extent necessary to vest the Intellectual Property in the Company and subject to section 42 of the Patents Act 1977, you hereby assign to the Company all rights to the Intellectual Property, whether future or subsisting, for the full term throughout the world.
- 10.2 Where you alone or jointly make or develop or modify any Intellectual Property, you shall promptly disclose to the Company full details of the Intellectual Property and shall not disclose the Intellectual Property to any third party before so doing.
- 10.3 You shall maintain adequate written records and memoranda of all Intellectual Property and these will remain the sole property of the Company and:
- 10.3.1 you shall, at the request and expense of the Company, do everything necessary to enable the Company or its nominee to obtain the benefit of the Intellectual Property including, without limitation, securing patent or other protection in the United Kingdom or any part of the world; and
- 10.3.2 you waive any rights you may have in respect of the Intellectual Property under sections 77 to 86 of the Copyright, Designs and Patents Act 1988, including the right to object to derogatory treatment.

## **11. Covenants during employment and confidential information**

- 11.1 You agree that during your employment you have a general duty to act in good faith with respect to the Company.
- 11.2 You agree that during your employment you will not:
- 11.2.1 (subject as otherwise provided in this sub-clause 11.2.1) have any Material Interest in any other business and including in any business which is in competition (in whole or in part) with any business carried on by the Company or any Group Company and/or which may require the disclosure or use of Confidential Information. You may have a Material Interest in another business (which is not in competition, as aforesaid, and will not require the disclosure or use of Confidential Information) if you obtain the prior written consent of the Company, such consent not to be unreasonably withheld;

- 11.2.2 other than for the proper performance of your duties remove from the Company's and/or any Group Company's premises or copy or allow others to remove or copy any Confidential Information or any other information which belongs to or relates to the Businesses of the Company or any Group Company;
  - 11.2.3 directly or indirectly (on your own behalf or on behalf of any other person) solicit or entice away any employee or consultant of the Company or any Group Company, or discourage any prospective employee or consultant from being employed or engaged by the Company or by any Group Company;
  - 11.2.4 directly or indirectly (on your own behalf or on behalf of any other person) solicit the business or custom of any past current or prospective customer or supplier of the Company and/or any Group Company;
  - 11.2.5 directly or indirectly (on your own behalf or on behalf of any other person) provide services and/or products to any past current or prospective customer of the Company and/or of any Group Company.
- 11.3 You shall not during your employment save only in the proper performance of your duties directly or indirectly disclose to any person or use any Confidential Information and you shall use all due care and diligence to prevent any loss, unauthorised disclosure or use of any Confidential Information.
- 11.4 You shall not during your employment directly or indirectly make publish or otherwise communicate any disparaging or derogatory statements whether in writing or otherwise concerning the Company or any Group Company, their officers, consultants, agents, shareholders, employees, suppliers or customers.
- 11.5 You shall not at any time after the Termination Date directly or indirectly disclose to any person or make any use of any Confidential Information.
- 11.6 Nothing in this Agreement will prevent the disclosure or use of Confidential Information pursuant to an order of a court of competent jurisdiction or regulatory body with powers to compel disclosure, provided that you shall, unless prohibited by law, give the Company as much notice as is reasonably practicable if:
- 11.6.1 any application is made to a court of which you are aware which relates to Confidential Information. You shall also, unless prohibited by applicable law, notify the Company of the making of any such court order;
  - 11.6.2 any regulatory body has requested disclosure of Confidential Information by you; and
  - 11.6.3 unless prohibited by applicable law, you shall consult with the Company prior to making any disclosure pursuant to any court order and/or requirement of a regulatory body and take steps reasonably required by the Company to disclose Confidential Information in a manner reasonably designed to preserve its confidential nature as far as reasonably practicable.
- 11.7 Neither you (nor any person in whom you have a Material Interest) shall without the prior consent of the Company receive any money or other benefit from any customer or supplier of the Company or of any Group Company, which is in excess of £100 in value. You will immediately advise the Company if any such money or other benefit in excess of £100 in value is received.

11.8 You agree that you will abide by the Company's Code of Conduct in force and as amended from time to time, a copy of which is set out in the Employee Handbook and is also available from Human Resources.

## **12. Termination**

12.1 Subject to clauses 12.2, 12.3 and 12.4, your employment may be terminated:

12.1.1 by the Company giving you not less than 12 months' prior written notice; or

12.1.2 by you giving the Company not less than 12 months' prior written notice.

12.2 The Company may terminate your employment without notice or payment in lieu of notice on grounds of gross misconduct. In the event of termination effected in accordance with this clause 12.2, you will have no entitlement to any bonus and payment in respect of any accrued but untaken holiday will be limited to a maximum payment of £10 (gross). The Company will be entitled to adjust any salary owed to you accordingly.

12.3 The Company may also terminate your employment without notice or payment in lieu of notice if you:

12.3.1 seriously fail or neglect to discharge your duties effectively and diligently or to carry out all lawful directions of the Company and/or your line manager;

12.3.2 commit any act of dishonesty or any other act which may bring the Company into disrepute;

12.3.3 become bankrupt or make any arrangement or composition with your creditors generally; or

12.3.4 seriously contravene any model code or relevant legislation or regulatory rules from time to time applicable to directors and/or employees of the Company and/or any Group Company.

12.4 Your employment shall automatically terminate without notice or payment in lieu of notice:

12.4.1 upon you reaching retirement age being your 65<sup>th</sup> birthday; or

12.4.2 if you are, at the relevant time, a director of the Company or any Group Company and you cease to hold such office of director because you:

(a) become prohibited by law or any market regulation from being a director; or

(b) resign such office of director; or

(c) are required to vacate such office of director pursuant to the Articles of Association of the Company or Group Company or if you are duly removed from your office of director.

12.5 On the giving of notice to terminate your employment or at any time during any notice period, the Company may in its absolute discretion (but is not obliged to) terminate your employment immediately by making a payment to you in lieu of your basic salary under clause 3.2 (less such deductions as the Company is required to make by law or as authorised by you (pursuant to the terms of this Agreement or otherwise) for any unexpired portion of the notice period. Such payment in lieu of notice will be made to you in equal monthly instalments, commencing in the calendar month immediately after the Termination Date, until such time as you secure alternative employment or the notice period to which the instalments relate expires (whichever is earlier), subject to you providing to the Board such evidence as it may reasonably require on a monthly basis to show that you are making reasonable endeavours to secure alternative employment. You will not, however, be obliged to accept alternative employment which is not appropriate to your status and skills. In the event that you do secure alternative employment but at a lower basic salary, then subsequent instalments shall be reduced by an amount equivalent to such lower basic salary, provided that the remuneration arrangements agreed by you with your new employer are appropriately balanced between basic salary and other benefits in accordance with market practice. In the absence of such evidence or if the Board is not reasonably satisfied that the evidence provided shows that you are making reasonable endeavours to secure alternative employment, the Company may cease making payment of the monthly instalments referred to in this clause after giving you one month's written notice of such cessation and the reasons for it. In such circumstances, you will have no rights to any compensation whatsoever in respect of the loss of any further instalments of the payment in lieu of notice that would otherwise be due to you. For the purposes of this clause, "alternative employment" means any office, appointment, employment or self-employment under the terms of a contract of service or contract for services or otherwise.

12.6 On the termination of your employment for whatever reason, you shall at the request of the Company:

12.6.1 resign from all and any offices which you may hold as a director, nominee or representative of the Company or any Group Company; and

12.6.2 transfer without payment to the Company or as the Company may direct any shares held by you as a nominee of the Company or any Group Company,

and, if you should fail to do so within seven days, the Company is hereby irrevocably authorised to appoint some person in your name and on your behalf to sign any documents or do any things necessary or requisite to effect such resignation(s) and/or transfer(s).

12.7 On the termination of your employment (or earlier if requested by the Company) you shall immediately return to the Company all Confidential Information and all other information property equipment and materials of any nature (whether copies, originals or extracts) in your possession or control relating to the Company, any Group Company and/or any customer, supplier or contact of the Company and/or any Group Company (without keeping any copies) including relating to any Intellectual Property of the Company and/or any Group Company, any such information made or compiled by you, keys, correspondence, documents, files, papers, diagrams, books, records, security passes, computer disks, tapes, software, telephones and computers. In particular, if any information is held in electronic form, you shall (a) if the medium on which the same is stored belongs to the Company (and/or any Group Company) return that medium (with all such information) to the Company and (b) if the medium on which the same is stored belongs to you, provide a copy of all such information to the Company and when so requested to do so by the Company, permanently delete the same from the medium on which it is stored.

12.8 Where the Company exercises its rights pursuant to clause 13.3, you agree to comply forthwith with the provisions of clause 12.7 above. However, you shall not be obliged to return any property provided to you as a contractual benefit.

12.9 If so required by the Company, you shall on each occasion you are obliged to deliver up property or delete information pursuant to this clause 12 provide to the Company a signed statement identifying the property returned and confirming that you have fully complied with your obligations under this clause.

### **13. Suspension and Garden Leave**

- 13.1 Nothing in this Agreement shall be taken to mean that the Company is obliged to provide you with any work or that you are entitled to perform work for the Company and/or any Group Company.
- 13.2 The Company shall be entitled at any time to suspend you and require you not to attend work for such period as the Company, acting reasonably, may specify in order to investigate a suspected disciplinary matter or for any other reason considered appropriate by the Company (acting reasonably).
- 13.3 At any time following a notice given by either party to terminate your employment and at any time during this Agreement and for a period not exceeding 12 months:
- 13.3.1 the Company may in its absolute discretion elect not to provide you with any work (and you shall have no right to perform any work) and/or the Company may in its absolute discretion require you to perform such duties (if any) commensurate with your role as the Company deems to be appropriate during your normal working hours; and
- 13.3.2 the Company may in its absolute discretion exclude you from its premises and the premises of any Group Company and may direct you to cease all contact with any customers, suppliers, contractors or employees of the Company or any Group Company.
- 13.4 You shall at all times when rights are exercised under clause 13.3 remain readily accessible and available for work and otherwise comply with this Agreement and in particular this clause 13.
- 13.5 The exercise by the Company of any rights under clause 13.3 shall not constitute a breach of this Agreement of any kind whatsoever in respect of which you have any claim against the Company. The Company's rights under clause 13.3 are without prejudice to any other rights and remedies available to the Company.
- 13.6 Throughout any period in which the Company exercises its rights under clause 13.3, you shall continue to receive salary and other contractual benefits (but subject to clause 4.1.1), provided that if you are not accessible and available for work, all rights to salary and other benefits in respect of the period of non-availability shall be forfeited.

### **14. Disciplinary, grievance and appeals procedures**

- 14.1 Information relating to the Company's disciplinary, grievance and appeals procedures is contained within the Employee Handbook.

### **15. Security Rules**

- 15.1 Information relating to the Company's security rules is contained within the Employee Handbook. The Company also reserves the right to search all employees and vehicles on Company sites.

### **16. Obligations after employment**

- 16.1 You shall not, during the Restricted Period, directly or indirectly:
- 16.1.1 hold any Material Interest in any business which is or shall be wholly or partly in competition with the Businesses in the Restricted Area including (to the extent that the same carry on a business in the Restricted Area which is competitive with the Businesses) those organisations listed in Schedule 2 and their respective parent undertakings, subsidiary undertakings, subsidiaries, holding and associated companies (as defined in sections 258, 736 and 736A of the Companies Act 1985 and section 52 of the Companies Act 1989);

- 16.1.2 hold any Material Interest in any organisation, which requires you to disclose or make use of any Confidential Information.
- 16.2 You shall not, directly or indirectly, whether as a principal, employee, partner, director, consultant, sub-contractor, shareholder or otherwise howsoever on your own behalf or on behalf of any other person during the Restricted Period in competition with the Company and/or any Group Company:
- 16.2.1 solicit any business, orders or custom for any Products or Services from any Customer;
  - 16.2.2 solicit any business, orders or custom for any Products or Services from any Potential Customer;
  - 16.2.3 accept any business orders or custom for any Products or Services from any Customer;
  - 16.2.4 accept any business orders or custom for any Products or Services from any Potential Customer;
  - 16.2.5 take such steps as may interfere with the continuance of supplies to the Company and/or any Group Company by any supplier;
  - 16.2.6 solicit or entice away or seek to solicit or entice away from the Company or any Group Company (or knowingly assist or procure any other person to do so) any Employee or Contractor and whether or not such person would breach his or her contract of employment or engagement by reason of leaving the service of the Company or a Group Company as the case may be; or
  - 16.2.7 engage (or knowingly assist or procure any other person to engage) any Employee or Contractor.
- 16.3 You shall not directly or indirectly whether as principal, employee, partner, director, consultant, sub-contractor, shareholder or otherwise howsoever on your own behalf or on behalf of any other person:
- 16.3.1 at any time after the Termination Date induce or seek to induce by any means involving the disclosure or use of Confidential Information any Customer or any other customer or any supplier to cease dealing with, reduce its business with or vary or restrict the terms on which it will deal with the Company or any Group Company;
  - 16.3.2 at any time after the Termination Date represent yourself or permit yourself to be held out by any person as being in any way connected with or interested in the Company or any Group Company (save as the holder of shares if such be the case); or
  - 16.3.3 at any time after the Termination Date make, publish or otherwise communicate any disparaging or derogatory statements whether in writing or otherwise concerning the Company or any Group Company, their officers, consultants, agents, shareholders or employees.
- 16.4 You acknowledge that any and all lists or data relating to any of your contacts from time to time with customers of the Company and/or any Group Company are the property of the Company and/or its Group Companies, and may constitute Confidential Information of the Company and/or any Group Company and that you have no interest, right or entitlement to maintain particular lists, data or accounts with any particular customer of the Company and/or its Group Companies. You shall not exploit your relationships with the customers of the Company and/or any Group Company except in the proper course of your duties for the Company. You agree that the Company or its Group Companies shall be entitled in their sole discretion from time to time (including during any period of notice) to require you to terminate any or all such relationships, hand over any or all lists or data relating to such relationships or accounts to persons nominated by the Company or its Group Companies (including to other employees of the Company or its Group Companies) and/or to seek to generate and maintain relationships or accounts with other existing or new customers.

- 16.5 The parties agree that the restrictions contained in clauses 11 and 16 are without prejudice to any other duties (fiduciary or otherwise) owed to the Company or any Group Company and are reasonable and necessary for the protection of legitimate interests of the Company and each Group Company and that, having regard to those interests, those restrictions do not work unreasonably on you. It is nevertheless agreed that if any of those restrictions shall taken together or separately be held to be void or ineffective for any reason but would be held to be valid and effective if any restriction or restrictions or part of the wording were deleted then the said restriction shall apply with such deletions as may be necessary to make the same valid and effective.
- 16.6 The restrictions contained in each sub-clause of clauses 11 and 16 shall be construed as separate and individual restrictions and shall each be capable of being severed without prejudice to the other restrictions or to the remaining provisions of this Agreement.
- 16.7 You acknowledge that if you breach any of your obligations contained in this Agreement (including those contained in clauses 11 and 16) then the Company may seek damages from you for any loss or damage suffered by the Company and/or any Group Company as a result of your breach. You also acknowledge and agree that damages alone would not be a sufficient remedy for any breach of clauses 11 and 16.
- 16.8 You have given the undertakings contained in clauses 11 and 16 to the Company for itself and as trustee for each Group Company and you will at the request and cost of the Company enter into direct undertakings with any Group Company which correspond to the undertakings in clauses 11 and 16, or which are less onerous only to the extent necessary (in the opinion of the Company or its legal advisers) to ensure that such undertakings are valid and enforceable.
- 16.9 if the Company transfers all or any part of its business to a third party (“the transferee”), the restrictions contained in clauses 11 and 16 shall, with effect from the date you become an employee of the transferee, apply to you as if references to the Company included the transferee and references to any Group Company were construed accordingly and as if references to customers were to customers of the Company and/or the transferee and their respective Group Companies.
- 16.10 On receipt of any offer of employment or any other offer of an engagement or arrangement made to you by any third party at any time during which any of the restrictions of this clause 16 are operative and/or which may give rise to a breach of any of your obligations under clause 11 or 16 you shall provide a copy of this Agreement to the relevant third party.

## **17. Data Protection**

- 17.1 You agree that by signing this Agreement, you have given consent to the Company processing personal data concerning you in order to properly fulfil its obligations to you under your employment and as otherwise required by law in relation to your employment in accordance with the Data Protection Act 1998 (“the DPA”). Such processing will principally be for personnel, administrative and payroll purposes.

- 17.2 You acknowledge that, if you are required at any time to work on behalf of the Company or a Group Company overseas, the Company may need to pass your personal data to the person with whom you are working anywhere in the world and you consent to the Company doing so.
- 17.3 In the event that the Company or any Group Company needs to process any “sensitive personal data” (as defined by the DPA) in relation to you for its legitimate business needs, you undertake to sign on request such express consents as may be required to enable it to do so.
- 18. Collective agreements**
- 18.1 There are no collective agreements in force in relation to your employment.
- 19. General**
- 19.1 This Agreement and those parts of the Employee Handbook described as ‘Terms and Conditions of Employment’ constitute the entire employment contract between the Company and you and supersede and replace: (a) any and all previous terms and conditions of employment or for services between the Company or any Group Company and you (all of which shall be deemed to have terminated with immediate effect by mutual consent, but without prejudice to any liability for any prior breach); and (b) the terms of any offer letter or other correspondence between you and the Company relating to your employment. If there are any inconsistencies between the provisions of this Agreement and any other document, including the Employee Handbook, the provisions of this Agreement shall prevail.
- 19.2 This Agreement sets out all the salary and other benefits to which you are entitled. Any other benefits provided are non-contractual and if provided are provided in the absolute discretion of the Company and may be withdrawn or amended at any time.
- 19.3 The headings and sub-headings in this Agreement are for convenience only and do not affect its interpretation.
- 19.4 Any reference to a statutory provision shall be construed as a reference to any statutory modifications or re-enactment thereof (whether before or after the date hereof) for the time being in force.
- 19.5 The expiration or termination of this Agreement shall not affect the provisions of this Agreement as expressly or by implication are intended to have effect after that time and shall be without prejudice to any accrued rights or remedies of the parties.
- 19.6 The provisions of this Agreement are severable and distinct from one another and, if at any time any of the provisions is or becomes invalid, illegal or unenforceable, the validity, legality or enforceability of the other provisions shall not in any way be affected or impaired.
- 19.7 The parties agree that the Company may at any time on written notice to you assign the benefit and the burden of this Agreement to another person being a Group Company at the time of such assignment. Insofar as permitted by law, you hereby waive any right or rights you may have, whether statutory or otherwise, to object to being employed by such new employer.
- 19.8 Nothing in this Agreement shall confer or is intended to confer on any third party who is not a party to this Agreement any benefit or the right to enforce any provision of this Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999.
- 19.9 The existence, effect and interpretation of this Agreement shall be governed by the laws of England and the parties submit to the exclusive jurisdiction of the courts of England.

**IN WITNESS** whereof the duly authorised signatory of the Company has executed this Agreement the day and year first before written and you have executed this Agreement the day and year first before written.

**SIGNED** by:

/s/ Alex Gourlay  
**Alex Gourlay**

**SIGNED** by:

/s/ Stefano Pessina  
**Stefano Pessina**  
**Executive Chairman of Alliance Boots**  
For and on behalf of Boots UK Limited

## SCHEDULE 1

1.1 In this Agreement:

- ‘Appointment’ means your employment by the Company on the terms of this Agreement.
- ‘Board’ means the board of directors from time to time of the Company (including any committee of the Board duly appointed by it).
- ‘Businesses’ means all commercial activities of the Company or any Group Company:
- (a) with which you shall have been concerned or involved at any time during the period of 12 months ending on the Termination Date; or
  - (b) in respect of which you possess Confidential Information; or
  - (c) which the Company or any Group Company shall at the Termination Date have determined to carry on or take any ownership interest in, in the immediate or foreseeable future and in relation to which you shall at the Termination Date possess any Confidential Information.
- ‘Confidential Information’ means all confidential and/or trade secret information of the Company and/or any Group Company (whether or not recorded in any permanent, written or electronic form and whether or not marked as confidential) including marketing information, information relating to planned products/services, distribution techniques, sales, merchandising and pricing information, information relating to customers/suppliers (including names, contact details and actual or proposed business), financial corporate and strategic information, business projections and targets, business methods or plans, technical information, know how, inventions, research and development information, information relating to senior management succession details, employee records and other information in respect of which the Company or any Group Company owes an obligation of confidentiality to any third party, but shall not include any information which is in or comes into the public domain otherwise than as a result of any unauthorised disclosure by you or any other person who owes the Company and/or any Group Company an obligation of confidentiality in relation to the information disclosed.

‘Customer’	means any customer of the Company or of any Group Company:
	(a) with whom you have directly or indirectly dealt in the period of 12 months prior to the Termination Date; or
	(b) in respect of whom you had knowledge of Confidential Information at the Termination Date; or
	(c) in respect of whom you had as a result of your employment with the Company and/or any Group Company developed a business relationship.
‘Employee Handbook’	means the Boots & Me Employee Handbook, as from time to time amended or replaced.
‘Employee or Contractor’	means any person who is and was at the Termination Date employed or engaged (as an employee or self-employed contractor) by the Company or any Group Company to work in any of their businesses:
	(a) at the same level as you; or
	(b) whose total remuneration package (including salary, bonus, commission and all benefits in kind) was equal to or more than £50,000 (gross) in the period of 12 months prior to the Termination Date.
‘Garden Leave’	means any period during which the Company exercises its rights under clause 13.3.
‘Group Company’	means any holding company for the time being of the Company or any subsidiary for the time being of the Company or of any such holding company (for which purpose “holding company” and “subsidiary” have the meanings ascribed to them by Section 736 of the Companies Act 1985, as amended from time to time).
‘Intellectual Property’	means all patents, inventions, processes, discoveries, trade marks, logos, design rights, registered designs, semi-conductor topography rights, copyright, database right, know-how, trade secrets and all such similar proprietary rights and applications for such rights wheresoever subsisting and whether available by registration or not and any part or parts thereof.
‘Material Interest’	means:
	(a) the holding of any position as director, officer, employee, consultant, partner, sub-contractor, principal or agent; or any other position in or control over any person which enables you directly or indirectly to exercise influence;

(b) the direct or indirect control or ownership (whether jointly or alone) of any shares (or any voting rights attached to them) or debentures save for the ownership for investment purposes only of not more than 1 per cent of the issued ordinary shares of any company whose shares are listed on any recognised investment exchange (as defined in section 285 of the Financial Services and Markets Act 2000).

‘Office’	means such offices commensurate with the Executive’s position as a director or secretary in the Company or any Group Company.
‘Pension Scheme’	means the Boots Pension Scheme.
‘Potential Customer’	means any person with whom during the period of six months prior to the Termination Date the Company or any Group Company was in negotiation for the provision of Products or Services if you had been directly or indirectly concerned in such negotiations and/or in respect of which negotiation you had knowledge of Confidential Information at the Termination Date.
‘Products’	means products in the range of products supplied by the Company or any Group Company in the period of 12 months prior to the Termination Date.
‘Restricted Area’	means England, Scotland, Wales, Northern Ireland, Republic of Ireland, the Channel Islands, Isle of Man, France, Italy, Spain, Portugal, Holland, Norway, Switzerland, the Czech Republic, Turkey, Egypt, Germany, Russia, Romania, China, USA or any other country in which the Company or any Group Company has at the Termination Date a material business interest or is at the Termination Date planning to take a material business interest within 12 months of the Termination Date.
‘Restricted Period’	means 12 months from the Termination Date less any period in which the Company has exercised its rights under clause 13.3.
‘Services’	means services in the range of services supplied by the Company or any Group Company in the period of 12 months prior to the Termination Date
‘Termination Date’	means the date of termination of your employment with the Company.

1.2 In this Agreement, any phrase introduced by the terms “including”, “include”, “in particular” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.



Mr A Gourlay  
[ADDRESS]

28th June 2010

Dear Alex

**Transfer to Alliance Boots Management Services Limited**

As discussed, this letter is to confirm that with effect from midnight on 1 July 2010, your employment will transfer to Alliance Boots Management Services Limited (ABMS).

This won't affect your length of service, your salary and place of work but you will transfer by agreement to ABMS and will be subject to its employment policies and procedures.

You will continue to report to me and your current role and responsibilities will remain unchanged.

However, there will be some changes to your existing employment package.

**Policies and procedures**

As with all employment policies and procedures ABMS reserves the right to withdraw or modify them at any time. Full details of ABMS' policies and procedures are available in the online version of the Staff Handbook which can be found on the AB World Intranet.

In summary, these are the changes which are relevant for you:

- Company Sick Pay (CSP) You will be covered by the ABMS company sick pay scheme which grants the following discretionary entitlement based on length of service:
  - Under 6 months                      No payment
  - 6 months – 2 years                      2 weeks pay, paid from day 4 of absence
  - 2 years – 5 years                      8 weeks pay, paid from day 1 of absence

- 5 – 10 years                      12 weeks pay, paid from day 1 of absence
- Over 10 years                      16 weeks pay, paid from day 1 of absence

Extension of CSP payments beyond the above periods is at the discretion of ABMS.

Entitlement to CSP will be withdrawn for a minimum period of 6 months following a 3rd unrelated and unauthorised absence in any 6 month period.

Employees who use up all their CSP entitlement in any 12 month period must return to work for at least 1 month prior to any renewed entitlement to CSP

- 100% attendance recognition: - (applies to 2010)

You will no longer be eligible for this benefit when you transfer to ABMS.

#### Paternity Leave (including adoptive parent).

Statutory provisions apply other than the following:

Up to two weeks paid Paternity leave (paid at basic pay) will be granted to all established or temporary employees who have responsibility for bringing up a child.

#### Adoptive leave (adopting a child below 18 yrs old):

Statutory provisions apply other than the following:

Paid adoptive leave will be granted equivalent to post-birth maternity and paternity provisions for cases of legal adoption.

#### Redundancy Policy

You will still be covered by the Boots redundancy policy in force from time to time:

In order to qualify for a company redundancy payment, an employee must have completed at least one year's continuous service with the company as at the date of their redundancy. The redundancy scheme is as follows;

- 1.5 weeks actual pay for each complete year of continuous service where age during the year is less than 22.
  - 2 weeks actual pay for each complete year of continuous service where age during the year is 22 or above, but less than 41.
  - 2.5 weeks actual pay for each complete year of continuous service where age during the year is 41+
  - There is no pension augmentation provision within the Boots redundancy policy
-

### Company Car and car allowance

You are entitled to the ABMS car allowance, which is £20,500pa.

### Holidays

- You will retain your current holiday entitlement of 30 days.
- The ABMS holiday scheme applies in all other respects.

### Bonus

- Bonus arrangements will be communicated separately.

### Pension

- You are eligible to join the Alliance Boots Retirement Savings Plan with effect from midnight on 1st July 2010, and you will already have received your offer pack.
- Your active membership in any occupational pension schemes with Boots UK Limited and/or its associated companies will come to an end at the point of transfer as communicated throughout the recent pensions consultation process.

### Pay date

- The pay date for the ABMS payroll is the 28th of the month or the last working day before the 28th if the 28th is a weekend or Bank Holiday. This means that at the time of the change you have been paid by Boots UK Limited on **Monday 21st June 2010** and then, after your transfer, by ABMS on **Wednesday 28th July 2010**.

All other terms and conditions of your employment are unaffected by the transfer.

Thank you for your continued contribution towards the success of the business. I should be grateful if you would sign and return a copy of this letter to Erica Leyshon in HR to confirm your acceptance of the transfer on the terms detailed above.

Yours sincerely

/s/ Andy Hornby

**Andy Hornby**

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For and on behalf of Alliance Boots Management Services Limited

Signed /s/ Alex Gourlay  
**Alex Gourlay**

Dated 26/6/2010 June 2010

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DATED 10<sup>th</sup> December 2002

**Alliance UniChem Plc**

and

**Ornella Barra**

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**EMPLOYMENT AGREEMENT**

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**AN AGREEMENT** made this TENTH day of December 2002 **BETWEEN:**

1. 'the Company': **Alliance UniChem Plc** (registered number: 2515178) whose registered office is at Alliance House, 2 Heath Road, Weybridge, Surrey KT13 8AP;
2. 'the Executive': **Ornella Barra** of [ADDRESS].

**OPERATIVE PROVISIONS**

**1 Interpretation**

- 1.1 In this Agreement, the headings and marginal headings to the clauses are for convenience only and have no legal effect.
- 1.2 Any reference in this Agreement to any Act or delegated legislation includes any statutory modification or re-enactment of it or the provision referred to.
- 1.3 Any reference in this Agreement to a person shall include a reference to a firm and corporation and vice versa and any reference to the singular shall include the plural and vice versa.
- 1.4 In this Agreement:

'the Board' means the Board of Directors of the Company from time to time and includes any committee of the Board duly appointed by it

'Businesses' means all and any trades or other commercial activities of the Company or any Group Company:

(a) with which the Executive (or any other employee, of the Company or any Group Company, on her behalf or under her instructions) shall have been concerned or involved to any material extent at any time during the period of 12 months ending on the Termination Date; or

(b) which the Company or any Group Company shall at the Termination Date have determined to carry on in the immediate or foreseeable future and in relation to which the Executive shall at the Termination Date possess any Confidential Business Information

'Chief Executive' means any person or persons jointly holding such office of the Company from time to time and includes any person(s) exercising substantially the functions of a chief executive officer of the Company

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'Company Invention'	means any improvement, invention or discovery made by the Executive which applying the provisions of section 39 of the Patents Act 1977 in the determination of ownership is, as between the parties, the property of the Company
'Company Secretary'	means the company secretary of the Company from time to time
'Confidential Business Information'	means Trade Secrets and all other confidential information of the Company and/or any Group Company, both of which include but are not limited to the following: all and any Corporate Information, Marketing Information, Technical Information and other information (whether or not recorded in documentary form or on computer disk or tape) to which the Company or any Group Company attaches an equivalent level of confidentiality or in respect of which it owes an obligation of confidentiality to any third party which the Executive shall acquire at any time during her employment by the Company but which does not form part of the Executive's own stock in trade
'Corporate Information'	means all and any information (whether or not recorded documentary form or on computer disk or tape) relating to financial projections and targets, financial details and accounts, budgets, the business methods, corporate and business plans, management systems, finances, maturing new business opportunities or research and development projects of the Company or any Group Company
'Customer'	means any person (other than those listed in Schedule 2 hereto (if any) which the parties acknowledge have been introduced by the Executive to the Company) who or which shall be at or have been during the six month period immediately preceding the Termination Date negotiating with the Company or any Group Company for the supply of any Restricted Products or the provision of any Restricted Services or to whom or which the Company or any Group Company shall at any time during the period of one year prior to the Termination Date have supplied any Restricted Products or provided any Restricted Services

'Deputy Chief Executive'	means any person or persons jointly holding the office of Deputy Chief Executive of the Company from time to time and includes any person(s) exercising substantially the functions of a Deputy Chief Executive of the Company
'Executive Scheme'	means the Company's executive share option scheme approved by shareholders on 21st May 1997, as the same is currently in force and the same may from time to time hereafter be amended modified or replaced
'Group Company'	means the Company and any "subsidiary" company of the Company and any "subsidiary undertaking" of the Company as such expressions are defined by sections 736, 736A, 258 and 259 of the Companies Act 1985) and any other company which for the time being is a company having an ordinary share capital (as defined in section 832 of the Income and Corporation Taxes Act 1988) of which not less than 25 per cent is owned directly or indirectly by the Company applying the provisions of section 838 of the Income and Corporation Taxes Act 1988 in the determination of ownership
'Marketing Information'	means all and any information (whether or not recorded in documentary form or on computer disk or tape) relating to the marketing or sales of any past, present or future product or service of the Company or any Group Company including without limitation sales targets and statistics, market share and pricing statistics, marketing surveys and plans, market research reports, marketing and advertising plans and materials, marketing and advertising requirements, sales techniques, price list, discount structures, pricing policies, commissions, the names, addresses, telephone numbers, contact names and identities of Customers and potential customers of any suppliers and potential suppliers to the Company or any Group Company, the nature of their business operations, their requirements for any product or service sold by the Company by any Group Company and all confidential aspects of their business relationship with the Company or any Group Company

‘Material Interest’	<p>means:</p> <ul style="list-style-type: none"> <li>(a) the holding of any position as director, officer, employee, consultant, partner, sub-contractor, principal or agent or any other position in any person which enables the Executive directly or indirectly to exercise influence;</li> <li>(b) the direct or indirect control or ownership (whether jointly or alone) of any shares (or any voting rights attached to them) or debentures save for the ownership for investment purposes only of not more than 3 per cent of the issued ordinary shares of any company whose shares are listed on any recognised investment exchange (as defined in section 285 of the Financial Services and Markets Act 2000); or</li> <li>(c) the direct or indirect provision of any financial assistance (as defined in section 152 of the Companies Act 1985)</li> </ul>
‘Pension Scheme’	<p>means the Alliance UniChem International Pension Scheme established by a trust deed dated 29th September 1999, as the same may from time to time be amended modified or replaced</p>
‘Remuneration Committee’	<p>means the remuneration committee of the Company</p>
‘Restricted Area’	<p>means any area in which any Group Company carries on business from time to time</p>
‘Restricted Period’	<p>means 12 months from the Termination Date unless the Company has enforced its rights pursuant to clause 16.8.1, in which case ‘Restricted Period’ shall be that period from the Termination Date which aggregated with the period of time during which the Company has enforced its rights under clause 16.8.1 shall amount to 12 months</p>
‘Restricted Products’	<p>means all and any products of a kind that shall be dealt in, produced, marketed or sold by the Company or any Group Company from time to time in the ordinary course of the Businesses</p>

‘Restricted Services’	means all and any services of a kind that shall be provided by the Company or any Group Company from time to time in the ordinary course of the Businesses
‘Share Incentive Plan’	means the Company’s share incentive plan approved by shareholders on 12th June 1998, as the same is currently in force and the same may from time to time hereafter be amended modified or replaced
‘Shares’	means ordinary shares of ten pence each in the capital of the Company being shares available under the Executive Scheme end/or the Share Incentive Plan
‘Technical Information’	means all and any trade secrets, secret formulae, processes, inventions, designs, know-how, discoveries, technical specifications and other technical information (whether or not recorded in documentary form or on computer disk or tape) relating to the creation, development, production or supply of any past, present or future product or service of the Company or any Group Company
‘Trade Secrets’	means confidential information which is rightly described or regarded by the Company as a trade secret or which it is reasonably apparent is so commercially sensitive as to be a trade secret
‘Termination Date’	means the date on which the Executive shall cease to be employed by the Company

## **2 Appointment and duration**

- 2.1 The Company appoints the Executive and the Executive agrees to act as Southern Europe Director, responsible for Group Companies operating out of Southern Europe and designated European functions. The Executive accepts that the Company may at its discretion require her to perform (without any additional remuneration) other lawful duties or tasks not within the scope of her normal duties and the Executive agrees to perform those duties or undertake those tasks as if they were specifically required under this Agreement.
- 2.2 The appointment shall be deemed to have commenced on 30<sup>th</sup> December 1997 and shall continue (subject to earlier termination as provided in this Agreement) until terminated by the Company giving to the Executive not less than 12 months’ prior written notice expiring at any time or by the Executive giving to the Company not less than 6 months’ prior written notice expiring at any time.

- 2.3 The Executive warrants that by virtue of entering into this Agreement or any other agreements or arrangements made or to be made between the Company or any Group Company and her she will not be in breach of any express or implied terms of any contract with or of any other obligation to any third party binding upon her.

### **3 Duties of the Executive**

- 3.1 The Executive shall at all times during the period of this Agreement:

- 3.1.1 devote so much of her time, attention and ability as the board considers necessary to the duties of her appointment;
- 3.1.2 faithfully and diligently perform those duties and exercise such powers consistent with them which are from time to time assigned to or vested in her;
- 3.1.3 obey all lawful and reasonable directions of the Board;
- 3.1.4 use her best endeavours to promote the interests of the Company and its Group Companies; and
- 3.1.5 not at any time make any malicious statement relating to the Company or any Group Company or any other statement likely to be harmful to the Company or any Group Company.

- 3.2 The Executive shall (without further remuneration.) if and for so long as the Company requires during the period of this Agreement:

- 3.2.1 carry out the duties of her employment on behalf of any Group Company;
- 3.2.2 act as an officer of any Group Company or hold any other appointment or office as nominee or representative of the Company or any Group Company;
- 3.2.3 carry out such duties and the duties attendant on any such appointments as if they were duties to be performed by her on behalf of the Company,

### **4 Reporting**

- 4.1 The Executive shall report directly to the Chief Executive and Deputy Chief Executive and shall at all times keep the Chief Executive and Deputy Chief Executive promptly and fully informed (in writing if so requested) of her conduct of the business or affairs of the Company and its Group Companies and provide such explanations as the Chief Executive or Deputy Chief Executive may require.

### **5 Place of work and residence**

- 5.1 The Executive shall perform her duties at the offices of the Company based in Nice, France (currently located at 369/371, promenade des Anglais, BP 3132, 06203, Nice, Cedex 3, France) and/or at such other place of business of the Company or of any Group Company as the Company requires whether inside or outside France. The Executive acknowledges that the Company may require her to permanently relocate to work at any head office or other place of business of the Company and/or any Group Company. The Company shall not without her prior consent require the Executive to go to or reside anywhere outside southern Europe except for occasional visits in the ordinary course of her duties.

## **6 Pay**

- 6.1 During her appointment the Company shall pay to the Executive a salary at the rate of £241,000 per year which shall accrue day-to-day and be payable by equal monthly instalments in arrears on or about the 22nd day of each month. The salary shall be deemed to include any fees which may be receivable by the Executive as a director of the Company, if applicable, or any Group Company and shall also be deemed to include any fees receivable by the Executive in respect of any other company or unincorporated body in which she holds office as nominee or representative of the Company or any Group Company.
- 6.2 The Remuneration Committee shall review the Executive's salary from time to time and the rate of salary may be increased by such amount if any as the Remuneration Committee may resolve.
- 6.3 The Company may in its absolute discretion establish (and from time to time determine, vary or replace) a performance related remuneration scheme for the Executive. Any such scheme shall be discretionary, shall not be a contractual entitlement and the Company shall have no liability to the Executive for failure to establish, pay out under or maintain any such scheme. Without prejudice to the generality of the foregoing, the duration and terms and conditions of any such scheme (including without limitation targets and related payments) shall be as the Company may from time to time in its absolute discretion expressly notify the Executive in writing.

## **7 Shares**

- 7.1 The Executive may be entitled to subscribe for such number of Shares as the Remuneration Committee may from time to time determine and notify the Executive in writing, subject to the terms and conditions of the Executive Scheme and/or the Share Incentive Scheme (as appropriate) and **PROVIDED THAT:**
- 7.1.1 prior to any subscription by the Executive she complies with all relevant Inland Revenue regulations and the Company obtains such approval from the Inland Revenue as the Remuneration Committee thinks fit; and
- 7.1.2 prior to any subscription the Remuneration Committee approves such proposed subscription.

The Company shall be entitled from time to time to amend, modify, replace or terminate the Executive Scheme and/or the Share Incentive Scheme.

## **8 Pension**

- 8.1 The Executive shall be entitled to be and remain a member of the Pension Scheme subject to the terms of its deeds and rules from time to time details of which are available from the Company Secretary.
- 8.2 The Company shall be entitled at any time to amend, modify, replace or terminate the Pension Scheme or the Executive's membership thereof subject to providing the Executive with the benefit of an equivalent pension scheme ('the New Scheme') each and every benefit of which shall be no less favourable than the accrued benefits provided to the Executive under the Pension Scheme. The Company shall be entitled to amend or modify the Pension Scheme provided that the benefits provided under such amended or modified scheme are no less favourable than the accrued benefits provided before any such amendment or modification took effect.

## **9 Insurance Benefits**

- 9.1 The Executive shall be entitled to participate at the Company's expense:
- 9.1.1 for her own benefit in the Company's permanent health insurance scheme; and
  - 9.1.2 for her own benefit in the Company's life assurance scheme at the rate of four times the Executive's salary; and
  - 9.1.3 for her own benefit in the Company's personal accident and travel insurance scheme,
- subject always to Inland Revenue limits, the rules of such schemes and the terms of any relevant policy of insurance from time to time, details of which are available from the Company Secretary.
- 9.2 The Company shall be entitled to vary or replace any such schemes referred to in clause 9.1 from time to time provided always that the benefits provided under any such varied or replacement scheme are in all material respects (in the Company's reasonable opinion) at least as beneficial to the Executive as the schemes thereby varied or replaced. Notwithstanding the foregoing, if in the reasonable opinion of the Company (whose opinion shall be conclusive) the continuation of any of the benefits set out in this clause 9.2 is not reasonably practicable (including without limitation by reason of the cost thereof) the Company shall be entitled to terminate the provision of any such benefits.

## **10 Transport**

- 10.1 The Executive shall be provided with transport in order to allow her to perform her duties.
- 10.2 Subject to the Executive holding a current full driving licence the Company shall provide the Executive, for private use by her and any other driver holding a current full driving licence previously approved by the Company, with a fully expensed car of a make, model and specification selected by the Company which in the opinion of the Board is commensurate with the status of the Executive and the image of the Company.

## **11 Expenses**

- 11.1 The Company shall reimburse to the Executive on a monthly basis all travelling, hotel, entertainment and other expenses reasonably incurred by her in the proper performance of her duties subject to the Executive complying with such guidelines or regulations issued by the Company from time to time in this respect and to the production to the Company of such vouchers or other evidence of actual payment of such expenses as the Company may reasonably require. For the avoidance of doubt, travelling expenses between her residence and her place of work and hotel expenses incurred by her while working at her place of work more than 100 miles from her residence are expenses reasonably incurred by her in the proper performance of her duties.
- 11.2 Where the Company issues a company sponsored credit or charge card to the Executive she shall use such card only for expenses reimbursable under clause 11.1 above, and shall return it to the Company forthwith on the termination of her employment (or if so required by the Company on the giving by either party of notice to terminate her employment, whether lawfully or not).
- 11.3 If, in the Company's reasonable opinion, it is necessary or appropriate for the Executive to be and remain a member of a recognised professional regulatory body for the better performance of the Executive's duties, then;
- 11.3.1 the Company shall pay the appropriate subscription and the annual membership fee, to permit the Executive to be and remain a member of such body;
- 11.3.2 the Company shall pay the cost of any fees for continuing education or training that is necessary to permit the Executive to continue as a member of any such body.

## **12 Holiday**

- 12.1 In addition to UK public holidays the Executive is entitled to 30 working days paid holiday in each holiday year from 1st January to 31st December to be taken at such time or times as are agreed with the Deputy Chief Executive. The Executive shall not without the prior consent of the Deputy Chief Executive carry forward any unused part of her holiday entitlement to a subsequent holiday year,
- 12.2 For the holiday year during which her employment commences or terminates, the Executive is entitled to 2.5 working days holiday for each complete calendar month of her employment by the Company during that holiday year. On the termination of her employment for whatever reason, the Executive shall not be entitled to pay in lieu of outstanding holiday entitlement (save if her employment has been terminated by the Company in breach of the terms and/or conditions of her employment) and the Executive shall be required to repay to the Company any holiday pay received in excess of her actual entitlement.

### **13 Incapacity**

- 13.1 If the Executive shall be prevented by illness (including mental disorder), injury or other incapacity from properly performing her duties hereunder she shall report this fact forthwith to the Deputy Chief Executive and if the Executive is so prevented for seven or more consecutive days she shall provide a medical practitioner's statement on the eighth day and weekly thereafter so that the whole period of incapacity is certified by such statements, immediately following her return to work after a period of absence due to incapacity the Executive shall complete a self-certification form available from the Company Secretary's office detailing the reason for her absence.
- 13.2 If the Executive shall be absent from her duties hereunder due to illness (including mental disorder), injury or other incapacity duly certified in accordance with the provisions of clause 13.1 hereof, she shall be paid her full remuneration hereunder for up to 180 working days' absence in any period of 12 consecutive months and thereafter such remuneration, if any, as the Board shall from time to time determine provided that all such remuneration shall be inclusive of any Statutory Sick Pay to which the Executive is entitled or other benefits recoverable by the Executive (whether or not recovered) may be deducted therefrom.
- 13.3 For Statutory Sick Pay purposes the Executive's qualifying days shall be her normal working days.
- 13.4 At any time during the period of this employment the Executive shall at the request and expense of the Company permit herself to be examined by a registered medical practitioner (if in the Company's reasonable opinion any such examination is necessary or appropriate), such medical practitioner to be selected by the Company. The Executive authorises such medical practitioner to disclose to and discuss with the Company's medical adviser the results of such examination ("the Results") and any matters which arise from it in order that the Company's medical adviser can notify the Company of any matters which, in her opinion, might hinder or prevent the Executive (if during a period of incapacity) from returning to work for any period or (in other circumstances) from properly performing any duties of her appointment at any time. Subject to the provisions of law or professional conduct prohibiting disclosures of the Results to the Executive, the Executive shall be entitled to be informed of the Results.
- 13.5 The Company may terminate the Executive's employment on the grounds of incapacity, as set out in clause 16 hereof.

### **14 Acknowledgements by the Executive**

- 14.1 The Executive acknowledges:
- 14.1.1 that the Company and each Group Company possesses a valuable body of Confidential Business Information;

- 14.1.2 that the Company will give her access to Confidential Business information in order that she may carry out the duties of her appointment;
- 14.1.3 that the duties of her employment include, without limitation, a duty of trust and confidence and a duty to act at all times in the best interests of the Company;
- 14.1.4 that the Company requires all its senior employees to accept restrictions which are similar to those set out in clauses 16 and 17 for its and each of their mutual protection;
- 14.1.5 that the disclosure of any Confidential Business Information to any customer or actual or potential competitor of the Company or any Group Company would place such company at a serious competitive disadvantage and would cause immeasurable (financial and other) damage to the Businesses;
- 14.1.6 that if during the Restricted Period she was to hold any Material Interest in Customer or any actual or potential competitor of the Company or any Group Company, it would place the Company or such Group Company at a serious competitive disadvantage and would cause immeasurable (financial and other) damage to the Businesses.

## **15 Obligations during employment**

### **15.1 Inventions**

- 15.1.1 if at any time during her employment the Executive (whether alone or with any other person or persons) makes any invention which relates either directly or indirectly to the Businesses the Executive shall promptly disclose to the Company full details, including drawings and models, of such invention to enable the Company to determine whether or not it is a Company Invention.
- 15.1.2 If the invention is a Company Invention, the Executive shall hold it in trust for the Company and, at the request and expense of the Company, do all things necessary or desirable to enable the Company or its nominee to obtain for itself the full benefit of and to secure patent or other appropriate forms of protection for the Company Invention throughout the world.
- 15.1.3 Decisions as to the patenting and exploitation of any Company Invention shall be at the sole discretion of the Company.
- 15.1.4 The Executive irrevocably appoints the Company to be her attorney in her name and on her behalf to execute documents and/or deeds to use the Executive's name and to do all things which may be necessary or desirable for the Company to obtain for itself or its nominee the full benefit of the provisions of clauses 15.1.2 and 15,2,2 and a certificate in writing signed by the Chief Executive that any instrument or act fails within the authority hereby conferred shall be conclusive evidence that such is the case so far as any third party is concerned.

15.2 Copyright etc.

- 15.2.1 The Executive shall promptly disclose to the Company all copyright works or designs originated, conceived, written or made by her alone or with others (except only those works originated, conceived, written or made by her wholly outside her normal working hours which are wholly unconnected with her appointment) and shall hold them in trust for the Company until such rights shall be fully and absolutely vested in the Company,
- 15.2.2 The Executive hereby assigns to the Company by way of future assignment all copyright, design right and other proprietary rights (If any) for the full terms thereof throughout the world in respect of all copyright works and designs originated, conceived, written or made by the Executive (except only those works originated, conceived, written or made by the Executive wholly outside her normal working hours which are wholly unconnected with her appointment) during the period of her appointment with the Company,
- 15.2.3 The Executive hereby irrevocably and unconditionally waives in favour of the Company any and all moral rights conferred on her by Chapter IV of Part I of the Copyright Designs and Patents Act 1988 for any work in which copyright or design right is vested in the Company whether by clause 15.2.2 or otherwise,
- 15.2.4 The Executive shall, at the request and expense of the Company, do all things necessary or desirable to substantiate the rights of the Company under clauses 15.2.2 and 15.2.3.

15.3 Share dealings

- 15.3.1 The Executive shall comply, where relevant, with every rule of law, every requirement of the London Stock Exchange and every regulation of the Company from time to time in force in relation to dealings in the shares, debentures or other securities of the Company or any Group Company and unpublished price sensitive information affecting the shares, debentures or other securities of the Company and any Group Company or any other company and, in relation to overseas dealings, the Executive shall also comply with all laws of the state and all regulations of the stock exchange, market or dealing system in which such dealings take place.
- 15.3.2 The Executive shall not (and shall procure so far as she is able that her spouse and children shall not) deal or become or cease to be interested (within the meaning of Part I of Schedule 7 to the Companies Act 1985) in any securities of the Company or any Group Company except in accordance with any Company rules or guidelines from time to time relating to securities transactions by directors.

15.4 Conflict of interest

15.4.1 The Executive agrees that during the period of her appointment with the Company, she shall:

15.4.1.1 abide by any lawful relevant Company policy that may be promulgated from time to time;

15.4.1.2 not directly or indirectly disclose to any person, firm or company or use other than for any legitimate purposes of the Company or any Group Company any Confidential Business Information and the Executive shall use all due care and diligence to prevent any unauthorised disclosure or use of any Confidential Business information:

15.4.1.3 not without the Board's prior written permission hold any Material Interest in any person, firm or company which:

(a) is or shall be in competition with any of the businesses carried on by the Company and/or any Group Company from time to time;

(b) impairs or might reasonably be thought by the Board to impair her ability to act at all times in the best interests of the Company; or

(c) requires or might reasonably be thought by the Board to require her to disclose any Confidential Business Information in order properly to discharge her duties to or to further her interest in such person, firm or company;

15.4.1.4 not directly or indirectly receive or obtain in respect of any goods or services sold or purchased or other business transacted (whether or not by her) by or on behalf of the Company or any Group Company any discount, rebate, commission or other inducement (whether in cash or in kind) which is not authorised by any Company rules or guidelines from time to time and if she or any person firm or company in which she holds any Material Interest shall obtain any such discount, rebate, commission or inducement, she shall immediately account to the Company for the discount rebate commission or other inducement so received;

15.4.1.5 not (other than for the proper performance of her duties) without the prior authority of the Board remove from the Company and/or any Group Company's premises or copy or allow others to copy the contents of any document, computer disk, tape, memory device, notebook or other tangible item (whether or not eye-readable) which contains any Confidential Business Information or which belongs to the Company or any Group Company;

- 15.4.1.6 return to the Company upon request and, in any event, at the Termination Date all documents, papers, computer disks, tapes, other reusable material, memory devices, notebooks and other tangible items in her possession or under her control (including without limitation those referred to in clause 15.4.2) which belong to the Company or any Group Company or which contain or refer to any Confidential Business Information;
- 15.4.1.7 if so lawfully requested by the Board at any time delete or return to the Company, as the Company may require, all Confidential Business Information from any computer disks, tapes or other reusable material in her possession or under her control and destroy or return to the Company, as the Company may require, all other documents and tangible items in her possession or under her control which contain or refer to any Confidential Business Information.
- 15.4.2 All documents, notes, the contents of all computer disks and tapes, memoranda, records and writing and made by the Executive relating to the business of the Company and/or any Group Company shall be and remain the property of the Company and/or any Group Company to whose business they relate and shall be returned to the company to whom they belong forthwith upon request.
- 15.5 General
  - 15.5.1 The restriction contained in clauses 15.4.1.2 and 17.3;
    - 15.5.1.1 will not restrict the Executive from disclosing (but only to the proper recipient) any Confidential Business Information which the Executive is required to disclose by law or any order of the court or any relevant regulatory body, provided that the Executive shall, unless obliged by law, have given prior written notice to the Company of the requirement and of the information to be disclosed and allowed the Company an opportunity to comment on the requirement before making the disclosure; and
    - 15.5.1.2 will not apply to Confidential Business Information which is in or which comes into the public domain otherwise than as a result of an unauthorised disclosure by the Executive or any other person who owes the Company and/or any Group Company an obligation of confidentiality in relation to the information disclosed.

15.6 Further restrictions

15.6.1 The Executive shall not during her employment (save in a purely social capacity or with the prior express written consent of the Chief Executive) make any contact, whether formal or informal, written or oral, with any of the Company or Group Company's past, current or prospective suppliers of goods for resale, customers or clients for any purpose (including but not limited to an intention to set up a competing business or to seek employment) other than for the legitimate business interests of the Company or Group Company,

15.6.2 The Executive shall not during her employment directly or indirectly:

15.6.2.1 solicit or endeavour to entice away from the Company or any Group Company an employee or consultant, or discourage from being employed or engaged by the Company or any Group Company any person who is an employee or consultant of or, to the knowledge of the Executive, a prospective employee or consultant of the Company or any Group Company; or

15.6.2.2 employ or engage or procure another person to employ or engage any such person.

15.7 The restrictions set out in this clause 15 are without prejudice to the other duties whether fiduciary or otherwise owed to the Company or any Group Company whether express or implied.

**16 Termination of agreement**

16.1 Automatic termination

This Agreement shall automatically terminate:

16.1.1 on the Executive reaching her retirement age being her 60th birthday; or

16.1.2 if the Executive becomes prohibited by law from being a director; or

16.1.3 if the Executive resigns her office as a director; or

16.1.4 If the office of director of the Company held by the Executive is vacated pursuant to the Company's Articles of Association (save if the vacation shall be caused by Illness (including mental disorder) or injury) or if the Executive is otherwise duly removed from her office of director,

save that clauses 16.1.2, 16.1.3 and 16.1.4 shall not apply if the Executive and the Company each agree.

The Executive shall have no claim against the Company because of such termination.

## 16.2 Suspension

In order to investigate a complaint against the Executive of misconduct the Company is entitled, but shall not be obliged, to suspend the Executive on full pay for so long as may be necessary to carry out a proper investigation and hold a disciplinary hearing. During the period of suspension the Company shall not be obliged to provide work for the Executive and may require the Executive to comply with such conditions as the Company may specify in relation to attending at or remaining away from the places of business of the Company and/or the Group Companies during the period of suspension.

## 16.3 Immediate dismissal

The Company may by notice terminate this Agreement with immediate effect if the Executive:

- 16.3.1 commits any act of gross misconduct or any other material breach of the obligations of her employment or (after written warning) repeats or continues any breach of such obligations; or
- 16.3.2 is guilty of any conduct which in the reasonable opinion of the Board brings her, the Company or any Group Company into disrepute; or
- 16.3.3 is convicted of any criminal offence (excluding an offence under road traffic legislation for which she is not sentenced to any term of imprisonment whether immediate or suspended); or
- 16.3.4 commits any act of dishonesty whether relating to the Company, any Group Company, any of its or their employees or otherwise; or
- 16.3.5 becomes bankrupt or makes any arrangement or composition with her creditors generally (under the provisions of the Insolvency Act 1986); or
- 16.3.6 becomes of unsound mind or a patient as defined in either section 112 or 145 of the Mental Health Act 1983 or has been admitted to a hospital in pursuance of an application made under that Act; or
- 16.3.7 contravenes any model code from time to time applicable to directors and/or employees of the Company.

The Executive shall have no claim against the Company by reason of such termination.

16.4 Dismissal on short notice

The Company may terminate this Agreement notwithstanding clause 13.2 by not less than 6 months' prior notice given at any time while the Executive is incapacitated by ill-health or accident from performing her duties under this Agreement and she has been so incapacitated for a period or periods aggregating more than 180 working days in the preceding 12 months. Provided that the Company shall withdraw any such notice if during the currency of the notice the Executive returns to full time duties and provides a medical practitioner's certificate satisfactory to the Board to the effect that she has fully recovered her health and that no recurrence of her illness or incapacity can reasonably be anticipated.

16.5 Resignation on a change in control

The Executive shall be entitled to terminate her employment by giving to the Company not less than 3 months' prior notice at any time within one month after a Change in Control of the Company that was at any time opposed by the Board. For the purposes of this clause, a person shall have "Control" of the Company if he or it holds, directly or indirectly, shares which together with shares held by any persons acting in concert with him or it carry 50 per cent or more of the voting rights of the Company and "Change in Control" shall be interpreted accordingly. Words and phrases defined in the City Code on Takeovers and Mergers shall have the same meaning in this clause 16.5.

16.6 Pay in lieu

On notice being served for any reason to terminate this Agreement or at any time thereafter during the currency of such notice the Company shall be entitled at its absolute discretion (but not obliged) to pay to the Executive her salary and other remuneration (if any) (at the rate then payable under clause 6 hereof) for the unexpired portion of the duration of her appointment or entitlement to notice as may be the case.

16.7 Miscellaneous

On the termination of this Agreement for whatever reason, the Executive shall at the request of the Company:

16.7.1 resign from all and any offices which she may hold as a director of the Company or of any Group Company and from all other appointments or offices which she holds as nominee or representative of the Company or any Group Company; and

16.7.2 transfer without payment to the Company or as the Company may direct any shares held by her as a nominee of the Company or any Group Company;

and if she should fail to do so within seven days the Company is hereby irrevocably authorised to appoint some person in her name and on her behalf to sign any documents or do any things necessary or requisite to effect such resignation(s) and/or transfer(s).

16.8 Provisions applicable during a notice period

- 16.8.1 In the event that either party gives notice to terminate the appointment of the Executive then for a period not exceeding 12 months (or 6 months in the case of a notice served by the Executive in accordance with clause 2.2) the Company shall be under no obligation to vest in or assign to the Executive any powers or duties or to provide any work for the Executive and without prejudice to the generality of the foregoing the Company may in its absolute discretion require the Executive to perform only such duties as it may allocate to her (including without limitation research projects or any other work whether or not directly related to the Executive's duties) or not to perform any of her duties under this Agreement or to work in such other capacities as the Company may require (commensurate with the Executive's status) and/or to exclude her from any premises of the Company or of any Group Company (without providing any reason therefor) provided always that throughout any such period the Executive's salary (and other contractual remuneration, if any) under clause 6 and other contractual benefits shall not cease to be paid or provided (unless and until her employment shall be terminated).
- 16.8.2 Action taken on the part of the Company (as referred to in clause 16.8.1) shall not constitute a breach of this Agreement of any kind whatsoever in respect of which the Executive has any claim against the Company.
- 16.8.3 If the Executive fails to make herself available for work during any period of notice of termination of the Executive's employment, other than at the request of the Company pursuant to clause 16.8.1 or with the express permission in writing of the Chief Executive, the Company reserves the right to deduct one day's salary (and any amount payable under any discretionary performance related remuneration scheme pursuant to clause 6.3) for each day of each such absence.
- 16.8.4 If and insofar as the Company exercises its rights under clause 16.8.1 so as to exclude the Executive from the premises of the Company during the notice period, then the Executive may carry out other activities (for persons other than the Company or any other Group Company) subject to obtaining the previous express written consent of the Chief Executive which consent may be given subject to such terms and conditions as he may determine (each of which shall be deemed a condition of this Agreement) and such consent, if given, may be revoked at any time. Provided that the Executive has provided the Chief Executive (and at all times kept the Chief Executive up to date and fully informed) on the basis of the utmost good faith, with full particulars of the nature of any interest and the likely demand it will make on her time and abilities, the consent of the Chief Executive to the Executive undertaking any other activities shall not be unreasonably withheld or revoked where, in the reasonable opinion of the Chief Executive the giving or failing to revoke consent would not materially adversely affect the interests of the Company or any Group Company or the full performance by the Executive of her duties hereunder or such duties, if any, as the Company may require the Executive to perform pursuant to clause 16.8.1.

## 17 Obligations after employment

17.1 The Executive shall not within the Restricted Area directly or indirectly:

- 17.1.1 without prior express consent in writing of the Chief Executive (as referred to in clause 17.2) during the Restricted Period, hold any Material Interest in any business (including without limitation in any Customer) which is or shall be wholly or partly in competition with any of the Businesses including without limitation those listed in Schedule 3 and their respective subsidiaries and holding companies (as defined in sections 736 and 736A of the Companies Act 1985) (being companies in which the parties acknowledge that the Executive would inevitably give her new employer an unfair advantage vis-à-vis the Company in view of her embedded knowledge of the Company and those companies' status as head-on competitors of the Company);
- 17.1.2 without the prior express consent in writing of the Chief Executive (as referred to in clause 17.2) during the Restricted Period, hold any Material Interest in any person, firm or company which requires or might reasonably be thought by the Company to require her to disclose or make use of any Confidential Business Information in order properly to discharge her duties to or to further her interest in such person, firm or company;
- 17.1.3 without the prior express consent in writing of the Chief Executive (as referred to in clause 17.2) during the Restricted Period, seek in any capacity whatsoever (either alone or jointly with any other person and whether on her own account or in partnership with others or as an officer employee agent of or consultant to any other person) any business, orders or custom for any Restricted Products or Restricted Services from any Customer;
- 17.1.4 without the prior express consent in writing of the Chief Executive (as referred to in clause 17.2) during the Restricted Period, accept in any capacity whatsoever (either alone or jointly with any other person and whether on her own account or in partnership with others or as an officer employee agent of or consultant to any other person) orders for any Restricted Products or Restricted Services from any Customer;
- 17.1.5 at any time after the Termination Date (either alone or jointly with any other person and whether on her own account or in partnership with others or as an officer employee agent of or consultant to any other person) interfere or seek to interfere or take such steps as may interfere with the continuance of supplies to the Company and/or any Group Company which are at the Termination Date or have within 12 months prior to the Termination Date been supplying goods, components, materials or supplies to the Company and/or any Group Company;

- 17.1.6 at any time before or after the Termination Date (either alone or jointly with any other person and whether on her own account or in partnership with others or as an officer employee agent of or consultant to any other person) induce or seek to induce by any means involving the disclosure or use of Confidential Business Information any Customer to cease dealing with the Company or any Group Company or to restrict or vary the terms upon which it deals with the Company or any Group Company;
- 17.1.7 for the period of 12 months after the Termination Date (either alone or jointly with any other person and whether on her own account or in partnership with others or as an officer employee agent of or consultant to any other person) solicit or entice away or seek to solicit or entice away from the Company or any Group Company any person who is and was at the Termination Date employed by the Company or any Group Company to work in any of the Businesses as a director senior manager or salesperson and/or who reported directly or indirectly to the Executive;
- 17.1.8 at any time after the Termination Date represent herself or permit herself to be held out by any person firm or company as being in anyway connected with or interested in the Company or any Group Company (save as the holder of Shares if such be the case);
- 17.1.9 at any time after the Termination Date disclose or make use of any Trade Secrets while such Trade Secrets remain in the nature of trade secrets.
- 17.2 The consent of the Chief Executive to the Executive having any interest or engaging in any of the matters referred to in clause 17.1.1, 17.1.2, 17.1.3 and/or 17.1.4 may be given subject to such terms and conditions as he may specify (each of which shall be deemed a condition of this Agreement) and such consent if given may be revoked at any time. Provided that the Executive has provided the Chief Executive (and at all times kept him fully up to date and informed) on the basis of the utmost good faith with full particulars of the nature of any interest or other activity as referred to in clause 17.1.1, 17.1.2, 17.1.3 and/or 17.1.4, the consent of the Chief Executive to the Executive having any such interest or undertaking any such activity shall not be unreasonably withheld or revoked where in the reasonable opinion of the Chief Executive the giving or failing to revoke consent would be:
- 17.2.1 immaterial in relation to the Businesses;
- 17.2.2 immaterial in relation to the level of business orders or custom for Restricted Products and/or Restricted Services from any Customer.
- 17.3 The Executive shall not at any time after the Termination Date directly or indirectly disclose to any person, firm or company or make use of any Confidential Business Information.

- 17.4 The Executive agrees that the restrictions contained in clauses 17.1, 17.3 and 15 are reasonable and necessary for the protection of legitimate interests of the Company and each Group Company and that, having regard to those interests, those restrictions do not work harshly on her. It is nevertheless agreed that if any of those restrictions shall taken together or separately be held to be void or ineffective for any reason but would be held to be valid and effective if part of the wording were deleted, that restriction shall apply with such deletions as may be necessary to make it valid and effective.
- 17.5 The restrictions contained in each sub-clause of clauses 17.1, 17.3 and 15 shall be construed as separate and individual restrictions and shall each be capable of being severed without prejudice to the other restrictions or to the remaining provisions of this Agreement.
- 17.6 The Executive has given the undertakings contained in clauses 17.1, 17.3 and 15 to the Company for itself and as trustee for each Group Company and the Executive will at the request and cost of the Company enter into direct undertakings with any Group Company which correspond to the undertakings in clauses 17.1, 17.3 and 15, or which are less onerous only to the extent necessary (in the opinion of the Company or its legal advisors) to ensure that such undertakings are valid and enforceable.
- 17.7 The Company shall not be entitled to rely on the covenants contained in clauses 17.1.1 to 17.1.8 (inclusive) if the Company has committed a repudiatory breach of this Agreement.

## **18 General**

### **18.1 Other terms or benefits**

18.1.1 The provisions of the Company's standard terms and conditions of employment, contained in the Company's Staff Handbook (as amended from time to time) (the "Staff Handbook"), shall not be terms of the Executive's employment and are not legally binding on the Company. In the case of a conflict between this Agreement and the Staff Handbook the provisions of this Agreement shall prevail. The Staff Handbook is available from the Company Secretary.

18.1.2 This Agreement sets out all the salary and other benefits to which the Executive is entitled and any other benefits are non-contractual, are provided in the absolute discretion of the Company and may be withdrawn at any time.

### **18.2 Statutory particulars**

The further particulars of terms of employment not contained in the body of this Agreement which must be given to the Executive in compliance with Part 1 of the Employment Rights Act 1996 are given in Schedule 1 hereto.

### 18.3 Prior agreements

This Agreement sets out the entire agreement and understanding of the parties and is in substitution for any previous contracts of employment or for services between the Company or any of its Group Companies and the Executive (which shall be deemed to have been terminated by mutual consent) but without prejudice to the rights of the Company or any Group Company in connection with any prior breach thereof. This Agreement supersedes and replaces any terms and conditions contained in any offer letter or other correspondence between the Company and/or any Group Company and the Executive.

### 18.4 Accrued rights

The expiration or termination of this Agreement shall not operate to affect such of the provisions of this Agreement as are expressed to operate or have effect after then and shall be without prejudice to any accrued rights or remedies of the parties.

### 18.5 Proper law

The laws of England and Wales shall govern the validity construction and performance of this Agreement.

### 18.6 Acceptance of jurisdiction

All disputes claims or proceedings between the parties relating to the validity construction or performance of this Agreement shall be subject to the non-exclusive jurisdiction of the courts of England and Wales to which the parties irrevocably submit.

### 18.7 Notices

Any notice to be given by a party under this Agreement must be in writing and, without prejudice to any other effective mode of service, may be given by delivery at or by sending by first class post or other faster postal or courier service or facsimile transmission or other means of telecommunication in permanent written form (provided the addressee has her or its own facilities for receiving such transmissions) to the last known postal address or relevant telecommunications number of the other party. Where notice is given by first class post or fast postal service it shall be deemed to have been received two business days after posting (excluding the day of posting). Where notice is given by courier service it shall be deemed served on the business day after that on which it has been delivered into the custody of the relevant courier company. Where notice is given by facsimile transmission or other means of telecommunication as aforesaid, it shall be deemed to have been received on the day of sending if such day is a business day and if not on the next succeeding business day. To prove the giving of a notice it shall be sufficient to show it was despatched. A notice shall have effect from the sooner of its actual or deemed receipt by the addressee. For the purpose of this clause 'business day' shall mean any day other than a Saturday, Sunday or public holiday in England, Scotland or Wales.

18.8 Consent

Where any provision of this Agreement refers to consent being required from the Company, any director or the Chief Executive, "consent" shall be deemed to mean express consent in writing and all such provisions shall be construed accordingly.

**IN WITNESS** whereof the duly authorised signatory of the Company has executed this Agreement the day and year first before written and the Executive has executed this Agreement as her deed the day and year first before written.

## **SCHEDULE 1**

### **Part 1 Employment Rights Act 1996**

The following information is given to supplement the information given in the body of the Agreement in order to comply with the requirements of Part 1 of the Employment Rights Act 1996.

1. The Executive's employment by the Company commenced on 8<sup>th</sup> March 1984.
2. No employment of the Executive with a previous employer counts as part of the Executive's continuous employment with the Company and her continuous employment began on 8<sup>th</sup> March 1984.
3. The Executive's hours of work are the normal hours of the Company from 9.00am to 5.00pm Monday to Friday each week together with such additional hours as may be necessary so as properly to fulfil her duties.
4. A Contracting-Out Certificate pursuant to the provisions of the Pensions Schemes Act 1993 is held by the Company in respect of the Executive's employment.
5. The disciplinary rules applicable to the Executive are contained in the Company's Staff Handbook that is available from the Company Secretary.
6. If the Executive is dissatisfied with any disciplinary decision relating to her or if the Executive has any grievance relating to her employment, this must be raised with the Chief Executive (either orally or in writing). If the Executive is dissatisfied with the decision of the Chief Executive, she must (within 5 days of the decision of the Chief Executive) request in writing to the Company Secretary a meeting with the Board. A meeting date will be communicated to the Executive and she will be invited to attend such meeting together with another person if the Executive so wishes. The decision of the Board at such meeting will be notified to the Executive within 5 days of such meeting and the decision of the Board will be final.
7. There are no collective agreements applicable to the Executive's employment.

**SIGNED** by: )  
authorised signatory for and on behalf of )  
**Alliance UniChem Plc** )  
in the presence of:- )

*L. Cull*

/s/ Adrian J. Goodenough

Name Adrian J. Goodenough

Address 30 Glebe Hyrst  
Sanderstead  
South Croydon  
Surrey  
CR2 9JE

Occupation Company Secretary

**EXECUTED** as a Deed )  
By the said )  
**Ornella Bara** )  
in the presence of:- )

*Ornella Bara*

/s/ Adrian J. Goodenough

Name Adrian J. Goodenough

Address \_\_\_\_\_  
\_\_\_\_\_

Occupation \_\_\_\_\_

**THIS AGREEMENT IS DATED 31 JULY 2006****BETWEEN**

- (1) **Alliance Boots plc** whose registered office is at Sedley Place, 4<sup>th</sup> Floor, 361 Oxford Street, London, W1C 2JL;
- (2) **Alliance UniChem Plc** whose registered office is at 2 The Heights, Brooklands, Weybridge, Surrey, KT13 0NY; and
- (3) **ORNELLA BARRA** of 2 The Heights, Brooklands, Weybridge, Surrey, KT13 0NY (“The Executive”).

**WHEREAS**

- (A) The Executive is employed by Alliance UniChem Plc under the terms of a Service Agreement dated 10 December 2002 (“the Service Agreement”).
- (B) On 31 July 2006 the merger of Boots Group PLC and Alliance UniChem Plc was completed and Boots Group PLC changed its name to Alliance Boots plc.

**IT IS AGREED BETWEEN THE PARTIES AS FOLLOWS**

1. On 31 July 2006 the Executive’s Service Agreement with Alliance UniChem Plc terminated by mutual consent.
2. With immediate effect thereafter a New Service Agreement commenced between the Executive and Alliance Boots plc (“the New Service Agreement”). The New Service Agreement was agreed to be on identical terms to the Service Agreement save for the removal of the restriction under clause 17.1.1 in relation to Boots. The Executive’s continuity of employment is preserved and all references to Alliance UniChem Plc contained in the Service Agreement shall be construed as references to Alliance Boots plc in the New Service Agreement.

**IN WITNESS WHEREOF THIS AGREEMENT HAS BEEN SIGNED BY OR ON BEHALF OF THE PARTIES.**

/s/ Marco Pagni

**For Alliance Boots plc**

/s/ Marco Pagni

**For Alliance UniChem Plc**

/s/ Ornella Barra

**ORNELLA BARRA**

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**NOVATION OF SERVICE AGREEMENT**

THIS DEED OF NOVATION is made on June 1, 2013

**BETWEEN**

- (1) **Alliance Boots Holdings Limited** (formerly known as Alliance Boots Limited and previously as Alliance Boots plc), a private limited company incorporated under the laws of England and Wales, having its registered office at Sedley Place, 4th Floor, 361 Oxford Street, London W1C 2.11, and registered under No. 04452715 (the "**Former Employer**");
- (2) **Alliance Boots Management Services MC S.A.M.** a *société anonyme* incorporated under the laws of Monaco, having its registered office at [ADDRESS] and registered with the Monaco Register of Commerce under RCI N°: 13S05893 (the "**Alliance Boots MS**"); and
- (3) **Ornella Barra**, a citizen of Monaco, resident at [ADDRESS] (the "**Executive**", together with the Former Employer and Alliance Boots MBS the "**Parties**", and each a "**Party**").

**WHEREAS**

- (A) The Executive was employed by Alliance Unichem Plc pursuant to an Employment Agreement dated December 10, 2002, by and between the Alliance Unichem Plc and the Executive (the "**Service Agreement**").
  - (B) Upon completion of the merger between Boots Group PLC and Alliance UniChem Plc and the change of name of Boots Group PLC to Alliance Boots plc, the Service Agreement was terminated by mutual consent on July 31, 2006.
  - (C) Pursuant to that Agreement, dated July 31, 2006, by and among the Former Employer, Alliance UniChem Plc and the Executive, with immediate effect thereafter a New Service Agreement dated July 31, 2006 commenced between the Executive and the Former Employer on identical terms to the Service Agreement save for the removal of the restriction under clause 17.1.1 thereof in relation to Boots (the "**New Service Agreement**"), a copy of which is attached hereto as Exhibit A.
  - (D) On December 21, 2012, Alliance Boots MS, a subsidiary of Alliance Boots Holdings Limited was incorporated in Monaco with its principal business activity being the provision of management services.
  - (E) The Parties desire and agree to the appointment of Alliance Boots MS as the substitute employer in place of the Former Employer under the New Service Agreement on the terms and subject to the conditions contained herein.
-

**IT IS AGREED BETWEEN THE PARTIES AS FOLLOWS:**

**1. Novation**

Effective as of, from and after January 1, 2013, the Former Employer shall be substituted for, and replaced by, Alliance Boots MS under the New Service Agreement and Alliance Boots MS shall assume all rights and obligations of the Former Employer under, arising out of or in connection with the New Service Agreement and shall be bound in all respects in place of the Former Employer under the New Service Agreement and the New Service Agreement shall thereafter be construed and treated in all respects as if Alliance Boots MS had originally been named instead of the Former Employer as a party to the New Service Agreement. The Executive hereby acknowledges and agrees that this Agreement shall constitute a novation of the Former Employer's obligations, burdens and liabilities under, and any rights, title and interest with respect to, the New Service Agreement.

**2. Release and Discharge**

The Executive hereby releases and discharges the Former Employer from and after January 1, 2013 from all further obligations arising under the New Service Agreement and all liabilities, claims and demands howsoever arising under the New Service Agreement, whether in contract, tort or otherwise, and accepts the obligations and liability of Alliance Boots MS under the New Service Agreement in place of the obligations and liability of the Former Employer thereunder.

**3. Continuity of Service; Place of Work**

The Executive's employment by the Company commenced on March 8, 1984 and her continuity of employment is expressly preserved. All references to "Alliance UniChem Plc" or "the Company" in the Service Agreement shall be deemed to refer to Alliance Boots MS in the New Service Agreement, as novated and amended hereby.

The first sentence of Clause 5.1 of the New Service Agreement is hereby amended and restated to read as follows: "The Executive shall perform her duties at the offices of the Company based in Monte Carlo, Monaco (currently located at [ADDRESS]) and/or at such other place of business of the Company or of any Group Company as the Company requires whether inside or outside Monaco."

**4. Amendment and Continuing Effect**

Except as expressly set forth herein, including in Clause 3 above, no other amendment or modification is made to the New Service Agreement, as novated, which shall continue in full force and effect in accordance with its terms. References to "this Agreement" in the New Service Agreement shall include the New Service Agreement as novated and amended hereby.

**5. Effective Date**

The novation of the New Service Agreement and the substitution of the Former Employer thereunder by Alliance Boots MS shall be deemed to have occurred on January 1, 2013.

**6. Notices**

From and after January 1, 2013, the following notice information for Alliance Boots MS shall be used for purposes of the New Service Agreement:

**Alliance Boots Management Services MC S.A.M.**

Address:

[ADDRESS]

For the attention of: The President

With a copy to:

Address:. Alliance Boots Group  
Sedley Place, 4th Floor  
361 Oxford Street London W1C 2JL  
United Kingdom

For the attention of: Frank Standish, Corporate Secretary

or such other address as may be notified in writing from time to time by the relevant Party to the other Party for the purposes of this clause.

**7. Entire Agreement**

This Agreement constitutes the entire understanding and agreement of the parties with respect to the subject matter hereof, and all agreements and undertakings between them in respect to this subject matter are merged into and incorporated herein. The Agreement is binding upon and shall inure to the benefit of the Parties hereto and successors in interest. Nothing in this Agreement, express or implied, is intended to confer upon any person or entity other than the parties hereto or their respective successors and permitted assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement.

**8. Further Assurances**

Each of the Parties to this Agreement hereby covenants and agrees that it shall execute such documents and take such further action as any other Party hereto may reasonably request in order to give effect to the novation set forth herein.

**9. Counterparts**

This Agreement may be executed in any number of counterparts and by the Parties on separate counterparts, which may be delivered by facsimile or by electronic mail, but shall not be effective until each Party has executed at least one counterpart. Each counterpart shall constitute an original of this Agreement but all counterparts together shall constitute one and the same instrument.

**10. Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of England and Wales.

IN WITNESS whereof this Agreement has been executed and delivered as a deed on the date set forth above.

**EXECUTED** and delivered as a deed by  
**ALLIANCE BOOTS HOLDINGS LIMITED** )  
acting by **FRANK STANDISH**, a director, duly ) /s/ Frank Standish  
authorized for the purposes hereof, in the )  
presence of a witness:

**Witness**

Signature : /s/ Marco Pagni  
Name : MARCO PAGNI  
Occupation : GENERAL COUNSEL  
Address : c/o Sedley Place, 4th Floor, 361 Oxford Street,  
London W1C 2JL

**EXECUTED** and delivered as a deed by  
**ALLIANCE BOOTS MANAGEMENT** )  
**SERVICIS MC S.A.M.** acting by **Stefano** ) /s/ Stefano Pessina  
**Pessina**, )  
a director, duly authorized for the )  
purposes hereof, in the presence of a witness:

**Witness**

Signature : /s/ Marco Pagni  
Name : **MARCO PAGNI**  
Occupation : **GENERAL COUNSEL**  
Address : c/o Sedley Place, 4th Floor, 361 Oxford Street,  
London W1C 2JL

**EXECUTED** and delivered as a deed by )  
**ORNELLA BARRA** in the presence of a ) /s/ Ornella Barra  
witness: )

**Witness**

Signature : /s/ Marco Pagni  
Name : **MARCO PAGNI**  
Occupation : **GENERAL COUNSEL**  
Address : c/o Sedley Place, 4th Floor, 361 Oxford Street,  
London W1C 2JL

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**DATED** \_\_\_\_\_ **2013**

**Boots Management Services Limited**  
and

**Simon Roberts**

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**SERVICE AGREEMENT**

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**AN AGREEMENT** made this                      day of                      2013

**BETWEEN:**

'The Company': **Boots Management Services Limited** (registered number: 7073438) whose registered office is at 1 Thane Road West, Nottingham, NG2 3AA; and

'You': **Simon Roberts** of [ADDRESS].

**1. Effect of certain words and expressions**

1.1 Certain words and expressions have particular meanings in this Agreement. Please refer to Schedule 1.

**2. Appointment**

2.1 With effect from the date of this Agreement (the "Commencement Date"), in consideration of the mutual covenants and agreements herein, the Company appoints you and you agree to act as Managing Director, Health & Beauty UK and Republic of Ireland. You agree that the Company may at its discretion require you to perform, without additional remuneration, other lawful duties or reasonable tasks not specifically within the scope of your normal duties but consistent with your seniority and professional skills and you agree to perform those duties/tasks. The Company may appoint someone to act jointly with you in the performance of your duties.

2.2 You shall at all times during this Agreement comply with all policies, procedures and practices of the Company from time to time notified to you by the Company.

2.3 At all times during the continuance of this Agreement you shall:

2.3.1 devote the whole of your working time and attention to the duties of the Appointment assigned to you from time to time;

2.3.2 use your best endeavours to promote and protect the interests of the Company and all Group Companies;

2.3.3 faithfully and diligently serve the Company and perform such duties and exercise such powers as may from time to time be assigned to or vested in you;

2.3.4 obey all reasonable and lawful directions given to you by or under authority of the Board;

2.3.5 make such reports to the Board on any matters within your knowledge concerning the affairs of the Company or any Group Company as are reasonably required.

2.4 You shall be a director of Boots UK Limited and:

2.4.1 shall hold such Office as the Company may from time to time reasonably require;

2.4.2 (if the Company so requests and in any event on termination of the Appointment) shall immediately resign without claim for compensation from any Office held in any Group Company (but without prejudice to any rights you may have to claim compensation in respect of termination of the Appointment);

2.4.3 shall not do anything that would cause you to be disqualified from holding any Office;

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- 2.4.4 shall not (without the prior written approval of the Board) resign from any Office which you hold in any Group Company or any trusteeship which you hold as a result of the Appointment;
- 2.5 You hereby warrant that you are free to take up this employment and are not subject to any restriction that might hinder or prevent the full performance of your duties.
- 2.6 Your continuous period of employment with the Company commenced on [Date].

### **3. Hours of Work, Place of Work and Salary**

- 3.1 You shall work such hours as are reasonably necessary for the proper performance of your duties.
- 3.2 The Company shall, with effect from the Commencement Date, pay you a basic salary of £450,000 per year, paid by direct credit transfer to your nominated bank or building society on or around the 28<sup>th</sup> of each calendar month in arrears. Such basic salary includes any fees receivable by you as Officer, nominee or representative of any Group Company. You shall not be entitled to any directors' fees in addition to your basic salary. Your basic salary will be reviewed annually but the Company will be under no obligation to award an increase. The Company reserves the right to make deductions from your basic salary or other payments owed to you in order to recover any overpayments made to you in error.
- 3.3 Subject to clause 3.4, you shall perform your duties at the Company's Nottingham Support Office and you may be required to travel within the UK or abroad from time to time in the performance of your duties.
- 3.4 Due to the nature of the Company's business and the work you will be required to do, the Company may from time to time, on giving you reasonable notice, require you to work on a temporary or permanent basis at any of its offices or those of its Group Companies. The Company will pay your reasonable expenses incurred in connection with any temporary or permanent relocation.
- 3.5 Because of the autonomous nature of your role, the duration of your working time is not measured, monitored or determined by the Company and the limit on weekly working time set out in Regulation 4 of the Working Time Regulations 1998 does not apply to your employment.

### **4. Discretionary Bonus**

- 4.1 You may be eligible to participate in certain discretionary bonus schemes determined by the Company in accordance with the Company's discretionary bonus arrangements announced and communicated to you from time to time. In the event that the Company decides to operate any bonus scheme from time to time in which you are eligible to participate, no bonus is payable:
- 4.1.1 during or in respect of any period: (a) whilst you are suspended under clause 13.2; or (b) in which the Company exercises its rights under clause 13.3; or
- 4.1.2 if on the date of payment your employment has terminated (for any reason) or you are serving any notice period (whether such notice has been given by you or the Company).
- 4.2 Payment of bonus on one occasion shall not give rise to any right to or expectation of payment of any bonus thereafter.
- 4.3 Announcement of a bonus scheme on one occasion shall not give rise to any right to or expectation of an announcement of any bonus scheme or schemes thereafter.

**5. Pension & Life Assurance**

- 5.1 During the Appointment, the Company shall pay to you a cash payment in lieu of active pension scheme membership at the rate of 25% of the salary provided from time to time pursuant to clause 3.2 above. Such payment shall accrue day-to-day and shall be payable by equal monthly instalments in arrears on or around the 28th day of each month but shall not form part of your salary for the purposes of calculating any other benefit, bonus or payment in lieu of notice as the case may be.
- 5.2 Your entitlement to a cash payment in lieu of active pension membership shall cease immediately in its entirety upon you becoming an active member of any Group Company pension scheme.
- 5.3 During the Appointment, the Company shall procure that you are covered by life assurance arrangements which shall pay to your dependants a sum equivalent to five times the salary provided from time to time pursuant to clause 3.2 above on the event of your death during the appointment. Such cover is subject to you making yourself available for medical assessment but shall not be subject to the Company obtaining medical underwriting for all or any part of the cover provided.

**6. Car**

- 6.1 You are entitled to be provided with a car on the terms set out in the Company Car Policy in force and as amended from time to time, a copy of which is available from Human Resources.

**7. Expenses**

- 7.1 Subject to the Company's guidelines in relation to reimbursement of expenses, the Company shall reimburse expenses reasonably incurred by you in the proper performance of your duties.
- 7.2 Any Company sponsored credit or charge card shall be used only for expenses reimbursable under clause 7.1 and shall be returned to the Company when requested.

**8. Holiday**

- 8.1 in addition to statutory holidays, you are entitled to take 30 working days holiday in each holiday year to be taken at such time or times as are agreed with the Board.
- 8.2 The holiday year is 1<sup>st</sup> April to 31<sup>st</sup> March.
- 8.3 You will forfeit any accrued but untaken holiday which has not been taken at the end of the holiday year but you will be entitled to carry forward up to one week's accrued but untaken holiday into the next holiday year with the agreement of the Board.
- 8.4 if your employment is terminated for whatever reason during a holiday year, other than in accordance with clause 12.2, your holiday entitlement will be calculated as being 1/12<sup>th</sup> of your annual holiday entitlement for each completed calendar month worked prior to termination.
- 8.5 The Company reserves the right to deduct any amount of holiday pay paid in excess of accrued entitlement from any sums due at termination or to require the reimbursement of any such amounts.
- 8.6 If either party serves notice to terminate this Agreement, the Company may require you to take any accrued but unused holiday entitlement during the notice period (whether or not you are on Garden Leave).

8.7 Further details regarding your holiday entitlement are set out in the Employee Handbook.

## **9. Illness, injury or incapacity**

9.1 If you are prevented by illness injury or other incapacity from properly performing your duties, you must comply with the notification and certification procedure detailed in the Employee Handbook.

9.2 Information relating to the Company's non-contractual and discretionary Company Sick Pay scheme is contained within the Employee Handbook.

9.3 In the event that you are unable to attend work due to illness or injury because of the actionable negligence of a third party in respect of which damages are recoverable, you shall advise the Company forthwith and all payments made by the Company to you during such incapacity shall constitute a loan to you to the extent that any compensation recovered from the third party shall be repaid by you to the Company.

9.4 If you are absent from work due to illness, injury or incapacity for a consecutive period of 90 working days the Company may (without prejudice to the provisions of clause 2.1) appoint another person or persons to perform your duties until you return to work.

## **10. Intellectual Property Rights**

10.1 If whilst you are employed by the Company (whether or not in the course of your duties) you, whether alone or jointly, make or develop or modify any Intellectual Property in connection with or relating to or capable of being used or adapted for use in the business of the Company or any Group Company:

10.1.1 all rights to the Intellectual Property which subsist (or which may in the future subsist) will on creation, rest in and be the exclusive property of the Company;

10.1.2 to the extent necessary to vest the Intellectual Property in the Company and subject to section 42 of the Patents Act 1977, you hereby assign to the Company all rights to the Intellectual Property, whether future or subsisting, for the full term throughout the world.

10.2 Where you alone or jointly make or develop or modify any Intellectual Property, you shall promptly disclose to the Company full details of the Intellectual Property and shall not disclose the Intellectual Property to any third party before so doing.

10.3 You shall maintain adequate written records and memoranda of all Intellectual Property and these will remain the sole property of the Company and:

10.3.1 you shall, at the request and expense of the Company, do everything necessary to enable the Company or its nominee to obtain the benefit of the Intellectual Property including, without limitation, securing patent or other protection in the United Kingdom or any part of the world; and

10.3.2 you waive any rights you may have in respect of the intellectual Property under sections 77 to 86 of the Copyright, Designs and Patents Act 1988, including the right to object to derogatory treatment.

## **11. Covenants during employment and confidential information**

11.1 You agree that during your employment you have a general duty to act in good faith with respect to the Company and all Group Companies.

- 11.2 You agree that during your employment you will not:
- 11.2.1 (subject as otherwise provided in this sub-clause 11.2.1) have any Material Interest in any other business and including in any business which is in competition (in whole or in part) with any business carried on by the Company or any Group Company and/or which may require the disclosure or use of Confidential Information. You may have a Material Interest in another business (which is not in competition, as aforesaid, and will not require the disclosure or use of Confidential Information) if you obtain the prior written consent of the Company, such consent not to be unreasonably withheld;
  - 11.2.2 other than for the proper performance of your duties remove from the Company's and/or any Group Company's premises or copy or allow others to remove or copy any Confidential Information or any other information which belongs to or relates to the Businesses of the Company or any Group Company;
  - 11.2.3 directly or indirectly (on your own behalf or on behalf of any other person) solicit or entice away any employee or consultant of the Company or any Group Company, or discourage any prospective employee or consultant from being employed or engaged by the Company or by any Group Company;
  - 11.2.4 directly or indirectly (on your own behalf or on behalf of any other person) solicit the business or custom of any past current or prospective customer or supplier of the Company and/or any Group Company;
  - 11.2.5 directly or indirectly (on your own behalf or on behalf of any other person) provide services and/or products to any past current or prospective customer of the Company and/or of any Group Company.
- 11.3 You shall not during your employment save only in the proper performance of your duties directly or indirectly disclose to any person or use any Confidential Information and you shall use all due care and diligence to prevent any loss, unauthorised disclosure or use of any Confidential Information.
- 11.4 You shall not during your employment directly or indirectly make publish or otherwise communicate any disparaging or derogatory statements whether in writing or otherwise concerning the Company or any Group Company, their officers, consultants, agents, shareholders, employees, suppliers or customers.
- 11.5 You shall not at any time after the Termination Date directly or indirectly disclose to any person or make any use of any Confidential Information.
- 11.6 Nothing in this Agreement will prevent the disclosure or use of Confidential Information pursuant to an order of a court of competent jurisdiction or regulatory body with powers to compel disclosure, provided that you shall, unless prohibited by law, give the Company as much notice as is reasonably practicable if:
- 11.6.1 any application is made to a court of which you are aware which relates to Confidential Information. You shall also, unless prohibited by applicable law, notify the Company of the making of any such court order;
  - 11.6.2 any regulatory body has requested disclosure of Confidential Information by you; and
  - 11.6.3 unless prohibited by applicable law, you shall consult with the Company prior to making any disclosure pursuant to any court order and/or requirement of a regulatory body and take steps reasonably required by the Company to disclose Confidential Information in a manner reasonably designed to preserve its confidential nature as far as reasonably practicable.

11.7 Neither you (nor any person in whom you have a Material Interest) shall without the prior consent of the Company receive any money or other benefit from any customer or supplier of the Company or of any Group Company, which is in excess of £100 in value. You will immediately advise the Company if any such money or other benefit in excess of £100 in value is received.

11.8 You agree that you will abide by the Company's Code of Conduct in force and as amended from time to time, a copy of which is set out in the Employee Handbook and is also available from Human Resources.

## **12. Termination**

12.1 Subject to clauses 12.2, 12.3 and 12.4, your employment may be terminated:

12.1.1 by the Company giving you not less than twelve months' prior written notice; or

12.1.2 by you giving the Company not less than twelve months' prior written notice.

12.2 The Company may terminate your employment without notice or payment in lieu of notice on grounds of gross misconduct. In the event of termination effected in accordance with this clause 12.2, you will have no entitlement to any bonus and payment in respect of any accrued but untaken holiday will be limited to a maximum payment of £10 (gross). The Company will be entitled to adjust any salary owed to you accordingly.

12.3 The Company may also terminate your employment without notice or payment in lieu of notice if you:

12.3.1 seriously fail or neglect to discharge your duties effectively and diligently or to carry out all lawful directions of the Board, the Company and/or its holding company;

12.3.2 commit any act of dishonesty or any other act which may bring the Company or any Group Company into disrepute;

12.3.3 become bankrupt or make any arrangement or composition with your creditors generally; or

12.3.4 seriously contravene any model code or relevant legislation or regulatory rules from time to time applicable to directors and/or employees of the Company and/or any Group Company.

12.4 Your employment shall automatically terminate without notice or payment in lieu of notice if you are, at the relevant time, a director of the Company or any Group Company and you cease to hold such office of director because you:

(a) become prohibited by law or any market regulation from being a director; or

(b) resign such office of director; or

(c) are required to vacate such office of director pursuant to the Articles of Association of the Company or Group Company.

- 12.5 On the giving of notice to terminate your employment or at any time during any notice period, the Company may in its absolute discretion (but is not obliged to) terminate your employment immediately by making a payment to you in lieu of your basic salary under clause 3.2 (less such deductions as the Company is required to make by law or as authorised by you (pursuant to the terms of this Agreement or otherwise)) for any unexpired portion of the notice period. Such payment in lieu of notice will be made to you in equal monthly instalments, commencing in the calendar month immediately after the Termination Date, until such time as you secure alternative employment or the notice period to which the instalments relate expires (whichever is earlier), subject to you providing to the Company such evidence as it may reasonably require on a monthly basis to show that you are making reasonable endeavours to secure alternative employment. You will not, however, be obliged to accept alternative employment which is not appropriate to your status and skills. In the event that you do secure alternative employment but at a lower basic salary, then subsequent instalments shall be reduced by an amount equivalent to such lower basic salary, provided that the remuneration arrangements agreed by you with your new employer are appropriately balanced between basic salary and other benefits in accordance with market practice. In the absence of such evidence or if the Company is not reasonably satisfied that the evidence provided shows that you are making reasonable endeavours to secure alternative employment, the Company may cease making payment of the monthly instalments referred to in this clause after giving you one month's written notice of such cessation and the reasons for it. In such circumstances, you will have no rights to any compensation whatsoever in respect of the loss of any further instalments of the payment in lieu of notice that would otherwise be due to you. For the purposes of this clause, "alternative employment" means any office, appointment, employment or self-employment under the terms of a contract of service or contract for services or otherwise.
- 12.6 On the termination of your employment for whatever reason, you shall at the request of the Company resign from all and any offices which you may hold as a director, nominee or representative of any Group Company and, if you should fail to do so within seven days, the Company is hereby irrevocably authorised to appoint some person in your name and on your behalf to sign any documents or do any things necessary or requisite to effect such resignation(s) and/or transfer(s).
- 12.7 On the termination of your employment (or earlier if requested by the Company) you shall immediately return to the Company all Confidential Information and all other information property equipment and materials of any nature (whether copies, originals or extracts) in your possession or control relating to the Company, any Group Company and/or any customer, supplier or contact of the Company and/or any Group Company (without keeping any copies) including relating to any Intellectual Property of the Company and/or any Group Company, any such information made or compiled by you, keys, correspondence, documents, files, papers, diagrams, books, records, security passes, computer disks, tapes, software, telephones and computers. In particular, if any information is held in electronic form, you shall (a) if the medium on which the same is stored belongs to the Company (and/or any Group Company) return that medium (with all such information) to the Company and (b) if the medium on which the same is stored belongs to you, provide a copy of all such information to the Company and when so requested to do so by the Company, permanently delete the same from the medium on which it is stored.
- 12.8 Where the Company exercises its rights pursuant to clause 13.3, you agree to comply forthwith with the provisions of clause 12.7 above. However, you shall not be obliged to return any property provided to you as a contractual benefit.
- 12.9 If so required by the Company, you shall on each occasion you are obliged to deliver up property or delete information pursuant to this clause 12 provide to the Company a signed statement identifying the property returned and confirming that you have fully complied with your obligations under this clause.

### **13. Suspension and Garden Leave**

- 13.1 Nothing in this Agreement shall be taken to mean that the Company is obliged to provide you with any work or that you are entitled to perform work for the Company and/or any Group Company.
- 13.2 The Company shall be entitled at any time to suspend you and require you not to attend work for such period as the Company, acting reasonably, may specify in order to investigate a suspected disciplinary matter or for any other reason considered appropriate by the Company (acting reasonably).
- 13.3 At any time following a notice given by either party to terminate your employment and at any time during this Agreement and for a period not exceeding twelve months:
- 13.3.1 the Company may in its absolute discretion elect not to provide you with any work (and you shall have no right to perform any work) and/or the Company may in its absolute discretion require you to perform such duties (if any) commensurate with your role as the Company deems to be appropriate during your normal working hours; and
- 13.3.2 the Company may in its absolute discretion exclude you from its premises and the premises of any Group Company and may direct you to cease all contact with any customers, suppliers, contractors or employees of the Company or any Group Company.
- 13.4 You shall at all times when rights are exercised under clause 13.3 remain readily accessible and available for work and otherwise comply with this Agreement and in particular this clause 13.
- 13.5 The exercise by the Company of any rights under clause 13.3 shall not constitute a breach of this Agreement of any kind whatsoever in respect of which you have any claim against the Company. The Company's rights under clause 13.3 are without prejudice to any other rights and remedies available to the Company.
- 13.6 Throughout any period in which the Company exercises its rights under clause 13.3, you shall continue to receive salary and other contractual benefits (but subject to clause 4.1.1), provided that if you are not accessible and available for work, all rights to salary and other benefits in respect of the period of non-availability shall be forfeited.

### **14. Disciplinary, grievance and appeals procedures**

- 14.1 Information relating to the Company's disciplinary, grievance and appeals procedures is contained within the Employee Handbook.

### **15. Security Rules**

- 15.1 Information relating to the Company's security rules is contained within the Employee Handbook. The Company also reserves the right to search all employees and vehicles on Group Company sites.

### **16. Obligations after employment**

- 16.1 You shall not, during the Restricted Period, directly or indirectly:
- 16.1.1 hold any Material Interest in any business which is or shall be wholly or partly in competition with the Businesses in the Restricted Area including (to the extent that the same carry on a business in the Restricted Area which is competitive with the Businesses) those organisations listed in Schedule 2 and their holding companies and subsidiaries and the subsidiaries of any such holding companies from time to time;

- 16.1.2 hold any Material Interest in any organisation, which requires you to disclose or make use of any Confidential Information.
- 16.2 You shall not, directly or indirectly, whether as a principal, employee, partner, director, consultant, sub-contractor, shareholder or otherwise howsoever on your own behalf or on behalf of any other person during the Restricted Period in competition with the Businesses:
- 16.2.1 solicit any business, orders or custom for any Products or Services from any Customer;
  - 16.2.2 solicit any business, orders or custom for any Products or Services from any Potential Customer;
  - 16.2.3 accept any business orders or custom for any Products or Services from any Customer;
  - 16.2.4 accept any business orders or custom for any Products or Services from any Potential Customer;
  - 16.2.5 take such steps as may interfere with the continuance of supplies to the Company and/or any Group Company by any supplier;
  - 16.2.6 solicit or entice away or seek to solicit or entice away from the Company or any Group Company (or knowingly assist or procure any other person to do so) any Employee or Contractor and whether or not such person would breach his or her contract of employment or engagement by reason of leaving the service of the Company or a Group Company as the case may be; or
  - 16.2.7 engage (or knowingly assist or procure any other person to engage) any Employee or Contractor.
- 16.3 You shall not directly or indirectly whether as principal, employee, partner, director, consultant, sub-contractor, shareholder or otherwise howsoever on your own behalf or on behalf of any other person:
- 16.3.1 at any time after the Termination Date induce or seek to induce by any means involving the disclosure or use of Confidential Information any Customer or any other customer or any supplier to cease dealing with, reduce its business with or vary or restrict the terms on which it will deal with the Company or any Group Company;
  - 16.3.2 at any time after the Termination Date represent yourself or permit yourself to be held out by any person as being in any way connected with or interested in the Company or any Group Company (save as the holder of shares if such be the case); or
  - 16.3.3 at any time after the Termination Date make, publish or otherwise communicate any disparaging or derogatory statements whether in writing or otherwise concerning the Company or any Group Company, their officers, consultants, agents, shareholders or employees.
- 16.4 You acknowledge that any and all lists or data relating to any of your contacts from time to time with customers of the Company and/or any Group Company are the property of the Company and/or its Group Companies, and may constitute Confidential Information of the Company and/or any Group Company and that you have no interest, right or entitlement to maintain particular lists, data or accounts with any particular customer of the Company and/or its Group Companies. You shall not exploit your relationships with the customers of the Company and/or any Group Company except in the proper course of your duties for the Company. You agree that the Company or its Group Companies shall be entitled in their sole discretion from time to time (including during any period of notice) to require you to terminate any or all such relationships, hand over any or all lists or data relating to such relationships or accounts to persons nominated by the Company or its Group Companies (including to other employees of the Company or its Group Companies) and/or to seek to generate and maintain relationships or accounts with other existing or new customers.

- 16.5 The parties agree that the restrictions contained in clauses 11 and 16 are without prejudice to any other duties (fiduciary or otherwise) owed to the Company or any Group Company and are reasonable and necessary for the protection of legitimate interests of the Company and each Group Company and that, having regard to those interests, those restrictions do not work unreasonably on you. It is nevertheless agreed that if any of those restrictions shall taken together or separately be held to be void or ineffective for any reason but would be held to be valid and effective if any restriction or restrictions or part of the wording were deleted then the said restriction shall apply with such deletions as may be necessary to make the same valid and effective.
- 16.6 The restrictions contained in each sub-clause of clauses 11 and 16 shall be construed as separate and individual restrictions and shall each be capable of being severed without prejudice to the other restrictions or to the remaining provisions of this Agreement.
- 16.7 You acknowledge that if you breach any of your obligations contained in this Agreement (including those contained in clauses 11 and 16) then the Company may seek damages from you for any loss or damage suffered by the Company and/or any Group Company as a result of your breach. You also acknowledge and agree that damages alone would not be a sufficient remedy for any breach of clauses 11 and 16.
- 16.8 You have given the undertakings contained in clauses 11 and 16 to the Company for itself and as trustee for each Group Company and you will at the request and cost of the Company enter into direct undertakings with any Group Company which correspond to the undertakings in clauses 11 and 16, or which are less onerous only to the extent necessary (in the opinion of the Company or its legal advisers) to ensure that such undertakings are valid and enforceable.
- 16.9 If the Company transfers all or any part of its business to a third party ("the transferee"), the restrictions contained in clauses 11 and 16 shall, with effect from the date you become an employee of the transferee, apply to you as if references to the Company included the transferee and references to any Group Company were construed accordingly and as if references to customers were to customers of the Company and/or the transferee and their respective Group Companies.
- 16.10 On receipt of any offer of employment or any other offer of an engagement or arrangement made to you by any third party at any time during which any of the restrictions of this clause 16 are operative and/or which may give rise to a breach of any of your obligations under clause 11 or 16 you shall provide a copy of this Agreement to the relevant third party.

## **17. Data Protection**

- 17.1 You agree that by signing this Agreement, you have given consent to the Company or any Group Company processing personal data concerning you in order to properly fulfil its obligations to you under your employment and as otherwise required by law in relation to your employment in accordance with the Data Protection Act 1998 ("the DPA"). Such processing will principally be for personnel, administrative and payroll purposes.
- 17.2 You acknowledge that, if you are required at any time to work on behalf of the Company or a Group Company overseas, the Company may need to pass your personal data to the person with whom you are working anywhere in the world and you consent to the Company doing so.

- 17.3 In the event that the Company or any Group Company needs to process any "sensitive personal data" (as defined by the DPA) in relation to you for its legitimate business needs, you undertake to sign on request such express consents as may be required to enable it to do so.
- 17. Collective agreements**
- 17.1 There are no collective agreements in force in relation to your employment
- 18. General**
- 18.1 This Agreement and those parts of the Employee Handbook described as 'Terms and Conditions of Employment' constitute the entire employment contract between the Company and you and supersede and replace: (a) any and all previous terms and conditions of employment or for services between the Company or any Group Company and you (all of which shall be deemed to have terminated with immediate effect by mutual consent, but without prejudice to any liability for any prior breach); and (b) the terms of any offer letter or other correspondence between you and the Company relating to your employment. If there are any inconsistencies between the provisions of this Agreement and any other document, including the Employee Handbook, the provisions of this Agreement shall prevail.
- 18.2 This Agreement sets out all the salary and other benefits to which you are entitled. Any other benefits provided are non-contractual and if provided are provided in the absolute discretion of the Company and may be withdrawn or amended at any time.
- 18.3 The headings and sub-headings in this Agreement are for convenience only and do not affect its interpretation.
- 18.4 Any reference to a statutory provision shall be construed as a reference to any statutory modifications or re-enactment thereof (whether before or after the date hereof) for the time being in force.
- 18.5 The expiration or termination of this Agreement shall not affect the provisions of this Agreement as expressly or by implication are intended to have effect after that time and shall be without prejudice to any accrued rights or remedies of the parties.
- 18.6 The provisions of this Agreement are severable and distinct from one another and, if at any time any of the provisions is or becomes invalid, illegal or unenforceable, the validity, legality or enforceability of the other provisions shall not in any way be affected or impaired.
- 18.7 The parties agree that the Company may at any time on written notice to you assign the benefit and the burden of this Agreement to another person being a Group Company at the time of such assignment. Insofar as permitted by law, you hereby waive any right or rights you may have, whether statutory or otherwise, to object to being employed by such new employer.
- 18.8 Nothing in this Agreement shall confer or is intended to confer on any third party who is not a party to this Agreement any benefit or the right to enforce any provision of this Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999.
- 18.9 The existence, effect and interpretation of this Agreement shall be governed by the laws of England and the parties submit to the exclusive jurisdiction of the courts of England.

**IN WITNESS** whereof the duly authorised signatory of the Company has executed this Agreement the day and year first before written and you have executed this Agreement the day and year first before written.

SIGNED by:

/s/ Simon Roberts

Simon Roberts

7.11.2013

SIGNED by:

/s/ Alex Gourlay

**Alex Gourlay**  
Chief Executive, Health & Beauty Division,  
Alliance Boots  
For and on behalf of Boots Management Services Limited

## SCHEDULE 1

1.1 In this Agreement:

- 'Appointment' means your employment by the Company on the terms of this Agreement.
- 'Board' means the board of directors from time to time of the Company (including any committee of the Board duly appointed by it).
- 'Businesses' means all commercial activities of Boots UK Limited or any Group Company:
- (a) with which you shall have been concerned or involved at any time during the period of 12 months ending on the Termination Date; or
  - (b) in respect of which you possess Confidential Information; or
  - (c) which Boots UK Limited or any Group Company shall at the Termination Date have determined to carry on or take any ownership interest in, in the immediate or foreseeable future and in relation to which you shall at the Termination Date possess any Confidential Information.
- 'Confidential Information' means all confidential and/or trade secret information of the Company and/or any Group Company (whether or not recorded in any permanent, written or electronic form and whether or not marked as confidential) including marketing information, information relating to planned products/services, distribution techniques, sales, merchandising and pricing information, information relating to customers/suppliers (including names, contact details and actual or proposed business), financial corporate and strategic information, business projections and targets, business methods or plans, technical information, know how, inventions, research and development information, information relating to senior management succession details, employee records and other information in respect of which the Company or any Group Company owes an obligation of confidentiality to any third party, but shall not include any information which is in or comes into the public domain otherwise than as a result of any unauthorised disclosure by you or any other person who owes the Company and/or any Group Company an obligation of confidentiality in relation to the information disclosed.
- 'Customer' means any customer of Boots UK Limited or of any Group Company:

- (a) with whom you have directly or indirectly dealt in the period of 12 months prior to the Termination Date; or
- (b) in respect of whom you had knowledge of Confidential Information at the Termination Date; or
- (c) in respect of whom you had as a result of your employment with the Company and/or any Group Company developed a business relationship.

'Employee Handbook'

means the Boots & Me Employee Handbook, as from time to time amended or replaced.

'Employee or Contractor'

means any person who is and was at the Termination Date employed or engaged (as an employee or self-employed contractor) by the Company or any Group Company to work in any of their businesses:

- (a) at the same level as you; or
- (b) whose total remuneration package (including salary, bonus, commission and all benefits in kind) was equal to or more than £50,000 (gross) in the period of 12 months prior to the Termination Date.

'Garden Leave'

means any period during which the Company exercises its rights under clause 13.3.

'Group Company'

means Alliance Boots Holdings Limited and its holding companies and subsidiaries and the subsidiaries of any such holding companies from time to time.

'Intellectual Property'

means all patents, inventions, processes, discoveries, trade marks, logos, design rights, registered designs, semi-conductor topography rights, copyright, database right, know-how, trade secrets and all such similar proprietary rights and applications for such rights wheresoever subsisting and whether available by registration or not and any part or parts thereof.

'Material Interest'

means:

- (a) the holding of any position as director, officer, employee, consultant, partner, sub-contractor, principal or agent; or any other position in or control over any person which enables you directly or indirectly to exercise influence;

- (b) the direct or indirect control or ownership (whether jointly or alone) of any shares (or any voting rights attached to them) or debentures save for the ownership for investment purposes only of not more than 1 per cent of the issued ordinary shares of any company whose shares are listed on any recognised investment exchange (as defined in section 285 of the Financial Services and Markets Act 2000).

'Office'	means such offices commensurate with your position as a director or secretary in Boots UK Limited or any Group Company.
'Potential Customer'	means any person with whom during the period of six months prior to the Termination Date Boots UK Limited or any Group Company was in negotiation for the provision of Products or Services if you had been directly or indirectly concerned in such negotiations and/or in respect of which negotiation you had knowledge of Confidential Information at the Termination Date.
'Products'	means products in the range of products supplied by Boots UK Limited or any Group Company in the period of 12 months prior to the Termination Date.
'Restricted Area'	means England, Scotland, Wales, Northern Ireland, Republic of Ireland, the Channel Islands, Isle of Man, France, Italy, Spain, Portugal, Holland, Norway, Switzerland, the Czech Republic, Turkey, Egypt, Germany, Russia, Romania, China, USA or any other country in which the Company or any Group Company has at the Termination Date a material business interest or is at the Termination Date planning to take a material business interest within 12 months of the Termination Date.
'Restricted Period'	means 12 months from the Termination Date less any period in which the Company has exercised its rights under clause 13.3.
'Services'	means services in the range of services supplied by Boots UK Limited or any Group Company in the period of 12 months prior to the Termination Date
'Termination Date'	means the date of termination of your employment with the Company.

1.2 In this Agreement, any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.

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**DATED**                    **1 October**                    **2013**

**Boots Management Services Limited**

and

**Ken Murphy**

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**SERVICE AGREEMENT**

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**AN AGREEMENT** made this 1 day of October 2013

**BETWEEN:**

'The Company': **Boots Management Services Limited** (registered number: 7073438) whose registered office is at 1 Thane Road West, Nottingham, NG2 3AA; and

'You': **Ken Murphy** of [ADDRESS].

**1. Effect of certain words and expressions**

1.1 Certain words and expressions have particular meanings in this Agreement. Please refer to Schedule 1.

**2. Appointment**

2.1 With effect from the date of this Agreement (the "Commencement Date"), in consideration of the mutual covenants and agreements herein, the Company appoints you and you agree to act as Managing Director, Health & Beauty International and Brands. You agree that the Company may at its discretion require you to perform, without additional remuneration, other lawful duties or reasonable tasks not specifically within the scope of your normal duties but consistent with your seniority and professional skills and you agree to perform those duties/tasks. The Company may appoint someone to act jointly with you in the performance of your duties.

2.2 You shall at all times during this Agreement comply with all policies, procedures and practices of the Company from time to time notified to you by the Company.

2.3 At all times during the continuance of this Agreement you shall:

2.3.1 devote the whole of your working time and attention to the duties of the Appointment assigned to you from time to time;

2.3.2 use your best endeavours to promote and protect the interests of the Company and all Group Companies;

2.3.3 faithfully and diligently serve the Company and perform such duties and exercise such powers as may from time to time be assigned to or vested in you;

2.3.4 obey all reasonable and lawful directions given to you by or under authority of the Board;

2.3.5 make such reports to the Board on any matters within your knowledge concerning the affairs of the Company or any Group Company as are reasonably required.

2.4 You shall be a director of Boots UK Limited and:

2.4.1 shall hold such Office as the Company may from time to time reasonably require;

2.4.2 (if the Company so requests and in any event on termination of the Appointment) shall immediately resign without claim for compensation from any Office held in any Group Company (but without prejudice to any rights you may have to claim compensation in respect of termination of the Appointment);

2.4.3 shall not do anything that would cause you to be disqualified from holding any Office;

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- 2.4.4 shall not (without the prior written approval of the Board) resign from any Office which you hold in any Group Company or any trusteeship which you hold as a result of the Appointment;
- 2.5 You hereby warrant that you are free to take up this employment and are not subject to any restriction that might hinder or prevent the full performance of your duties.
- 2.6 Your continuous period of employment with the Company commenced on [Date].

### **3. Hours of Work, Place of Work and Salary**

- 3.1 You shall work such hours as are reasonably necessary for the proper performance of your duties.
- 3.2 The Company shall, with effect from the Commencement Date, pay you a basic salary of £450,000 per year, paid by direct credit transfer to your nominated bank or building society on or around the 28th of each calendar month in arrears. Such basic salary includes any fees receivable by you as Officer, nominee or representative of any Group Company. You shall not be entitled to any directors' fees in addition to your basic salary. Your basic salary will be reviewed annually but the Company will be under no obligation to award an increase. The Company reserves the right to make deductions from your basic salary or other payments owed to you in order to recover any overpayments made to you in error.
- 3.3 Subject to clause 3.4, you shall perform your duties at the Company's Nottingham Support Office and you may be required to travel within the UK or abroad from time to time in the performance of your duties.
- 3.4 Due to the nature of the Company's business and the work you will be required to do, the Company may from time to time, on giving you reasonable notice, require you to work on a temporary or permanent basis at any of its offices or those of its Group Companies. The Company will pay your reasonable expenses incurred in connection with any temporary or permanent relocation.
- 3.5 Because of the autonomous nature of your role, the duration of your working time is not measured, monitored or determined by the Company and the limit on weekly working time set out in Regulation 4 of the Working Time Regulations 1998 does not apply to your employment.

### **4. Discretionary Bonus**

- 4.1 You may be eligible to participate in certain discretionary bonus schemes determined by the Company in accordance with the Company's discretionary bonus arrangements announced and communicated to you from time to time. In the event that the Company decides to operate any bonus scheme from time to time in which you are eligible to participate, no bonus is payable:
- 4.1.1 during or in respect of any period: (a) whilst you are suspended under clause 13.2; or (b) in which the Company exercises its rights under clause 13.3; or
- 4.1.2 if on the date of payment your employment has terminated (for any reason) or you are serving any notice period (whether such notice has been given by you or the Company).
- 4.2 Payment of bonus on one occasion shall not give rise to any right to or expectation of payment of any bonus thereafter.
- 4.3 Announcement of a bonus scheme on one occasion shall not give rise to any right to or expectation of an announcement of any bonus scheme or schemes thereafter.

## **5. Pension & Life Assurance**

- 5.1 During the Appointment, the Company shall pay to you a cash payment in lieu of active pension scheme membership at the rate of 25% of the salary provided from time to time pursuant to clause 3.2 above. Such payment shall accrue day-to-day and shall be payable by equal monthly instalments in arrears on or around the 28th day of each month but shall not form part of your salary for the purposes of calculating any other benefit, bonus or payment in lieu of notice as the case may be.
- 5.2 Your entitlement to a cash payment in lieu of active pension membership shall cease immediately in its entirety upon you becoming an active member of any Group Company pension scheme.
- 5.3 During the Appointment, the Company shall procure that you are covered by life assurance arrangements which shall pay to your dependants a sum equivalent to five times the salary provided from time to time pursuant to clause 3.2 above on the event of your death during the appointment. Such cover is subject to you making yourself available for medical assessment but shall not be subject to the Company obtaining medical underwriting for all or any part of the cover provided.

## **6. Car**

- 6.1 You are entitled to be provided with a car on the terms set out in the Company Car Policy in force and as amended from time to time, a copy of which is available from Human Resources.

## **7. Expenses**

- 7.1 Subject to the Company's guidelines in relation to reimbursement of expenses, the Company shall reimburse expenses reasonably incurred by you in the proper performance of your duties.
- 7.2 Any Company sponsored credit or charge card shall be used only for expenses reimbursable under clause 7.1 and shall be returned to the Company when requested.

## **8. Holiday**

- 8.1 In addition to statutory holidays, you are entitled to take 30 working days holiday in each holiday year to be taken at such time or times as are agreed with the Board.
- 8.2 The holiday year is 1st April to 31st March.
- 8.3 You will forfeit any accrued but untaken holiday which has not been taken at the end of the holiday year but you will be entitled to carry forward up to one week's accrued but untaken holiday into the next holiday year with the agreement of the Board.
- 8.4 If your employment is terminated for whatever reason during a holiday year, other than in accordance with clause 12.2, your holiday entitlement will be calculated as being 1/12th of your annual holiday entitlement for each completed calendar month worked prior to termination.
- 8.5 The Company reserves the right to deduct any amount of holiday pay paid in excess of accrued entitlement from any sums due at termination or to require the reimbursement of any such amounts.
- 8.6 If either party serves notice to terminate this Agreement, the Company may require you to take any accrued but unused holiday entitlement during the notice period (whether or not you are on Garden Leave).

8.7 Further details regarding your holiday entitlement are set out in the Employee Handbook.

## **9. Illness, injury or incapacity**

9.1 If you are prevented by illness injury or other incapacity from properly performing your duties, you must comply with the notification and certification procedure detailed in the Employee Handbook.

9.2 Information relating to the Company's non-contractual and discretionary Company Sick Pay scheme is contained within the Employee Handbook.

9.3 In the event that you are unable to attend work due to illness or injury because of the actionable negligence of a third party in respect of which damages are recoverable, you shall advise the Company forthwith and all payments made by the Company to you during such incapacity shall constitute a loan to you to the extent that any compensation recovered from the third party shall be repaid by you to the Company.

9.4 If you are absent from work due to illness, injury or incapacity for a consecutive period of 90 working days the Company may (without prejudice to the provisions of clause 2.1) appoint another person or persons to perform your duties until you return to work.

## **10. Intellectual Property Rights**

10.1 If whilst you are employed by the Company (whether or not in the course of your duties) you, whether alone or jointly, make or develop or modify any Intellectual Property in connection with or relating to or capable of being used or adapted for use in the business of the Company or any Group Company:

10.1.1 all rights to the Intellectual Property which subsist (or which may in the future subsist) will on creation, rest in and be the exclusive property of the Company;

10.1.2 to the extent necessary to vest the Intellectual Property in the Company and subject to section 42 of the Patents Act 1977, you hereby assign to the Company all rights to the Intellectual Property, whether future or subsisting, for the full term throughout the world.

10.2 Where you alone or jointly make or develop or modify any Intellectual Property, you shall promptly disclose to the Company full details of the Intellectual Property and shall not disclose the Intellectual Property to any third party before so doing.

10.3 You shall maintain adequate written records and memoranda of all Intellectual Property and these will remain the sole property of the Company and:

10.3.1 you shall, at the request and expense of the Company, do everything necessary to enable the Company or its nominee to obtain the benefit of the Intellectual Property including, without limitation, securing patent or other protection in the United Kingdom or any part of the world; and

10.3.2 you waive any rights you may have in respect of the Intellectual Property under sections 77 to 86 of the Copyright, Designs and Patents Act 1988, including the right to object to derogatory treatment.

## **11. Covenants during employment and confidential information**

11.1 You agree that during your employment you have a general duty to act in good faith with respect to the Company and all Group Companies.

- 11.2 You agree that during your employment you will not:
- 11.2.1 (subject as otherwise provided in this sub-clause 11.2.1) have any Material Interest in any other business and including in any business which is in competition (in whole or in part) with any business carried on by the Company or any Group Company and/or which may require the disclosure or use of Confidential Information. You may have a Material Interest in another business (which is not in competition, as aforesaid, and will not require the disclosure or use of Confidential Information) if you obtain the prior written consent of the Company, such consent not to be unreasonably withheld;
  - 11.2.2 other than for the proper performance of your duties remove from the Company's and/or any Group Company's premises or copy or allow others to remove or copy any Confidential Information or any other information which belongs to or relates to the Businesses of the Company or any Group Company;
  - 11.2.3 directly or indirectly (on your own behalf or on behalf of any other person) solicit or entice away any employee or consultant of the Company or any Group Company, or discourage any prospective employee or consultant from being employed or engaged by the Company or by any Group Company;
  - 11.2.4 directly or indirectly (on your own behalf or on behalf of any other person) solicit the business or custom of any past current or prospective customer or supplier of the Company and/or any Group Company;
  - 11.2.5 directly or indirectly (on your own behalf or on behalf of any other person) provide services and/or products to any past current or prospective customer of the Company and/or of any Group Company.
- 11.3 You shall not during your employment save only in the proper performance of your duties directly or indirectly disclose to any person or use any Confidential Information and you shall use all due care and diligence to prevent any loss, unauthorised disclosure or use of any Confidential Information.
- 11.4 You shall not during your employment directly or indirectly make publish or otherwise communicate any disparaging or derogatory statements whether in writing or otherwise concerning the Company or any Group Company, their officers, consultants, agents, shareholders, employees, suppliers or customers.
- 11.5 You shall not at any time after the Termination Date directly or indirectly disclose to any person or make any use of any Confidential Information.
- 11.6 Nothing in this Agreement will prevent the disclosure or use of Confidential Information pursuant to an order of a court of competent jurisdiction or regulatory body with powers to compel disclosure, provided that you shall, unless prohibited by law, give the Company as much notice as is reasonably practicable if:
- 11.6.1 any application is made to a court of which you are aware which relates to Confidential Information. You shall also, unless prohibited by applicable law, notify the Company of the making of any such court order;
  - 11.6.2 any regulatory body has requested disclosure of Confidential Information by you; and
  - 11.6.3 unless prohibited by applicable law, you shall consult with the Company prior to making any disclosure pursuant to any court order and/or requirement of a regulatory body and take steps reasonably required by the Company to disclose Confidential Information in a manner reasonably designed to preserve its confidential nature as far as reasonably practicable.

11.7 Neither you (nor any person in whom you have a Material Interest) shall without the prior consent of the Company receive any money or other benefit from any customer or supplier of the Company or of any Group Company, which is in excess of £100 in value. You will immediately advise the Company if any such money or other benefit in excess of £100 in value is received.

11.8 You agree that you will abide by the Company's Code of Conduct in force and as amended from time to time, a copy of which is set out in the Employee Handbook and is also available from Human Resources.

## **12. Termination**

12.1 Subject to clauses 12.2, 12.3 and 12.4, your employment may be terminated:

12.1.1 by the Company giving you not less than twelve months' prior written notice; or

12.1.2 by you giving the Company not less than twelve months' prior written notice.

12.2 The Company may terminate your employment without notice or payment in lieu of notice on grounds of gross misconduct. In the event of termination effected in accordance with this clause 12.2, you will have no entitlement to any bonus and payment in respect of any accrued but untaken holiday will be limited to a maximum payment of £10 (gross). The Company will be entitled to adjust any salary owed to you accordingly.

12.3 The Company may also terminate your employment without notice or payment in lieu of notice if you:

12.3.1 seriously fail or neglect to discharge your duties effectively and diligently or to carry out all lawful directions of the Board, the Company and/or its holding company;

12.3.2 commit any act of dishonesty or any other act which may bring the Company or any Group Company into disrepute;

12.3.3 become bankrupt or make any arrangement or composition with your creditors generally; or

12.3.4 seriously contravene any model code or relevant legislation or regulatory rules from time to time applicable to directors and/or employees of the Company and/or any Group Company.

12.4 Your employment shall automatically terminate without notice or payment in lieu of notice if you are, at the relevant time, a director of the Company or any Group Company and you cease to hold such office of director because you:

(a) become prohibited by law or any market regulation from being a director; or

(b) resign such office of director; or

(c) are required to vacate such office of director pursuant to the Articles of Association of the Company or Group Company.

- 12.5 On the giving of notice to terminate your employment or at any time during any notice period, the Company may in its absolute discretion (but is not obliged to) terminate your employment immediately by making a payment to you in lieu of your basic salary under clause 3.2 (less such deductions as the Company is required to make by law or as authorised by you (pursuant to the terms of this Agreement or otherwise)) for any unexpired portion of the notice period. Such payment in lieu of notice will be made to you in equal monthly instalments, commencing in the calendar month immediately after the Termination Date, until such time as you secure alternative employment or the notice period to which the instalments relate expires (whichever is earlier), subject to you providing to the Company such evidence as it may reasonably require on a monthly basis to show that you are making reasonable endeavours to secure alternative employment. You will not, however, be obliged to accept alternative employment which is not appropriate to your status and skills. In the event that you do secure alternative employment but at a lower basic salary, then subsequent instalments shall be reduced by an amount equivalent to such lower basic salary, provided that the remuneration arrangements agreed by you with your new employer are appropriately balanced between basic salary and other benefits in accordance with market practice. In the absence of such evidence or if the Company is not reasonably satisfied that the evidence provided shows that you are making reasonable endeavours to secure alternative employment, the Company may cease making payment of the monthly instalments referred to in this clause after giving you one month's written notice of such cessation and the reasons for it. In such circumstances, you will have no rights to any compensation whatsoever in respect of the loss of any further instalments of the payment in lieu of notice that would otherwise be due to you. For the purposes of this clause, "alternative employment" means any office, appointment, employment or self-employment under the terms of a contract of service or contract for services or otherwise.
- 12.6 On the termination of your employment for whatever reason, you shall at the request of the Company resign from all and any offices which you may hold as a director, nominee or representative of any Group Company and, if you should fail to do so within seven days, the Company is hereby irrevocably authorised to appoint some person in your name and on your behalf to sign any documents or do any things necessary or requisite to effect such resignation(s) and/or transfer(s).
- 12.7 On the termination of your employment (or earlier if requested by the Company) you shall immediately return to the Company all Confidential Information and all other information property equipment and materials of any nature (whether copies, originals or extracts) in your possession or control relating to the Company, any Group Company and/or any customer, supplier or contact of the Company and/or any Group Company (without keeping any copies) including relating to any Intellectual Property of the Company and/or any Group Company, any such information made or compiled by you, keys, correspondence, documents, files, papers, diagrams, books, records, security passes, computer disks, tapes, software, telephones and computers. In particular, if any information is held in electronic form, you shall (a) if the medium on which the same is stored belongs to the Company (and/or any Group Company) return that medium (with all such information) to the Company and (b) if the medium on which the same is stored belongs to you, provide a copy of all such information to the Company and when so requested to do so by the Company, permanently delete the same from the medium on which it is stored.
- 12.8 Where the Company exercises its rights pursuant to clause 13.3, you agree to comply forthwith with the provisions of clause 12.7 above. However, you shall not be obliged to return any property provided to you as a contractual benefit.
- 12.9 If so required by the Company, you shall on each occasion you are obliged to deliver up property or delete information pursuant to this clause 12 provide to the Company a signed statement identifying the property returned and confirming that you have fully complied with your obligations under this clause.

### **13. Suspension and Garden Leave**

- 13.1 Nothing in this Agreement shall be taken to mean that the Company is obliged to provide you with any work or that you are entitled to perform work for the Company and/or any Group Company.
- 13.2 The Company shall be entitled at any time to suspend you and require you not to attend work for such period as the Company, acting reasonably, may specify in order to investigate a suspected disciplinary matter or for any other reason considered appropriate by the Company (acting reasonably).
- 13.3 At any time following a notice given by either party to terminate your employment and at any time during this Agreement and for a period not exceeding twelve months:
- 13.3.1 the Company may in its absolute discretion elect not to provide you with any work (and you shall have no right to perform any work) and/or the Company may in its absolute discretion require you to perform such duties (if any) commensurate with your role as the Company deems to be appropriate during your normal working hours; and
- 13.3.2 the Company may in its absolute discretion exclude you from its premises and the premises of any Group Company and may direct you to cease all contact with any customers, suppliers, contractors or employees of the Company or any Group Company.
- 13.4 You shall at all times when rights are exercised under clause 13.3 remain readily accessible and available for work and otherwise comply with this Agreement and in particular this clause 13.
- 13.5 The exercise by the Company of any rights under clause 13.3 shall not constitute a breach of this Agreement of any kind whatsoever in respect of which you have any claim against the Company. The Company's rights under clause 13.3 are without prejudice to any other rights and remedies available to the Company.
- 13.6 Throughout any period in which the Company exercises its rights under clause 13.3, you shall continue to receive salary and other contractual benefits (but subject to clause 4.1.1), provided that if you are not accessible and available for work, all rights to salary and other benefits in respect of the period of non-availability shall be forfeited.

### **14. Disciplinary, grievance and appeals procedures**

- 14.1 Information relating to the Company's disciplinary, grievance and appeals procedures is contained within the Employee Handbook.

### **15. Security Rules**

- 15.1 Information relating to the Company's security rules is contained within the Employee Handbook. The Company also reserves the right to search all employees and vehicles on Group Company sites.

### **16. Obligations after employment**

- 16.1 You shall not, during the Restricted Period, directly or indirectly:
- 16.1.1 hold any Material Interest in any business which is or shall be wholly or partly in competition with the Businesses in the Restricted Area including (to the extent that the same carry on a business in the Restricted Area which is competitive with the Businesses) those organisations listed in Schedule 2 and their holding companies and subsidiaries and the subsidiaries of any such holding companies from time to time;

- 16.1.2 hold any Material Interest in any organisation, which requires you to disclose or make use of any Confidential Information.
- 16.2 You shall not, directly or indirectly, whether as a principal, employee, partner, director, consultant, sub-contractor, shareholder or otherwise howsoever on your own behalf or on behalf of any other person during the Restricted Period in competition with the Businesses:
- 16.2.1 solicit any business, orders or custom for any Products or Services from any Customer;
  - 16.2.2 solicit any business, orders or custom for any Products or Services from any Potential Customer;
  - 16.2.3 accept any business orders or custom for any Products or Services from any Customer;
  - 16.2.4 accept any business orders or custom for any Products or Services from any Potential Customer;
  - 16.2.5 take such steps as may interfere with the continuance of supplies to the Company and/or any Group Company by any supplier;
  - 16.2.6 solicit or entice away or seek to solicit or entice away from the Company or any Group Company (or knowingly assist or procure any other person to do so) any Employee or Contractor and whether or not such person would breach his or her contract of employment or engagement by reason of leaving the service of the Company or a Group Company as the case may be; or
  - 16.2.7 engage (or knowingly assist or procure any other person to engage) any Employee or Contractor.
- 16.3 You shall not directly or indirectly whether as principal, employee, partner, director, consultant, sub-contractor, shareholder or otherwise howsoever on your own behalf or on behalf of any other person:
- 16.3.1 at any time after the Termination Date induce or seek to induce by any means involving the disclosure or use of Confidential Information any Customer or any other customer or any supplier to cease dealing with, reduce its business with or vary or restrict the terms on which it will deal with the Company or any Group Company;
  - 16.3.2 at any time after the Termination Date represent yourself or permit yourself to be held out by any person as being in any way connected with or interested in the Company or any Group Company (save as the holder of shares if such be the case); or
  - 16.3.3 at any time after the Termination Date make, publish or otherwise communicate any disparaging or derogatory statements whether in writing or otherwise concerning the Company or any Group Company, their officers, consultants, agents, shareholders or employees.
- 16.4 You acknowledge that any and all lists or data relating to any of your contacts from time to time with customers of the Company and/or any Group Company are the property of the Company and/or its Group Companies, and may constitute Confidential Information of the Company and/or any Group Company and that you have no interest, right or entitlement to maintain particular lists, data or accounts with any particular customer of the Company and/or its Group Companies. You shall not exploit your relationships with the customers of the Company and/or any Group Company except in the proper course of your duties for the Company. You agree that the Company or its Group Companies shall be entitled in their sole discretion from time to time (including during any period of notice) to require you to terminate any or all such relationships, hand over any or all lists or data relating to such relationships or accounts to persons nominated by the Company or its Group Companies (including to other employees of the Company or its Group Companies) and/or to seek to generate and maintain relationships or accounts with other existing or new customers.

- 16.5 The parties agree that the restrictions contained in clauses 11 and 16 are without prejudice to any other duties (fiduciary or otherwise) owed to the Company or any Group Company and are reasonable and necessary for the protection of legitimate interests of the Company and each Group Company and that, having regard to those interests, those restrictions do not work unreasonably on you. It is nevertheless agreed that if any of those restrictions shall taken together or separately be held to be void or ineffective for any reason but would be held to be valid and effective if any restriction or restrictions or part of the wording were deleted then the said restriction shall apply with such deletions as may be necessary to make the same valid and effective.
- 16.6 The restrictions contained in each sub-clause of clauses 11 and 16 shall be construed as separate and individual restrictions and shall each be capable of being severed without prejudice to the other restrictions or to the remaining provisions of this Agreement.
- 16.7 You acknowledge that if you breach any of your obligations contained in this Agreement (including those contained in clauses 11 and 16) then the Company may seek damages from you for any loss or damage suffered by the Company and/or any Group Company as a result of your breach. You also acknowledge and agree that damages alone would not be a sufficient remedy for any breach of clauses 11 and 16.
- 16.8 You have given the undertakings contained in clauses 11 and 16 to the Company for itself and as trustee for each Group Company and you will at the request and cost of the Company enter into direct undertakings with any Group Company which correspond to the undertakings in clauses 11 and 16, or which are less onerous only to the extent necessary (in the opinion of the Company or its legal advisers) to ensure that such undertakings are valid and enforceable.
- 16.9 If the Company transfers all or any part of its business to a third party ("the transferee"), the restrictions contained in clauses 11 and 16 shall, with effect from the date you become an employee of the transferee, apply to you as if references to the Company included the transferee and references to any Group Company were construed accordingly and as if references to customers were to customers of the Company and/or the transferee and their respective Group Companies.
- 16.10 On receipt of any offer of employment or any other offer of an engagement or arrangement made to you by any third party at any time during which any of the restrictions of this clause 16 are operative and/or which may give rise to a breach of any of your obligations under clause 11 or 16 you shall provide a copy of this Agreement to the relevant third party.

## **17. Data Protection**

- 17.1 You agree that by signing this Agreement, you have given consent to the Company or any Group Company processing personal data concerning you in order to properly fulfil its obligations to you under your employment and as otherwise required by law in relation to your employment in accordance with the Data Protection Act 1998 ("the DPA"). Such processing will principally be for personnel, administrative and payroll purposes.
- 17.2 You acknowledge that, if you are required at any time to work on behalf of the Company or a Group Company overseas, the Company may need to pass your personal data to the person with whom you are working anywhere in the world and you consent to the Company doing so.

- 17.3 In the event that the Company or any Group Company needs to process any "sensitive personal data" (as defined by the DPA) in relation to you for its legitimate business needs, you undertake to sign on request such express consents as may be required to enable it to do so.
- 18. Collective agreements**
- 18.1 There are no collective agreements in force in relation to your employment.
- 19. General**
- 19.1 This Agreement and those parts of the Employee Handbook described as 'Terms and Conditions of Employment' constitute the entire employment contract between the Company and you and supersede and replace: (a) any and all previous terms and conditions of employment or for services between the Company or any Group Company and you (all of which shall be deemed to have terminated with immediate effect by mutual consent, but without prejudice to any liability for any prior breach); and (b) the terms of any offer letter or other correspondence between you and the Company relating to your employment. If there are any inconsistencies between the provisions of this Agreement and any other document, including the Employee Handbook, the provisions of this Agreement shall prevail.
- 19.2 This Agreement sets out all the salary and other benefits to which you are entitled. Any other benefits provided are non-contractual and if provided are provided in the absolute discretion of the Company and may be withdrawn or amended at any time.
- 19.3 The headings and sub-headings in this Agreement are for convenience only and do not affect its interpretation.
- 19.4 Any reference to a statutory provision shall be construed as a reference to any statutory modifications or re-enactment thereof (whether before or after the date hereof) for the time being in force.
- 19.5 The expiration or termination of this Agreement shall not affect the provisions of this Agreement as expressly or by implication are intended to have effect after that time and shall be without prejudice to any accrued rights or remedies of the parties.
- 19.6 The provisions of this Agreement are severable and distinct from one another and, if at any time any of the provisions is or becomes invalid, illegal or unenforceable, the validity, legality or enforceability of the other provisions shall not in any way be affected or impaired.
- 19.7 The parties agree that the Company may at any time on written notice to you assign the benefit and the burden of this Agreement to another person being a Group Company at the time of such assignment. Insofar as permitted by law, you hereby waive any right or rights you may have, whether statutory or otherwise, to object to being employed by such new employer.
- 19.8 Nothing in this Agreement shall confer or is intended to confer on any third party who is not a party to this Agreement any benefit or the right to enforce any provision of this Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999.
- 19.9 The existence, effect and interpretation of this Agreement shall be governed by the laws of England and the parties submit to the exclusive jurisdiction of the courts of England.

**IN WITNESS** whereof the duly authorised signatory of the Company has executed this Agreement the day and year first before written and you have executed this Agreement the day and year first before written.

**SIGNED** by:

/s/ Ken Murphy  
\_\_\_\_\_  
**Ken Murphy**

**SIGNED** by:

/s/ Alex Gourlay  
\_\_\_\_\_  
**Alex Gourlay**  
**Chief Executive, Health & Beauty Division,**  
**Alliance Boots**  
For and on behalf of Boots Management Services  
Limited

## SCHEDULE 1

1.1 In this Agreement:

- 'Appointment' means your employment by the Company on the terms of this Agreement.
- 'Board' means the board of directors from time to time of the Company (including any committee of the Board duly appointed by it).
- 'Businesses' means all commercial activities of Boots UK Limited or any Group Company:
- (a) with which you shall have been concerned or involved at any time during the period of 12 months ending on the Termination Date; or
  - (b) in respect of which you possess Confidential Information; or
  - (c) which Boots UK Limited or any Group Company shall at the Termination Date have determined to carry on or take any ownership interest in, in the immediate or foreseeable future and in relation to which you shall at the Termination Date possess any Confidential Information.
- 'Confidential Information' means all confidential and/or trade secret information of the Company and/or any Group Company (whether or not recorded in any permanent, written or electronic form and whether or not marked as confidential) including marketing information, information relating to planned products/services, distribution techniques, sales, merchandising and pricing information, information relating to customers/suppliers (including names, contact details and actual or proposed business), financial corporate and strategic information, business projections and targets, business methods or plans, technical information, know how, inventions, research and development information, information relating to senior management succession details, employee records and other information in respect of which the Company or any Group Company owes an obligation of confidentiality to any third party, but shall not include any information which is in or comes into the public domain otherwise than as a result of any unauthorised disclosure by you or any other person who owes the Company and/or any Group Company an obligation of confidentiality in relation to the information disclosed.
- 'Customer' means any customer of Boots UK Limited or of any Group Company:

- (a) with whom you have directly or indirectly dealt in the period of 12 months prior to the Termination Date; or
- (b) in respect of whom you had knowledge of Confidential Information at the Termination Date; or
- (c) in respect of whom you had as a result of your employment with the Company and/or any Group Company developed a business relationship.

'Employee Handbook'

means the Boots & Me Employee Handbook, as from time to time amended or replaced.

'Employee or Contractor'

means any person who is and was at the Termination Date employed or engaged (as an employee or self-employed contractor) by the Company or any Group Company to work in any of their businesses:

- (a) at the same level as you; or
- (b) whose total remuneration package (including salary, bonus, commission and all benefits in kind) was equal to or more than £50,000 (gross) in the period of 12 months prior to the Termination Date.

'Garden Leave'

means any period during which the Company exercises its rights under clause 13.3.

'Group Company'

means Alliance Boots Holdings Limited and its holding companies and subsidiaries of such holding companies from time to time.

'Intellectual Property'

means all patents, inventions, processes, discoveries, trade marks, logos, design rights, registered designs, semi-conductor topography rights, copyright, database right, know-how, trade secrets and all such similar proprietary rights and applications for such rights wheresoever subsisting and whether available by registration or not and any part or parts thereof.

'Material Interest'

means:

- (a) the holding of any position as director, officer, employee, consultant, partner, sub-contractor, principal or agent; or any other position in or control over any person which enables you directly or indirectly to exercise influence;

- (b) the direct or indirect control or ownership (whether jointly or alone) of any shares (or any voting rights attached to them) or debentures save for the ownership for investment purposes only of not more than 1 per cent of the issued ordinary shares of any company whose shares are listed on any recognised investment exchange (as defined in section 285 of the Financial Services and Markets Act 2000).

'Office'	means such offices commensurate with your position as a director or secretary in Boots UK Limited or any Group Company.
'Products'	means products in the range of products supplied by the Company or any Group Company in the period of 12 months prior to the Termination Date.
'Restricted Area'	means England, Scotland, Wales, Northern Ireland, Republic of Ireland, the Channel Islands, Isle of Man, France, Italy, Spain, Portugal, Holland, Norway, Switzerland, the Czech Republic, Turkey, Egypt, Germany, Russia, Romania, China, USA or any other country in which Boots UK Limited or any Group Company has at the Termination Date a material business interest or is at the Termination Date planning to take a material business interest within 12 months of the Termination Date.
'Restricted Period'	means 12 months from the Termination Date less any period in which the Company has exercised its rights under clause 13.3.
'Services'	means services in the range of services supplied by Boots UK Limited or any Group Company in the period of 12 months prior to the Termination Date
'Termination Date'	means the date of termination of your employment with the Company.

1.2 In this Agreement, any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.

**Summary of Retention Arrangement  
Effective February 2, 2015**

The following is a summary of an arrangement approved by the Compensation Committee of the Board of Directors of Walgreens Boots Alliance, Inc. (the "Company") in conjunction with the appointment of Jan Stern Reed as General Counsel and Corporate Secretary of the Company :

Ms. Reed was appointed as General Counsel and Corporate Secretary of the Company concurrent with the appointment of Marco Pagni as Chief Legal and Administrative Officer. The Board was involved in establishing the roles, responsibilities and division of labor between Mr. Pagni and Ms. Reed, in order to best serve and protect the Company. The Board also established a monitoring process to assess the effectiveness of the agreed upon division of labor, with the first formal check-in to take place approximately six months after the effective date of the arrangement.

If Ms. Reed departs the Company following such check-in, it will be considered an involuntary termination without cause for purposes of the Walgreens Boots Alliance, Inc. Severance and Change in Control Plan, and Ms. Reed will be entitled to the following compensation:

- Severance according to the current terms of the Walgreens Boots Alliance, Inc. Severance and Change in Control Plan as an involuntary termination for reasons other than cause;
  - Vesting of any outstanding equity awards that would otherwise vest within one year of her termination date if she had remained an employee of the Company through such date; and
  - Vesting of the unvested portion of the restricted stock unit (RSU) transition award granted to Ms. Reed on September 15, 2014.
-

**WALGREENS BOOTS ALLIANCE, INC.**

**2013 OMNIBUS INCENTIVE PLAN**

**RESTRICTED STOCK UNIT AWARD AGREEMENT**

These materials, which may include descriptions of company stock plans, prospectuses and other information and documents, and the information they contain, are provided by Walgreens Boots Alliance, Inc., not by Fidelity, and are not an offer or solicitation by Fidelity for the purchase of any securities or financial instruments. These materials were prepared by Walgreens Boots Alliance, Inc., which is solely responsible for their contents and for compliance with legal and regulatory requirements. Fidelity is not connected with any offering or acting as an underwriter in connection with any offering of securities or financial instruments of Walgreens Boots Alliance, Inc. Fidelity does not review, approve or endorse the contents of these materials and is not responsible for their content.

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**WALGREENS BOOTS ALLIANCE, INC.**

**2013 OMNIBUS INCENTIVE PLAN**

**RESTRICTED STOCK UNIT AWARD AGREEMENT**

Participant Name:

Participant ID:

Grant Date: January 26, 2015 (the "Grant Date")

Units Granted: 32,964

Vesting: August 20, 2015 (the "Vesting Date"); subject to Section 3 and other terms/conditions of this Agreement

Acceptance Date:

Electronic Signature:

This document (referred to below as this "Agreement") spells out the terms and conditions of the Restricted Stock Unit Award (the "Award") granted to you by Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), pursuant to the Walgreens Boots Alliance, Inc. 2013 Omnibus Incentive Plan (the "Plan") on and as of the Grant Date designated above. Except as otherwise defined herein, capitalized terms used in this Agreement have the respective meanings set forth in the Plan. For purposes of this Agreement, "Employer" means the entity (the Company or the Affiliate) that employs you or to which you otherwise provide services on the applicable date. The Plan, as it may be amended from time to time, is incorporated into this Agreement by this reference.

You and the Company agree as follows:

1. Grant of Restricted Stock Units. Pursuant to the approval and direction of the Compensation Committee of the Company's Board of Directors (the "Committee"), the Company hereby grants you the number of Restricted Stock Units specified above (the "Restricted Stock Units"), subject to the terms and conditions of the Plan and this Agreement.

2. Restricted Stock Unit Account and Dividend Equivalents. The Company will maintain an account (the "Account") on its books in your name to reflect the number of Restricted Stock Units awarded to you as well as any additional Restricted Stock Units credited as a result of Dividend Equivalents. The Account will be administered as follows:

(a) The Account is for recordkeeping purposes only, and no assets or other amounts shall be set aside from the Company's general assets with respect to such Account.

(b) As of each record date with respect to which a cash dividend is to be paid with respect to shares of Company common stock par value US\$.01 per share ("Stock"), the Company will credit your Account with an equivalent amount of Restricted Stock Units determined by dividing the value of the cash dividend that would have been paid on your Restricted Stock Units if they had been shares of Stock, divided by the value of Stock on such date.

(c) If dividends are paid in the form of shares of Stock rather than cash, then your Account will be credited with one additional Restricted Stock Unit for each share of Stock that would have been received as a dividend had your outstanding Restricted Stock Units been shares of Stock.

(d) Additional Restricted Stock Units credited via Dividend Equivalents shall vest or be forfeited at the same time as the Restricted Stock Units to which they relate.

3. Restricted Period. The period prior to the vesting date with respect each Restricted Stock Unit is referred to as the "Restricted Period." Subject to the provisions of the Plan and this Agreement, unless vested or forfeited earlier as described in Section 6 or 7 of this Agreement, as applicable, your Restricted Stock Units will become vested and be settled as described in Section 8 below, as of the vesting date or dates indicated in the introduction to this Agreement; provided that you execute and do not revoke the "General Release" that is included in the Consulting Services Agreement between you and the Company dated on or about the Grant Date (the "Consulting Agreement") within the time period set forth in the Consulting Agreement.

4. Reserved

5. Reserved

6. Involuntary Termination of Service Without Cause. If during the Restricted Period you have a Termination of Service initiated by the Company other than for Cause (as defined in Section 7), then a pro-rated portion of the Restricted Stock Units shall become vested and settled in accordance with Section 8, and the remainder of the Restricted Stock Units shall be forfeited. The pro-rated portion shall equal the total number of Restricted Stock Units multiplied by a fraction, the numerator of which is the number of days from February 20, 2015 to the date of Termination of Service, if any, and the denominator of which is 181. The foregoing pro-rated vesting is subject to the requirement that you execute (and do not revoke) the General Release pursuant to the terms of the Consulting Agreement, and such vesting will become effective when the General Release becomes effective.

7. Other Termination of Service. If during the Restricted Period you have a voluntary or involuntary Termination of Service for any reason other than as set forth in Section 6 above, as determined by the Committee, then you shall thereupon forfeit any Restricted Stock Units that are still in a Restricted Period on your termination date. For purposes of this Agreement, "Cause" shall be as defined in the Company's Executive Severance and Change in Control Plan, as amended and restated effective December 31, 2014, as administered by the Committee in its sole discretion.

8. Settlement of Vested Restricted Stock Units. Subject to the requirements of Section 13 below, as promptly as practicable after the applicable Vesting Date, whether occurring upon your Separation from Service or otherwise, but in no event later than 75 days after the Vesting Date, the Company shall transfer to you one share of Stock for each Restricted Stock Unit becoming vested at such time, net of any applicable tax withholding requirements in accordance with Section 10 below; provided, however, that, if you are a Specified Employee at the time of Separation from Service, then to the extent your Restricted Stock Units are deferred compensation subject to Section 409A of the Code, settlement of which is triggered by your Separation from Service (other than for death), payment shall not be made until the date which is six months after your Separation from Service.

Notwithstanding the foregoing, if you are resident or employed outside of the U.S., the Company, in its sole discretion, may provide for the settlement of the Restricted Stock Units in the form of:

(a) a cash payment (in an amount equal to the Fair Market Value of the Stock that corresponds with the number of vested Restricted Stock Units) to the extent that settlement in shares of Stock (i) is prohibited under local law, (ii) would require you, the Company or an Affiliate to obtain the approval of any governmental or regulatory body in your country of residence (or country of employment, if different), (iii) would result in adverse tax consequences for you, the Company or an Affiliate or (iv) is administratively burdensome; or

(b) shares of Stock, but require you to sell such shares of Stock immediately or within a specified period following your Termination of Service (in which case, you hereby agree that the Company shall have the authority to issue sale instructions in relation to such shares of Stock on your behalf).

9. Settlement Following Change in Control. Notwithstanding any provision of this Agreement to the contrary, the Company may, in its sole discretion, fulfill its obligation with respect to all or any portion of the Restricted Stock Units that become vested in accordance with Section 6 above, by:

(a) delivery of (i) the number of shares of Stock that corresponds with the number of Restricted Stock Units that have become vested or (ii) such other ownership interest as such shares of Stock that correspond with the vested Restricted Stock Units may be converted into by virtue of the Change in Control transaction;

(b) payment of cash in an amount equal to the Fair Market Value of the Stock that corresponds with the number of vested Restricted Stock Units at that time; or

(c) delivery of any combination of shares of Stock (or other converted ownership interest) and cash having an aggregate Fair Market Value equal to the Fair Market Value of the Stock that corresponds with the number of Restricted Stock Units that have become vested at that time.

Settlement shall be made as soon as practical after the Restricted Stock Units become fully vested under Section 6, but in no event later than 30 days after such date.

10. Responsibility for Taxes; Tax Withholding.

(a) You acknowledge that, regardless of any action taken by the Company or your Employer, the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), is and remains your responsibility and may exceed the amount actually withheld by the Company or your Employer. You further acknowledge that the Company and/or your Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including, but not limited to, the grant, vesting or settlement of the Award, the subsequent sale of shares of Stock acquired pursuant to such settlement and the receipt of any Dividend Equivalents and/or dividends; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you are subject to Tax-Related Items in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, you acknowledge that the Company and/or your Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant taxable or tax withholding event, as applicable, you agree to make adequate arrangements satisfactory to the Company and/or your Employer to satisfy all Tax-Related Items. In this regard, you authorize the Company, your Employer or its agent to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (i) withholding from your wages or other cash compensation paid to you by the Company and/or your Employer; (ii) withholding from proceeds of the sale of shares of Stock acquired upon settlement of the Award either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization without further consent); or (iii) withholding from the shares of Stock to be delivered upon settlement of the Award that number of shares of Stock having a Fair Market Value equal to (but not in excess of) the minimum amount required by law to be withheld.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable statutory minimum withholding rates (as determined by the Company in good faith and in its sole discretion) or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash and will have no entitlement to the share equivalent. If the obligation for Tax-Related Items is satisfied by withholding from the shares of Stock to be delivered upon settlement of the Award, for tax purposes, you are deemed to have been issued the full number of shares of Stock subject to the vested Award, notwithstanding that a number of the shares of Stock are held back solely for the purpose of paying the Tax-Related Items.

You agree to pay to the Company or your Employer any amount of Tax-Related Items that the Company or your Employer may be required to withhold or account for as a result of your participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the shares of Stock (or cash payment) or the proceeds from the sale of shares of Stock if you fail to comply with your obligations in connection with the Tax-Related Items.

11. Nontransferability. During the Restricted Period and thereafter until Stock is transferred to you in settlement thereof, you may not sell, transfer, pledge, assign or otherwise alienate or hypothecate the Restricted Stock Units whether voluntarily or involuntarily or by operation of law, other than by beneficiary designation effective upon your death, or by will or by the laws of intestacy.

12. Rights as Shareholder. You shall have no rights as a shareholder of the Company with respect to the Restricted Stock Units until such time as a certificate of stock for the Stock issued in settlement of such Restricted Stock Units has been issued to you or such shares of Stock have been recorded in your name in book entry form. Until that time, you shall not have any voting rights with respect to the Restricted Stock Units. Except as provided in Section 9 above, no adjustment shall be made for dividends or distributions or other rights with respect to such shares for which the record date is prior to the date on which you become the holder of record thereof. Anything herein to the contrary notwithstanding, if a law or any regulation of the U.S. Securities and Exchange Commission or of any other body having jurisdiction shall require the Company or you to take any action before shares of Stock can be delivered to you hereunder, then the date of delivery of such shares may be delayed accordingly.

13. Securities Laws. If a Registration Statement under the U.S. Securities Act of 1933, as amended, is not in effect with respect to the shares of Stock to be delivered pursuant to this Agreement, you hereby represent that you are acquiring the shares of Stock for investment and with no present intention of selling or transferring them and that you will not sell or otherwise transfer the shares except in compliance with all applicable securities laws and requirements of any stock exchange on which the shares of Stock may then be listed.

14. Not a Public Offering. If you are resident outside the U.S., the grant of the Restricted Stock Units is not intended to be a public offering of securities in your country of residence (or country of employment, if different). The Company has not submitted any registration statement, prospectus or other filings with the local securities authorities (unless otherwise required under local law), and the grant of the Restricted Stock Units is not subject to the supervision of the local securities authorities.

15. Insider Trading/Market Abuse Laws. Your country of residence may have insider trading and/or market abuse laws that may affect your ability to acquire or sell shares of Stock under the Plan during such times you are considered to have "inside information" (as defined in the laws in your country). These laws may be the same or different from any Company insider trading policy. You acknowledge that it is your responsibility to be informed of and compliant with such regulations, and you are advised to speak to your personal advisor on this matter.

16. Repatriation: Compliance with Law. If you are resident or employed outside the U.S., as a condition of the Award, you agree to repatriate all payments attributable to the shares of Stock and/or cash acquired under the Plan in accordance with applicable foreign exchange rules and regulations in your country of residence (and country of employment, if different). In addition, you agree to take any and all actions, and consent to any and all actions taken by the Company and its Affiliates, as may be required to allow the Company and its Affiliates to comply with local laws, rules and/or regulations in your country of residence (and country of employment, if different). Finally, you agree to take any and all actions as may be required to comply with your personal obligations under local laws, rules and/or regulations in your country of residence and country of employment, if different).

17. No Advice Regarding Grant. No employee of the Company is permitted to advise you regarding your participation in the Plan or your acquisition or sale of the shares of Stock underlying the Restricted Stock Units. You are hereby advised to consult with your own personal tax, legal and financial advisors before taking any action related to the Plan.

18. Change in Stock. In the event of any change in Stock, by reason of any stock dividend, recapitalization, reorganization, split-up, merger, consolidation, exchange of shares, or of any similar change affecting Stock, the number of Restricted Stock Units subject to this Agreement shall be equitably adjusted by the Committee.

19. Nature of the Award . In accepting the Award, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and limited in duration, and it may be modified, amended, suspended or terminated by the Company, in its sole discretion, at any time;

(b) the grant of the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;

(c) all decisions with respect to future Awards or other grants, if any, will be at the sole discretion of the Company, including, but not limited to, the form and timing of the Award, the number of shares subject to the Award, and the vesting provisions applicable to the Award;

(d) the Award and your participation in the Plan shall not create a right to employment or be interpreted as forming an employment or service contract with the Company or any Affiliate and shall not interfere with the ability of the Company, your Employer or an Affiliate, as applicable, to terminate your employment or service relationship;

(e) you are voluntarily participating in the Plan;

(f) the Award and the shares of Stock subject to the Award are not intended to replace any pension rights or compensation;

(g) the Award, the shares of Stock subject to the Award and the value of same, is an extraordinary item of compensation outside the scope of your employment (and employment contract, if any) and is not part of normal or expected compensation for any purpose, including, without limitation, calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(h) the future value of the shares of Stock underlying the Award is unknown, indeterminable and cannot be predicted with certainty;

(i) unless otherwise determined by the Committee in its sole discretion, a Termination of Service shall be effective from the date on which active employment or service ends and shall not be extended by any statutory or common law notice of termination period;

(j) no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from a Termination of Service (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any), and in consideration of the grant of the Award to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, your Employer or any Affiliate, waive your ability, if any, to bring any such claim, and release the Company, the Employer and all Affiliates from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim;

(k) unless otherwise provided herein, in the Plan or by the Company in its discretion, the Award and the benefits evidenced by this Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Stock of the Company; and

(l) neither the Company nor any Affiliate shall be liable for any foreign exchange rate fluctuation between your local currency and the U.S. dollar that may affect the value of the Award or of any amounts due to you pursuant to the settlement of the Award or the subsequent sale of any shares of Stock acquired upon settlement of the Award.

20. Committee Authority; Recoupment. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate for the administration of the Plan and this Agreement, including the enforcement of any recoupment policy, all of which shall be binding upon you and any claimant. Any inconsistency between this Agreement and the Plan shall be resolved in favor of the Plan.

21. Reserved

22. Consent to Collection/Processing/Transfer of Personal Data. Pursuant to applicable personal data protection laws, the Company hereby notifies you of the following in relation to your personal data and the collection, processing and transfer of such data in relation to the Company's grant of the Restricted Stock Units and your participation in the Plan. The collection, processing and transfer of personal data is necessary for the Company's administration of the Plan and your participation in the Plan, and your denial and/or objection to the collection, processing and transfer of personal data may affect your participation in the Plan. As such, you voluntarily acknowledge and consent (where required under applicable law) to the collection, use, processing and transfer of personal data as described herein:

(a) The Company and your Employer hold certain personal information about you, including (but not limited to) your name, home address and telephone number, date of birth, social security number or other employee identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all entitlements to shares of Stock awarded, canceled, purchased, vested, unvested or outstanding in your favor, for the purpose of managing and administering the Plan ("Data"). The Data may be provided by you or collected, where lawful, from the Company, its Affiliates and/or third parties, and the Company and your Employer will process the Data for the exclusive purpose of implementing, administering and managing your participation in the Plan. The Data processing will take place through electronic and non-electronic means according to logics and procedures strictly correlated to the purposes for which Data are collected and with confidentiality and security provisions as set forth by applicable laws and regulations in your country of residence (or country of employment, if different). Data processing operations will be performed minimizing the use of personal and identification data when such operations are unnecessary for the processing purposes sought. Data will be accessible within the organization only by those persons requiring access for purposes of the implementation, administration and operation of the Plan and for the participation in the Plan.

(b) The Company and your Employer will transfer Data internally as necessary for the purpose of implementation, administration and management of your participation in the Plan, and the Company and/or your Employer may further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. These recipients may be located in the European Economic Area, or elsewhere throughout the world, such as the United States. You hereby authorize (where required under applicable law) the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, as may be required for the administration of the Plan and/or the subsequent holding of the shares of Stock on your behalf, to a broker or other third party with whom you may elect to deposit any shares of Stock acquired pursuant to the Plan.

(c) You may, at any time, exercise your rights provided under applicable personal data protection laws, which may include the right to (i) obtain confirmation as to the existence of the Data, (ii) verify the content, origin and accuracy of the Data, (iii) request the integration, update, amendment, deletion or blockage (for breach of applicable laws) of the Data, (iv) oppose, for legal reasons, the collection, processing or transfer of the Data which is not necessary or required for the implementation, administration and/or operation of the Plan and your participation in the Plan, and (v) withdraw your consent to the collection, processing or transfer of Data as provided hereunder (in which case, your Restricted Stock Units will become null and void). You may seek to exercise these rights by contacting your Human Resources manager or the Company's Human Resources Department, who may direct the matter to the applicable Company privacy official.

23. Addendum to Agreement. Notwithstanding any provision of this Agreement to the contrary, the Restricted Stock Units shall be subject to any special terms and conditions for your country of residence (and country of employment, if different) as set forth in the addendum to the Agreement, attached hereto as Exhibit A (the "Addendum"). Further, if you transfer your residence and/or employment to another country reflected in the Addendum, the special terms and conditions for such country will apply to you to the extent the Company determines, in its sole discretion, that the application of such terms and conditions is necessary or advisable to comply with local laws, rules and/or regulations or to facilitate the operation and administration of the Restricted Stock Units and the Plan (or the Company may establish alternative terms and conditions as may be necessary or advisable to accommodate your transfer). The Addendum shall constitute part of this Agreement.

24. Additional Requirements. The Company reserves the right to impose other requirements on the Restricted Stock Units, any shares of Stock acquired pursuant to the Restricted Stock Units and your participation in the Plan to the extent the Company determines, in its sole discretion, that such other requirements are necessary or advisable in order to comply with local laws, rules and/or regulations or to facilitate the operation and administration of the Restricted Stock Units and the Plan. Such requirements may include (but are not limited to) requiring you to sign any agreements or undertakings that may be necessary to accomplish the foregoing.

25. Amendment or Modification, Waiver. Except as set forth in the Plan, no provision of this Agreement may be amended or waived unless the amendment or waiver is agreed to in writing, signed by you and by a duly authorized officer of the Company. No waiver of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

26. Electronic Delivery. The Company may, in its sole discretion, deliver by electronic means any documents related to the Award or your future participation in the Plan. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

27. Governing Law and Jurisdiction. This Agreement is governed by the substantive and procedural laws of the state of Illinois. You and the Company shall submit to the exclusive jurisdiction of, and venue in, the courts in Illinois in any dispute relating to this Agreement without regard to any choice of law rules thereof which might apply the laws of any other jurisdictions.

28. English Language. If you are resident in a country where English is not an official language, you acknowledge and agree that it is your express intent that this Agreement, the Plan and all other documents, notices and legal proceedings entered into, given or instituted pursuant to the Award, be drawn up in English. If you have received this Agreement, the Plan or any other documents related to the Award translated into a language other than English, and if the meaning of the translated version is different than the English version, the English version will control.

29. Conformity with Applicable Law. If any provision of this Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

30. Successors. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall, upon your death, acquire any rights hereunder.

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This Agreement contains highly sensitive and confidential information. Please handle it accordingly.

Please read the attached Exhibit A. Once you have read and understood this Agreement and Exhibit A, please click the acceptance box to certify and confirm your agreement to be bound by the terms and conditions of this Agreement and Exhibit A, and to acknowledge your receipt of the Prospectus, the Plan and this Agreement and your acceptance of the terms and conditions of the Award granted hereunder.

**EXHIBIT A**  
**ADDENDUM TO THE**  
**WALGREENS BOOTS ALLIANCE, INC. 2013 OMNIBUS INCENTIVE PLAN**  
**RESTRICTED STOCK UNIT AWARD AGREEMENT**

In addition to the terms of the Plan and the Agreement, the Award is subject to the following additional terms and conditions to the extent you reside and/or are employed in one of the countries addressed herein. Pursuant to Section 23 of the Agreement, if you transfer your residence and/or employment to another country reflected in this Addendum, the additional terms and conditions for such country (if any) will apply to you to the extent the Company determines, in its sole discretion, that the application of such terms and conditions is necessary or advisable in order to comply with local laws, rules and/or regulations or to facilitate the operation and administration of the Restricted Stock Units and the Plan (or the Company may establish alternative terms as may be necessary or advisable to accommodate your transfer). All defined terms contained in this Addendum shall have the same meaning as set forth in the Plan and the Agreement.

**FRANCE**

Use of English Language. You acknowledge that it is your express wish that the Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. *Vous reconnaissez avoir expressément exigé la rédaction en anglais de la présente Convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relatifs à, ou suite à, la présente Convention.*

**MEXICO**

1. Commercial Relationship. You expressly recognize that your participation in the Plan and the Company's grant of Restricted Stock Units does not constitute an employment relationship between you and the Company. You have been granted the Restricted Stock Units as a consequence of the commercial relationship between the Company and the Affiliate in Mexico that employs you, and the Company's Affiliate in Mexico is your sole employer. Based on the foregoing, you expressly recognize that (a) the Plan and the benefits you may derive from your participation in the Plan does not establish any rights between you and the Company's Affiliate in Mexico that employs you, (b) the Plan and the benefits you may derive from your participation in the Plan are not part of the employment conditions and/or benefits provided by the Company's Affiliate in Mexico that employs you, and (c) any modifications or amendments of the Plan by the Company, or a termination of the Plan by the Company, shall not constitute a change or impairment of the terms and conditions of your employment with the Company's Affiliate in Mexico that employs you.

2. Extraordinary Item of Compensation. You expressly recognize and acknowledge that your participation in the Plan is a result of the discretionary and unilateral decision of the Company, as well as your free and voluntary decision to participate in the Plan in accordance with the terms and conditions of the Plan, the Agreement and this Addendum. As such, you acknowledge and agree that the Company, in its sole discretion, may amend and/or discontinue your participation in the Plan at any time and without any liability. The Award, the shares of Stock subject to the Award and the value of same is an extraordinary item of compensation outside the scope of your employment contract, if any, and is not part of your regular or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits, or any similar payments, which are the exclusive obligations of the Company's Affiliate in Mexico that employs you.

**MONACO**

Use of English Language. You acknowledge that it is your express wish that the Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. *Vous reconnaissez avoir expressément exigé la rédaction en anglais de la présente Convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relatifs à, ou suite à, la présente Convention.*

**NETHERLANDS**

Exclusion of Claim. You acknowledge and agree that you will have no entitlement to compensation or damages insofar as such entitlement arises or may arise from your ceasing to have rights under or to be entitled to the Restricted Stock Units, whether or not as a result of your Termination of Service (whether such termination is in breach of contract or otherwise), or from the loss or diminution in value of the Restricted Stock Units. Upon the grant of Restricted Stock Units, you shall be deemed irrevocably to have waived any such entitlement.

**SPAIN**

1. Acknowledgement of Discretionary Nature of the Plan; No Vested Rights. This provision supplements the terms of the Agreement:

In accepting the Award, you acknowledge that you consent to participation in the Plan and have received a copy of the Plan.

You understand that the Company has unilaterally, gratuitously and in its sole discretion granted Restricted Stock Units under the Plan to individuals who may be employees of the Company or its Affiliates throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any of its Affiliates on an ongoing basis. Consequently, you understand that the Restricted Stock Units are granted on the assumption and condition that the Restricted Stock Units and the shares of Stock acquired upon settlement of the Restricted Stock Units shall not become a part of any employment contract (either with the Company or any of its Affiliates) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, you understand that this grant would not be made to you but for the assumptions and conditions referenced above; thus, you acknowledge and freely accept that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, the Award shall be null and void.

Further, you understand and agree that the vesting of the Restricted Stock Units is expressly conditioned on your continued and active rendering of service, such that upon a Termination of Service, the Restricted Stock Units may cease vesting immediately, in whole or in part, effective on the date of your Termination of Service (unless otherwise specifically provided in Section 4, 5 or 6 of the Agreement). This will be the case, for example, even if (a) you are considered to be unfairly dismissed without good cause; (b) you are dismissed for disciplinary or objective reasons or due to a collective dismissal; (c) you terminate service due to a change of work location, duties or any other employment or contractual condition, (d) you terminate service due to a unilateral breach of contract by the Company or an Affiliate. Consequently, upon a Termination of Service for any of the above reasons, you may automatically lose any rights to Restricted Stock Units that were not vested on the date of your Termination of Service, as described in the Plan and Agreement.

You acknowledge that you have read and specifically accept the conditions referred to in the Agreement regarding the impact of a Termination of Service on your Award.

2. Termination for Cause. "Cause" shall be defined as indicated in Section 7 of the Agreement, irrespective of whether the termination is or is not considered a fair termination (i.e., "despido procedente") under Spanish legislation.

**UNITED KINGDOM**

1. Responsibility for Taxes; Tax Withholding. The following provision supplements Section 10 of the Agreement:

If payment or withholding of the income tax due in connection with the Award is not made within ninety (90) days after the end of the U.K. tax year in which the event giving rise to the income tax liability occurred or such other period specified in Section 222 (1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003 (the "Due Date"), the amount of any uncollected income tax shall constitute a loan owed by you to your Employer, effective as of the Due Date. You agree that the loan will bear interest at the then-current official rate of Her Majesty's Revenue & Customs ("HMRC"), it shall be immediately due and repayable, and the Company or Employer may recover it at any time thereafter by any of the means referred to in Section 10 of the Agreement. Notwithstanding the foregoing, if you are a director or executive officer of the Company (within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), will not be eligible for a loan to cover the income tax liability. In the event that you are a director or executive officer and the income tax is not collected from or paid by you by the Due Date, the amount of any uncollected income tax may constitute a benefit to you on which additional income tax and national insurance contributions ("NICs") will be payable. You will be responsible for paying and reporting any income tax due on this additional benefit directly to HMRC under the self-assessment regime, and for reimbursing the Company or your Employer (as applicable) the value of any employee NICs due on this additional benefit.

2. Exclusion of Claim. You acknowledge and agree that you will have no entitlement to compensation or damages insofar as such entitlement arises or may arise from your ceasing to have rights under or to be entitled to the Restricted Stock Units, whether or not as a result of your Termination of Service (whether such termination is in breach of contract or otherwise), or from the loss or diminution in value of the Restricted Stock Units. Upon the grant of Restricted Stock Units, you shall be deemed irrevocably to have waived any such entitlement.

\*\*\*                      \*\*\*                      \*\*\*                      \*\*\*                      \*\*\*

By clicking the acceptance box for this grant agreement, I acknowledge receipt of the Restricted Stock Unit Award Agreement to which this Addendum is attached as Exhibit A, and I agree to the terms and conditions expressed in this Addendum.



## Walgreens Boots Alliance

Mr. Stefano Pessina

[ADDRESS]

April 7, 2015

Dear Stefano,

On behalf of Alliance Boots Management Services MC S.A.M. (the "**Employer**") (together with Walgreens Boots Alliance, Inc., its subsidiaries and other controlled affiliates, the "**Company**"), I write to confirm your new position and corresponding terms and conditions of your employment.

This letter contains or provides for all the terms and conditions of your employment and, as of January 9, 2015, supersedes and extinguishes all previous employment contracts, arrangements, and agreements, between you and the Employer. Both you and the Company will continue to be bound by the Shareholders Agreement dated 2 August 2012 by and among Walgreen Co. and among others, you (as amended, the "**Shareholders Agreement**"), and in the event of any conflict between the Shareholders Agreement and this letter agreement or the terms provided hereby, the Shareholders Agreement shall prevail.

You will be employed by the Employer in the position of Executive Vice Chairman and Acting Chief Executive Officer of Walgreens Boots Alliance, Inc. You will perform such duties and responsibilities and exercise such powers as may from time to time lawfully be assigned to you, consistent with your skills and experience, for the Company.

You will report to the Executive Chairman of the Board of Directors of Walgreens Boots Alliance, Inc. (the "Board").

Your continuous period of employment began with the Company on May 21, 1977.

### **Hours, Place of work**

You shall work ordinary office hours and such additional hours as are reasonably necessary for the proper performance of your duties and to meet business needs. You will not receive, or otherwise be entitled to, any additional remuneration, compensation or time off in lieu for any work performed outside of ordinary office hours.

You agree that the nature of your position is such that your working time cannot be measured and, accordingly, your employment comes within the scope of Regulation 20 of the Working Time Regulations 1998.

Your primary place of work will be at the Employer's office at Monte Carlo, Monaco or such place as may replace it from time to time. In addition, you may be required to travel throughout the world from time to time in order to perform your obligations to the Company, but unless otherwise agreed in writing, you will not be required to work outside Monaco for a continuous period of more than one month nor to establish a permanent residence anywhere other than Monaco.

### **Salary and Bonus**

You will not receive a salary for your role, but rather were granted an award of Restricted Stock Units by Walgreens Boots Alliance, Inc. on January 15, 2015 representing the remuneration for your period as Acting Chief Executive Officer. The Board usually reviews compensation on an annual basis. Reviews are primarily based on, amongst other things, personal performance, comparable market salary levels and the overall performance of the Company. As you are an officer of Walgreens Boots Alliance, Inc., any compensation review recommendation made by the Employer must be reviewed by, and is subject to the prior approval of, the Compensation Committee. The Board of Directors of Walgreens Boots Alliance, Inc. ("**Compensation Committee**") in its discretion.

You have chosen not to participate in the Walgreens Boots Alliance Management Incentive Plan (the "**Bonus Plan**") nor receive any additional awards (other than the dividend equivalents provided thereby) under the Walgreens Boots Alliance, Inc. 2013 Omnibus Incentive Plan (the "**Omnibus Plan**"). For the avoidance of any doubt, the Bonus Plan and the Omnibus Plan (or any other bonus or equity plan in place from time to time) may be replaced, amended or discontinued at any time.

## **Benefits**

You are eligible to participate in the following benefits:

- (i) You will be provided with security services and travel benefits consistent with your role and status with the Company, including but not limited to an assigned driver with appropriate security training, travel on the Company or charter aircraft for business (including travel to and from home) and, to the extent approved by the Compensation Committee, personal use .
- (ii) You will be covered by the Employer's personal accident and travel insurance scheme.

The terms on which any benefits are provided will be in accordance with the Employer's applicable policy and subject to the eligibility requirements and other terms and conditions of such arrangement or scheme in force from time to time.

You agree that if an insurer fails or refuses to provide you (or your dependents where applicable) with any benefit provided by the Company, you will have no right of action against the Company in respect of such failure or refusal and the Company will not be liable to provide any replacement benefit or compensation in lieu thereof.

The Employer reserves the right to withdraw, amend or replace any benefit or contribution provided at its absolute discretion and at any time. The Employer shall not be liable to provide any replacement benefit or to pay compensation in lieu of any benefit in the event any benefit is amended, withdrawn or replaced or in circumstances where you or your dependents do not meet the eligibility requirement of such benefit.

You shall be entitled to sick pay in accordance with the Employer's sickness policy as in force from time to time.

## **Holidays**

You are entitled to 30 days' paid holiday in each holiday year in addition to the usual public holidays. The Employer's holiday year runs from 1 January.

## **General**

There are no collective agreements that affect the terms and conditions of your employment.

Any notice or other communication to be given under this letter by you shall be addressed to the General Counsel of Walgreens Boots Alliance, Inc. or such other person as nominated from time to time by the Employer.

This letter is governed by and is to be construed in accordance with English law and the parties hereby submit to the non-exclusive jurisdiction of the courts of England and Wales.

Please sign, date and return the enclosed copy of this letter to indicate your acceptance of the terms and conditions of employment set out in this letter.

Yours sincerely,

/s/ Kathleen Wilson-Thompson

Kathleen Wilson-Thompson  
Executive Vice President and Global Chief Human Resources Officer

By signing below, you acknowledge and agree to be bound by the terms set out in this letter.

Agreed and accepted, this 8th day April, 2015.

By *Stefano Pessina* /s/ Stefano Pessina

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**Walgreens Boots Alliance, Inc.**  
**Computation of Historical Ratios of Earnings to Fixed Charges (a)**  
(in millions, except ratio data)

	<u>Six Months Ended,</u>	<u>Twelve Months Ended August 31,</u>				
	<u>February 28, 2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Income before income tax provision	\$ 3,641	\$ 3,557	\$ 4,047	\$ 3,376	\$ 4,294	\$ 3,373
Add:						
Minority Interests	-	-	5	-	-	-
Fixed charges	875	1,376	1,383	1,260	1,212	1,100
Amortization of capitalized interest	1	6	7	6	5	-
Less:						
Equity earnings	(315)	(617)	(496)	-	-	-
Capitalized interest	(1)	(6)	(7)	(9)	(10)	(12)
Earnings as defined	<u>\$ 4,201</u>	<u>\$ 4,316</u>	<u>\$ 4,939</u>	<u>\$ 4,633</u>	<u>\$ 5,501</u>	<u>\$ 4,461</u>
Interest expense, net of capitalized interest	\$ 209	\$ 168	\$ 193	\$ 94	\$ 77	\$ 90
Capitalized interest	1	6	7	9	10	12
Portions of rentals representative of the interest factor	665	1,202	1,183	1,157	1,125	998
Fixed charges as defined	<u>\$ 875</u>	<u>\$ 1,376</u>	<u>\$ 1,383</u>	<u>\$ 1,260</u>	<u>\$ 1,212</u>	<u>\$ 1,100</u>
Ratio of earnings to fixed charges	4.80	3.14	3.57	3.68	4.54	4.06

(a) For the purpose of computing these ratios, "earnings" consist of earnings before income tax provision and before adjustment for income or loss from equity investees, interest, distributed income of equity-method investees, and the portions of rentals representative of the interest factor. "Fixed charges" consist of interest expense (which includes amortization of capitalized debt issuance costs), capitalized interest and the portions of rentals representative of the interest factor.

Walgreens Boots Alliance, Inc. is the successor of Walgreen Co. See Note 1 of the consolidated financial statements for further information

April 9, 2015

Board of Directors and Shareholders  
Walgreens Boots Alliance, Inc.  
108 Wilmot Road  
Deerfield, IL 60015  
USA

To the Board of Directors and Shareholders of Walgreens Boots Alliance, Inc. (formerly, Walgreen Co.) (the "Company"):

At your request, we have read the description included in your Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarter ended February 28, 2015, of the facts relating to a change in accounting principle related to the elimination of the three-month reporting lag for the equity method investment in Alliance Boots for current and prior reporting periods. We believe, on the basis of the facts so set forth and other information furnished to us by appropriate officials of the Company, that the accounting change described in your Form 10-Q is to an alternative accounting principle that is preferable under the circumstances.

We have not audited any consolidated financial statements of Walgreens Boots Alliance, Inc. (formerly, Walgreen Co.) and its consolidated subsidiaries as of any date or for any period subsequent to August 31, 2014. Therefore, we are unable to express, and we do not express, an opinion on the facts set forth in the above-mentioned Form 10-Q, on the related information furnished to us by officials of the Company, or on the financial position, results of operations, or cash flows of the Company and its consolidated subsidiaries as of any date or for any period subsequent to August 31, 2014.

Yours truly,

/s/ DELOITTE & TOUCHE LLP  
Chicago, Illinois

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## CERTIFICATION

I, Stefano Pessina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreens Boots Alliance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stefano Pessina Acting Chief Executive Officer  
Stefano Pessina

Date: April 9, 2015

## CERTIFICATION

I, George Fairweather, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreens Boots Alliance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/

George Fairweather  
George Fairweather

Global Chief Financial Officer

Date: April 9, 2015

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended February 28, 2015 as filed with the Securities and Exchange Commission (the "Report"), I, Stefano Pessina, Acting Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stefano Pessina

Stefano Pessina

Acting Chief Executive Officer

Dated: April 9, 2015

A signed original of this written statement required by Section 906 has been provided to Walgreens Boots Alliance, Inc. and will be retained by Walgreens Boots Alliance, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended February 28, 2015 as filed with the Securities and Exchange Commission (the "Report"), I, George Fairweather, Global Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George Fairweather  
George Fairweather  
Global Chief Financial Officer  
Dated: April 9, 2015

A signed original of this written statement required by Section 906 has been provided to Walgreens Boots Alliance, Inc. and will be retained by Walgreens Boots Alliance, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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