WALGREEN CO

FORM 425

(Filing of certain prospectuses and communications in connection with business combination transactions)

Filed 11/03/14

Address	108 WILMOT RD
	DEERFIELD, IL 60015
Telephone	8479402500
CIK	0000104207
Symbol	WAG
SIC Code	5912 - Drug Stores and Proprietary Stores
Industry	Retail (Drugs)
Sector	Services
Fiscal Year	08/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 3, 2014

WALGREEN CO.

(Exact name of registrant as specified in its charter)

Illinois	1-604	36-1924025
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

108 Wilmot Road, Deerfield, Illinois	60015
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☒ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 . Other Events .

As previously disclosed, since August 2, 2012, and pursuant to a Purchase and Option Agreement, dated June 18, 2012 and amended on August 5, 2014 (the “Purchase and Option Agreement”), Walgreen Co. (“Walgreens” or the “Company”) has owned a 45% equity interest in Alliance Boots GmbH (“Alliance Boots”), a leading international pharmacy-led health and beauty group. Walgreens accounts for its 45% investment in Alliance Boots using the equity method of accounting on a three-month lag basis. As part of the initial 45% investment in Alliance Boots, the Purchase and Option Agreement also provided Walgreens the right, but not the obligation, to elect to acquire the remaining 55% interest in Alliance Boots (the “Step 2 Acquisition”), at any time during the period beginning February 2, 2015 and ending on August 2, 2015, in exchange for £3.133 billion in cash, payable in British pounds sterling, and 144,333,468 shares of Walgreens common stock, subject to certain specified adjustments set forth in the Purchase and Option Agreement (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 Walgreens, through an indirectly wholly-owned subsidiary to which it previously assigned its rights to the call option, exercised the call option on August 5, 2014. On October 17, 2014, Walgreens entered into an Agreement and Plan of Merger (the “Reorganization Merger Agreement”) by and among Walgreens, Ontario Merger Sub, Inc., an Illinois corporation and indirect wholly owned subsidiary of Walgreens (“Merger Sub”), and Walgreens Boots Alliance, Inc., a Delaware corporation and direct wholly owned subsidiary of Walgreens (“Walgreens Boots Alliance”). The Reorganization Merger Agreement provides that Merger Sub will merge with and into Walgreens (the “Reorg Merger”), with Walgreens surviving the Reorg Merger as a wholly owned subsidiary of Walgreens Boots Alliance. At the effective time of the Reorg Merger, issued and outstanding shares of Walgreens common stock will be converted automatically into the right to receive shares of Walgreens Boots Alliance common stock, on a one-for-one basis. Walgreens shareholders will own the same number of shares of Walgreens Boots Alliance common stock as they own of Walgreens common stock immediately prior to the completion of the Reorg Merger, and, after taking into account the completion of the second step transaction, such shares will represent the same ownership percentage of Walgreens Boots Alliance as they would have of Walgreens immediately following the completion of the Step 2 Acquisition without the Reorg Merger. The completion of the Reorg Merger is subject to the satisfaction or waiver of certain conditions set forth in the Reorganization Merger Agreement.

Certain unaudited pro forma consolidated financial information related to the Step 2 Acquisition is attached as Exhibit 99.1 to this Form 8-K and incorporated herein by reference. This unaudited pro forma consolidated financial information includes adjustments to reconcile the historical financial statements of Alliance Boots prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) and audited in accordance with auditing standards generally accepted in the United States, to generally accepted accounting principles in the United States and to convert British pounds sterling amounts into U.S. dollars.

Item 9.01 . Financial Statements and Exhibits .

(d) Exhibits . The following exhibits are provided as part of this Form 8-K:

Exhibit	Description
99.1	Unaudited Pro Forma Consolidated Financial Information

Cautionary Note Regarding Forward-Looking Statements

Statements in this report that are not historical are forward-looking statements for purposes of applicable securities laws. Words such as “expect,” “likely,” “outlook,” “forecast,” “would,” “could,” “should,” “can,” “will,” “project,” “intend,” “plan,” “goal,” “target,” “continue,” “sustain,” “synergy,” “on track,” “headwind,” “tailwind,” “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 the Purchase and Option Agreement and other agreements relating to our strategic partnership with Alliance Boots, the arrangements and transactions contemplated thereby and their possible effects, the proposed holding company reorganization, the risks that one or more closing conditions to the transactions may not be satisfied or waived, on a timely basis or otherwise, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the transactions or that the required approvals by the Company’s shareholders may not be obtained; the risk of a material adverse change that the Company or Alliance Boots or either of their respective businesses may suffer as a result *of disruption or uncertainty relating to the transactions; risks associated with changes in economic and business conditions generally or in the markets in which we or Alliance Boots participate; 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; risks associated with governance and control matters; risks associated with the Company's ability to timely arrange for and consummate financing for the contemplated transactions on acceptable terms; risks relating to the Company and Alliance Boots' ability to successfully integrate our operations, systems and employees, realize anticipated synergies and achieve anticipated financial results, tax and operating results in the amounts and at the times anticipated; the potential impact of announcement of the transactions or consummation of the transactions on relationships and terms, including with employees, vendors, payers, customers and competitors; the amounts and timing of costs and charges associated with our optimization initiatives; our ability to realize expected savings and benefits in the amounts and at the times anticipated; changes in management's assumptions; our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and Alliance Boots and their possible effects; risks associated with equity investments in AmerisourceBergen including market fluctuations and whether the warrants to invest in AmerisourceBergen will be exercised and the ramifications thereof; the occurrence of any event, change or other circumstance that could give rise to the termination, cross-termination or modification of any of the transaction documents; the risks associated with transitions in supply arrangements; risks that legal proceedings may be initiated related to the transactions; the amount of costs, fees, expenses and charges incurred by Walgreens and Alliance Boots related to the transactions; the ability to retain key personnel; changes in financial markets, interest rates and foreign currency exchange rates; the risks associated with international business operations; the risk of unexpected costs, liabilities or delays; changes in network participation and reimbursement and other terms; risks of inflation in the costs of goods, including generic drugs; risks associated with the operation and growth of our customer loyalty program; risks associated with outcomes of legal and regulatory matters, and changes in legislation, regulations or interpretations thereof; and other factors described in Item 1A (Risk Factors) of our most recent Form 10-K, which is incorporated herein by reference, and in other documents that we file or furnish with the SEC. 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, Walgreens does not undertake, and expressly disclaims, any duty or obligation to update publicly any forward-looking statement after the date of this report, whether as a result of new information, future events, changes in assumptions or otherwise.*

Important Information for Investors and Shareholders

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended. In connection with the proposed transactions between Walgreens and Alliance Boots, Walgreens Boots Alliance has filed with the SEC a registration statement on Form S-4 and an amendment thereto that includes a preliminary proxy statement of Walgreens that also constitutes a preliminary prospectus of Walgreens Boots Alliance. The registration statement has not yet become effective. This material is not a substitute for the final prospectus/proxy statement or any other documents the parties will file with the SEC. After the registration statement has been declared effective by the SEC, the definitive proxy statement/prospectus will be delivered to shareholders of Walgreens. **INVESTORS AND SECURITY HOLDERS OF WALGREENS ARE URGED TO READ THE DEFINITIVE PROXY STATEMENT/PROSPECTUS (INCLUDING ALL AMENDMENTS AND SUPPLEMENTS THERETO) AND OTHER DOCUMENTS RELATING TO THE TRANSACTIONS THAT HAVE BEEN OR WILL BE FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY CONTAIN AND WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTIONS** . Investors and security holders will be able to obtain free copies of the registration statement and the definitive proxy statement/prospectus (when available) and other documents filed with the SEC by Walgreens or Walgreens Boots Alliance through the website maintained by the SEC at www.sec.gov . Copies of the documents filed with the SEC by Walgreens or Walgreens Boots Alliance will be available free of charge on Walgreens' internet website at www.walgreens.com under the heading "Investor Relations" and then under the heading "SEC Filings" or by contacting Walgreens' Investor Relations Department at (847) 315-2361.

Participants in the Solicitation

Walgreens, Alliance Boots, Walgreens Boots Alliance and their respective directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from the holders of Walgreens common stock in respect of the proposed transactions. You can find information about Walgreens' directors and executive officers in Walgreens' Annual Report on Form 10-K for the year ended August 31, 2014, as amended and definitive proxy statement filed with the SEC on November 25, 2013. Additional information regarding the persons who are, under the rules of the SEC, participants in the solicitation of proxies in favor of the proposed transactions will be set forth in the proxy statement/prospectus when it becomes available. You can obtain free copies of these documents, which are filed with the SEC, from Walgreens using the contact information above.

SIGNATURE

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 hereunto duly authorized.

WALGREEN CO.

Date: November 3, 2014	By:	/s/ Theodore J. Heidloff
	Title:	Divisional Vice President, Accounting and Controller

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma consolidated financial statements and related notes present the historical consolidated balance sheet and statement of earnings of Walgreen Co. ("Walgreens" or the "Company") adjusted to reflect (i) the completion of the reorganization of Walgreens into a holding company structure (the "Reorganization"), pursuant to a merger (the "Reorg Merger") in which a newly formed Illinois corporation and wholly owned subsidiary of Walgreens Boots Alliance, Inc., a Delaware corporation ("Walgreens Boots Alliance") (which in turn, prior to the Reorganization will be a wholly owned subsidiary of the Company), will merge with and into the Company and the Company will survive the Reorg Merger as a wholly owned subsidiary of Walgreens Boots Alliance, (ii) the anticipated acquisition of the remaining 55% of the issued and outstanding share capital of Alliance Boots GmbH ("Alliance Boots") that the Company does not currently own, in exchange for £3.133 billion in cash and 144.3 million shares of Walgreens Boots Alliance, Inc.'s common stock (the "Second Step Transaction") and (iii) certain related financing transactions (together with the Reorg Merger and the Second Step Transaction, referred to as the "Pro Forma Transaction"). The purchase consideration is subject to adjustment under certain circumstances. The pro forma adjustments related to the Pro Forma Transaction reflect the impact of the following:

- the completion of the Reorg Merger;
- acquisition of the remaining 55% interest in Alliance Boots through the Second Step Transaction. The Company exercised the Alliance Boots Call Option on August 5, 2014;
- the elimination of the Company's equity earnings in Alliance Boots, initial 45% equity method investment in Alliance Boots and intercompany transactions;
- the impact of the preliminary purchase price allocation to the underlying assets and liabilities acquired;
- the impact of acquiring the remaining 27.5% effective interest in Walgreens Boots Alliance Development GmbH ("WBAD"), a 50/50 global sourcing joint venture established in 2012 by the Company and Alliance Boots, that the Company consolidates for financial reporting purposes ("WBAD");
- the conversion of the Alliance Boots financial information from International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") to generally accepted accounting principles in the United States ("US GAAP") and the translation of British pounds sterling to US dollars; and
- the impact of $14.0 billion of anticipated public and private financings to fund the cash portion of the Second Step Transaction, to refinance substantially all of the existing Alliance Boots debt and Walgreens short-term borrowings due in March 2015 and for general corporate purposes.

The unaudited pro forma consolidated balance sheet gives effect to the Pro Forma Transaction as if it had occurred on August 31, 2014. Alliance Boots results are presented on a three-month lag. The unaudited pro forma consolidated statement of earnings for the year ended August 31, 2014 gives effect to the Pro Forma Transaction as if it had occurred on September 1, 2013, the first day of the Company's 2014 fiscal year. Because the exchange ratio in the Reorg Merger is one Walgreens Boots Alliance share for each Walgreens share, the unaudited pro forma consolidated financial information presented below would be identical (but in respect of Walgreens rather than Walgreens Boots Alliance) if assuming for purposes of the data presented below the Second Step Transaction is completed but the Reorganization is not completed.

The unaudited pro forma consolidated financial information included herein was derived from the Company's historical financial statements and those of Alliance Boots and is based on certain assumptions that we believe to be reasonable, which are described in the notes. We have not completed a final valuation analysis necessary to determine the fair values of all of Alliance Boots' assets and liabilities. As described in the footnotes to the pro forma financial statements, the unaudited pro forma consolidated balance sheet includes a preliminary allocation of the purchase price to reflect the fair value of those assets and liabilities. Access to the information of Alliance Boots has been limited to the stated rights in the Shareholders' Agreement, dated August 2, 2012, by and among the Company, Alliance Boots and AB Acquisitions Holdings Limited, governing, among other things, certain rights of the shareholders of Alliance Boots. Upon completion of the acquisition, or as more information becomes available, the Company will complete a more detailed review of the Alliance Boots preliminary allocation of the purchase price to reflect the fair value of those assets and liabilities. As a result of that review, more information could become available that, when analyzed, could have a material impact on the combined financial statements. Further, changes in certain variables between August 31, 2014, the date of the pro forma balance sheet, and the actual closing date of the Pro Forma Transaction, such as (a) the Company's stock price as of October 31, 2014 (the last practicable date prior to the date of this document) of $64.22; (b) the British pound sterling to US dollar exchange rate as of October 31, 2014 of $1.60 to £1.00; or (c) the composition or value of the assets and liabilities acquired may have a material impact on the unaudited pro forma consolidated financial statements presented herein.

The Company's fiscal year ends on August 31 and the Alliance Boots fiscal year ends on March 31. As the fiscal year-ends differ by more than 93 days, financial information for Alliance Boots for the year ended May 31, 2014 has been used in preparation of the unaudited pro forma consolidated financial statements and has been presented using a three-month lag. Also, the effects of Galenica and WBAD on the statement of earnings and balance sheet have been excluded from the Alliance Boots financial information for the period presented.

The historical financial information of Alliance Boots was prepared in accordance with IFRS and prepared in British pounds sterling. The unaudited pro forma financial statements include adjustments to convert the financial statements of Alliance Boots from IFRS to US GAAP and to translate the British pounds sterling amounts into US dollars. Management of the Company has reclassified certain line items from the financial statements of Alliance Boots to conform to the presentation of the Company's financial statements.

The unaudited pro forma consolidated financial statements reflect adjustments to give effect to pro forma events that are directly attributable to the Pro Forma Transaction, factually supportable, and with respect to the statement of earnings, are expected to have a continuing impact on the combined results. The unaudited pro forma consolidated financial statements should be read in conjunction with the accompanying notes to the unaudited pro forma consolidated financial statements. In addition, the unaudited pro forma consolidated financial statements and notes thereto should be read in conjunction with (1) the Company's audited consolidated financial statements for the year ended August 31, 2014, and the notes relating thereto, (2) "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended August 31, 2014, as amended, and (3) the audited consolidated financial statements of Alliance Boots for the years ended March 31, 2014, 2013 and 2012, and the notes relating thereto, contained in the Company's Current Report on Form 8-K as filed with the U.S. Securities and Exchange Commission on May 15, 2014.

The unaudited pro forma consolidated financial information is not intended to represent or be indicative of what the combined company's financial position or results of operations actually would have been had the Pro Forma Transaction been completed as of the dates indicated. In addition, the unaudited pro forma consolidated financial information does not purport to project the future financial position or operating results of the combined company. The unaudited pro forma consolidated statement of earnings does not include the impacts of any revenue, cost or other operating synergies that may result from the acquisition of the remaining 55% interest in Alliance Boots or any related one-time Pro Forma Transaction costs related to the Second Step Transaction. The unaudited pro forma consolidated statement of earnings includes recognized synergy benefits achieved from the First Step Acquisition as recorded in each company's financial results for the periods presented. One-time Pro Forma Transaction related costs of $29 million for financing, legal and other professional services were incurred through August 31, 2014 and additional costs are expected in fiscal 2015.

Walgreens Boots Alliance and Subsidiaries
Unaudited Pro Forma Consolidated Balance Sheet
As of August 31, 2014
(In US $ millions)

	Walgreen Co.	Alliance Boots GmbH (Note 3)	Effects of the Transaction (Note 4)	Effects of the Anticipated Debt Borrowings (Note 4i)	Pro Forma Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 2,646	$ 707	$ (5,013)(4a)	$ 3,683	$ 2,023
Accounts receivable, net	3,218	4,155	(44)(4j)	—	7,329
Inventories	6,076	3,180	52 (4g)	—	9,305
	—	—	(3)(4j)	—	
Other current assets	302	760	(32)(4g)	(3)	1,082
	—	—	55 (4j)	—	
Total Current Assets	12,242	8,802	(4,985)	3,680	19,739
Non Current Assets:					
Property and equipment, at cost, less accumulated depreciation and amortization	12,257	3,773	(329)(4g)	—	15,701
Equity investment in Alliance Boots	7,248	—	(7,248)(4d)	—	—
Goodwill	2,359	—	13,977 (4h)	—	16,336
	—	7,812	(7,812)(4f)	—	
Intangible assets, net	1,180	8,491	1,563 (4g)	—	11,234
Other non-current assets	1,896	1,176	79 (4g)	(47)	3,160
	—	—	—	56	
Total Non-Current Assets	24,940	21,252	230	9	46,431
Total Assets	$ 37,182	$ 30,054	$ (4,755)	$ 3,689	$ 66,170
Liabilities & Equity					
Current Liabilities:					
Short-term borrowings	$ 774	$ 601	$ —	$ (438)	2,187
	—	—	—	(750)	
	—	—	—	2,000	
Trade accounts payable	4,315	5,654	—	—	9,969
Accrued expenses and other liabilities	3,701	1,351	(1)(4j)	(8)	5,081
	—	—	38 (4k)	—	
Income taxes	105	153	—	—	258
Total Current Liabilities	8,895	7,759	37	804	17,495
Non-Current Liabilities:					
Long-term debt	3,736	9,129	—	(9,129)	15,736
	—	—	—	12,000	
Deferred income taxes	1,048	1,320	247 (4g)	(13)	2,602
Other non-current liabilities	2,942	704	—	—	3,646
Total Non-Current Liabilities	7,726	11,153	247	2,858	21,984
Commitments and Contingencies					
Equity:					
Preferred stock	—	—	—	—	—
Common stock	80	—	11 (4b)	—	91
	—	1,813	(1,813)(4e)	—	
Paid-in capital	1,172	—	9,258 (4b)	—	6,963
	—	—	(3,467)(4c)	—	
	—	3,669	(3,669)(4e)	—	
Employee stock loan receivable	(5)	—	—	—	(5)
Retained earnings	22,229	—	316 (4d)	8	22,543
	—	5,517	(5,517)(4e)	13	
	—	—	9 (4j)	(3)	
	—	—	(38)(4k)	(47)	
	—	—	—	56	
Accumulated other comprehensive income/(loss)	178	—	(84)(4d)	—	94
	—	(114)	114 (4e)	—	
Treasury stock, at cost	(3,197)	—	—	—	(3,197)
Total Shareholders Equity	20,457	10,885	(4,880)	27	26,489
Noncontrolling interests	104	257	(69)(4g)	—	202
	—	—	(90)(4c)	—	
Total Equity	20,561	11,142	(5,039)	27	26,691
Total Liabilities & Equity	$ 37,182	$ 30,054	$ (4,755)	$ 3,689	$ 66,170

See accompanying notes to the unaudited pro forma consolidated financial statements.

Walgreens Boots Alliance and Subsidiaries
Unaudited Pro Forma Consolidated Statement of Earnings
For the Year Ended August 31, 2014
(In US $ millions, except for per share data)

	Walgreen Co.	Alliance Boots GmbH (Note 3)	Effects of the Transaction (Note 5)	Effects of the Anticipated Debt Borrowings (Note 5b)	Pro Forma Consolidated
Net sales	$ 76,392	$ 37,260	$ (62)(5g)	$ —	$ 113,590
Cost of sales	54,823	29,345	(69)(5g)	—	84,099
Gross Profit	21,569	7,915	7	—	29,491
Selling, general and administrative expenses	17,992	6,255	94 (5c)	—	24,310
	—	—	(29)(5d)	—	
	—	—	(2)(5g)	—	
Equity earnings in Alliance Boots	617	—	(617)(5a)	—	—
Operating Income	4,194	1,660	(673)	—	5,181
Interest expense, net	156	473	—	(417)	613
	—	—	—	396	
	—	—	—	5	
Other (expense)/ income	(481)	333	—	—	(148)
Earnings Before Income Tax Provision and Share of Post-Tax Earnings From Associates and Joint Ventures	3,557	1,520	(673)	16	4,420
Income tax provision	1,526	22	(205)(5a)	96	1,315
	—	—	(19)(5c)	(149)	
	—	—	35 (5f)	(2)	
	—	—	11 (5h)	—	
Share of post-tax earnings from associates and joint ventures	—	24	—	—	24
Net Earnings	2,031	1,522	(495)	71	3,129
Net earnings attributable to noncontrolling interests	99	73	(99)(5e)	—	30
	—	—	(43)(5i)	—	
Net earnings attributable to Walgreens/Walgreens Boots Alliance	$ 1,932	$ 1,449	$ (353)	$ 71	$ 3,099
Net earnings per common share attributable to Walgreens/Walgreens Boots Alliance—basic	$ 2.03		(5j)		$ 2.82
Net earnings per common share attributable to Walgreens/Walgreens Boots Alliance—diluted	$ 2.00		(5j)		$ 2.79
Average shares outstanding	953.1		144.3		1,097.4
Dilutive effect of stock options	12.1		—		12.1
Average dilutive shares	965.2	—	144.3	—	1,109.5

See accompanying notes to the unaudited pro forma consolidated financial statements.

Note 1: Basis of preparation

The unaudited pro forma consolidated financial statements and related notes present the historical consolidated balance sheet and statement of earnings of the Company adjusted to reflect the Company's subsequent deal closure to acquire the remaining 55% of the issued and outstanding share capital of Alliance Boots, in exchange for £3.133 billion in cash (approximately $5.0 billion at the October 31, 2014 spot rate of $1.60 to £1.00) and 144.3 million common shares with a value of $9.3 billion based on the October 31, 2014 (the last practicable date prior to the date of this document) closing price of $64.22. The unaudited pro forma consolidated financial statements also present the effects of the related public and private financings of $14.0 billion to fund the cash portion of the Second Step Transaction, to refinance substantially all of the existing Alliance Boots debt and Walgreens short-term borrowings due in March 2015 and for general corporate purposes. Further, changes in certain variables between August 31, 2014, the date of the pro forma balance sheet, and the actual closing date of the Pro Forma Transaction may have a material impact on the unaudited pro forma consolidated financial statements presented herein.

Galenica, Ltd.

The Alliance Boots investment in Galenica, Ltd. ("Galenica"), a Swiss healthcare group, is excluded from the Alliance Boots financial statements as this investment was held solely for the benefit of other Alliance Boots shareholders and was distributed to such other equity shareholders, other than the Company, in May 2013 and does not form a part of the Pro Forma Transaction.

Impact of Alliance Boots Acquisition

As part of the Pro Forma Transaction, Walgreens Boots Alliance and/or Walgreens will acquire the remaining 55% interest in Alliance Boots and increase its interest in WBAD to 100%. Currently, WBAD is a 50/50 joint venture between the Company and Alliance Boots. Because the Company owns a 50% direct interest and an additional indirect ownership interest through its 45% ownership of Alliance Boots, the financial results of WBAD are fully consolidated into the Company's consolidated financial statements with the remaining 27.5% effective interest being recorded as noncontrolling interest. After the Pro Forma Transaction, Walgreens Boots Alliance and/or Walgreens will own the additional 27.5% effective interest in WBAD through its 100% ownership of Alliance Boots. The Alliance Boots statement of earnings and balance sheet are presented without WBAD.

Because the Company currently consolidates WBAD, the acquisition of the additional 27.5% effective interest is accounted for as an equity transaction. The difference between the consideration allocated to the acquired noncontrolling interest compared to the previous carrying value of the noncontrolling interest is recognized as an adjustment to paid-in capital.

The assets acquired and liabilities assumed of Alliance Boots are recognized at their fair values as if the acquisition occurred on August 31, 2014. Under ASC 805 Business Combinations, the previously held 45% equity ownership interest in Alliance Boots is remeasured at fair value and any difference between the fair value and the carrying value of the equity interest held is recognized as a gain or loss in the statement of earnings. The one-time gain or loss resulting from the Pro Forma Transaction has not been included in the unaudited pro forma statement of earnings as it will not have a continuing effect on Walgreens Boots Alliance, but will be recognized in Walgreens Boots Alliance's financial statements on the acquisition date.

Pending Transactions

The unaudited pro forma consolidated financial statements do not include any impact of Alliance Boots' pending 12% investment in Nanjing Pharmaceutical Company Limited for $91 million (RMB560 million), the acquisition of Farmacias Ahumada S.A. in August 2014 for $584 million (£365 million) or the acquisition of the remaining 50% of the UniDrug

Distribution Group in August 2014 for $106 million (£66 million). None of the transactions are considered significant to the unaudited pro forma financial statements.

Note 2: Significant accounting policies

The unaudited pro forma consolidated financial information has been compiled using the significant accounting policies as set forth in the Company's audited consolidated financial statements for the year ended August 31, 2014. The accounting policies of Alliance Boots are similar in most material respects to those of the Company. Access to the information of Alliance Boots has been limited to the stated rights in the Shareholders' Agreement, dated August 2, 2012, by and among the Company, Alliance Boots and AB Acquisitions Holdings Limited, governing, among other things, certain rights of the shareholders of Alliance Boots. Upon completion of the acquisition, or as more information becomes available, the Company will complete a more detailed review of the Alliance Boots accounting policies. As a result of that review, differences could be identified between the accounting policies of the two companies that, when conformed, could have a material impact on the combined financial statements. Adjustments were made to convert the financial statements of Alliance Boots from IFRS to US GAAP, as applied by the Company, and conform to the Company's classification of certain assets and liabilities and translate the British pounds sterling amounts into US dollars, as set out further in Note 3. Apart from these adjustments, the Company is not aware of any differences that would have a material impact on the combined financial statements. For purposes of the unaudited pro forma consolidated financial information, adjustments arising as part of the acquisition and financing arrangements are described in Notes 4 and 5.

Note 3: IFRS to US GAAP adjustments and foreign currency translation

The historical financial information of Alliance Boots was prepared in accordance with IFRS and prepared in British pounds sterling. The Alliance Boots financial information reflected in the pro forma financial information has been adjusted for differences between IFRS and US GAAP and translated from the British pounds sterling amounts into US dollars. In addition, certain balances were reclassified from the Alliance Boots historical financial statements so that their presentation would be consistent with the Company.

Unaudited Pro Forma Alliance Boots Balance Sheet presented in US GAAP as of May 31, 2014

The following table reflects the adjustments made to the Alliance Boots unaudited pro forma consolidated balance sheet as of May 31, 2014 to convert from IFRS to US GAAP and from British pounds sterling to US dollars using the spot rate of $1.68 to £1.00 as of May 31, 2014. WBAD is excluded from the Alliance Boots financial statements as the Company consolidates the joint venture.

In millions	Alliance Boots GmbH IFRS (GBP)	IFRS to US GAAP Adjustments (GBP)	Alliance Boots GmbH US GAAP (GBP)	Alliance Boots GmbH US GAAP (USD)
Assets				
Current Assets:				
Cash and cash equivalents	£ 421	£ —	£ 421	$ 707
Accounts receivable, net	2,473	—	2,473	4,155
Inventories	1,893	—	1,893	3,180
Other current assets	385	68 (3a1,2)	453	760
Total Current Assets	5,172	68	5,240	8,802
Non Current Assets:				
Property and equipment, at cost, less accumulated depreciation and amortization	1,900	346 (3b1,2,6)	2,246	3,773
Goodwill	4,621	29 (3b6)	4,650	7,812
Intangible assets, net	5,311	(257)(3b1,6)	5,054	8,491
Other non-current assets	479	221 (3b3,4,5,6)	700	1,176
Total Non-Current Assets	12,311	339	12,650	21,252
Total Assets	£ 17,483	£ 407	£ 17,890	$ 30,054
Liabilities & Equity				
Current Liabilities:				
Short-term borrowings	£ 358	£ —	£ 358	$ 601
Trade accounts payable	3,366	—	3,366	5,654
Accrued expenses and other liabilities	851	(47) (3c1,2,3)	804	1,351
Income taxes	102	(11) (3c3)	91	153
Total Current Liabilities	4,677	(58)	4,619	7,759
Non-Current Liabilities:				
Long-term debt	5,409	25 (3d2)	5,434	9,129
Deferred income taxes	770	16 (3d4)	786	1,320
Other non-current liabilities	376	43 (3d1,3,4)	419	704
Total Non-Current Liabilities	6,555	84	6,639	11,153
Commitments and Contingencies				
Equity:				
Common stock	1,079	—	1,079	1,813
Paid-in capital	2,184	—	2,184	3,669
Retained earnings	2,917	367	3,284	5,517
Accumulated other comprehensive income/(loss)	34	(102)	(68)	(114)
Total Shareholders Equity	6,214	265	6,479	10,885
Noncontrolling interests	37	116 (3e1,2,3)	153	257
Total Equity	6,251	381	6,632	11,142
Total Liabilities & Equity	£ 17,483	£ 407	£ 17,890	$ 30,054

Adjustments

(a) The adjustments to current assets consist of the following:

1) Reclassification of available-for-sale investments of £67 million from other non-current assets under IFRS, to other current assets under US GAAP.

2) All other adjustments increase other current assets by £1 million under US GAAP.

(b) The adjustments to non-current assets consist of the following:

1) Reclassification of software of £254 million from other intangible assets under IFRS, to property and equipment under US GAAP.

2) Leases of £81 million classified as operating leases under IFRS, which are classified as capital leases under US GAAP.

3) The AmerisourceBergen Corporation ("AmerisourceBergen") warrants are accreted to fair market value over the period ending at the end of the exercise date under IFRS, which are recorded at fair value at each period under US GAAP resulting in a £262 million adjustment in other non-current assets.

4) Available-for-sale investments of £67 million are reclassified from other non-current assets under IFRS, to other current assets under US GAAP.

5) Unamortized financing fees of £25 million are netted against borrowings under IFRS, whereas the amounts are recorded as a non-current asset under US GAAP. Also, £17 million of unamortized financing fees were amortized over a shorter life under IFRS than under US GAAP.

6) All other adjustments include an increase of property and equipment of £11 million, an increase of goodwill of £29 million, a decrease of intangible assets, net of £3 million and a decrease of other non-current assets of £16 million under US GAAP.

(c) The adjustments to current liabilities consist of the following:

1) Recognition of £5 million in lease obligations for leases classified as operating leases under IFRS, which are classified as capital leases under US GAAP.

2) The customer loyalty program is accounted for as deferred income under IFRS and the Company accounts for it under the incremental cost method under US GAAP, which reduced accrued expenses and other liabilities by £64 million under US GAAP.

3) All other adjustments include an increase of accrued expenses and other liabilities of £12 million and a decrease of income taxes of £11 million under US GAAP.

(d) The adjustments to non-current liabilities consist of the following:

1) Recognition of £80 million in lease obligations for leases classified as operating under IFRS, which are classified as capital under US GAAP.

2) Reversal of £25 million of unamortized financing fees netted against related borrowings under IFRS, which are recorded as other non-current assets under US GAAP.

3) Derecognition of £74 million of future dividend obligations to noncontrolling interests which do not meet the definition of a liability under US GAAP.

4) All other adjustments include an increase in deferred income taxes of £16 million and increases of other non-current liabilities of £37 million under US GAAP.

(e) The adjustments to noncontrolling interests consist of the following:

1) Reversal of £78 million of current and future dividend obligations to noncontrolling interests which do not meet the definition of a liability under US GAAP.

2) Noncontrolling interests increased by £32 million mainly related to purchase accounting adjustments measuring the noncontrolling interests in a partial acquisition based on the fair value of identifiable net assets acquired under IFRS compared to fair value under US GAAP.

3) All other adjustments increase noncontrolling interests by £6 million under US GAAP.

Unaudited Pro Forma Alliance Boots Statement of Earnings presented in US GAAP for the Year Ended May 31, 2014

The following table reflects the adjustments made to the Alliance Boots unaudited pro forma consolidated statement of earnings for the year ended May 31, 2014 to convert from IFRS to US GAAP and from British pounds sterling to US dollars using a historical average exchange rate of $1.61 to £1.00. Financial information for Alliance Boots for the year ended May 31, 2014 has been used in preparation of the unaudited pro forma consolidated financial statements and has been presented using a three-month lag. The balances of Alliance Boots, set out below, exclude Galenica and related amounts which were excluded from the Company’s initial 2012 acquisition of 45% of the share capital of Alliance Boots (the “First Step Acquisition”). Also, WBAD equity earnings were excluded as the Company consolidates the joint venture.

In millions	Alliance Boots GmbH IFRS (GBP)	IFRS to US GAAP Adjustments (GBP)	Alliance Boots GmbH US GAAP (GBP)	Alliance Boots GmbH US GAAP (USD)
Net sales	£ 23,168	£ (102)(3a)	£ 23,066	$ 37,260
Cost of sales	18,268	(100)(3b)	18,168	29,345
Gross Profit	4,900	(2)	4,898	7,915
Selling, general and administrative expenses	3,785	87 (3c)	3,872	6,255
Operating Income	1,115	(89)	1,026	1,660
Interest expense, net	313	(19)(3d)	294	473
Other income	—	205 (3e)	205	333
Earnings Before Income Tax Provision and Share of Post-Tax Earnings From Associates and Joint Ventures	802	135	937	1,520
Income tax provision	2	5 (3f)	7	22
Share of post-tax earnings from associates and joint ventures	15	—	15	24
Net earnings	815	130	945	1,522
Net earnings attributable to noncontrolling interests	33	12 (3g)	45	73
Net earnings attributable to Walgreens/Walgreens Boots Alliance	£ 782	£ 118	£ 900	$ 1,449

Adjustments

(a) The adjustments to net sales consist of the following:

- Reclassification of £104 million of revenue under IFRS to a reduction of cost of sales under US GAAP related to recognized First Step Transaction synergy benefits recorded during the year ended May 31, 2014.
- All other adjustments increased revenue by £2 million under US GAAP.

(b) The adjustments to cost of sales consist of the following:

- Reclassification of £104 million of revenue under IFRS to a reduction of cost of sales under US GAAP related to recognized First Step Transaction synergy benefits recorded during the year ended May 31, 2014.
- All other adjustments increased cost of sales by £4 million under US GAAP.

(c) The adjustments to selling, general and administrative ("SG&A") expenses consist of the following:

- Actuarial pension valuations were performed under IFRS and US GAAP for all material Alliance Boots pension plans resulting in £62 million of additional pension expense under US GAAP due to various differences in pension accounting standards.
- Income related to AmerisourceBergen warrants is accreted to fair market value over the period ending at the end of the exercise date under IFRS, which is adjusted to fair market value each period under US GAAP. £18 million was recorded as a reduction in selling, distribution and store costs and administrative costs under IFRS and reclassified to other income under US GAAP.
- All other adjustments increased SG&A expenses £7 million under US GAAP.

(d) The adjustments to interest expense, net, consist of the following:

- Reclassification of pension expenses of £10 million recorded in finance costs less finance income under IFRS, which are recorded in SG&A in US GAAP.
- Reclassification of £9 million of finance costs to noncontrolling interests related to future dividend obligations and put option obligations recorded under IFRS, which do not meet the definition of a liability under US GAAP.

(e) The adjustments to other income consist of the following:

- Income related to the AmerisourceBergen warrants of £205 million held by Alliance Boots is accreted to fair market value and recorded in selling, distribution and store costs and administrative costs under IFRS, which is adjusted to fair market value each period end and recorded in other income under US GAAP.

(f) The adjustments to income tax provision consist of the following:

- Derecognition of a £13 million tax credit under IFRS related to a deferred tax asset for previously acquired goodwill amortization, which is not recognized under US GAAP.
- All other adjustments increased the income tax provision by £18 million related to the tax impact of the pre-tax IFRS to US GAAP adjustments based on local statutory tax rates.

(g) The adjustments to net earnings attributable to noncontrolling interests consist of the following:

- Reclassification of £9 million of finance costs to noncontrolling interests related to future dividend obligations and put option obligations recorded under IFRS, which do not meet the definition of a liability under US GAAP.
- All other adjustments decrease the profit attributable to noncontrolling interests by £3 million related to the noncontrolling interests on the IFRS to US GAAP adjustments based on the noncontrolling interest ownership.

Note 4: Unaudited Pro Forma Consolidated Balance Sheet Adjustments

Estimated purchase consideration and the fair value of the Company’s previously held equity interest in Alliance Boots as compared to the fair value of net identifiable assets and liabilities acquired is as follows (in millions):

	Amount	Footnote
Calculation of consideration		
Plus: Cash paid to shareholders of Alliance Boots	$ 5,013	(4a)
Plus: Fair value of common stock issued	9,269	(4b)
Subtotal—fair value of total consideration transferred	14,282	
Less: Consideration attributed to WBAD noncontrolling interest	(3,557)	(4c)
Subtotal—consideration	$10,725	
Fair value of previously held equity interest		
Plus: Fair value of 45% of equity interest already held by the Company	$ 7,480	(4d)
Recognized amounts of identifiable assets acquired and liabilities assumed		
Plus: Book value of Alliance Boots’ net assets excluding WBAD equity investment	$10,885	(4e)
Less: Historical Alliance Boots goodwill	(7,812)	(4f)
Subtotal—net assets to be acquired	$ 3,073	
Fair value adjustments of net assets and noncontrolling interest acquired	$ 1,155	(4g)
Goodwill recognized	$13,977	(4h)

(a) Represents the cash portion of consideration transferred upon deal closure (£3.133 billion) using an exchange rate of $1.60 to £1.00, which represents the spot rate on October 31, 2014, the last practical date prior to the date of this document.

The cash portion of consideration transferred is subject to change due to fluctuations in exchange rates, and the US dollar equivalent could differ materially from $5.0 billion set forth above. Holding all other variables constant, a 10% increase or decrease in exchange rates compared to the exchange rate of $1.60 to £1.00 would increase or decrease the total consideration by $501 million. The cash portion of the consideration transferred will be calculated on the closing date of the acquisition.

(b) Represents the fair value of 144.3 million newly issued common shares transferred upon deal closure. The Company stock price utilized in the calculation of the equity portion of consideration transferred was $64.22 per share on October 31, 2014 (the last practical date prior to the date of this document). The issuance of common stock increased common stock and paid-in capital by $11 million and $9.3 billion, respectively.

The equity portion of consideration transferred is subject to change due to fluctuations in the Company’s and/or Walgreens Boots Alliance’s share price and could differ materially from $64.22 per share set forth above. Holding all other variables constant, a 10% increase or decrease in the Company’s share price compared to the price set forth above would increase or decrease the total consideration by $927 million. The equity portion of the consideration transferred will be calculated on the closing date of the acquisition. We believe a 10% change in the exchange rates used and the Company’s stock price are reasonably possible during the period between the date of this document and the expected closing date of the transaction.

(c) The acquisition of the remaining 27.5% effective interest in WBAD was excluded from the preliminary purchase price allocation as the Company consolidates the joint venture. As a result of the Pro Forma Transaction, the Company will own 100% of WBAD through its 100% ownership of Alliance Boots. A noncontrolling interest acquired as part of a controlling interest acquisition is accounted for as an equity transaction with no gain or loss recorded in the statement of earnings under ASC 805 Business Combinations.

(in millions)	Amount	Footnote
Impact of equity transaction		
Consideration attributable to WBAD	$3,557	i.
Less: Carrying value of the Company's pre-existing NCI	(90)	ii.
Impact to additional paid-in-capital	$3,467	iii.

i. The consideration attributed to the acquisition of the remaining 27.5% effective interest of WBAD was determined based on the relative fair value of Alliance Boots and the fair value of WBAD.
ii. The carrying value of the Company's pre-existing noncontrolling interest in WBAD as of August 31, 2014.
iii. The difference between the consideration transferred and the pre-existing carrying value of noncontrolling interest is reflected as an adjustment to additional paid-in capital in the pro forma financial statements.

(d) A step acquisition occurs when a controlling ownership interest is gained over a period of time. Under ASC 805 Business Combinations, a step acquisition in which control is obtained over a business is accounted for as a business combination. The accounting guidance also requires that previously held equity interests be remeasured at fair value and any difference between the fair value and the carrying value of the previously held equity interest be recognized as a gain or loss on the statement of earnings.

(in millions)	Amount	Footnote
Effect of Transaction on pro forma consolidated balance sheet		
Implied fair value of 45% of equity interest held by the Company	$7,480	i.
Carrying value of Company's equity investment in Alliance Boots	7,248	ii.
Carrying value of Company's CTA in Alliance Boots in AOCI	(184)	ii.
Carrying value of Company's share in Alliance Boots AOCI in AOCI	100	ii.
Net carrying value of the Company's equity investment in Alliance Boots	7,164	ii.
Total adjustment reflected on the pro forma consolidated balance sheet	$ 316	iii.

i. The fair value of the previously held equity investment in Alliance Boots was determined using the Income Approach methodology.
ii. Carrying values from the Company's historical consolidated balance sheet at August 31, 2014. Cumulative translation adjustments ("CTA") of $184 million and the Company's share of Alliance Boots' accumulated other comprehensive (loss) of $100 million as of August 31, 2014 were netted against the carrying value of the equity investment in Alliance Boots.
iii. The resulting gain on remeasurement to fair value of the previously held equity investment in Alliance Boots was $316 million, which is reflected in the unaudited pro forma consolidated balance sheet in retained earnings. The gain is excluded from the unaudited pro forma consolidated statement of earnings as it is nonrecurring in nature.

(e) Alliance Boots historical stockholders' equity of $1.8 billion of common stock, $3.7 billion of paid-in capital, $5.5 billion of retained earnings and $114 million of accumulated other comprehensive (loss) ("AOCI") has been eliminated in the unaudited pro forma consolidated balance sheet in accordance with acquisition accounting.

(f) Prior to the transaction, Alliance Boots' historical balance sheet included $7.8 billion of goodwill that was eliminated from the pro forma consolidated balance sheet and excluded from the net assets acquired because the goodwill for the Alliance Boots acquisition will be determined in purchase accounting.

(g) The Company has accounted for the acquired net assets of Alliance Boots using a preliminary purchase price allocation based on the respective fair value of the assets and liabilities acquired. Access to the information of Alliance Boots has been limited to the stated rights in the Shareholders' Agreement, dated August 2, 2012, by and among the Company, Alliance Boots and AB Acquisitions Holdings Limited, governing, among other things, certain rights of the shareholders of Alliance Boots. Upon completion of the acquisition, or as more information becomes available, the Company will complete a more detailed review of the Alliance Boots preliminary allocation of the purchase price to reflect the fair value of those assets and liabilities. As a result of that review, more information could become available that, when analyzed, could have a material impact on the combined financial statements. Refer to the table below for a breakdown of fair value adjustments of net assets acquired (in millions):

	Amount	Footnote
Net assets		
Inventories	$ 52	
Other current assets	(32)	i.
Property and equipment	(329)	ii.
Intangible assets, net definite lived	1,402	iii.
Intangible assets, net indefinite lived	161	iii.
Investments in associates and joint ventures	152	iv.
Debt issuance costs	(73)	v.
Deferred taxes	(247)	vi.
Noncontrolling interest	69	vii.
Fair value adjustments of net assets and noncontrolling interest acquired	$1,155	viii.

i. The other current assets contain $32 million of Walgreens Boots Alliance/Walgreens stock which will be distributed to certain Alliance Boots employees through a long-term incentive plan.

ii. The property and equipment expected decrease in annual depreciation is $18 million.

iii. The preliminary valuation of acquired intangible assets is comprised of definite lived intangible assets of $2.8 billion and indefinite lived intangible assets of $7.3 billion, which has a combined fair value adjustment of $1.6 billion. The indefinite lived intangible assets are primarily related to certain trade names and pharmacy licenses. The definite lived intangible assets primarily relate to customer relationships whose useful life is estimated to be 12 years. The preliminary annual amortization is expected to be $112 million of the amortizable intangible assets.

iv. The preliminary valuation of investments in associates and joint ventures was determined using the market valuation approach. WBAD was excluded from the Alliance Boots investments in associates and joint ventures.

v. The preliminary fair value of long-term debt was determined using book value, which approximates fair value. Debt issuance costs have no fair value and are eliminated in purchase accounting.

vi. Deferred income taxes were adjusted to account for the fair value adjustments associated with the Pro Forma Transaction. The analysis of the deferred income taxes was performed using Alliance Boots' combined blended local statutory rate of the location of the long-lived assets of 20.0%.

vii. The noncontrolling interest of $69 million relates to the management equity plan which will be settled before the acquisition, so it has no value.

viii. The final allocation of the purchase price will be determined at a later date and is dependent on a number of factors, including the final evaluation of the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed. An independent third-party appraiser assisted in performing the preliminary valuation of these assets and the purchase price allocation will be adjusted upon the final valuation. The final purchase price allocation may result in a material change in the fair value of the net assets acquired and consequently in the value of residual goodwill.

(h) The Pro Forma Transaction will be accounted for under the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Goodwill is calculated as the aggregate fair value of (1) the consideration expected to be transferred and (2) the previously held equity investment, less the fair values assigned to the acquired identifiable tangible and intangible assets and the assumed liabilities. As a result, the unaudited pro forma consolidated balance sheet is adjusted to reflect $14.0 billion of goodwill attributable to the Pro Forma Transaction. Goodwill 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.

(i) Reflects the $14.0 billion of public and private financings (net of $56 million in transaction costs that are capitalized on the pro forma balance sheet) from the anticipated sale of approximately $10 billion unsecured, unsubordinated notes due over various periods and in each case issued in one or various currencies, issuance of approximately $2 billion in short-term commercial paper and a new approximately $2 billion unsecured term loan with an overall average fixed rate of 2.8% to fund the cash portion of the Second Step Transaction, to refinance substantially all of the existing Alliance Boots debt and Walgreens short-term borrowings due in March 2015 and for general corporate purposes. The transaction costs will be amortized to interest expense using the effective interest rate method. The other various balance sheet accounts are debt related balances, such as derivative assets or liabilities, deferred taxes and accrued interest that are eliminated with the existing Alliance Boots debt.

(j) These adjustments are recorded to eliminate intercompany transactions between both the Company and Alliance Boots and transactions between WBAD and Alliance Boots.

(k) The expected future Pro Forma Transaction costs of $38 million for legal and other professional services, excluding financing cash noted in 4i, are recorded as an accrued liability, but since the expected expenses are nonrecurring, no expense was recorded.

Note 5: Adjustments to the Unaudited Pro Forma Consolidated Statement of Earnings for the Year Ended August 31, 2014

(a) Reflects the elimination of equity income from Alliance Boots of $617 million and the elimination of the US GAAP deferred tax expense associated with the Company's equity income of Alliance Boots of $205 million the year ended August 31, 2014.

(b) To record the decrease in interest expense of $16 million for the year ended August 31, 2014 associated with the anticipated debt financing described in Footnote 4i above. Interest expense was estimated for the periods using an effective interest rate of 2.8%. A 1/8% increase or decrease in the interest rate would impact the unaudited pro forma consolidated statement of earnings by $18 million for the year ended August 31, 2014. The Alliance Boots tax benefit related to debt was eliminated at a tax rate of 23% and the new interest expense tax benefit was calculated at 37.6% due to geographic mix.

(c) The following table details the impact of the fair value adjustments on the unaudited pro forma consolidated statement of earnings for the year ended August 31, 2014:

(in millions)	Current Book Value	Preliminary Appraised Value	Adjustment	Translated Adjustment	Estimated remaining useful life (years)	Incremental amortization expense for the year ended August 31, 2014(i)
Inventories	£ 1,892	£ 1,923	31	$ 52	< 1 yr	$ 52
Property and equipment	2,246	2,050	(196)	(329)	various	(18)
Customer relationships	786	1,150	364	612	12 yr	51
Other intangible assets, net definite lived	4	474	470	790	various	61
Intangible assets, net indefinite lived	4,264	4,360	96	161	indefinite	—
Other non-current assets	43	—	(43)	(73)	4 yr	(18)
	£ 9,235	£ 9,957	£ 722	$ 1,213		$ 128

(i) The inventory step-up is expensed as the acquired inventory is sold. As this will not have a continuing effect beyond one year, the amount has been excluded from the pro forma statement of earnings. The incremental amortization expense on property and equipment and definite lived intangible assets was calculated using the straight-line method over the estimated remaining useful life. The other non-current assets were for the Alliance Boots debt issuance costs that have been refinanced, the amount has been excluded from the pro forma statement of earnings.

The final allocation of the purchase price will be determined at a later date and is dependent on a number of factors, including the final evaluation of the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed. An independent third-party appraiser assisted in performing the preliminary valuation of these assets and the purchase price allocation will be adjusted upon a final valuation. Any change in fair value adjustments, specifically any reallocation between definite and indefinite lived intangible assets, may result in a material change in the amortization shown above and, accordingly, in Walgreens Boots Alliance's goodwill and future earnings.

(d) Represents the expenses directly attributable to the Pro Forma Transaction included in the historical statement of earnings for the year ended August 31, 2014 of both the Company and Alliance Boots. Adjustments of $29 million were made for the year ended August 31, 2014, respectively, as these costs are nonrecurring in nature.

(e) The net earnings attributable to noncontrolling interests of $99 million for the year ended August 31, 2014 have been eliminated as WBAD will be 100% owned by Walgreens Boots Alliance/Walgreens as a result of the Pro Forma Transaction.

(f) The incremental tax expense of $35 million for the year ended August 31, 2014 is for additional current US taxation of Alliance Boots and WBAD earnings, assuming Alliance Boots was 100% owned by Walgreens Boots Alliance/Walgreens.

(g) These adjustments are recorded to eliminate intercompany transactions between both the Company and Alliance Boots and transactions between WBAD and Alliance Boots.

(h) The income tax benefit reflects the tax impact of adjustments to the unaudited pro forma consolidated statement of earnings which was tax effected at the statutory rate by legal entity applied by the Company.

(i) The net earnings attributable to noncontrolling interest relating to the Alliance Boots' management equity plan of $43 million for the year ended August 31, 2014, which will be settled before the acquisition, so the expense will not be incurred post acquisition.

(j) Pro forma earnings per share for the year ended August 31, 2014 have been recalculated to show the impact of the Pro Forma Transaction on a basic and diluted outstanding share basis, assuming shares issued in connection with the Pro Forma Transaction were outstanding at the beginning of both periods presented.

The following table presents pro forma earnings per share for the year ended August 31, 2014:

(in millions, except per share amounts)	Walgreen Co. (Reported)	Recalculated EPS with Additional Shares (1)	Alliance Boots Earnings, Effects of Transaction and Anticipated Debt Borrowings	Pro Forma Consolidated
Net Earnings Attributable to Walgreens/Walgreens Boots Alliance	$ 1,932	$ 1,932	$ 1,167	$ 3,099
Net Earnings Attributable to Walgreen/Walgreens Boots Alliance per Common Share – basic	$ 2.03	$ 1.76	$ 1.06	$ 2.82
Net Earnings Attributable to Walgreen/Walgreens Boots Alliance per Common Share – diluted	$ 2.00	$ 1.74	$ 1.05	$ 2.79
Basic shares	953.1	1,097.4	1,097.4	1,097.4
Diluted shares	965.2	1,109.5	1,109.5	1,109.5

(1) Reported earnings per share is adjusted to reflect the 144.3 million shares issued in conjunction with the Alliance Boots transaction.