Alliance Boots

Helping people look and feel their best

Alliance Boots Annual Report 2013/14

Alliance Boots

We are a leading international pharmacy-led health and beauty group. Our focus is on helping people look and feel their best.

What's inside

We are launching innovative new products tailored to meet customer needs page 12

Boots much loved brands are increasingly available across the world page 26

Alphega is expanding its pharmacy network across Europe page 32

Supporting the fight against cancer page 44

Our financial performance in 2013/14

for the year ended 31 March 2014

> **"Underlying profit attributable to equity shareholders increased by 18.5%.**

• Revenue

- reported: up 4.3% to £23.4 billion
- including share of associates and joint ventures: up 4.3% to £25.7 billion

• Trading profit

- reported: up 0.4% to £1,270 million
- including share of associates and joint ventures: up 7.7% to £1,382 million

• Profit attributable to equity shareholders

- underlying: up 18.5% to £840 million
- statutory: up 32.4% to £936 million

• Cash flow and net borrowings

- cash generated from operations: £1,544 million
- net borrowings down £842 million to £5,051 million

	£million
Revenue	**23,367**
EBITDA	**1,508**
Underlying depreciation and amortisation	(238)
Trading profit	**1,270**
Share of underlying post-tax earnings of associates and joint ventures	79
Underlying net finance costs	(311)
Underlying tax charge	(150)
Underlying profit	**888**
Less: non-controlling interests	(48)
Underlying profit attributable to equity shareholders	**840**

A reconciliation of underlying profit to statutory profit for the year is set out below:

	£million
Underlying profit	**888**
Amortisation of customer relationships and brands	(100)
Share of post-tax earnings of distributed associate	7
Net exceptional items before tax	18
Timing differences within net finance costs	10
Tax credit on items not in underlying profit	35
Exceptional tax credit	113
Profit for the year	**971**
Less: non-controlling interests	(35)
Profit for the year attributable to equity shareholders	**936**

Revenue and trading profit including share of associates and joint ventures and all underlying measures exclude the distributed associate.

A glossary of key terms, including definitions of additional performance measures, is included on page 123.

Strategic review

Executive Chairman's statement

"Another year of strong earnings growth.

Stefano Pessina
Executive Chairman

Stefano Pessina discusses 'Our performance for the year' online at **allianceboots.com**

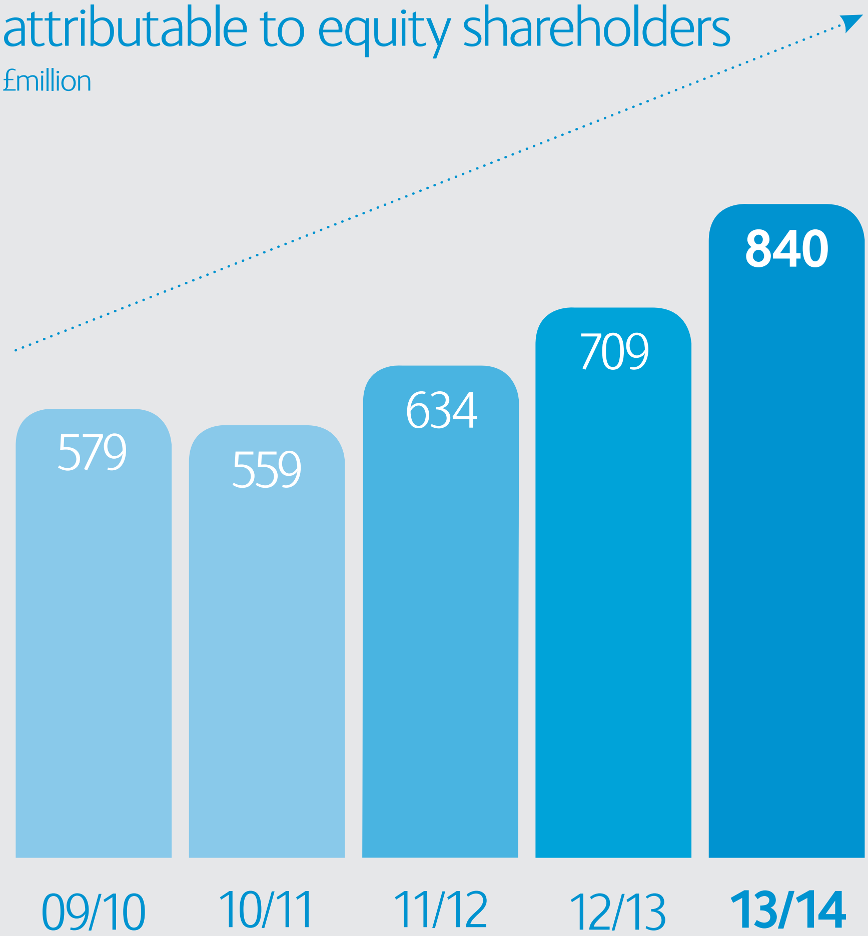
Introduction

I am pleased to report that Alliance Boots has continued to deliver strong earnings growth, in a year where the markets in which we operate were significantly more challenging than I have experienced for a very long time. In addition to increasing earnings, our strong operating cash flow has enabled us to further deleverage the Group, while at the same time investing in our future.

These results have been achieved during a period when considerable management time and other key resources have been dedicated to our Walgreens partnership. This has covered many areas, including our joint synergy programme, forward planning and preparation for our anticipated full merger, together with the burden of complex reporting requirements.

Underlying profit attributable to equity shareholders

£million



A glossary of key terms, including definitions of additional performance measures, is included on page 123.

Our strategy of creating the first global pharmacy-led health and wellbeing enterprise in partnership with Walgreens is, I believe, widely recognised as being the right way forward. This is evidenced by the realignment of our industry that is starting to quickly take place, as competitors seek to follow our lead.

Delivering shareholder value year after year requires a strong and dedicated management team, with the leadership skills to execute strategy, while at the same time managing businesses in challenging and changing trading environments. While the composition of our profits can vary year by year, our consistently good performance over a sustained period of time is due to our ability to adapt to meet new challenges in a financially disciplined way, as so clearly demonstrated in the year just ended.

The senior executive management team
From left to right:

Ken Murphy
Managing Director,
Health & Beauty International and Brands

Marco Pagni
Group Legal Counsel &
Chief Administrative Officer

Ornella Barra
Chief Executive,
Wholesale and Brands

Stefano Pessina
Executive Chairman

George Fairweather
Group Finance Director

Simon Roberts
Managing Director,
Health & Beauty UK and Republic of Ireland

Health & Beauty Division

In 2013/14, our Health & Beauty Division delivered good retail revenue growth, during an increasingly competitive and promotion-led trading environment, particularly in the UK where we were nevertheless able to organically grow our already considerable market share. We attribute this success to the attractiveness of the unique Boots omni-channel retail offer. Reimbursement rates for prescription medicines continued to be under pressure across Europe. This, together with intense price competition in select retail categories, adversely impacted our gross margins, which we compensated through cost efficiencies and synergies from our strategic partnership with Walgreens. As a result, we were able to maintain our healthy trading margin, while growing revenue, which compares very favourably to the performance of many of our UK competitors.

Pharmaceutical Wholesale Division

The Pharmaceutical Wholesale Division similarly delivered good revenue growth in what were particularly challenging markets. Regulatory and other economic pressures, together with intense competition, significantly impacted profitability in a number of our businesses. This was largely compensated by synergies from our strategic partnership with Walgreens and benefits from our joint agreement with AmerisourceBergen. In October 2013, we completed the acquisition of minority interests in Hedef Alliance (Turkey) and Farmexpert (Romania), to reach full ownership of both businesses.

Synergy programme

Our joint synergy programme with Walgreens is increasingly providing us with significant financial benefits, while enabling us to strengthen our core business areas, accelerate our strategy and achieve our joint vision for the future. While still at an early stage, we are pleased with the overall progress of the programme, total synergies achieved to date tracking ahead of target.

Particularly good progress has been made by Walgreens Boots Alliance Development, the joint venture we established in Switzerland in late 2012 to lead global relationships with pharmaceutical and other key suppliers. The benefits can be seen in the substantial year on year growth in our income from associates and joint ventures.

The joint own brand sourcing programme utilising the Alliance Boots hub in Asia is progressing as planned, as is the initial roll out of select Boots product brands across the Walgreens store network. In addition, Walgreens Boots Alliance Development has begun to generate income from our joint collaboration with AmerisourceBergen on global supply chain opportunities.

Corporate development

While a great deal of management focus in 2013/14 has been on driving our joint synergy programme and preparing for our anticipated merger with Walgreens, we have dedicated considerable time and energy to accelerate our expansion through M&A in emerging markets. We recognise that many of our traditional geographic markets are relatively mature which we must compensate in other ways. This means we are continuing to expand our global footprint in both pharmacy-led health and beauty retailing and pharmaceutical wholesaling, while further developing and internationalising our product brands.

Since the year end, we have announced that we are to acquire Farmacias Ahumada, which comprises two major retail pharmacy networks, Farmacias Benavides in Mexico and Farmacias Ahumada in Chile, which together operate over 1,400 stores. This will give us a major presence in the attractive Latin American market, one of our priority areas for investment. We are confident in the high potential for sustainable growth and value generation that will be unlocked by this acquisition, including the opportunity for consumers in Mexico and Chile to access for the first time leading Boots product brands, such as our renowned skincare and cosmetics ranges.

In addition, in January 2014, we received Ministry of Commerce People's Republic of China approval to acquire a 12% stake in Nanjing Pharmaceutical Company Limited, one of the major pharmaceutical wholesalers in China, with Board and operational management representation. We expect to complete this transaction in the coming months, when we receive the final regulatory approval. This, together with Guangzhou Pharmaceuticals Corporation, our existing joint venture in China, will give us a significant presence in this vast, fast growing market for pharmaceuticals.

Executive Chairman's statement continued

During the year, in addition to our ongoing new product development programme, we have taken two key steps to further accelerate the flow of innovative products into the Alliance Boots international retail network. The first was establishing a specialised investment fund, B&B Capital Partners, to focus on small and medium sized consumer brand businesses within the health, wellness, beauty and personal care sectors. In February 2014, the fund made its first investment, acquiring Aromatherapy Associates. For similar reasons, we have collaborated with BioCity, the UK's leading bioscience incubation company, to establish MediCity, a new business incubator focused on health, beauty and wellness, based on our Nottingham site.

We have also recently recommenced acquiring pharmacies in the UK on a selective basis.

Corporate social responsibility

The Group continues its commitment to corporate social responsibility, both in terms of performance and reporting. Our objective of building a sustainable world leading group and making healthcare even more accessible to the communities we serve is unchanged. Through partnerships we are able to further help the communities we serve every day, including our Group partnership with the EORTC Charitable Trust, to develop better treatments for cancer, and the Boots partnership with Macmillan Cancer Support in the UK.

As in previous years, we will publish our detailed Corporate Social Responsibility Report in September, which, as usual, will include an independent assurance report issued by KPMG.

Board and senior executive management

At the end of September 2013, Alex Gourlay, Chief Executive, Health & Beauty Division, stepped down from the Board to join Walgreens as Executive Vice President, President of Customer Experience and Daily Living. In this new role he leads Walgreens daily living business operation. Alex's contribution to the Group has been invaluable, in particular in our Health & Beauty Division, having spent over three decades with Boots.

Following Alex's secondment, we promoted Simon Roberts to the new position of Managing Director, Health & Beauty UK and Republic of Ireland and Ken Murphy to the new position of Managing Director, Health & Beauty International and Brands. This new management structure has been designed to provide even more focus on product innovation, developing our product brands internationally and on global sourcing, while at the same time continuing to develop our omni-channel pharmacy-led retail offer in our core markets.

Our people

On behalf of the Board, I would again like to thank people across the Group for their dedication and excellent work throughout the year, in what has been particularly challenging times. Our people continue to be at the heart of everything we do and it is through clear leadership combined with great teamwork that we are able to continue to profitably grow our Group, year after year.

Outlook

Looking forward, while we expect the overall trading environment in which we operate to remain challenging, as a result of governments across Europe continuing to seek to contain growth in healthcare expenditure, a relatively slow retail consumer recovery in the UK and competitive pressures, we would expect to see some improvement, particularly in the latter part of the coming year.

In our industry, we are at the point in the cycle where we are reinventing our business models, in order to deliver sustained profit growth. In retail, this translates into accelerating our rapidly evolving health and beauty omni-channel offering in an integrated way, with even more differentiated products and services tailored to meet rapidly evolving customer behaviours and expectations, be it in terms of choice, convenience or service. This means increasing the pipeline of new unique product brands, developed or sourced by ourselves, while at the same time creating market leading innovative services, to be delivered through a combination of new technology and outstanding customer care. In wholesale, the future is about new and expanding international partnerships with global manufacturers, more innovative added value services and much closer integrated links with our independent pharmacy customers, who themselves are having to adapt their own business models, in an increasingly omni-channel marketplace. In parallel, we are striving to deliver further operational efficiency programmes, as our team have done so successfully on many occasions in the past. All this results in our two divisions and brand teams working increasingly closely together, which we see as a fundamental competitive advantage.

Being global is increasingly important in many business sectors including our own. The steps taken by the Group over the last two years, most notably our transformational partnership with Walgreens, our joint agreement with AmerisourceBergen, our geographical expansion in Latin America and Asia, and all the work we have done to develop our brands, are enabling the Group to continue on its path to becoming the clear world leader in both retail pharmacy and pharmaceutical wholesaling.

In February 2015, the six month window when Walgreens can exercise its option to merge with Alliance Boots begins. Since Alliance Boots was formed eight years ago, we have made huge progress developing our businesses across the globe, while at the same time creating substantial value for first our public and then our private shareholders. As I have said on many occasions, I truly believe that we have the brands, intellectual capital and, most importantly, the vision and management expertise to continue to create value for stakeholders across the world in the coming years.

Stefano Pessina
Executive Chairman
12 May 2014

Our mission, purpose and values

Our mission

We seek to develop our core businesses of pharmacy-led health and beauty retailing and pharmaceutical wholesaling across the world and become a significant player in many major international markets.

Our purpose

We deliver products and services that help people look and feel their best.

Our values

We believe in making a difference and are proud of the contribution we make to the wellbeing of the communities we serve.

Our core values are:

Partnership

Includes respect, understanding and working together. We create and build value through partnerships and alliances, inside and outside the business. Together we can achieve more.

Trust

The essence of the way we do business. We are trusted because we deliver on our promises.

Service

We hold ourselves to high standards of care and service, for our customers and our people.

Entrepreneurship

We are innovators, seeking new challenges and having a winning spirit.

Simplicity

We are proud of being lean and efficient, uncomplicated and easy to do business with.

Strategic review

Our Group at a glance

Alliance Boots is a leading international pharmacy-led health and beauty group delivering a range of products and services to customers.

Working in close partnership with manufacturers and pharmacists, we are committed to improving health in the local communities we serve and helping our customers and patients to look and feel their best.

Our focus is on growing our two core business activities of:

- Pharmacy-led health and beauty retailing
- Pharmaceutical wholesaling and distribution

...while increasingly developing and internationalising our product brands.

Presence in more than 25* countries

25+

Over 108,000* employees

108,000+

Dispensing over 250* million items each year

250m+

Operating more than 3,150* health and beauty retail stores, of which just under 3,050* have a pharmacy

3,150+

* Figures are approximations as at 31 March 2014 and include associates and joint ventures.

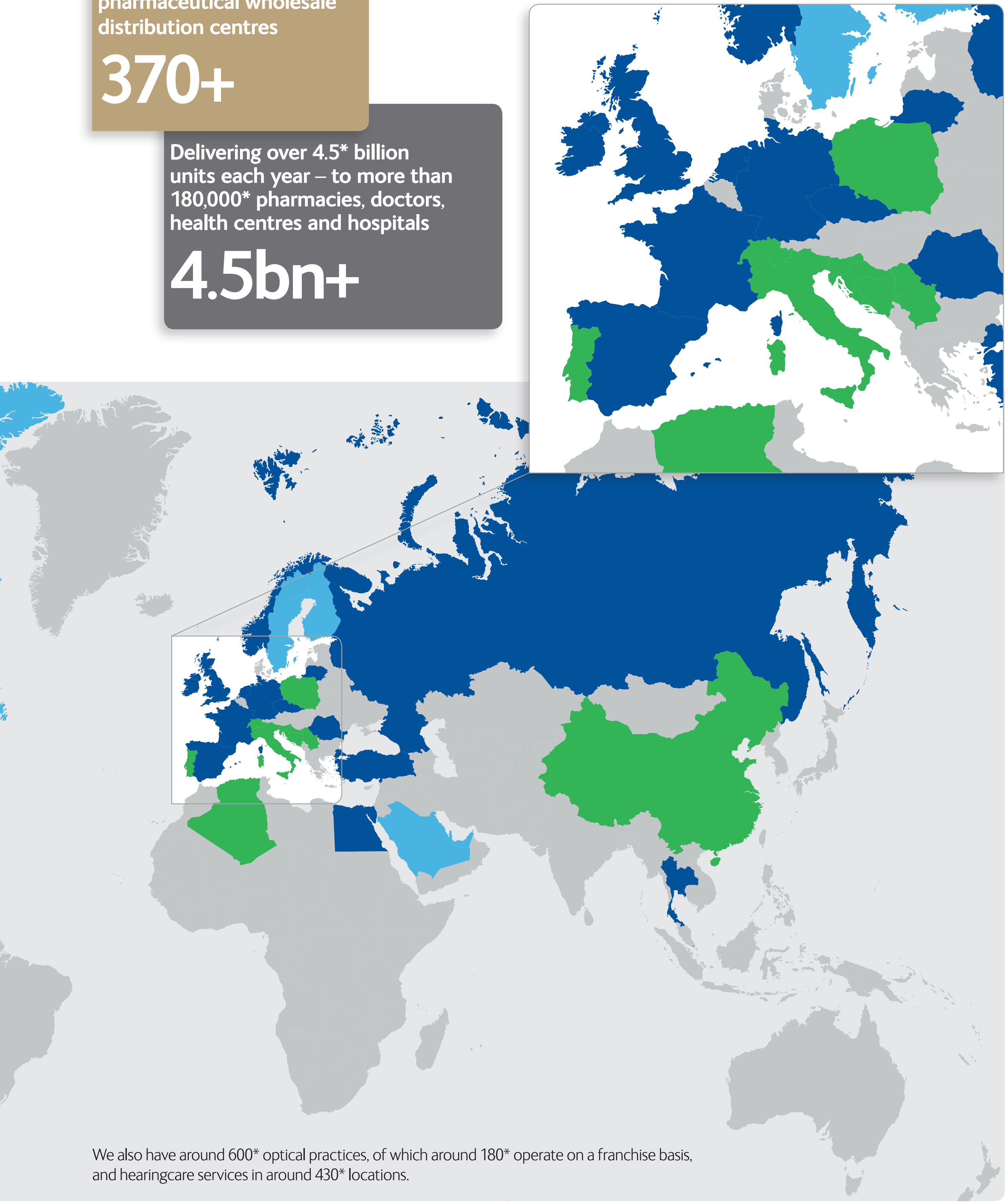
** Countries where Boots products are available for purchase or there are Boots franchises (other than those countries where there are owned businesses, associates or joint ventures).

Operating more than 370* pharmaceutical wholesale distribution centres

370+

Delivering over 4.5* billion units each year – to more than 180,000* pharmacies, doctors, health centres and hospitals

4.5bn+



We also have around 600* optical practices, of which around 180* operate on a franchise basis, and hearingcare services in around 430* locations.

Strategic review

Our business activities

Pharmacy-led health and beauty retailing

Alliance Boots, including our associates and joint ventures, has pharmacy-led health and beauty retail businesses in nine countries, each focused on helping people look and feel their best.

Together with our associates and joint ventures, we operate more than 3,150 health and beauty retail stores, of which just under 3,050 have a pharmacy, with a fast growing online presence. In Europe, we are the clear market leader in pharmacy with stores in the UK, Norway, the Republic of Ireland, The Netherlands and Lithuania. We also have pharmacies in Thailand and our associates and joint ventures operate pharmacies in China, Italy and Croatia. In addition, around 80 Boots branded stores operate in the Middle East on a franchise basis.

Our stores are located in convenient locations and put pharmacists at the heart of healthcare. 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.

Our principal retail brand in the Health & Beauty Division is Boots, which we trade under in the UK, Norway, the Republic of Ireland, The Netherlands and Thailand. The Boots omni-channel offering is differentiated from that of competitors due to the product brands we own and 'only at Boots' exclusive products, together with our long established reputation for trust and customer care.

Boots Opticians is one of the leaders in the UK optical market with around 600 practices, of which around 180 operate on a franchise basis. Around 30% of practices are located in Boots stores with the balance being standalone optical practices. In addition, we have a leading position in the UK hearingcare market through our associate, Boots Hearingcare, which operates in around 430 locations across the UK, almost all of which are within Boots stores or standalone Boots Opticians practices.

We recognise the special status of Boots as the UK's most trusted pharmacy brand and continue to enhance our position as a leading provider of healthcare, beauty advice and services in local communities. We do this by delivering expert customer care, through investment in existing stores, by selectively expanding our store portfolio and, increasingly, through developing our omni-channel offering.

Our product brands

In our Health & Beauty Division, we have highly regarded and long established product brands such as No7, Soltan and Botanics, together with newer brands such as Boots Pharmaceuticals and Boots Laboratories. Product innovation and development, packaging and product marketing capabilities are key skills which enable us to develop new and existing brands.

We are continuing to internationalise our key product brands, increasingly selling them through select retail partners, our own and third party internet shopping sites, and independent pharmacies. In the US, where Boots product brands have been sold through Target for many years, we are, in addition, introducing No7 and other key Boots product brands into the drugstore channel through Walgreens on a phased basis. In Asia, we extended our partnership with Dairy Farm to sell Boots product brands in their health and beauty stores in Hong Kong and Singapore. In Europe, our Boots Laboratories range is sold by independent pharmacies in five countries.

* Figures in 'Our business activities' are approximations as at 31 March 2014 and include associates and joint ventures.

Pharmaceutical wholesaling and distribution

Our pharmaceutical wholesale businesses, together with our associates and joint ventures, supply medicines, other healthcare products and related services to more than 180,000 pharmacies, doctors, health centres and hospitals from more than 370 distribution centres in 20 countries.

Our businesses 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 our customers innovative added-value services which help pharmacists develop their own businesses. This includes membership of Alphega Pharmacy, our pan-European network for independent pharmacies. Alphega Pharmacy has a membership of more than 4,800 pharmacies in seven countries. This will increase significantly following the March 2014 vote by the vivesco pharmacy network in Germany, which has around 950 members, to rebrand as Alphega.

In addition to the wholesale of medicines and other healthcare products, we provide services to pharmaceutical manufacturers who are increasingly seeking to gain greater control over their product distribution, while at the same time outsourcing non-core activities. These services include pre-wholesale and contract logistics, direct deliveries to pharmacies, and specialised medicine delivery including related home healthcare.

Combined with local engagement, scale is very important in pharmaceutical wholesaling. In addition to being the largest pharmaceutical wholesaler/distributor in Europe, Alliance Boots typically ranks as one of the top three in the individual countries in which we operate.

We continually seek to grow our wholesale and related distribution activities organically and through acquisitions, including investments in associates and joint ventures. These acquisitions are either in current or complementary business areas in countries in which we already operate or in new geographical markets which are typically large, fast growing and where we see the potential for market consolidation.

In addition, we have long term partnerships with a select number of third party brand owners to sell their products in Boots stores on an exclusive basis, sharing in the future brand equity. Most recently, we have established a specialist investment fund to invest in small and medium sized consumer brand businesses within the health, wellness, beauty and personal care sector. We continue to manufacture a significant proportion of our most popular own brand and exclusive products.

In our Pharmaceutical Wholesale Division and associates, Almus, our range of generic medicines, is sold in five countries and Alvita, our range of patient care products, is sold in six countries.

Strategic review

Group strategy and objectives

The Group's strategy is to focus on its two core business activities of pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution, while increasingly developing and internationalising our product brands to create a third dimension.

Our strategy includes:

- growing our core businesses in existing markets through service, value and innovation
- continuing to deliver productivity improvements and other cost savings
- pursuing growth opportunities in selective new high growth markets
- launching our product brands in new markets
- delivering synergies through our transformational strategic partnerships

This strategy is underpinned by our continued focus on patient/customer needs and service, our work with governments to further their healthcare agendas, selective partnerships, and our strong financial disciplines.

Pharmacy-led health and beauty retailing

Boots is the largest pharmacy chain in Europe with an excellent reputation for differentiated health and beauty products and customer care.

Our strategy is to develop Boots into the world's leading pharmacy-led health and beauty retail brand, focused on helping people look and feel their best.

The key steps we are taking in the UK to execute our strategy are:

Increasingly differentiating our product offering

We are continuing to develop and launch innovative new health and beauty product brands, while at the same time enhancing our long established product brands, primarily through new product development in key areas such as anti-ageing technology. In addition, we are working with new and existing brand partners to develop other differentiated product ranges that are 'exclusive to Boots' and have recently established a specialist investment fund to invest in small and medium sized consumer brand businesses within the health, wellness, beauty and personal care sectors. We are also increasingly taking advantage of our well established sourcing capability, particularly in Asia, to procure new and existing products at attractive prices. All of this is significantly enhanced by the scale that our Walgreens partnership offers.

Providing customers with excellent value

We are providing customers with excellent value through offering trusted ranges of Boots products, executing strong promotional offers and rewarding customer loyalty with Boots Advantage Card points.

Developing our people to be at their very best for our customers

Customer care is at the heart of everything Boots does. To achieve this we have comprehensive training programmes to develop product knowledge, including regular e-learning modules, and we run a comprehensive leadership development programme. All are aimed at ensuring that we have the best people supporting and developing our customer offer. In addition, we recruit staff with a passion for customer care, including a substantial number of graduate pharmacists and optometrists.

Making Boots more convenient and accessible for our customers

We are continuing our programme of relocating, refitting and selectively opening new Boots stores and optical practices to make Boots more convenient and easier for our customers to shop and get their prescription medicines. In addition, we have re-commenced buying community pharmacies on a selective basis in the UK.

Creating a compelling omni-channel health and wellbeing consumer offering

We are continuing to develop and enhance our profitable online offering, for both home and mobile technology, to make it easier for Boots customers, wherever they live, to access our products and services in a convenient and timely manner, in a seamless way. This includes our increasingly popular 'order by 2pm today, pick up from 2pm tomorrow' service, where customers can order products from the full Boots range for delivery to over 2,300 stores across the UK. In addition, BootsWebMD.com continues to offer comprehensive consumer health and wellbeing information, complementing the advice we provide in our pharmacies.

The key steps we are taking in our international health and beauty markets to execute our strategy are:

Increasing sales of Boots product brands through other channels across the world

We are increasingly internationalising our key product brands, including No7, through selling Boots products to carefully chosen retail partners and additionally through internet shopping sites, distributors and independent pharmacies, in countries where we ourselves do not have a retail presence. This includes employing our own beauty advisors in partners' stores on a selective basis. Current market priorities are the US, where Boots products are being introduced into Walgreens stores, in addition to being sold in Target and a select number of specialist retailers, and Asia, where we are partnering with Dairy Farm. In Europe, we are expanding our online presence through international.boots.com to fulfil orders from outside the UK.

Opening health and beauty retail stores in markets where Boots is already well established

We are continuing to open new stores in existing markets, primarily in Thailand, the Republic of Ireland and the Middle East, the latter through our franchise partner, using trading formats developed to meet local country needs.

Entering new geographical markets

We are seeking to enter major new geographical markets where there is growing demand for pharmacy-led retail stores offering differentiated health and beauty product ranges, supported by excellent customer care. In addition, we will continue to consider further franchising opportunities on a selective basis.

Pharmaceutical wholesaling and distribution

Alliance Healthcare, Europe's largest pharmaceutical wholesaler, has an excellent reputation for service and reliability.

Our strategy for Alliance Healthcare is to be the world's best wholesaler and distributor of pharmaceutical products, working in partnership to provide added-value services for pharmacy and manufacturer customers.

The key steps we are taking to execute our strategy are:

Ensuring that we continue to deliver an excellent core service to all our customers

Consistently delivering an excellent core service to all our customers is a fundamental part of our proposition. Typically we are delivering prescription medicines to pharmacies at least twice a day on a just-in-time basis to meet patients' needs. In-stock availability, accuracy of picking and reliable van deliveries within set time periods are essential to achieving this consistently.

Evolving our business model to meet changing demands from manufacturer and pharmacy customers for new services

We are doing this through achieving preferred status for selective wholesaler contracts, winning and renewing direct-to-pharmacy distribution contracts, developing innovative added-value services such as the Alphega Pharmacy concept, expanding Alloga which provides pre-wholesale and contract logistics services and developing our contract sales forces under the 'Skills in Healthcare' brand.

Increasing efficiency and driving down costs

We are continuing to increase efficiency and drive down costs through our ongoing best practice programmes, which include the development and harmonisation of warehousing and distribution processes and related systems.

Additionally, we seek to improve efficiency by growing market share in existing geographical markets, including, where we are able to do so, through acquiring and integrating complementary businesses which meet our investment appraisal criteria.

Further differentiating our product offering

We are continuing to differentiate our product offering sold to independent pharmacies, through further developing Almus, our exclusive range of generic medicines, Alvita, our range of patient care products, and Boots Laboratories, our range of beauty products, all specifically designed for the pharmacy market.

Extending our capabilities into high growth specialty medicine/homecare markets

We are seeking to extend our capabilities in the high growth specialty medicine and homecare markets, including through our Alcura brand, expanding our range of specialised healthcare services.

Entering new geographical markets

We are seeking to enter new geographical markets where stable regulatory environments, large populations, growing healthcare expenditure, scope for wholesaler consolidation and the right management can be found. Following the announcement in March 2013 of our new joint partnership with AmerisourceBergen (which, in partnership with Walgreens, together gives us rights to acquire a 23% minority equity interest), our current key priorities for further international expansion are China and Latin America.

Driving synergies from our new strategic partnerships

We are increasingly driving synergies from our strategic partnership with Walgreens, working closely with generic and branded pharmaceutical manufacturers to help them expand and develop their businesses across the world. This is being achieved through providing them with new market opportunities and innovative services. In addition, we are beginning to deliver synergies from our joint (with Walgreens) partnership with AmerisourceBergen.

We are launching innovative new products tailored to meet customer needs

…such as our new serums, clinically proven to be even more effective at reducing the appearance of lines and wrinkles.

For more information about new developments across our Health & Beauty Division, go to our review on page 20 or online at **allianceboots.com**


NEW


No7
Ta Dah!
Our next generation serums have arrived


No7
"Definitely the best results I've ever seen."

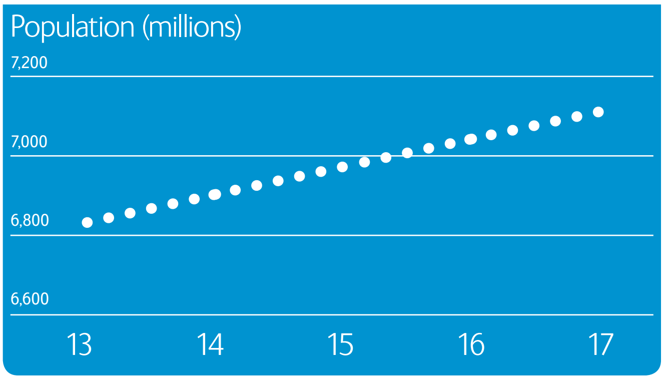
Strategic review

Our markets and business environment

Alliance Boots operates in highly attractive markets with potential for significant long term growth.

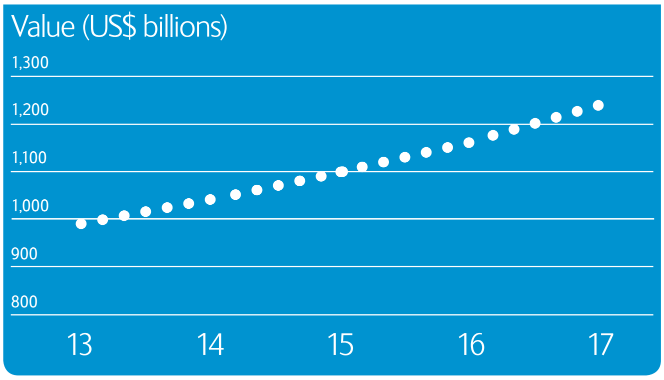
We expect increasing life expectancy and product innovation to continue to drive demand for prescription medicines and related healthcare services. At the same time, we believe that a growing customer focus on personal wellbeing will drive demand for health and beauty consumer products and related services.

World population forecasts (2013–2017)



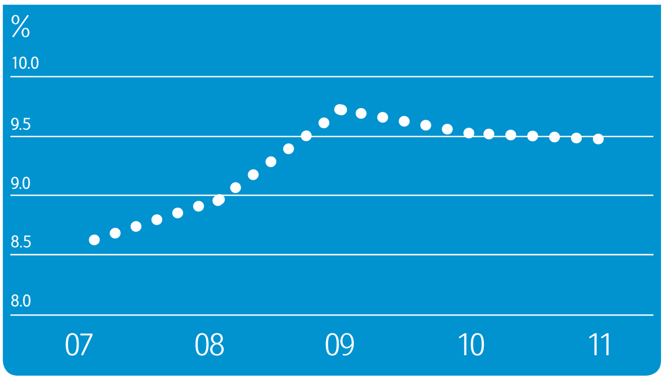
Source: IMS Market Prognosis Global 2013–2017, Economist Intelligence Unit

World pharmaceutical market forecasts (2013–2017)*



* Constant exchange rates based on average rates for quarter 4 2012 as recorded by IMS Health
Source: IMS Market Prognosis Global 2013–2017

Healthcare expenditure as a percentage of GDP (2007–2011)



Source: OECD Health Data 2013
http://stats.oecd.org

Key trends and market developments

The key trends and market developments we expect to see over the coming years are:

New and innovative prescription medicines will continue to be developed

These specifically include special medicines which may require special handling (for example, temperature control) or administration to patients (for example, injections by nurses).

An increasing number of medicines to be available for retail purchase

Governments are increasing the number of medicines available for retail purchase to encourage consumers to pay for medicines for minor ailments, rather than going to their doctor for a prescription. Customers frequently seek advice from their pharmacist as to which products to buy. With its healthcare expertise, Boots is also able to develop better value product ranges which customers trust as substitutes for leading brands.

Latent consumer demand for beauty products with proven pharmaceutical benefits

The huge success of the No7 range of anti-ageing serums highlights the latent consumer demand for beauty products which are validated by scientific evidence. We continue to focus our product development activities in this select area of the beauty marketplace.

Continuing price cuts on established branded prescription medicines

Governments benchmark prices in similar countries and look at the cost-effectiveness of alternative branded medicines, cutting reimbursement prices when they identify price differentials or lower cost alternatives. Accordingly, we expect continuing price cuts on established branded prescription medicines over time.

More healthcare services to be provided in the community

Governments are seeking to provide more healthcare services in the community in a cost-effective way. Pharmacy is well placed to provide many services, such as medicine check-ups, weight management programmes, smoking cessation advice and flu vaccinations. In addition, we also expect the market for homecare services to grow rapidly. Our partnership with Walgreens will further enhance our capability to deliver such services, many of which are at a more developed stage in the US.

Branded pharmaceutical manufacturers to seek further control over their distribution channels

An increasing number of branded pharmaceutical manufacturers are seeking further efficiencies and control by switching from selling via multiple pharmaceutical wholesalers to either selling direct to pharmacies (using relatively few distributors, such as Alliance Healthcare, to deliver the product, invoice customers and collect payments), or selling via a select number of national wholesalers such as Alliance Healthcare.

An increasing proportion of prescriptions to be lower cost generic medicines

Governments are implementing measures to encourage doctors to prescribe more generic medicines in order to reduce costs. Our Pharmaceutical Wholesale Division uses its scale and international sourcing capabilities to grow market share. We can secure typically lower prices and better cash margins on generics in a way which legislation typically does not permit for branded products, making us well placed to take advantage of this continuing trend. Our joint synergy programme with Walgreens further increases our scale and capabilities to a level unparalleled across the globe.

Deregulation of pharmacy ownership to happen over time in more European countries

In the long term, we believe that cost pressures on governments are likely to lead to deregulation of pharmacy ownership in more European countries, to allow multiple ownership alongside wholesale. The timing of this continues to remain highly uncertain.

Further consolidation of the pharmaceutical wholesaling and distribution sector

In pharmaceutical wholesaling, we expect further consolidation amongst wholesalers over time as regulatory and market changes put increasing pressure on the industry across the world.

Strategic review

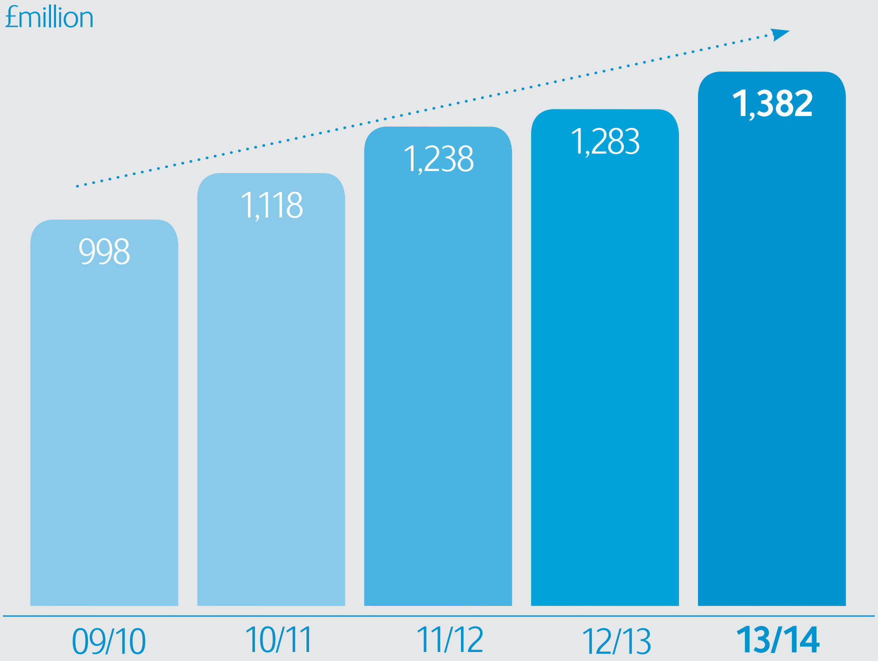
Our financial record

> "
> **Alliance Boots continues to deliver higher profits year after year.**

Trading profit

including share of associates and joint ventures

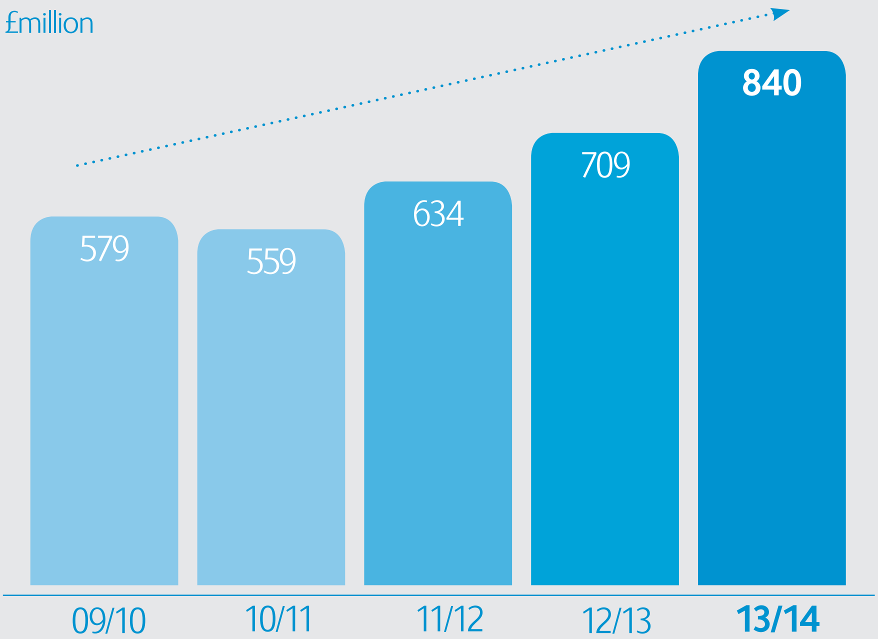
£million



Underlying profit

attributable to equity shareholders

£million



Financial results

for the years ended 31 March

	2009/10 £million	2010/11 £million	2011/12 £million	2012/13 £million	2013/14 £million
Revenue					
Health & Beauty	7,492	7,624	7,671	7,482	7,662
Pharmaceutical Wholesale	10,626	13,154	16,828	16,378	17,161
Contract Manufacturing	252	253	255	238	226
Intra-group	(1,459)	(1,603)	(1,745)	(1,692)	(1,682)
Group	**16,911**	**19,428**	**23,009**	**22,406**	**23,367**
Share of associates and joint ventures	3,148	2,555	1,804	2,221	2,318
	20,059	**21,983**	**24,813**	**24,627**	**25,685**
EBITDA					
Group	**1,158**	**1,306**	**1,440**	**1,505**	**1,508**
Share of associates and joint ventures	75	69	53	27	120
	1,233	**1,375**	**1,493**	**1,532**	**1,628**
Trading profit					
Health & Beauty	723	763	810	865	886
Pharmaceutical Wholesale	225	332	414	435	428
Contract Manufacturing & Corporate Costs	(42)	(36)	(32)	(35)	(44)
Group	**906**	**1,059**	**1,192**	**1,265**	**1,270**
Share of associates and joint ventures	92	59	46	18	112
	998	**1,118**	**1,238**	**1,283**	**1,382**
Underlying profit attributable to equity shareholders	**579**	**559**	**634**	**709**	**840**
Profit for the year attributable to equity shareholders	**630**	**600**	**571**	**707**	**936**
Cash generated from operations	**1,130**	**1,309**	**1,601**	**1,648**	**1,544**
Total cash flow	**504**	**573**	**782**	**1,105**	**820**
Decrease in net borrowings	**645**	**546**	**826**	**1,124**	**842**
Net borrowings – year end	**8,389**	**7,843**	**7,017**	**5,893**	**5,051**
Total equity – year end	**4,340**	**5,124**	**5,701**	**5,671**	**6,223**

Revenue, EBITDA and trading profit including share of associates and joint ventures and all underlying measures exclude the distributed associate.

A glossary of key terms, including definitions of additional performance measures, is included on page 123.

Business review: Overview

> “
> **Key drivers of our profit growth were increasing synergies and related benefits from our major partnerships, combined with lower financing and tax costs.**

Trading profit
including share of trading profit of associates and joint ventures

+7.7%

Underlying profit
attributable to equity shareholders

+18.5%

Performance by Division
for the year ended 31 March 2014

	Total £million	Year on year growth Reported	Constant currency
Revenue			
Health & Beauty	7,662	+2.4%	+2.5%
Pharmaceutical Wholesale	17,161	+4.8%	+4.8%
Contract Manufacturing	226	-5.0%	-5.0%
Intra-group	(1,682)		
Group	**23,367**	**+4.3%**	**+4.3%**
Share of revenue of associates and joint ventures	2,318	+4.4%	+2.0%
	25,685	**+4.3%**	**+4.1%**
Trading profit			
Health & Beauty	886	+2.4%	+2.4%
Pharmaceutical Wholesale	428	-1.6%	-0.8%
Contract Manufacturing & Corporate Costs	(44)		
Group	**1,270**	**+0.4%**	**+0.6%**
Share of trading profit of associates and joint ventures	112	+522.2%	+523.0%
	1,382	**+7.7%**	**+8.0%**

Revenue and trading profit including share of associates and joint ventures and all underlying measures exclude the distributed associate.

A glossary of key terms, including definitions of additional performance measures, and a list of principal businesses, associates and joint ventures are included on pages 120 to 123.

In this review, the Health & Beauty Division results are further split between the UK and International businesses, given the relative size of our UK activities.

In 2013/14, the Group continued to deliver strong earnings growth, in a year where the trading environment in which we operate was significantly more challenging than we have experienced for a very long time. Key drivers of the results were increasing synergies from our strategic partnership with Walgreens and initial benefits from our joint agreement with AmerisourceBergen, together with lower financing and tax costs. Our strong operating cash flow has enabled us to further deleverage the Group and reduce our average interest rate, while at the same time investing in our future.

Financial highlights

Revenue increased year on year by 4.3% to £23,367 million on both a reported and constant currency basis. EBITDA was £1,508 million, up 0.2% on a reported basis and up 0.3% in constant currency. Trading profit increased by 0.4% on a reported basis to £1,270 million, up 0.6% in constant currency.

Revenue, including our share of revenue of associates and joint ventures, increased by 4.3% to £25,685 million. On the same basis, EBITDA increased by 6.3% to £1,628 million and trading profit by 7.7% to £1,382 million.

Underlying profit attributable to equity shareholders increased by 18.5% to £840 million, statutory profit for the year attributable to equity shareholders increasing by 32.4% to £936 million.

Cash generated from operations was strong at £1,544 million. During the year, we spent £253 million on capital expenditure, largely on our retail stores, information technology projects and logistics, and £166 million on acquisition related expenditure.
Net borrowings at the year end were £5,051 million, a year on year reduction of £842 million, and total equity increased to £6,223 million.

Our corporate development

We have a long-standing focus on corporate development in support of our strategy to enter new geographical markets and to expand our presence in existing markets, through acquisitions and strategic partnerships.

In October 2013, we completed the acquisition of minority interests in Hedef Alliance (Turkey) and Farmexpert (Romania) to reach full ownership of these pharmaceutical wholesaling businesses.

During the year, in addition to our ongoing new product development programme, we established a specialised investment fund, B&B Capital Partners, focused on small and medium sized consumer brand businesses within the health, wellness, beauty and personal care sectors. The fund is designed to provide talented entrepreneurs with financial, strategic and specialist commercial support to help them unlock the growth potential of their businesses, while further accelerating the flow of innovative products into the Alliance Boots international retail network. In February 2014, the fund made its first investment, acquiring Aromatherapy Associates, which develops and sells aromatherapy products through premium hotels, spas and retail outlets worldwide.

For similar reasons, we have collaborated with BioCity, the UK's leading bioscience incubation company, to establish MediCity, a new business incubator focused on health, beauty and wellness based on our Nottingham site.

In January 2014, we received Ministry of Commerce People's Republic of China (MOFCOM) approval to acquire a 12% stake in Nanjing Pharmaceutical Company Limited. The investment will be made through a private placement for a total consideration of approximately £56 million (RMB560 million). Nanjing Pharmaceutical Company Limited, which is listed on the Shanghai Stock Exchange, is one of the major pharmaceutical wholesalers in China. Final regulatory approval is expected in the coming months. On completion, Alliance Boots will be its second largest shareholder, with Board and operational management representation.

In addition to China, we continue to prioritise acquisition opportunities in Latin America, where we see scope to add value to existing businesses through utilising the Group's capabilities, resources and scale. For regulatory reasons, opportunities in existing geographical markets are more limited, but we continue to explore these on a selective basis where we can.

Since the year end, we have announced that we are to acquire Farmacias Ahumada, which comprises two major retail pharmacy networks, Farmacias Benavides in Mexico and Farmacias Ahumada in Chile, which together operate over 1,400 stores. This will give us a major presence in the attractive Latin American market, one of our priority areas for investment. We are confident in the high potential for sustainable growth and value generation that will be unlocked by this acquisition, including the opportunity for consumers in Mexico and Chile to access for the first time leading Boots product brands, such as our renowned skincare and cosmetics ranges.

Strategic review

Health & Beauty Division

“
Boots UK delivered its best like for like retail revenue growth for four years.

Simon Roberts
Managing Director,
Health & Beauty UK and Republic of Ireland

Performance by business

for the year ended 31 March 2014

	Total £million	Year on year growth Reported	Constant currency	Like for like
Revenue				
UK:				
Boots UK	6,348	+2.2%	+2.2%	+1.3%
Boots Opticians	349	+4.2%	+4.2%	+4.3%
	6,697	**+2.3%**	**+2.3%**	**+1.4%**
International:				
Norway	384	-4.2%	-0.3%	-1.1%
Republic of Ireland	252	+8.6%	+4.7%	+1.8%
The Netherlands	133	-1.5%	-5.0%	-5.5%
Thailand	107	+8.1%	+11.1%	+5.2%
Other	89	+30.9%	+33.1%	+35.0%
	965	**+3.2%**	**+3.9%**	**+2.2%**
	7,662	**+2.4%**	**+2.5%**	**+1.5%**
Trading profit				
UK	830	+2.1%	+2.1%	
International	56	+7.7%	+6.4%	
	886	**+2.4%**	**+2.4%**	
Trading margin				
UK	12.4%	0.0pp	0.0pp	
International	5.8%	+0.2pp	+0.1pp	
	11.6%	**0.0pp**	**0.0pp**	

Our Health & Beauty Division delivered good retail revenue growth, during an increasingly competitive and promotion-led trading environment, particularly in the UK where we were nevertheless able to organically grow our already considerable market share. We attribute this success to the ongoing attractiveness of the unique Boots omni-channel retail offer. Reimbursement rates for prescription medicines continued to be under pressure across Europe. This, together with intense price competition in select retail categories, adversely impacted our gross margins, which we compensated through cost efficiencies and synergies from our strategic partnership with Walgreens. As a result, we were able to maintain our healthy trading margin, while growing revenue, which compares very favourably to the performance of many of our UK competitors.

Revenue for the Division totalled £7,662 million, up 2.4% year on year on a reported basis and 2.5% in constant currency. Trading profit totalled £886 million, up 2.4% on both a reported and constant currency basis, trading margin remaining unchanged at 11.6%.

Health & Beauty Division – UK

In the UK, revenue increased by 2.3% to £6,697 million, trading profit increasing by 2.1% to £830 million. Trading margin was maintained at a healthy 12.4%.

Boots UK increased trading profits, despite lower dispensing profitability from lower reimbursement prices on generic medicines.

Boots UK revenue by product category
for the year ended 31 March 2014

	£million	Year on year growth
Dispensing & Related Income	**2,209**	**0.0%**
Retail:		
Retail Health[1]	936	+3.5%
Beauty & Toiletries[2]	2,253	+3.4%
Lifestyle[3]	950	+3.1%
	4,139	**+3.4%**
	6,348	**+2.2%**

1 Retail Health comprises sales of non-prescription medicines and other health related products.
2 Beauty & Toiletries comprises the cosmetics and fragrances, accessories and toiletries sub categories.
3 Lifestyle comprises the baby, nutrition, photography, electrical, seasonal and other lifestyle sub categories, including miscellaneous sales and other income.

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

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

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

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

Health & Beauty Division continued

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

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

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

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

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

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

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

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

Since the year end, in May 2014, we launched No7 Protect & Perfect ADVANCED Serum and No7 Protect & Perfect Intense ADVANCED Serum, seven years after introducing our ground-breaking No7 Protect & Perfect Serum. In rigorous clinical trials the new formulations, which contain a higher concentration of proven actives together with a next generation peptide, delivered the most impressive anti-ageing results No7 has ever seen.

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

In toiletries, sales growth was particularly strong in suncare, where we benefited from a warmer summer with lower rainfall, and in haircare where we performed well in both the mass and professional haircare segments. Good growth was also achieved in indulgent bathing, with Soap & Glory and Champneys performing well, both of which are exclusive to Boots in the UK.

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

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

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

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

The Boots Advantage Card loyalty programme, where customers earn points on purchases for redemption at a later date, continues to be a key element of our offering. At the year end, the number of active Boots Advantage Card members (which we define as members who have used their card at least once in the last 12 months) totalled 17.8 million, reflecting the programme's well established position as one of the largest and most valued loyalty schemes in the UK. The equivalent Boots Ireland programme now has a further one million active members. Around 60% of Boots retail sales in the UK are made by Boots Advantage Card members, who spend on average over 60% more per transaction than non-cardholders. As in previous years, around 90% of active members are women, representing around 60% of the adult female population in the UK.

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

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

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

At the year end, Boots had 2,487 health and beauty stores in the UK, of which 2,385 included a pharmacy. As a result, around 90% of the UK population is estimated to be within a 10 minute drive of a Boots store. Since the year end, we acquired Burrows & Close, a chain of 17 pharmacies, based in the East Midlands, which will shortly be converted to the 'your local Boots pharmacy' format.

Boots Opticians revenue increased by 4.2%, like for like revenue from owned practices increasing by 4.3%. This was due to good growth in eye test volumes, a greater proportion of eye test customers going on to buy new spectacles, and increased sales of contact lenses. The programme to introduce a broader range of attractive frames in all practices was completed during the year, improved practice layouts being introduced in a further 17 locations. Trading profit increased significantly as a result of the good revenue growth, costs continuing to be tightly controlled.

In August 2013, Boots Opticians became the first multiple optician in the UK to include digital retinal photography as a standard element of its eye test for customers of all ages. At the year end, Boots Opticians had 600 practices, including 182 which operate on a franchise basis.

Health & Beauty Division continued

“Good progress was again made in growing sales and profitability in North America and Asia.

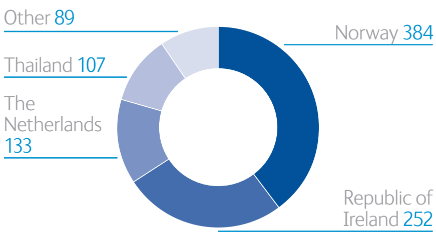
Ken Murphy
Managing Director,
Health & Beauty International and Brands

Health & Beauty Division – International

Good progress was again made in growing sales and profitability in North America and Asia. This, together with a good performance in the Republic of Ireland, more than offset challenges in our continental European markets where our businesses were impacted by pressures on dispensing reimbursement rates and strong competition.

Revenue in countries outside the UK totalled £965 million, up 3.2% on a reported basis and 3.9% in constant currency. Trading profit of £56 million was up 7.7% on a reported basis and 6.4% in constant currency. A net 19 stores were added during the year, most of which were in Thailand, bringing the year end total to 573.

Revenue by country
for the year ended 31 March 2014 (£million)



Stores by country
at 31 March 2014

	Number
Norway	153
Republic of Ireland	76
The Netherlands	68
Thailand	249
Lithuania	27
	573

In Norway, where our pharmacies are branded ‘Boots apotek’, revenue on a constant currency basis decreased by 0.3%, like for like revenue decreasing by 1.1%. This was due to dispensing volumes being impacted by competitor openings in the current and prior years, which was partially offset by like for like retail revenue growth. Profitability was adversely impacted by the lower sales and higher operating costs, which were partially mitigated by a better retail sales mix.

In the Republic of Ireland, where we trade as Boots, revenue increased by 4.7% on a constant currency basis. This was as a result of new store openings in the current and prior year and a 1.8% overall like for like growth rate, good retail growth being partially offset by lower dispensing reimbursement rates. In June 2013, we launched a new dedicated Irish website, boots.ie, selling over 26,000 products, many of which are not available in our smaller Irish stores. Our store portfolio was further strengthened through four store openings during the year, of which two were relocations, with a further three stores having opened since the year end. Trading profit increased substantially year on year, due to a combination of higher sales and gross margin, and productivity gains.

In The Netherlands, revenue decreased by 5.0% on a constant currency basis, decreasing by 5.5% on a like for like basis, reflecting Dutch healthcare insurers' continuing use of tenders to select the lowest price generic medicines, referred to as the 'preference policy'. This was more than offset by improved purchasing and lower costs, resulting in improved profitability. Throughout the year, we had 25 stores trading as 'Boots apotheek', which have a much stronger retail offering than a typical Dutch pharmacy, including a range of Boots branded health and beauty products, including No7 and Boots Pharmaceuticals.

In Thailand, where Boots is one of the largest health and beauty pharmacy chains, revenue increased by 11.1% on a constant currency basis. Like for like revenue increased by 5.2%, despite the impact of the political unrest in the second half of the year, growth being strong across all categories. We continue to launch new product ranges formulated specifically for the South East Asian market. A net 24 stores were added in the year, taking the year end total to 249. This, together with like for like revenue growth, enabled the business to deliver good profit growth. The Boots loyalty card programme, which was specifically developed for the Thai market, increased its membership during the year to over one million active members. Over 50% of sales during the year were to cardholders, who spent on average 2.3 times more than non-cardholders.

Other revenue mainly comprised revenue from the sale of Boots products to third parties in a number of countries and Walgreens in the US, sales to franchisees and related franchise income, and revenue from owned pharmacies in Lithuania.

Other revenue increased year on year by over 30% on a constant currency basis. Boots product sales growth was particularly strong in North America and the Middle East. At retail value, sales by our US customers totalled almost $120 million. This reflected excellent retail sales growth in third party customers, part of which was due to our products being sold in an increasing number of locations, together with increasing sales in Walgreens, as we widen distribution.

In the US, Boots products continue to be sold in nearly 1,800 Target stores, around 350 of which have a Boots beauty advisor, and online on target.com. In addition, No7 is sold in around 675 ULTA beauty stores across the US, an increase of over 20% in the year, on ulta.com and in around 135 College stores, as well as on our own direct to consumer website, us.boots.com.

In the first half of the year, a select range of Boots products was launched in Walgreens stores across the US and online, including No7 Men, which is now available in over 7,200 stores. In addition, in the autumn, Boots product brands, including No7, Botanics, 'Boots expert', Boots Extracts and our exclusive spa range, Champneys, were launched in 189 Walgreens stores across Arizona. Following encouraging results, this Boots product brand offering is being rolled out to around 180 Walgreens and Duane Reade stores in New York over the coming months, of which 23 were completed by the year end. Thirteen Walgreens flagship stores, as well as the larger stores in Arizona and New York, now sell the full range of No7 products, supported by dedicated Boots beauty advisors and the latest No7 in-store merchandising units. Walgreens.com also has a 'Boots shop' where customers can buy a wide range of around 500 Boots products and Boots products are also sold on drugstore.com™ and Beauty.com®, both owned by Walgreens.

The quality of our Boots products brands is increasingly being recognised by influential beauty commentators in the US. We recently won three Good Housekeeping 'Beauty All-Stars' awards for No7 and Botanics products and a Men's Health Magazine '2014 Grooming Award' for our Boots No7 Men Post Shave Recovery Balm.

In November 2013, we extended our partnership with Dairy Farm, a leading pan-Asian retailer, to sell Boots products, including No7 and Botanics, in their health and beauty stores in Singapore. At the year end, 24 Mannings stores in Hong Kong and nine Guardian stores in Singapore had a Boots product offering, many with a dedicated No7 beauty advisor.

In the Middle East, our franchise partner opened a further six stores, taking the combined number of Boots stores in the United Arab Emirates, Kuwait, the Kingdom of Saudi Arabia, Bahrain and Qatar to 81.

In January 2014, we launched international.boots.com, a new international website enabling delivery of over 24,000 products from the boots.com range to consumers across 19 countries, with encouraging early results. As a result, Boots product brands are now available in over 35 countries.

Boots much loved brands are increasingly available across the world

…including now New York.

For more information about the internationalisation of Boots brands, go to our Business review on page 18 or online at **allianceboots.com**


YAHOO!
Vegas? No, Yonkers.
HOW MONEY BECOMES WEALTH? SUBSCRIBE TO BARRON'S. CALL
Panasonic
ONE WAY


DUANEreade
OPEN 24hrs


Boots

Pharmaceutical Wholesale Division

"Alliance Healthcare delivered good revenue growth in what were particularly challenging markets.

Ornella Barra
Chief Executive,
Wholesale and Brands

Performance by business

for the year ended 31 March 2014

	Total £million	Year on year growth Reported	Year on year growth Constant currency
Revenue			
France	3,775	-2.2%	-5.5%
Germany	3,715	+6.4%	+2.8%
UK	3,603	+6.6%	+6.6%
Turkey	1,451	-10.7%	+0.7%
Spain	1,069	+4.8%	+1.2%
The Netherlands	841	+26.5%	+22.2%
Russia	774	+78.3%	+90.6%
Egypt	662	-6.5%	+4.9%
Czech Republic	446	-3.3%	-2.3%
Romania	434	+15.7%	+11.5%
Norway	307	-5.5%	-1.3%
Lithuania	44	-4.3%	-8.2%
Intra-group	40		
	17,161	**+4.8%**	**+4.8%**
Trading profit	**428**	**-1.6%**	**-0.8%**
Trading margin	**2.5%**	**(0.2)pp**	**(0.1)pp**

Our Group is the number one pharmaceutical wholesaler in Europe and the only wholesaler with significant operations in each of the five largest wholesale markets.

The Pharmaceutical Wholesale Division delivered good revenue growth in what were particularly challenging markets. Regulatory and other economic pressures, together with intense competition, significantly impacted profitability in a number of our businesses. This was largely compensated by synergies from our strategic partnership with Walgreens and benefits from our joint agreement with AmerisourceBergen.

Revenue totalled £17,161 million, up 4.8% on a reported and constant currency basis. Adjusting for acquisitions and disposals, like for like revenue on a constant currency basis increased by 1.9%. Trading profit totalled £428 million, down 1.6% on a reported basis and 0.8% in constant currency. Included in trading profit are gains on AmerisourceBergen warrants, these being accreted to our income statement over the period to their expiry date, based on the period end valuations. Overall trading margin was 2.5%, a 0.2 percentage point decrease on the prior year.

As has been the case in previous years, our published like for like revenue growth was held back by branded ethical manufacturers switching to distributing product direct to pharmacies which, under International Financial Reporting Standards, we account for on an agency basis. This means that we do not report these goods going through our wholesale network as revenue, although we are required to include the related receivables and payables on our balance sheet due to timing differences. Adjusting for this accounting treatment, our more comparable underlying like for like sales growth was around 2.5%, which was in line with the market growth rate in terms of value.

We estimate that the wholesale markets in which we operate contracted by around 1% in volume terms, weighted on the basis of our wholesaling volumes. This was mainly due to regulatory actions to restrict growth in demand for prescription medicines and, in the UK, to changes in reimbursement rules which resulted in a shift to pharmacists purchasing a smaller number of larger packs. In value terms we estimate that our markets grew by around 2.5%, growth being in constant currency and weighted on the basis of our wholesale revenues. This growth reflected inflationary pressures in certain markets and the impact of product shortages, which was partially offset by the lower consumption and other government measures across Europe to constrain growth in healthcare costs, through lowering reimbursement prices and increasing penetration of generic medicines.

Generic penetration rates again increased in almost all our markets, penetration levels still being typically lower in southern Europe. The overall level of the parallel trade market in Europe was broadly stable, as we have seen for the last few years.

We have an ongoing focus on anticipating changes in the marketplace, making the most of future opportunities and supporting businesses in individual countries to implement our new wholesale business model, while at the same time driving efficiency throughout the Division, year after year. This approach, led by our experienced management team is, in our view, what continues to significantly differentiate Alliance Healthcare from our competitors.

Alliance Healthcare continues to respond to the developing needs of branded ethical pharmaceutical manufacturers, who are increasingly adapting and changing their approaches to distribution across this market. This trend has been most pronounced in the UK, where a number of manufacturers have made the switch from selling via all pharmaceutical wholesalers to either selling direct to pharmacies using relatively few wholesalers as distributors, or selling only through a small number of selected wholesalers. Our responsiveness in meeting their changing requirements, as well as our highly efficient and reliable logistics network, has established Alliance Healthcare as the UK market leader and the partner of choice for pharmaceutical manufacturers.

We have long established and strong relationships with leading pharmaceutical manufacturers across the world, which are being further strengthened as a result of our strategic partnership with Walgreens and our joint partnership with AmerisourceBergen, no other wholesaler being able to offer services in the US, Europe and China.

Services we offer to pharmaceutical manufacturers include the following:

Alloga, which provides manufacturers with pre-wholesale and contract logistics services to access wholesalers, pharmacies and hospitals on a pan-European basis. Alloga has owned operations in six countries and a presence in a further four countries through our associates.

Pharmaceutical Wholesale Division continued

Skills in Healthcare, our contract sales offering to manufacturers across Europe, which has a presence in 10 countries.

Alcura, which provides innovative and specialised healthcare services, covering clinical homecare, medicine support, dispensing services, medicine preparation and clinical trial support. First launched in the UK, Alcura now has a presence in five countries, following the rebranding of our offers in France, Spain, The Netherlands and Germany during the year.

Product brands and services we offer to pharmacies include the following:

Almus, our exclusive range of generic medicines, continues to provide marketing and sourcing benefits aimed at offsetting the impact of branded medicine patent expiries. Almus further broadened its product range during the year, now including over 700 products. Almus is distributed in the UK, Spain and France and through our associates in Portugal and in Italy. Total Almus sales increased year on year by around 15% in constant currency.

Alvita, our range of patient care products, is sold in six countries, total Alvita sales increasing year on year by around 2% in constant currency.

We further differentiate our wholesale offering by continuing to develop the range of services offered to independent pharmacy customers. This includes membership of Alphega Pharmacy, which encompasses a comprehensive range of added-value services including branding, professional training and patient care, retail support services and supply benefits together with pharmacy and IT support. In November 2013, the members of our Kring-apotheek pharmacy network in The Netherlands voted to join the Alphega network, 50 pharmacies being rebranded by the year end, with others planned. As a result, Alphega Pharmacy now operates in seven countries, including our associate in Italy, and has increased its membership to more than 4,800 pharmacies. We expect membership to increase significantly in the coming year following the March 2014 vote by the vivesco pharmacy network in Germany, which has around 950 members, to rebrand as Alphega.

In France, revenue decreased by 5.5% on a constant currency and like for like basis. This was mainly due to regulatory measures, which reduced overall consumption of prescription medicines while increasing market penetration of generics, and competitors offering higher discounts to gain market share. Profitability was significantly impacted by the lower revenue and reduced gross margins, higher customer discounts being required to enable the business to remain competitive in the market. These factors were partially mitigated through actions taken to reduce our cost base.

In Germany, revenue increased by 2.8% on a constant currency and like for like basis, despite intense competition from certain competitors similarly seeking to increase market share by offering higher customer discounts. This action appears to have simply reduced the overall profitability of the sector in Germany. As in France, higher customer discounts were required to maintain our competitive position. This significantly impacted our profitability, which we partly mitigated through lowering our cost base.

In the UK, revenue increased by 6.6%, due to a combination of further market share gains and market growth. The increase in market share was mainly due to a strong performance in generics, reflecting the winning of a new multi-year manufacturer contract and Almus sales increasing by more than 15%, and the full year benefit of a contract to supply one the UK's largest pharmacy chains which started in the prior year. Alcura growth was particularly strong, revenue increasing by more than 40%. In addition, Alphega Pharmacy membership in the UK reached 1,000 for the first time, as we continue to develop and expand services for our independent pharmacy customers and pharmaceutical manufacturers. Profits increased year on year due to the expansion of the business and further improvements in productivity.

In Turkey, reported revenue was lower year on year due to the significant decline over the course of the year in the value of the Turkish Lira. On a constant currency and like for like basis, revenue increased by 0.7%. Trading profit was significantly impacted by reduced manufacturer rebates, increased customer discounts and, to a lesser extent, by one-off operating costs relating to a rationalisation of the warehouse network, seven satellite warehouses being closed during the year, and to management redundancies. In October 2013, we acquired full ownership of the business, following the exercise of put options held by the Executive Chairman of Hedef Alliance (and other founding family members). This resulted in a number of key management changes which we believe will allow us to further develop the business, enabling it to compete more effectively in this growing market.

In Spain, revenue increased by 1.2% on a constant currency and like for like basis, our return to growth reflecting a more stable trading environment from a regulatory perspective, which was partially offset by increased market penetration of generics. Sales of Almus generic medicines grew by more than 30% and Alvita patient care products by over 25%. Profits increased year on year due to improved product mix and margin management across many aspects of the business, Alphega membership in Spain growing by more than 15% to over 650 pharmacies.

In Egypt, revenue increased by 4.9% on a constant currency and like for like basis, market growth being constrained by ongoing political instability. Trading profit was unchanged, increased revenues being offset by inflationary costs pressures.

In The Netherlands, revenue increased by 22.2% on a constant currency and like for like basis, due to contracts won in the latter part of the prior year to supply certain products for a number of pharmaceutical manufacturers to all Dutch hospitals on an exclusive basis. This was partially offset by lower revenue from traditional pharmaceutical wholesaling, where competition remains intense in what continues to be a particularly difficult market from a regulatory perspective. Profitability was impacted by higher operating costs, which included costs relating to the rebranding of the Kring-apotheek pharmacy network as Alphega apotheek.

In Russia, revenue increased by over 90% on a constant currency basis, reflecting a full year of ownership of our former associate which we re-acquired in November 2012. On a like for like basis, revenue decreased by 18.8%, mainly reflecting lower demand partly due to increased levels of co-payments and an unusually mild winter. As a result, the business made a loss for the full year.

In our other small markets, revenue in the Czech Republic decreased by 2.3% on a constant currency and like for like basis, profits increasing due to improved mix and higher service income from pharmaceutical manufacturers. In Romania, where we acquired the minority interests in October 2013, revenue on the same basis increased by 11.5%, mainly through increased market share. This together with productivity gains enabled the business to increase profits. In Norway, revenue on the same basis decreased by 1.3%, mainly due to the loss of a government contract to supply multi-dose prescriptions which particularly impacted performance in the final quarter. This together with lower gross margins impacted profit. In February 2014, the business won a significant new exclusive supply contract for hospital pharmacies and in-patient dispensing for a minimum of four years. The contract, worth around £400 million per annum at wholesale values, commences in January 2015.

Alphega is expanding its pharmacy network across Europe

...helping independent pharmacists grow and develop their businesses.

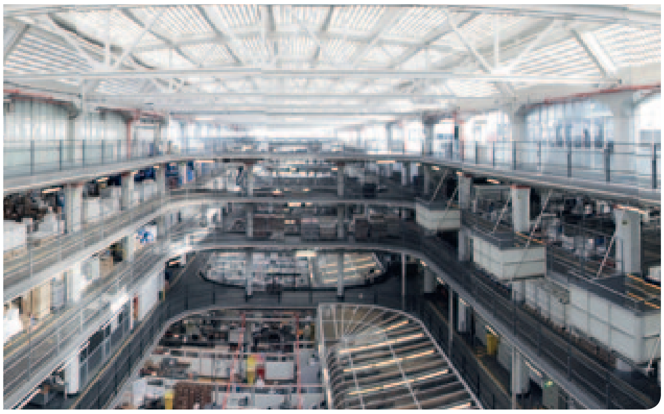
For more information about our Pharmaceutical Wholesale Division, go to our Business review on page 28 or our online Annual Report at **allianceboots.com**


alphega apotheek
Natuurlijke middelen


LA GRANDE PHARMACIE
du XV

Strategic review

Other activities

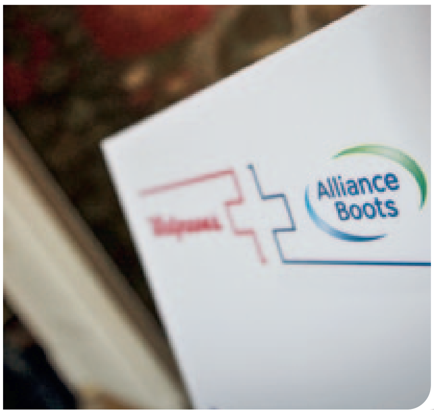


Contract Manufacturing & Corporate Costs

BCM, our Contract Manufacturing business, manufactures consumer health and beauty products for internal supply and third party brands, and also produces special prescription medicines for individual use. Total revenue decreased year on year by 5.0% to £226 million, internal demand being impacted by stock optimisation programmes and the timing of internal business orders. The trading loss increased by £2 million to £5 million, reflecting adverse mix of special prescription medicines together with lower pricing, which was partly offset by reduced losses from contract manufacturing.

The programme announced at the end of last year to improve the efficiency and overall performance of the UK factory, including investment in new product technologies to enable greater flexibility and support the Group's leading beauty and skincare product brands, is progressing in line with expectations.

Corporate Costs increased year on year by £7 million to £39 million, mainly as a result of costs incurred in developing our evolving partnership with Walgreens.



Associates and joint ventures

Associates and joint ventures continue to be an important component of our Group's activities. On 10 May 2013, as previously announced, we distributed our equity interest in Galenica to the Group's ultimate parent company, AB Acquisitions Holdings, in accordance with the Walgreens agreement. As a result, we have excluded Galenica's figures from our underlying performance measures. Galenica continues to be an associate of AB Acquisitions Holdings.

Our share of underlying post-tax earnings of associates and joint ventures totalled £79 million, a year on year increase of £85 million.

Our share of post-tax earnings of Walgreens Boots Alliance Development, the joint venture we established with Walgreens in Switzerland in late 2012 to lead global relationships with pharmaceutical and other key suppliers, increased year on year by £52 million to £58 million, our share of trading profit increasing to £63 million. This reflects a growing number of global agreements with pharmaceutical manufacturers and other suppliers of goods and services (both for resale and not-for-resale), together with initial income in the final quarter of the year from our strategic long term relationship with AmerisourceBergen.

While still at an early stage, we are pleased with the overall progress of the synergy programme, total synergies achieved to date tracking ahead of target.

Our share of underlying post-tax earnings of our other associates and joint ventures totalled £21 million, compared to a loss of £12 million in the prior year. This turnaround was due to improved performances in all our principal associates and joint ventures, together with a full year's contribution from Boots Hearingcare, our total share of trading profits from these businesses increasing by £38 million to £49 million.

In China, Guangzhou Pharmaceuticals Corporation, our joint venture established in 2007, performed very well, delivering good revenue and profit growth. The business, which is one of the major pharmaceutical wholesalers in China, continues to expand its operations through a combination of organic growth and targeted acquisitions.

The performance of Alliance Healthcare Italia, while still unsatisfactory, improved significantly in what continues to be a particularly challenging market as a result of management actions taken in the last 18 months. This included reducing the number of low value customer accounts, delivering corresponding improvements in productivity, tightening controls over receivables and avoiding the operational issues experienced in the first half of the prior year.

Alliance Healthcare Portugal again significantly increased revenue and market share, due to a successful commercial policy and customer segmentation strategy in what continues to be a challenging pharmacy market. Profitability improved due to the increased revenue and better margins.

Other associates and joint ventures include Boots Hearingcare, which has grown sales and profits very successfully since becoming an associate in February 2013, UDG, our UK pre-wholesale and contract logistics joint venture, Hydra Pharm, a leading pharmaceutical wholesale operator in Algeria, and Oktal, a pharmaceutical wholesaler in Croatia, which also trades in Bosnia Herzegovina, Serbia and Slovenia.

Financial review

"We continue to reduce borrowings while investing for the future."

George Fairweather
Group Finance Director

Cash generated from operations
£1,544m

Total cash flow
£820m

Net borrowings reduction
£842m

Cash flow
for the year ended 31 March 2014

	£million
Trading profit	**1,270**
Underlying depreciation and amortisation	238
EBITDA	1,508
Exceptional items	(5)
Net loss on disposal of property, plant and equipment	2
Net movement in working capital and provisions	82
Movement in net retirement benefit assets and obligations	(43)
Cash generated from operations	**1,544**
Interest	(254)
Tax	(141)
Acquisition related expenditure	(166)
Capital expenditure	(253)
Dividends	32
Other	58
Total cash flow	**820**

Income statement summary
for the year ended 31 March 2014

	Underlying £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Distributed associate £million	Timing differences £million	Statutory £million
Trading profit/profit from operations before associates and joint ventures	**1,270**	**(100)**	**(38)**	–	–	**1,132**
Share of post-tax earnings of associates and joint ventures	79	–	–	7	–	86
Net gains relating to associates	–	–	109	–	–	109
	1,349	(100)	71	7	–	1,327
Net finance costs	(311)	–	(53)	–	10	(354)
Tax (charge)/credit	(150)	31	120	–	(3)	(2)
Underlying profit/profit for the year	**888**	**(69)**	**138**	**7**	**7**	**971**
Less: non-controlling interests	(48)					(35)
Underlying profit/profit for the year attributable to equity shareholders	**840**					**936**
Year on year increase	**131**					**229**

All underlying measures exclude the distributed associate, Galenica, which ceased to be an associate of the Group in May 2013 following its distribution to the Group's ultimate parent company.

A glossary of key terms, including definitions of additional performance measures, is included on page 123.

Trading profit increased by 0.4% on a reported basis to £1,270 million (up 0.6% in constant currency), which when including our share of trading profit of associates and joint ventures rises to £1,382 million, a year on year increase of 7.7%.

Underlying profit attributable to equity shareholders increased year on year by 18.5% to £840 million.

On a statutory basis, profit from operations before associates and joint ventures was £1,132 million (2012/13: £1,054 million), profit from operations was £1,327 million (2012/13: £1,101 million) and profit for the year attributable to equity shareholders was £936 million (2012/13: £707 million), a year on year increase of 32.4%.

Exceptional items within profit from operations comprised the following:

	£million
Call option for warrants	(34)
Other	(4)
Within profit from operations before associates and joint ventures	(38)
Gains on disposal and distribution of associates	116
Impairment of investment in associate	(7)
	71

During the prior year, the Group together with Walgreens signed agreements with AmerisourceBergen which included the Group receiving warrants to purchase up to 8% of the equity of AmerisourceBergen at future dates. Simultaneously, the Group issued a call option to Walgreens for Walgreens to purchase these warrants from the Group. As the call option is only exercisable if Walgreens exercises its option to acquire the remaining 55% equity stake of the Group that they do not currently own, the associated cost in relation to the option is not regarded as forming part of the underlying activities of the Group.

The gains on disposal and distribution of associates mainly related to the Group's investment in Galenica. As part of the Purchase and Option Agreement entered into in June 2012 with the Group's ultimate parent company and Walgreens for Walgreens to acquire a 45% equity stake in the Group, a commitment was made to distribute or otherwise transfer the Group's investment in Galenica at fair value to the selling shareholders. Accordingly, Galenica was distributed by the Group on 10 May 2013 which gave rise to a gain.

Net finance costs

Net finance costs comprised the following:

	Underlying £million	Exceptional items £million	Timing differences £million	Statutory £million
Finance income	40	(7)	–	33
Finance costs	(351)	(46)	10	(387)
Net finance costs	**(311)**	(53)	10	**(354)**
Year on year decrease/ (increase)	**9**			**(90)**

Underlying net finance costs decreased year on year by £9 million to £311 million, mainly as a result of lower net borrowings, the benefits of which were partially offset by lower finance income on investments. Interest cover, which we define as the ratio of trading profit to underlying net finance costs, increased to 4.1x trading profit (2012/13: 4.0x).

Financial review continued

Exceptional items within finance income mainly comprised prepaid financing fees expensed on repurchase and repayment of acquisition borrowings, partially offset by a fair value gain on the contract to acquire a 12% equity stake in Nanjing Pharmaceutical Company Limited. Acquisition borrowings with a net value of £1,258 million were repurchased and repaid during the year. In total, £3,678 million has been repurchased and repaid since the programme began in early 2009 at a cost of £3,402 million. The discounts on repurchase, net of related prepaid financing fees, have been accounted for as loan redemptions, reducing net borrowings.

Exceptional items within finance costs mainly related to the increase in the fair value liability for the Group's commitment to distribute or otherwise transfer its investment in Galenica up until the date of distribution.

Timing differences within net finance costs comprise IAS 39 timing differences which relate to derivative financial instruments partially offset by the unwind of discounts on obligations to non-controlling interests.

Tax

The underlying tax charge was £150 million (2012/13: £179 million), equating to an underlying effective tax rate of 15.6% (2012/13: 18.9%).

The year on year decrease of 3.3 percentage points was mainly due to an increase in non-taxable income, a one percentage point reduction in the rate of UK corporation tax and profit mix.

Tax analysis

	UK £million	Other countries £million	Total £million	Effective tax rate
Underlying tax charge				
Current year	(123)	(56)	(179)	18.7%
Adjustments in respect of prior years	13	16	29	
Total	(110)	(40)	**(150)**	15.6%
Year on year (increase)/ decrease	(4)	33	**29**	
Net tax paid	(90)	(51)	**(141)**	
Year on year increase	(26)	(1)	**(27)**	

Net tax paid in the UK was lower than the underlying tax charge, mainly due to a tax repayment following the resolution of prior year computations.

On a statutory basis the accounting tax charge was £2 million (2012/13: £96 million). Exceptional items tax credits of £120 million in the year related primarily to a net reduction in deferred tax assets and liabilities resulting from the three percentage point reduction in the rate of future UK corporation tax enacted during the year. This comprised a two percentage point reduction applicable from April 2014 and the further one percentage point reduction applicable from April 2015 taking the UK rate to 20%. In the prior year, a one percentage point reduction in the rate of future UK corporation tax was enacted.

Cash flow

During the year the Group generated a strong operating cash flow, which was used to fund investment in growth and reduce net borrowings.

Cash inflow from working capital (net of provisions) was £82 million as a result of our ongoing programme to further improve working capital efficiency.

Net interest paid of £254 million was lower than underlying net finance costs in the income statement, mainly due to the amortisation of prepaid financing fees and premia paid on interest rate caps.

£166 million of cash was spent on acquisition related expenditure. This mainly related to the purchase of 20% equity stakes in Hedef Alliance (Turkey) and Farmexpert (Romania) to reach full ownership of these pharmaceutical wholesaling businesses, and Aromatherapy Associates, the first acquisition by the specialised investment fund established by the Group during the year.

£253 million of cash was invested on capital expenditure. Around three quarters of this investment was in our Health & Beauty Division, primarily in the UK where we have increased investment in our retail stores and in information technology projects. Investment in our Pharmaceutical Wholesale Division was mainly on upgrading its distribution network and on information technology.

Dividends mainly related to receipts from Walgreens Boots Alliance Development, the joint venture established in the prior year. Other net cash inflows included repayment of a £57 million loan advanced in the prior year to a fellow subsidiary of the Group's ultimate parent company.

Net borrowings

At the year end, net borrowings were £5,051 million, a year on year reduction of £842 million.

Movement in net borrowings in the year

	£million
Total cash inflow	**820**
Repurchase and repayment of acquisition borrowings	(14)
Amortisation of prepaid financing fees	(19)
Capitalised finance costs	(4)
Finance leases entered into	(5)
Currency translation differences and fair value adjustments on financial instruments	64
Decrease in net borrowings	**842**
Net borrowings at 1 April 2013	(5,893)
Net borrowings at 31 March 2014	**(5,051)**

In accordance with International Financial Reporting Standards, fees incurred relating to the raising of finance were netted off the related borrowing. These prepaid fees are amortised over the term of the financing being provided, increasing net borrowings. Capitalised finance costs relate to the rolled up interest on the subordinated debt, which is payable when the debt itself is repaid.

Analysis of net borrowings
at 31 March 2014

	£million
Cash and cash equivalents	501
Restricted cash	156
Derivative financial instruments	37
Borrowings	(5,745)
	(5,051)

Restricted cash comprises cash which is restricted for specific purposes and so is not available for the use of the Group in its day to day operations and, at 31 March 2014, consisted of deposits restricted under contractual agency agreements, cash pledged as collateral on financial instruments, cash restricted by law and other obligations.

Derivative financial instruments are carried at fair value and mainly relate to a credit instrument and the contract to acquire a 12% equity stake in Nanjing Pharmaceutical Company Limited.

Equity
Total equity increased during the year by £552 million to £6,223 million at the year end, shareholders' equity increasing by £686 million to £6,186 million.

Movement in shareholders' equity in the year

	£million
Profit for the year	**971**
Attributable to non-controlling interests	(35)
Profit for the year attributable to equity shareholders	936
Income and expense recognised in other comprehensive income:	
Defined benefit schemes – net remeasurements	(182)
Currency translation differences	(158)
Recycled on distribution of associate	(78)
Other	12
Tax on items recognised in other comprehensive income	27
Transactions with owners:	
Purchase of non-controlling interests	129
Net movement in shareholders' equity	**686**
Shareholders' equity at 1 April 2013	5,500
Shareholders' equity at 31 March 2014	**6,186**

Currency translation differences arose on the retranslation of the net assets of our non-Sterling denominated businesses and investments, net of currency borrowings drawn to partially hedge these translation exposures. These differences were mainly as a result of the stronger Sterling at the year end compared to the prior year relative to the Turkish Lira and Norwegian Krone.

The amount recycled on distribution of associate related to the distribution of Galenica. The purchase of non-controlling interests related to the respective contractual committed purchases of the remaining interests that the Group did not previously own in Hedef Alliance and Farmexpert.

Retirement benefit obligations

Movement in net retirement benefit obligations in the year

	£million
Net cost within profit for the year	(1)
Cash contributions	50
Net remeasurements	(189)
Currency translation differences	2
Net movement in retirement benefit obligations	**(138)**
Net retirement benefit obligations at 1 April 2013	(36)
Net retirement benefit obligations at 31 March 2014	**(174)**

Cash contributions during the year mainly related to deficit funding payments to the Boots Pension Scheme.

Contributions totalling £22 million were made by two pension funding partnership structures under which, in prior years, the Group contributed interests in partnerships worth £273 million and transferred a number of properties under sale and leaseback arrangements. The partnerships will make similar annual contributions for a further 13 years, with £10 million per year thereafter for a further five years. In addition, a capital sum will be made in 2031 equal to the lower of £156 million and any funding deficit in the Scheme at that point in time. The Scheme's interests in the partnerships reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 accounting basis, as the investments held by the Scheme in the partnerships do not qualify as assets for the purposes of the Group's consolidated financial statements and are therefore not included within the fair value of plan assets. These funding initiatives are part of the Group's ongoing plans to ensure long term security of accrued benefits for its UK defined benefit pension schemes.

Other contributions in the year mainly related to those agreed following the triennial actuarial valuation of the Boots Pension Scheme as at 31 March 2010. Prior to year end, the trustees of the Boots Pension Scheme completed the 31 March 2013 triennial actuarial valuation. This has resulted in no additional contributions being required from the Group over and above those agreed at the 2010 valuation. Accordingly, the Group will contribute £53 million in each of the next three years, in addition to the contributions from the pension funding partnership structures. The extent to which the Group may be required to make additional contributions if the assets' returns assumed in the recovery plan are not achieved, will be assessed as part of the 2016 valuation.

Financial review continued

The Scheme has continued with its investment strategy of targeting to hold 85% of its assets in a diverse portfolio of high quality bonds with the remainder invested in equity and property assets backing longer term liabilities. Interest rate and inflation rate swaps are also employed to complement the role of fixed and index-linked bond holdings in liability risk management.

On an accounting basis, there was a net remeasurements loss of £189 million which comprised a loss of £212 million from scheme assets, partially offset by a £23 million decrease in scheme liabilities. The asset decrease was mainly due to a decrease in corporate and government bond values invested in by the Boots Pension Scheme in the UK, which is consistent with general bond markets.

Capital structure

Our policy is to have an appropriately geared balance sheet. When considering appropriate debt levels we take into account ongoing lease commitments and any unfunded pension liabilities.

The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

We finance our operations through a combination of loan financing, leases and equity including retained profits, to ensure that the Group has access to liquidity at all times and can fund itself in a cost-effective manner.

Treasury policies

The Group's treasury policies are reviewed at least annually by the Board.

Group treasury has responsibility for the Group's funding and cash management and manages the Group's financial counterparty credit, interest rate and currency risks. It enters into financial instruments solely for the purpose of managing these risks. It does not act as a profit centre and is not allowed to undertake speculative transactions.

Treasury risk management activities (principally interest rate risk and currency) are undertaken to protect the economic value of the Group. Where possible, the Group seeks to apply hedge accounting to financial instruments transacted for the purpose of hedging underlying exposures.

Liquidity risk management

Access to cost-effective funding is managed by maintaining a range of committed and uncommitted facilities sufficient to meet anticipated needs, arranging funding ahead of requirements, and developing diversified sources of funding.

Group liquidity is optimised through cash pooling and deposits with or loans from Group treasury companies.

The Group's core borrowing is provided through committed loan facilities originally set up in 2007 when Alliance Boots became a privately owned company. In July 2013, the Group announced that it had completed a programme to repurchase and repay all loans outstanding under its Subordinated Facility Agreement that it had not previously acquired. In addition, in March 2014, the Group completed the extension of certain existing private syndicated loan facilities in accordance with the 'springing maturity' mechanism agreed with senior lenders in December 2012. All committed loan facilities can remain in place post exercise of Walgreens option.

The Group's net borrowings vary throughout the year in a predictable seasonal pattern, subject to material acquisitions and disposals. Working capital requirements are typically at their highest in the autumn due to the working capital requirements of Christmas trading. The Group continues to monitor its net borrowings position on a daily basis against both budget and a rolling two month cash forecast.

The Group's committed bank borrowing facilities require compliance with certain financial and non-financial undertakings and covenants. The principal covenant is a net borrowings:EBITDA ratio.

Interest rate risk management

The Group manages interest rate risk in accordance with the treasury policy approved by the Board. Exposures are hedged through a combination of interest rate caps and interest rate swaps.

A significant proportion of the Group's borrowings are subject to some form of fixed or capped interest rate, the hedges for which mature during 2015.

Currency risk management

The Group owns significant businesses and investments that cause a translation exposure on consolidation. The Group partially hedges these translation exposures with borrowings denominated in the same currency, complemented with foreign exchange derivative contracts. At the year end, £1,285 million of the Group's net borrowings were in Euros.

The Group has a policy of hedging material non-functional currency denominated transaction exposures, other than those offset by corresponding translation exposures, by entering forward currency derivatives contracts where such exposures arise.

The significant exchange rates relative to Sterling used in the preparation of financial information were as follows:

	Average 2013/14	As at 31 March 2014	Average 2012/13	As at 31 March 2013
Euro	1.19	1.21	1.23	1.18
US Dollar	1.59	1.66	1.58	1.51
Turkish Lira	3.20	3.63	2.84	2.74
Swiss Franc	1.46	1.48	1.49	1.44
Norwegian Krone	9.53	9.99	9.13	8.86
Russian Rouble	52.51	59.44	49.20	46.98

Credit risk management

The Group protects itself against the risk of financial loss arising from failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties or their groups, as well as by setting sovereign limits. Limits are set by reference to ratings issued by major rating agencies. The Group also monitors other indicators such as counterparty and sovereign credit default swaps pricing.

Credit risk exposure to commercial counterparties is managed through credit control functions in each of our businesses. New customers are credit checked, customer limits are reviewed at least annually and aged debtor reviews are undertaken regularly.

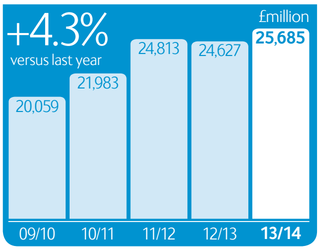
At the year end there were no significant concentrations of credit risk.

Performance measures

Group

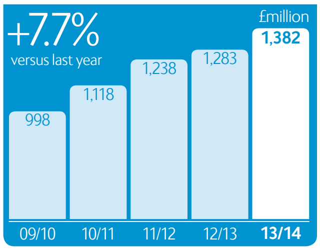
How fast we are growing

Revenue
including share of associates and joint ventures



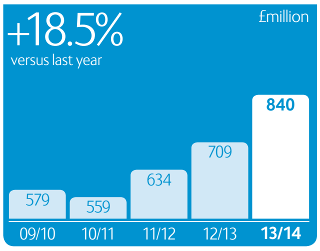
Our profit performance

Trading profit
including share of associates and joint ventures



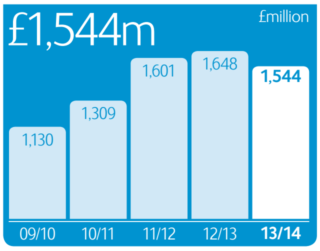
Our profit performance

Underlying profit
attributable to equity shareholders



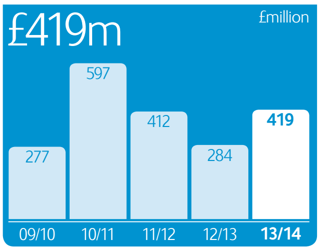
The cash we are producing

Cash generated from operations



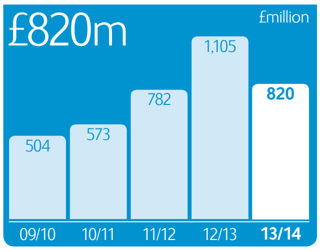
The cash we are investing in our future

Cash investment



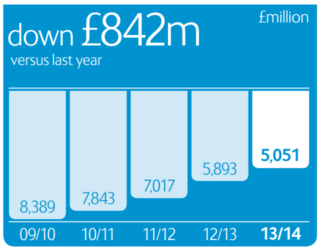
Our total cash flow

Total cash flow



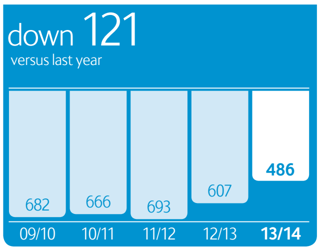
How fast we are reducing our debt

Net borrowings



Health & Safety

Work related 'greater than three day lost time accidents'



Health & Beauty Division

How fast we are growing

Revenue

+2.5% c. currency*
+2.4% reported
versus last year

Our profit performance

Trading profit

+2.4% c. currency*
+2.4% reported
versus last year

Pharmaceutical Wholesale Division

How fast our markets are growing

Market value

c.+2.5% c. currency*
versus last year

How fast we are growing

Revenue

+4.8% c. currency*
+4.8% reported
versus last year

Our profit performance

Trading profit

-0.8% c. currency*
-1.6% reported
versus last year

* Constant currency

Revenue and trading profit including share of associates and joint ventures and all underlying measures exclude the distributed associate.
A glossary of key terms is included on page 123.

Our people

Alliance Boots is a major employer in the UK and many other countries. At the year end the Group, including our associates and joint ventures, employed over 108,000 people in more than 25 countries.

We understand the importance of attracting, developing and retaining talent if we are to achieve our mission. We aim to create a culture throughout the Group that is reflective of our core values: partnership, trust, service, entrepreneurship and simplicity. This is to ensure that our people feel motivated to do their best for customers and patients at all times.

Diversity, culture and equal opportunities

Alliance Boots is a diverse Group of many different nationalities and talents. It is critical to our future success that we continue to nurture this diversity and so have designed our employment policies to achieve this.

We aim to provide equal opportunities, regardless of sex, age, religion or belief, sexual orientation, disability, or ethnic origin. We do all that is practicable to meet our responsibilities towards the employment and training of the disabled. Where one of our people becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Recruitment and development

We aim to attract, develop and retain the best talent. During the year, we recruited just under 500 pre-registration pharmacy graduates and fully qualified pharmacists in the UK bringing the total to around 6,500, as well as around 250 pharmacists in our international businesses. In addition, we support and encourage our people to learn and develop additional skills. This can take many forms, including global participation by over 3,300 employees in our selective Group-wide assessment and development programmes during the year. In addition, Boots UK continues to develop its advanced apprenticeship programme with around 30 new apprentices joining the scheme during the year.

Communication and engagement

Our aim is to ensure that all our people are informed about and engaged in their part of the business locally, while increasing their understanding about the Group and its future direction.

We communicate with our people through a wide variety of channels, reflecting the diversity and geographical spread of our businesses. Approaches used to fulfil these aims include regular face-to-face team briefings, networking events, conference calls, video conferences, magazines, newsletters and intranet sites. The Group intranet was refreshed and relaunched during the year with improved functionality.

We believe in open dialogue on how our businesses are performing and in forging meaningful partnerships with our people to achieve this. We communicate closely with works councils and other employee forums around Europe and have two European Works Councils to brief and consult with representatives on issues.

Recognition and reward

We recognise that the success of our Group is a result of the loyalty, passion and drive of our people, and we greatly appreciate all their efforts. We are highly committed to the wellbeing of our people and wherever we operate we seek to be recognised as an employer of choice.

Our experience continues to demonstrate that motivated and enthusiastic people deliver great patient and customer service and care. We aim to create a culture throughout the Group that fosters the commitment and trust to achieve this.

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

Strategic review

Supporting the fight against cancer

…our people are helping the European Organisation for Research and Treatment of Cancer Charitable Trust by raising funds and awareness.

For more information about our CSR activities, go to page 46 of our Annual Report or visit our online Annual Report at **allianceboots.com**

EORTC
European Organisation for Research and Treatment of Cancer

Alliance Boots

working together in the research and treatment of cancer

Corporate social responsibility

“ Serving our communities with care and commitment every day.

Ornella Barra
Chief Executive, Wholesale and Brands
Chairman of the social responsibilities committee

Alliance Boots is dedicated to helping people look and feel their best, corporate social responsibility (CSR) being an integral and vital part of our operations. Our stakeholders, whether customers, patients, suppliers or colleagues, expect a leading pharmacy-led health and beauty group to act as a responsible corporate citizen, serving our communities with care and commitment every day.

Our approach ensures that our business practices are socially, environmentally and economically sustainable across the Group. The social responsibilities committee, which I chair, reviews and advises the Board on the Group's policies and practices in the area of CSR. This includes issues related to the environment, health and safety, diversity and equal opportunities, race relations, employment of people with disabilities, charitable giving, ethical matters and the Group's values and standards.

The committee closely reviews progress through our Group corporate social responsibility scorecard, which is split into four core areas: community, workplace, marketplace and the environment. Across these areas our businesses have key objectives and priorities, which are embedded into the daily activities of our people to ensure they understand the importance of our corporate social responsibility agenda.

Throughout the year, I was particularly impressed by our people's enthusiastic support for our long term charity partnerships, numerous volunteering and fundraising initiatives being launched for the EORTC Charitable Trust.

Our partnership with Macmillan Cancer Support continues to provide invaluable and accessible support to those affected by cancer in the UK, our Boots Macmillan Information Pharmacists offering advice to those in need. In addition, over 200 No7 beauty advisors received training during the year to provide tips on managing the visible side effects of cancer treatment. We also offer support to many other cancer charities across the Group, including the Irish Cancer Society.

During the year, Marco Pagni, Group Legal Counsel & Chief Administrative Officer and a member of the social responsibilities committee, continued his leadership of the Reducing Reoffending Taskforce, in partnership with Business in the Community. The Taskforce, which comprises a number of our key suppliers, achieved notable success during the year, giving people with criminal convictions the opportunity to access employment and bringing about cultural change in member companies. Since the year end, Simon Roberts, Managing Director, Health & Beauty UK and Republic of Ireland, was appointed co-chairman of the Future High Streets Forum, which advises the UK Government, continuing our support for local high streets.

For the third consecutive year, in April 2014, we achieved platinum status awarded by Business in the Community as part of its 2014 Corporate Responsibility Index. We are proud to be a leader within the responsible business agenda and this accolade is testament to the combined efforts of our people.

We also continue to look for ways to reduce our impact on the environment. During the year, Boots commenced a major chiller replacement programme to support its commitment to reducing CO_2 emissions. We see this as an important step forward in reducing energy consumption in Boots stores, while improving our food offer for customers.

The Group has no affiliation to any political party or organisation and made no political donations. During the year, the Group made charitable donations totalling £1.6 million.

We will publish our dedicated and detailed CSR Report for 2013/14 on our website in September 2014. The report will provide a comprehensive overview of the Group's CSR activities and will continue to be written following the Global Reporting Initiative guidelines and criteria. It will, as usual, include an independent assurance report by KPMG.

Ornella Barra
Chief Executive,
Wholesale and Brands
Chairman of the social responsibilities committee

In our Corporate Social Responsibility Report 2012/13, we set ourselves a series of objectives and priorities for 2013/14. A summary of our achievements against these is set out below.

Community

Objective: To establish meaningful multi-year partnerships with charitable organisations and other stakeholders that share our values of making a difference and our commitment to improving health and wellbeing in the local communities that we serve. Our priorities for 2013/14 were:

To raise over €5 million by 2016 to establish a 'biobank' for colorectal cancer in partnership with the EORTC Charitable Trust.	In 2013/14, Alliance Boots businesses raised €0.9 million for the EORTC Charitable Trust, bringing the cumulative total to €1.9 million. Fundraising and volunteering initiatives included sporting events such as 'ParkLife2013', which involved over 210 colleagues covering 2,905km of London's Hyde Park by foot or by bike to raise over £60,000 with the support of partners, and the 'London to Paris – Ride for Life', which raised over £17,000. Associate businesses also participated in the programme, an example being Alliance Healthcare Italia where around 300 colleagues donated a proportion of their salary, raising €11,000.
For each principal business to establish partnerships with charitable organisations with supporting activities to improve the health and wellbeing of people within its local community.	During the year, 12 of our businesses had charitable partnerships and related supporting activities in place. Examples include Boots Ireland's partnership with the Irish Cancer Society, which raised over €190,000 during the year, activities including the 'National Night Walk for Night Nurses'. Boots Thailand has a three year partnership with the BaanGerda Foundation, providing shelter and food for HIV-infected children. Boots UK supported BBC Children in Need for the tenth year, raising around £1 million for the charity, with the help of colleagues in Boots Opticians and BCM, the cumulative total raised being almost £6.5 million. Additionally, Boots Opticians, through its partnership with Action for Blind People, raised over £255,000.
To make use of our significant consumer reach – through our owned and franchise pharmacies as well as the Alphega Pharmacy network – with local programmes to deliver health-related information and advice to customers and patients.	A further 500 Boots UK pharmacists trained as Boots Macmillan Information Pharmacists during the year, bringing the total to over 1,850. In addition, Boots UK launched its 'Get Active, Feel Good' campaign to encourage customers to talk to pharmacy teams about the importance of physical activity. Boots Opticians installed retinal cameras in all locations, and now include a digital retinal check as standard in the Boots eye check. Alliance Healthcare España worked with Alphega pharmacies to relaunch its Pregnancy and Baby Guide, which addresses health and emotional concerns of pregnant women and mothers with children up to age two, and in France, a diabetes awareness campaign was launched across all Alphega pharmacies.

Objective: To support our employees to volunteer their time to make a difference in the communities that we serve. Our priority for 2013/14 was:

To increase the number of our businesses with employee volunteering programmes in place.	Across our businesses employees are encouraged to participate in employee volunteering opportunities in their local communities. Boots UK, Boots Opticians and Alliance Healthcare Czech Republic all have employee volunteering programmes in place. Boots UK was a joint winner of the Business in the Community 'Employee Volunteering Company of the Year Award' at the East Midlands Local Impact Awards, in recognition of 200 Boots UK employees renovating Nottingham Forest Recreation Ground in May 2013. Alliance Healthcare Czech Republic employees also participated in 'Give & Gain Day 2013', volunteering to upkeep gardens, fields and orchards at an ecological centre, renovating the gardens of a care home specialising in patients with autism and clearing up gardens at a nature park.

Corporate social responsibility continued

> "
> **We continue to focus on improving health and safety at all levels for all employees.**
>
> **Marco Pagni**
> Group Legal Counsel & Chief Administrative Officer
> Director responsible for the leadership of Health & Safety

Environment

Objective: To reduce the Group's like for like CO_2 emissions. Our priorities for 2013/14 were:

To achieve a like for like percentage decrease in usage of energy (our largest category of CO_2 emissions), through increased awareness and sharing of best practice methods across the Group.

Progress against this target will be published in our annual Corporate Social Responsibility Report 2013/14 in September when the relevant data has been collated and checked. During the year, Boots commenced a chiller replacement programme, which involves installing over 2,500 new food and drinks refrigeration cabinets and related refrigeration equipment in around 780 stores across the UK and the Republic of Ireland at a cost of just under £30 million. The replacement chillers are 40% more energy efficient, will help reduce food waste through better temperature controls and are easier and less expensive to maintain. Boots buildings in Great Britain, with the exception of power generated on the Nottingham campus and landlord supplies, are now powered by green (low carbon) electricity. In addition, Boots UK continues to be compliant with the Carbon Reduction Commitment Energy Efficiency Scheme and from April 2013 was re-accredited with the Carbon Trust Standard.

To reduce the level of non-essential business travel through increased usage of the Group-wide video conferencing system.

Many of our businesses are making greater use of the Group-wide video conferencing systems, including the Group Board and related committees. This is saving valuable management time and travel costs, as well as reducing carbon emissions. To help reduce the impact of essential travel, the Group's new company car policy now includes more fuel-efficient cars and a prohibition on cars that achieve less than 40 miles per gallon on average.

Objective: To reduce the Group's like for like total waste levels and increase the proportion of waste that is recycled. Our priority for 2013/14 was:

For each principal business within the Group to achieve a waste recycled level of 50% or higher, where local facilities exist to enable recycling.

Progress against this target will be published in our Corporate Social Responsibility Report 2013/14 in September when the relevant data has been collated and checked. Across the Group, businesses have undertaken numerous initiatives to both limit the amount of waste produced and increase the proportion which is recycled. During the year, Farmexpert in Romania and Hedef Alliance in Turkey both launched awareness campaigns to encourage employees to separate their waste for recycling across office locations. BCM's UK site continued to achieve zero waste to landfill.

Marketplace

Objective: To evaluate and work with the Group's major suppliers to establish that they have suitable processes in place to comply with the standards set out in our Code of Conduct and Business Ethics. Our priority for 2013/14 was:

To implement a process to ensure that suppliers and business partners for our owned brands and exclusive products, and other selected products, fully comply with our Code of Conduct and Business Ethics through our supplier verification programme.

During the year, we developed our process for reviewing compliance with our Code of Conduct and Business Ethics which forms the basis of our assessment criteria for suppliers of owned brands and exclusive products, and other selected products.

Objective: To ensure that an awareness of, and focus on, sustainability is embedded within our activities across the Group. Our priorities for 2013/14 were:

To ensure that we understand and review the social and environmental benefits and impacts of our businesses.

During the year, Boots UK continued to review its food ranges, including food labelling and nutritional values. The business also continued to work with the British Retail Consortium on the Department of Health's Public Health Responsibility Deal regarding salt content in food products. In addition, Boots Ireland achieved Business in the Community's Business Working Responsibly Mark.

To review water usage in our UK-based businesses and develop an appropriate water usage strategy.

This review concluded that water usage in our Health & Beauty and Pharmaceutical Wholesale Divisions is modest. BCM has an ongoing programme to actively pursue ways to minimise water usage in its manufacturing operations. In addition, Boots continues to work to ensure that water scarcity is taken into consideration when manufacturing, using our own sustainability methodology.

Workplace

Objective: To reinforce that a robust health and safety regime exists in all parts of the Group supported with appropriate training, education and incident management practices. Our priorities for 2013/14 were:

To reduce the number of 'greater than three day lost time accidents' within each principal business.

In 2013/14, there were two employee fatalities, one as a result of a traffic accident in Turkey and the other in Egypt where masonry fell from a building as our delivery driver exited a customer's pharmacy. There were 486 employee related 'greater than three day lost time accidents', a year on year decrease of 121. The majority of these accidents related to trips or falls, with improvements in both Divisions. We continue to place significant focus on health and safety issues. Marco Pagni, the Director responsible for the leadership of health and safety issues across the Group, has overseen a range of initiatives designed to improve safety at all levels and for all employees.

To improve the health and wellbeing of our colleagues across the Group, using our healthcare service expertise.

The health and wellbeing of our colleagues across the Group is of paramount importance. During the year, Boots UK launched the second edition of its 'Let's Make it Happen' booklet, with ideas on improving health and wellbeing. In addition, Alliance Healthcare Netherlands launched its 'We Care About Your Health' programme, which included workshops and related training.

Objective: To engage with our employees through regular feedback sessions and through local forms of employee appraisal and development plans. Our priority for 2013/14 was:

To introduce employee feedback programmes, such as surveys, across the major parts of the Group, and ensure that results are reviewed by senior management and appropriate responses developed.

Nine of our businesses have employee feedback programmes in place. Farmexpert in Romania and Boots Norge introduced surveys during the year and Boots UK introduced a revised colleague feedback scheme, called 'Listen Up'.

Governance

Board of Directors

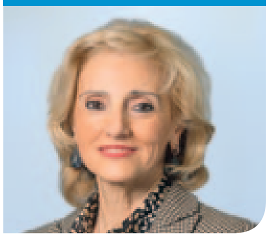
The Board comprises the Executive Chairman, three other executive Directors, three Directors representing KKR, four Directors representing Walgreens and four non-executive Directors.

01 Stefano Pessina

02 George Fairweather

03 Marco Pagni

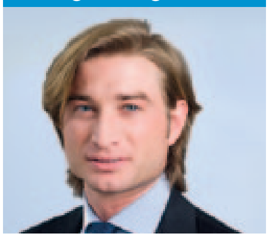
04 Ornella Barra



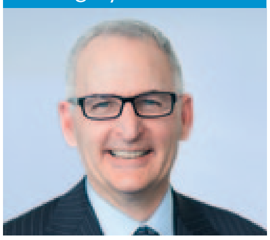
05 Dominic Murphy

06 Mattia Caprioli

07 Sergio D'Angelo



08 Gregory Wasson



09 Wade Miquelon

10 Thomas Sabatino

11 Robert Zimmerman

12 Nick Land

13 Chris Britton

14 Tony De Nunzio CBE

15 Etienne Jornod

The principal Board committees are:

- audit and risk committee
- remuneration committee
- social responsibilities committee

01 Stefano Pessina •
Executive Chairman

Stefano Pessina was appointed Executive Chairman of Alliance Boots in July 2007, having previously been its Executive Deputy Chairman. In August 2012, Stefano was appointed as a non-executive Director of Walgreens and he is also a non-executive Director of Galenica and a member of the Board of the Consumer Goods Forum. Prior to the merger of Alliance UniChem and Boots Group, he was Executive Deputy Chairman of Alliance UniChem, previously having been its Chief Executive for three years up until December 2004. Stefano was appointed to the Alliance UniChem Board in 1997 when UniChem merged with Alliance Santé, the Franco-Italian pharmaceutical wholesale group which he established in Italy in 1977. He is an engineer by profession.

02 George Fairweather
Group Finance Director

George Fairweather was appointed Group Finance Director of Alliance Boots in July 2006, having joined Alliance UniChem in the same position in 2002. Previously he was Group Finance Director of Elementis and Dawson International. Earlier in his career he worked for Dixons Group, Procter & Gamble and KPMG Thomson McLintock. George is a member of The Institute of Chartered Accountants of Scotland.

03 Marco Pagni •
Group Legal Counsel & Chief Administrative Officer

Marco Pagni is Group Legal Counsel & Chief Administrative Officer, having been appointed a Director of Alliance Boots in July 2007. Previously he was General Counsel and Company Secretary of Alliance Boots, having joined Alliance UniChem in the same position in 2003. Prior to this, Marco held senior management positions in McDonalds and Texas Instruments, having started his career as a law lecturer at Oxford University before being admitted to the Bar in England and Wales.

04 Ornella Barra •
Chief Executive, Wholesale and Brands

Ornella Barra is Chief Executive, Wholesale and Brands. She had previously been Chief Executive of the Pharmaceutical Wholesale Division (from January 2009 to September 2013), and before that, Wholesale & Commercial Affairs Director. In her role, she oversees the Pharmaceutical Wholesale Division as well as the overall development of International Health & Beauty and Brands. Ornella is Chairman of the social responsibilities committee. Prior to the merger of Alliance UniChem and Boots Group she was executive Director of Alliance UniChem with wholesale and commercial affairs responsibilities, having been appointed to its Board in 1997 when Alliance Santé merged with UniChem. In April 2013, Ornella was appointed as an independent member of the Board of Assicurazioni Generali. She started her career as a pharmacist in Italy and is an honorary professor at the University of Nottingham's School of Pharmacy.

Board of Directors continued

05 Dominic Murphy •
Kohlberg Kravis Roberts

Dominic Murphy is a Partner of Kohlberg Kravis Roberts & Co. (KKR). He is responsible for the development of KKR's activities in the UK and Ireland, is head of its healthcare industry team in Europe and is a member of the firm's European investment and portfolio management committees. He was appointed to the Board of Alliance Boots in July 2007 and in August 2012 was appointed as a non-executive Director of Walgreens. He is also a member of the Boards of Acteon and Ambea. Since joining KKR in 2005 he has played a significant role in the investments in Alliance Boots, Acteon, Ambea and SBS Broadcasting. Dominic also serves as a member of the Great Ormond Street Hospital's Corporate Partnerships Board and the National Portrait Gallery Development Council. Dominic was formerly a Partner at Cinven, a large European-based private equity firm and an investment manager with 3i.

06 Mattia Caprioli •
Kohlberg Kravis Roberts

Mattia Caprioli is a Partner of Kohlberg Kravis Roberts & Co. (KKR). He is the head of its business services industry team in Europe. He was appointed to the Board of Alliance Boots in July 2007 and is also a member of the Boards of Avincis, Rignet and PontAventura. Since joining KKR in 2001, he has been actively involved in the investments in Alliance Boots, Van Gansewinkel, Legrand, Selenia, Toys 'R' Us, Avincis, Rignet and PontAventura. Previously Mattia worked for Goldman Sachs International.

07 Sergio D'Angelo
Kohlberg Kravis Roberts

Sergio D'Angelo is a Director of Kohlberg Kravis Roberts & Co. (KKR). He was appointed to the Board of Alliance Boots in March 2008. Since joining KKR in 2005 he has been involved in the investments in Alliance Boots, SBS Broadcasting, Selenia, NXP (formerly Philips Semiconductor), ProSiebenSat.1 and INAER. Previously Sergio worked for BC Partners and Citigroup.

08 Gregory Wasson
Walgreens

Gregory Wasson was appointed to the Board of Alliance Boots in August 2012. Gregory is President and Chief Executive Officer of Walgreens having been appointed to its Board in 2009. He joined Walgreens as a pharmacy intern in 1980 and has since held various roles. Gregory is a member of the Board of Verizon Communications, the National Association of Chain Drug Stores, the Retail Industry Leaders Association, the Healthcare Leadership Council, the Consumer Goods Forum, World Business Chicago, the Midtown Educational Foundation in Chicago and the British-American Business Council International Advisory Board. Gregory is a pharmacist.

09 Wade Miquelon •
Walgreens

Wade Miquelon was appointed to the Board of Alliance Boots in August 2012. Wade is Executive Vice President/Chief Financial Officer and President, International of Walgreens. Previously Wade was Executive Vice President and Chief Financial Officer of Tyson Foods. Before that he worked for Procter & Gamble in various finance positions in Cincinnati, Singapore, Bangkok and Geneva. Wade is a non-executive Director of Acadia Healthcare, a member of the Board of the Chicago Shedd Aquarium and The Wood Family Foundation. He is also a member of the Dean's Advisory Board for the Sam M. Walton College of Business, University of Arkansas.

10 Thomas Sabatino •
Walgreens

Thomas Sabatino was appointed to the Board of Alliance Boots in August 2012. Thomas is Executive Vice President, General Counsel and Corporate Secretary of Walgreens. Previously Thomas held general counsel roles with United Airlines, Schering-Plough Corporation, Baxter International, and American Medical International. Thomas is also Chairman of the Association of Corporate Counsel, the advisory Board of Corporate Pro Bono and a member of the Board of the International Institute for Conflict Prevention and Resolution. Thomas is a member of the Bar in Massachusetts, Illinois and California.

11 Robert Zimmerman
Walgreens

Robert Zimmerman was appointed to the Board of Alliance Boots in August 2012. Prior to his retirement from Walgreens in March 2014, Robert was Senior Vice President of International and International Chief Administration Officer. He joined Walgreens in 1977 and worked in various financial and corporate development positions, including Senior Vice President/Chief Strategy Officer.

12 Nick Land • •
Non-executive Director

Nick Land was appointed as a non-executive Director in March 2008, is Chairman of the audit and risk committee and is a member of the social responsibilities committee. Nick is a non-executive Director of Vodafone Group, BBA Aviation, Ashmore Group and the Financial Reporting Council. He is also Chairman of the Guidelines Monitoring Group, the Board of Trustees of the Vodafone Group Foundation and of Farnham Castle, a member of the Advisory Board of Alsbridge and an advisor to the Board of Dentons UKMEA. Previously he was a partner and Chairman of Ernst & Young in the UK and a member of its Global Executive Board. He is a member of the Institute of Chartered Accountants in England and Wales.

13 Chris Britton •
Non-executive Director

Chris Britton was appointed as a non-executive Director in June 2008 and is a member of the social responsibilities committee. Since September 2013, Chris has managed B&B Capital Partners, a specialist investment fund, established by Alliance Boots. In addition, he is a non-executive Director of DS Smith and a Director of a number of privately owned food companies. Previously, Chris was non-executive Chairman of Ella's Kitchen and before that was Chief Executive Officer of the Findus Group. Earlier in his career he was Executive Board member and President – Baby Food Division of Royal Numico and he also worked for Diageo in various general management and marketing positions.

14 Tony De Nunzio CBE • •
Non-executive Director

Tony De Nunzio was appointed as a non-executive Director in June 2008, is Chairman of the remuneration committee and is a member of the audit and risk committee. Tony is non-executive Chairman of Maxeda DIY Group, a Netherlands based international retail group in which KKR funds hold a significant investment and non-executive Chairman of Pets at Home Group plc, a listed UK retailer in which KKR funds hold a significant investment. Tony is also a Senior Advisor to KKR on retail matters. Prior to Maxeda, Tony was President and Chief Executive Officer of Asda, having previously been Chief Financial Officer. He has also worked for Unilever, L'Oréal and PepsiCo in various finance positions. He was formerly Chairman of the Advisory Board of Manchester Business School.

15 Etienne Jornod
Non-executive Director

Etienne Jornod was appointed as a non-executive Director in March 2008. Etienne is Executive Chairman of Galenica AG, Chairman of AG für die Neue Zürcher Zeitung, the Swiss newspaper group, and a non-executive Director of Vaudoise Assurances. He was a non-executive Director of Alliance UniChem for six years until its merger with Boots Group.

- audit and risk committee
- remuneration committee
- social responsibilities committee

Board report on corporate governance

The Board considers that good corporate governance is an essential element of achieving its overall objectives. The Group's corporate governance policies and practices continue to be reviewed by the Board on a regular basis. This report, together with the audit and risk committee report and the Board report on remuneration, sets out the governance structures adopted by the Board.

The Board

At 31 March 2014, the Board comprised the Executive Chairman, three other executive Directors, three Directors representing KKR, four Directors representing Walgreens and four non-executive Directors. Alex Gourlay, Chief Executive, Health & Beauty Division resigned from the Board on 30 September 2013 following his appointment as Walgreens Executive Vice President, President of Customer Experience and Daily Living.

During the year the Board reviewed the composition of the Board and the balance of skills, knowledge and experience its members bring, and concluded that the Board has the appropriate balance for the Company.

Details of the executive Directors' service contracts are given on page 57 of the Board report on remuneration.

Biographies and other details of Board members are shown on pages 50 to 53.

Non-executive Directors are appointed for an initial term of three years which is then renewed and extended for not more than two further three year terms. Nick Land, Tony De Nunzio, Chris Britton and Etienne Jornod were all first appointed to the Board in 2008 and reappointed for further three year terms in 2011. Following a review of their performance by the Executive Chairman, it was concluded that each continued to contribute effectively and with proper commitment, devoting adequate time to carry out their duties. The Board approved the recommendation that each of the non-executive Directors be re-elected for a further term of up to three years, the period being dependent on whether and when Walgreens exercises its option to merge with the Group.

The Board has a programme which enables it to discharge its responsibility to provide leadership to the Company within a framework of prudent and effective controls and to assess and manage risk. The Board has five regular meetings scheduled in the year, including one strategy meeting, with other meetings convened as required.

There is an approved schedule of matters reserved for decision by the Board with related delegated authorities. These matters cover strategy and business plans, share capital and dividends, Board committees, remuneration and employment benefits, corporate reporting, capital and revenue commitments, corporate governance, internal control and risk management, and corporate social responsibilities.

For all Board meetings an agenda is established. For regular Board meetings this generally comprises reports on the financial performance of the Group and its Divisions, approval of major items of capital expenditure and acquisitions, and significant policy issues. The Board receives reports from the committees of the Board to enable it to be informed of and supervise the matters within their remit. Appropriate papers are provided to the Directors in advance of each meeting. In addition, the Board considers at least annually the strategic plans of the Group and its Divisions and, from time to time, Directors receive presentations from management concerning key areas of the Group's operations. The Annual Report, which includes the consolidated financial statements, is reviewed by the audit and risk committee and approved by the Board prior to publication.

In the furtherance of their duties, the Directors have full access to the services of the Company Secretary and may take independent professional advice at cost to the Company. In addition, each committee of the Board is entitled to take independent professional advice as appropriate. The Company maintains appropriate directors and officers insurance in respect of legal action against its Directors.

The Company provides a tailored induction programme for all Directors on appointment. The induction programme includes details of Board and Group policies and procedures, information and briefings by members of management on the Group's businesses and operations, and visits to retail stores, distribution centres, manufacturing facilities and other operations on a selective basis.

The Board is regularly updated on developments relating to the Group's activities, corporate governance and other matters of relevance, and non-executive Directors visit the Group's operations periodically.

Board committees

There are three principal Board committees, all of which operate within written terms of reference. Copies of the terms of reference are published on the Company's website at allianceboots.com in the corporate governance section. Details of the membership of committees are set out below. Only members of each committee are entitled to attend committee meetings, although each committee may invite other Directors, managers and advisors to attend and frequently do so.

Remuneration committee

The Directors who are members of the committee are as follows:

- Tony De Nunzio (Chairman)
- Stefano Pessina
- Dominic Murphy

The role of the committee and details of how it carried out its duties are set out in the Board report on remuneration on pages 56 to 58.

Audit and risk committee

The Directors who are members of the committee are as follows:

- Nick Land (Chairman)
- Tony De Nunzio
- Mattia Caprioli
- Wade Miquelon

The role of the committee and details of how it carried out its duties are set out in the audit and risk committee report on page 59.

Social responsibilities committee

The Directors who are members of the committee are as follows:

- Ornella Barra (Chairman)
- Nick Land
- Chris Britton
- Marco Pagni
- Thomas Sabatino

The role of the committee and how it carried out its duties is summarised in the corporate social responsibility section of this report on pages 46 to 49. A more detailed description of the role of the committee is included in the Corporate Social Responsibility Report which will be published in September 2014 on the Company's website at allianceboots.com.

In addition, the Group's environment, health and safety, charity, product testing, customer safety and diversity statements are all published on the Company's website in the corporate governance section under the social responsibilities committee.

A Code of Conduct and Business Ethics and an Anti-corruption and Bribery Policy, approved by the social responsibilities committee and the Board, sets out the ethics, principles and standards which are required to be consistently upheld by each Division, business and corporate function within the Group. Both documents are published on the Company's website at allianceboots.com in the corporate governance section.

Internal control

The Directors have overall responsibility for the Group's system of risk management and internal control and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board considers an efficient risk management and control framework with an actively managed balance of risk and reward to be fundamental to the Company achieving its corporate objectives. The effectiveness of the ongoing process to identify, evaluate and manage significant risks is reviewed annually by the audit and risk committee on behalf of the Board. The committee also has responsibility for overseeing management action needed to remedy any shortcomings or weaknesses identified. Further details of our significant risks, together with the steps we take where necessary to mitigate them, are set out in the risk management section of this report on pages 60 and 61.

Members of the Board have responsibility for monitoring the conduct and operations of the Divisions and individual businesses within the Group. This includes the review and approval of Division and individual business strategies and plans and setting key performance targets. The executive management responsible for each Division and business are accountable for the conduct and performance of their Division and business within the agreed strategies.

Details of the key elements of the Group's system of internal controls are set out on the Company's website at allianceboots.com in the corporate governance section.

Social, environmental and ethical matters

The Company recognises the benefits that accrue from responsible employment, environmental and community policies which are also described elsewhere in this report.

Going concern

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future, and have therefore continued to adopt the going concern basis for preparing the consolidated financial statements contained in this Annual Report.

Further information on the Group's activities, together with the factors likely to affect our future performance, are set out in the 'Our business activities', 'Group strategy and objectives', 'Our markets and business environment', and 'Business review' sections of this report on pages 8 and 9, 10 and 11, 14 and 15, and 18 to 49 respectively.

Ownership of the Company

The Company, a Group holding company established in Switzerland in 2008, is a direct subsidiary of AB Acquisitions Holdings Limited, a Gibraltar Company which owns 55% of the Company's shares. AB Acquisitions Holdings Limited is jointly controlled by Alliance Santé Participations and three private equity investment vehicles advised by Kohlberg Kravis Roberts & Co. L.P. (KKR): KKR 2006 Fund (Overseas) Limited Partnership, KKR European Fund II Limited Partnership and KKR PEI Investments L.P.

KKR is one of the world's longest established and most experienced private equity firms. During the last three decades, KKR has managed and sponsored 18 private equity funds that have received capital commitments of approximately US$74.9 billion through 31 December 2013. KKR has completed more than 230 private equity investments with a total transaction value in excess of US$485 billion, including significant investments in the healthcare and retail sectors. Dominic Murphy, Mattia Caprioli and Sergio D'Angelo are the KKR executives on the Company's Board.

Stefano Pessina and Ornella Barra, who serve on the Board of the Company, are also Directors of Alliance Santé Participations, which is ultimately owned by a family trust.

45% of the Company's shares are owned by Walgreens, a US-listed company operating the largest drugstore chain in the US. Walgreens has an option, during the six month period beginning on 2 February 2015, to elect to proceed to a full combination, through acquiring the remaining 55% equity interest. In conjunction with such an election, Walgreens would seek shareholder approval for the transaction.

Frank Standish
Company Secretary
12 May 2014

Board report on remuneration

The remuneration committee consists of three Directors, Tony De Nunzio (committee Chairman), Stefano Pessina and Dominic Murphy. The committee is scheduled to meet once each year. The terms of reference for the committee are published on the Company's website at allianceboots.com in the corporate governance section.

The main responsibilities of the committee, which are set out in the terms of reference, are to:

- determine and agree with the Board the remuneration policy for executive Directors;
- determine on the Board's behalf the individual remuneration packages for each executive Director; and
- in relation to performance related pay schemes for executive Directors, to:
  - set appropriate performance targets;
  - approve amendments to performance related pay schemes; and
  - consider and review the terms of new performance related pay schemes.

Policy overview

The philosophy of the committee is to:

- provide a total reward package designed to retain executive Directors of the highest calibre;
- set basic salaries at competitive levels in the relevant market to help ensure that the Company is able to attract and retain executive Directors of the required standard; and
- set total remuneration at the market median for sustained levels of good performance and upper quartile for superior financial and personal performance.

No Director is permitted to vote in respect of his or her own remuneration or to be present when his or her remuneration is being discussed.

Executive remuneration comprises the following key elements:

- basic salary;
- short term bonus scheme;
- long term incentive plan;
- pension supplement; and
- other benefits.

Each of these elements is described in this report.

Basic salary

Basic salaries paid to executive Directors for the year ended 31 March 2014 are detailed in the emoluments section on page 58.

Executive Directors' salaries are reviewed shortly after the end of each financial year and are set taking into account individual performance, the size and complexity of the Group and market rates, which are benchmarked by Towers Watson at the market median of the UK FTSE 50 (excluding financial services and oil and gas companies). Basic salaries following the latest review, which will be effective from June 2014, are as follows:

Director	£
S. Pessina	600,000
O. Barra	629,200
G. Fairweather	663,600
M. Pagni	565,950

Short term bonus scheme

Stefano Pessina does not participate in the short term bonus scheme for executive Directors. The short term bonus scheme for other executive Directors in 2013/14 provided a maximum bonus potential of 150% of annual basic salary. 60% of the bonus was dependent on Group trading profit and 40% on personal performance. For the element of bonus linked to trading profit the bonus begins to accrue for achieving 92% of the target trading profit and maximum vesting would be delivered for achieving 102.5% of target trading profit.

Short term bonus amounts earned by each executive Director for the year ended 31 March 2014 are detailed in the emoluments section on page 58.

Long term incentive plan

The Alliance Boots 2012 Long Term Incentive Plan (the 'Plan') was introduced for senior managers across the Group, including executive Directors, with effect from August 2012. Incentives comprise three separate components, based on delivery of the following measures:

(1) annual targets for trading profit (excluding profit from the joint synergy programme with Walgreens);

(2) annual targets for profits from the joint synergy programme with Walgreens; and

(3) Walgreens exercise of their option to proceed to a full merger.

Two thirds of the cash payments under the Plan for the achievement of annual targets are deferred until the third anniversary of the effective date of the Plan or upon completion of the merger, whichever is earlier, with one third deferred for an additional year.
The element conditional on Walgreens exercise of their option is payable only if and when this occurs through the delivery of a predetermined number of Walgreens shares. All payments are conditional on individuals still being employed by Alliance Boots at the time the payment is due, other than for certain factors such as retirement or redundancy.

Pension benefits

Stefano Pessina has no pension arrangement from the Group. During the year, Ornella Barra, George Fairweather, Marco Pagni and Alex Gourlay each received payments equal to 40% of their basic salaries in lieu of active participation in any pension scheme of the Group.

Other benefits

Executive Directors are entitled to a company car or car allowance and other benefits comparable to those provided by other major companies. Stefano Pessina and Ornella Barra are reimbursed the cost of travel to and from work, accommodation and subsistence while working for the Group. The provision of these benefits reflects market practice and does not relate to performance. The value of these benefits for each Director serving during the year, including expenses chargeable to income tax, are detailed in the emoluments section on page 58. Where a Director is entitled to a benefit but chooses not to take that benefit, a cash supplement is paid in lieu of that benefit.

Service contracts

Each of the executive Directors has a service contract. Details of the contracts of executive Directors in office at 31 March 2014 are as follows:

Director	Date of contract	Notice period by Alliance Boots	Notice period by Director
S. Pessina	1 January 2013	1 year	6 months
O. Barra	1 January 2013	1 year	6 months
G. Fairweather	31 July 2006	1 year	1 year
M. Pagni	8 May 2012	1 year	6 months

There are provisions in the service contracts for payment of current basic salary in lieu of the required notice period to terminate a service contract. The committee's policy on termination of executive Directors' service contracts is that in the event of any service contract being terminated by Alliance Boots, the requirement for the Director to mitigate their loss is taken into account in determining any resulting compensation.

Directors representing KKR

The fee paid to each Director representing KKR is £65,000 per annum.

Directors representing Walgreens

No fees are paid to Directors representing Walgreens.

Non-executive Directors

Each of the non-executive Directors has a written letter of appointment with the Company, terminable by either party with one month's notice. These letters also set out the expected time commitment.

Director	Initial appointment date	Reappointment date
C. Britton	4 June 2008	12 May 2014
A. De Nunzio	4 June 2008	12 May 2014
E. Jornod	31 March 2008	12 May 2014
N. Land	31 March 2008	12 May 2014

The basic fee paid to each non-executive Director for the year ended 31 March 2014 was £65,000 per annum. In addition, Nick Land receives a fee of £20,000 per annum for chairing the audit and risk committee and Nick Land and Tony De Nunzio receive additional fees of £20,000 per annum, reflecting the workload and meeting frequency of the committee to review information on Alliance Boots prepared for Walgreens external reporting. Non-executive Directors do not participate in any pension scheme or bonus arrangements but are reimbursed travel, subsistence and accommodation costs.

Governance

Board report on remuneration continued

Emoluments

An analysis of executive Directors' emoluments relating to salaries and fees, short term bonuses, pension supplements and other benefits for the year ended 31 March 2014 is shown in the table below:

Director	Salaries and fees £'000	Short term bonuses £'000	Pension supplements £'000	Other benefits £'000	Total emoluments excluding long term incentives 2014 £'000	Total emoluments excluding long term incentives 2013 £'000
S. Pessina	600	–	–	20	620	671
O. Barra	564	446	226	21	1,257	1,280
G. Fairweather	623	493	249	23	1,388	1,333
M. Pagni	532	420	213	23	1,188	1,139
A. Gourlay*	278*	223*	111*	9*	621*	1,201
	2,597	**1,582**	**799**	**96**	**5,074**	**5,624**

* Alex Gourlay resigned from the Board on 30 September 2013. Figures shown for him are for the period to 30 September 2013.

Tony De Nunzio
Chairman of the remuneration committee
12 May 2014

Audit and risk committee report

The audit and risk committee consists of four Directors, of which at least half, including the committee Chairman, must be non-executive Directors. The committee members are Nick Land (committee Chairman), Tony De Nunzio, Mattia Caprioli and Wade Miquelon who all served throughout the year. The Executive Chairman, Group Finance Director, Group Financial Controller, Director of Internal Audit and Risk Management and representatives from the external auditors are normally invited to attend meetings as appropriate. In addition, Marco Pagni attended meetings during the year. The committee is scheduled to meet at least four times each year, additional meetings taking place as required to review information on Alliance Boots prepared for Walgreens external reporting.

The Director of Internal Audit and Risk Management has the right of direct access to the committee and the Executive Chairman of the Company. The committee has the right to seek and receive any information it requires to fulfil its duties and all Directors and employees are directed to cooperate with any request made by the committee and to attend on demand any meeting of the committee to answer questions.

At each meeting the non-executive Directors on the committee meet the Director of Internal Audit and Risk Management and representatives from the external auditors without executive management or the Directors representing KKR and Walgreens present. Following each committee meeting, the Chairman of the committee reports material matters to the Board at the next available opportunity.

Nick Land, the Chairman of the committee, was a partner and Chairman of Ernst & Young in the UK up until his retirement from the firm in 2006. He is currently Chairman of the audit committee of a large company listed on the London Stock Exchange, Chairman of The Guidelines Monitoring Group (for UK private equity disclosure and transparency), is a non-executive Director of the Financial Reporting Council and is a member of the Institute of Chartered Accountants of England and Wales. Accordingly, he is considered to have recent relevant financial experience.

Terms of reference

The terms of reference for the committee, which are reviewed at least annually by the committee, are published on the Company's website at allianceboots.com in the corporate governance section.

Operation of the audit and risk committee

In addition to its established work programme, particular matters the committee reviewed during the year included:

- information prepared for Walgreens external reporting, including for their US Securities and Exchange Commission filings;
- progress updates on the programme to further strengthen controls, consistent with achieving Sarbanes-Oxley compliance;
- data protection risk management;
- programme to upgrade and introduce major new information technology solutions in both Divisions; and
- progress on rolling out enhanced whistleblowing arrangements across the Group.

Policy on non-audit services

As part of its remit, the committee keeps under review the nature and extent of audit and non-audit services provided to the Group by the external auditor, KPMG AG. The committee has a formal policy for the approval of non-audit services provided by the external auditor which it reviews on an annual basis. A copy of this policy, which sets out a full list of permitted non-audit services, is published on the Company's website at allianceboots.com in the corporate governance section under audit and risk committee.

The list of prohibited non-audit services may only be varied by the audit and risk committee. Under this policy it has been agreed that, due to their significant understanding of the Group and its businesses (therefore ensuring cost efficiency and confidentiality), the external auditors may be engaged for certain non-audit services. This includes advice on tax matters, recent developments and/or complex or high risk areas, and due diligence activities associated with potential acquisitions or disposals of businesses.

Following the Walgreens transaction, the policy was reviewed to ensure that KPMG would always be independent under the US Securities and Exchange Commission rules, so that Walgreens auditors could rely on their work. The principal changes were the total prohibition of any staff secondments and prohibition of fees of a contingent nature.

The policy requires the fees for these permitted non-audit services to be approved in advance by the committee. Where such services are considered to be recurring in nature, such as for tax and due diligence, approval may be sought for the full financial year at the beginning of that year. Approval for other permitted non-audit services has to be sought on a case by case basis. Where no committee meeting is scheduled within an appropriate time frame, the approval is to be sought from the Chairman of the committee.

Policy on employment of former employees of the external auditor

As part of its remit, the committee keeps under review the objectivity, independence and effectiveness of the external auditor. A copy of the Group's policy on employment of former employees of the external auditor, as approved by the audit and risk committee, is published on the Company's website at allianceboots.com in the corporate governance section under audit and risk committee.

Whistleblowing

During the year the committee carried out a review of the effectiveness of the Group's whistleblowing arrangements. An external organisation, InTouch, operated 24 hour confidential reporting services in the UK and the Republic of Ireland on behalf of the Group throughout the year. The confidential reporting service operated by InTouch gives employees an opportunity to report any concerns or suspicions they may have about possible wrongdoing in financial reporting or other matters. Confidential reports from this service are provided to designated senior executives, including the Company Secretary, who in turn reports significant cases to the committee. The committee monitors these cases until they are resolved. During the year the service provided by InTouch in the UK and the Republic of Ireland was rolled out across the rest of the Group.

Nick Land
Chairman of the audit and risk committee
12 May 2014

Risk management

Our approach is to identify, monitor and assess all significant risks and take steps, where necessary, to mitigate them.

Our risk management process

Our executive Directors and the Director of Internal Audit & Risk Management continue to play the leading role, monitoring the overall risk profile and regularly reporting to the Board through the audit and risk committee. The process of risk identification is facilitated by the use of risk registers for Alliance Boots, and for each business. In addition, the Board, through the executive Directors, is responsible for determining clear policies as to what Alliance Boots considers to be acceptable levels of risk. These policies seek to enable employees to use their expertise to identify risks that could undermine performance and to devise ways of bringing them to within acceptable levels.

Where we identify risks that are not acceptable, we develop action plans to mitigate them with clear allocation of responsibilities and timescales for completion and ensure that progress towards implementing these plans is monitored and reported upon.

Following the formation of the Group's strategic partnership with Walgreens, an additional risk, "not achieving synergies", was added by the Board on the recommendation of the audit and risk committee.

The risks we face

Macro-economic and political environment

Risk

Alliance Boots could be affected adversely by the impact of the current macro-economic and political environment on key suppliers and customers and by political unrest in certain countries in which it operates.

Mitigation

We have a rigorous process for identifying and monitoring all business critical suppliers and we develop appropriate contingency plans for suppliers we consider to be vulnerable. We also have a rigorous planning process to assess the impact of macro-economic and political developments in all countries in which we operate.

Impact of regulation

Risk

Alliance Boots operates in regulated markets and could be adversely affected by changes to existing regulation, new regulation and/or failure to comply with regulation. Businesses in our Health & Beauty Division could be adversely affected by changes to licensing regimes for pharmacies, prescription processing regimes or reimbursement arrangements. 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.

Mitigation

We seek to control this type of risk through active involvement in policy-making processes, understanding and contributing to government thinking on regulatory matters and building relationships with regulatory bodies directly and through representation in relevant professional and trade associations. We also seek to mitigate the risk of regulatory changes in any particular market by operating in many countries.

We continue to enhance our policies and procedures to counter the risk of fraud, bribery and corruption.

Changes and trends in consumer behaviour

Risk

Alliance Boots could be adversely affected by changes in consumer spending levels, shopping habits and preferences, including attitudes to our retail and product brands.

Mitigation

Our commercial skills and ability to respond flexibly to changing consumer demand are highly developed. Our strategy is to continue to enhance our market leading position in pharmacy-led health and beauty retailing in the UK and to continue to develop our omni-channel capabilities, backed by differentiated brands and expert customer service, and by entering into strategic partnerships.

Competition

Risk

Changes in market dynamics or actions of competitors or manufacturers, including industry consolidation, could adversely impact Alliance Boots.

Businesses in our Health & Beauty Division have a wide variety of competitors, including other pharmacies, supermarkets and department stores. Businesses in our Pharmaceutical Wholesale Division face competition from direct competitors and alternative supply sources such as importers and manufacturers who supply direct to pharmacies.

Mitigation

In our Health & Beauty Division, our strategy is to capitalise on the potential and strength of our leading brands and the trust in which they are held, to build strong relationships with customers and suppliers, and to enhance our buying and promotional activities. In our Pharmaceutical Wholesale Division, we continue to expand the scope of our operations in response to a changing marketplace, including entering into distribution agreements with manufacturers who wish to sell direct to pharmacies. Our successful development of own brand generic medicines and added-value service differentiates our offering to pharmacists and strengthens our competitive position.

Health, safety and environmental risks

Risk

Alliance Boots could suffer reputational damage caused by a major health and safety or environmental incident.

Mitigation

We set standards throughout the Group which are closely monitored and regularly audited. The health & safety and environment committee, which meets at least six times a year, reviews the root causes of health and safety or environmental issues across the Group, working pro-actively with businesses to address risks in advance. Health, safety and environmental incidents are logged and analysed in order to learn the necessary lessons. Any major incident is promptly reported to and investigated by the Group's executive Directors. Marco Pagni, Group Legal Counsel & Chief Administrative Officer, is the Director responsible for the leadership of health and safety across the Group.

Product/services risk

Risk

Alliance Boots could be adversely impacted by the supply of defective products or provision of inadequate services. In particular, this could come from allowing the infiltration of counterfeit products into the supply chain, errors in re-labelling of products and contamination or product mishandling issues. Through our pharmacies, we are also exposed to risks relating to the professional services we provide.

Mitigation

Throughout our Group, we have robust purchasing and manufacturing processes, well developed contractual controls in relation to suppliers and a cohesive product control and supplier audit framework. This includes specific controls for the identification of counterfeit product. In our pharmacies, we have a rigorous governance framework in place and we conduct regular dispensing compliance reviews to ensure that individual pharmacies follow approved processes.

Major operational business failures

Risk

Alliance Boots could be adversely impacted by a major failure of its distribution centres and logistics infrastructure, IT systems or operational systems of key third party suppliers.

Mitigation

We operate rigorously audited control frameworks, regularly update and test business continuity plans and continually seek to improve control of core business processes, both through self-assessment and through specific programmes relating to the delivery of key strategic projects.

Increased costs

Risk

Operating costs may be subject to increases outside the control of our businesses which could adversely impact Alliance Boots.

Mitigation

We use procurement professionals and sophisticated procurement techniques to purchase goods and services. We carefully control operating costs such as payroll and have a property management function to manage lease negotiations in the UK.

Not achieving synergies

Risk

The financial performance of Alliance Boots could be below expectations if synergies from the strategic partnership with Walgreens are not achieved or delayed.

Mitigation

The joint synergy programme has a dedicated programme management office, senior managers accountable for each workstream, and is subject to ongoing review by a joint Board which includes executive Directors of Alliance Boots.

Change management

Risk

Alliance Boots could be affected adversely by the failure to achieve anticipated benefits from various business transformation programmes being implemented throughout the Group.

Mitigation

We have in place robust governance processes to control all key programmes, including regular programme board and steering group meetings at which progress to achieve required benefits is monitored rigorously.

Acquisitions

Risk

Failure to select suitable acquisitions at attractive prices, conduct appropriate due diligence and integrate into the Group, particularly where acquisitions are in new geographic markets, could adversely impact the performance of Alliance Boots.

Mitigation

We have extensive experience in identifying, making and successfully integrating acquisitions based on well established processes led by a dedicated mergers and acquisitions team. We closely monitor business performance of new acquisitions and conduct post-acquisition reviews.

Currency exchange

Risk

Alliance Boots has 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 Sterling.

Mitigation

We have rigorous policies and procedures in place to manage and report transaction exposures. Translation exposures are partially mitigated by ensuring that borrowings are denominated in the major currencies in which we operate.

Funding and interest rate risks

Risk

Alliance Boots could be adversely impacted by a failure to renew existing funding arrangements when they expire, a failure to meet banking covenants or by a failure to contain borrowing requirements within existing facilities.

Mitigation

We have rigorous treasury policies and procedures to ensure that we have funding in place at all times with appropriate covenants to meet the needs of the Group.

We prepare both short and long term cash/borrowings projections for each business and the Group which are periodically reviewed. We report and monitor actual cash/borrowings by business and for the Group on a daily basis, comparing this to budgets and short term cash/borrowings forecasts.

Tight controls are in place over the approval of capital expenditure and acquisitions.

We protect against interest rate escalation through proactive treasury management and forecasting, including the use of interest rate caps and fixed rate borrowing.

Pension contributions

Risk

Alliance Boots could be required to increase the funding of its defined benefit pension schemes due to lower than expected pension fund investment returns and/or increased life expectancy of scheme members.

Mitigation

We retain independent actuaries to review investment performance, provide periodic investment advice and advise on appropriate actuarial assumptions and sensitivities. We also actively engage with pension trustees on asset investment strategies.

Data protection

Risk

Alliance Boots processes a significant volume of confidential personal and business data and could be adversely affected if any of this data were to be lost.

Mitigation

We have rigorous Group information security policies and procedures such as strong perimeter controls, access controls and data encryption. We are committed to the Payment Card Industry Data Security Standards and strive to ensure, where possible, that all processing done by ourselves complies with data protection legislation.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report, which incorporates the consolidated financial statements, in accordance with Swiss law and regulations.

In preparing consolidated financial statements, the Directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with International Financial Reporting Standards; and
- prepared the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for:

- keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group;
- taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities; and
- the maintenance and integrity of the financial information included on the Company's website.

Statutory auditor's report

Statutory auditor's report to the general members' meeting of Alliance Boots GmbH, Bern.

Report on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Alliance Boots GmbH, which comprise the Group income statement, Group statement of comprehensive income, Group statement of financial position, Group statement of changes in equity, Group statement of cash flows and related notes (pages 64 to 119) for the year ended 31 March 2014.

Directors' responsibility

The Directors are responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Directors are further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 March 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRSs) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

We read the other information contained in pages 1 to 62 and are not aware of any material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

KPMG AG

Richard Pinckard
Licensed Audit Expert
Auditor in Charge

Thomas Affolter
Licensed Audit Expert

Gümligen-Bern, Switzerland
12 May 2014

Group income statement
for the year ended 31 March 2014

	Notes	**2014 £million**	2013 £million
Revenue	4	**23,367**	22,406
Profit from operations before associates and joint ventures	4,5	**1,132**	1,054
Share of post-tax earnings of associates and joint ventures	16	**86**	39
Net gains relating to associates	6	**109**	8
Profit from operations	4,7	**1,327**	1,101
Finance income	9	**33**	109
Finance costs	10	**(387)**	(373)
Profit before tax		**973**	837
Tax	11	**(2)**	(96)
Profit for the year		**971**	741
Attributable to:			
Equity shareholders of the Company		**936**	707
Non-controlling interests		**35**	34
		971	741

Group statement of comprehensive income
for the year ended 31 March 2014

	Notes	**2014 £million**	2013 £million
Profit for the year		**971**	741
Other comprehensive income for the year			
Items that will not be recycled to the income statement:			
Defined benefit schemes – net remeasurements	34	**(189)**	(72)
Tax on items that will not be recycled to the income statement		**33**	16
		(156)	(56)
Items that are or may be recycled to the income statement:			
Net exchange differences on translation of non-Sterling denominated operations		**(183)**	28
Fair value movements on cash flow hedging instruments including amounts recycled	30	**6**	(2)
Movements on available-for-sale investments including amounts recycled	30	**7**	5
Share of post-tax other comprehensive income of associates and joint ventures		**(1)**	2
Amounts recycled on distribution of associate		**(78)**	–
Tax on items that are or may be recycled to the income statement		**(5)**	(2)
		(254)	31
Total comprehensive income for the year		**561**	716
Attributable to:			
Equity shareholders of the Company		**557**	684
Non-controlling interests		**4**	32
		561	716

Group statement of financial position

as at 31 March 2014

	Notes	2014 £million	2013 £million
Assets			
Non-current assets			
Goodwill	12	**4,625**	4,710
Other intangible assets	13	**5,309**	5,416
Property, plant and equipment	15	**1,907**	1,918
Investments in associates and joint ventures	16	**318**	958
Available-for-sale investments	17	**67**	48
Trade and other receivables	19	**78**	71
Deferred tax assets	22	**16**	11
Retirement benefit assets	34	**–**	62
Current tax assets		**8**	11
Derivative financial instruments	24	**29**	23
		12,357	13,228
Current assets			
Inventories	18	**1,892**	2,030
Trade and other receivables	19	**2,544**	3,103
Cash and cash equivalents	20	**501**	592
Restricted cash	21	**156**	167
Current tax assets		**13**	8
Assets classified as held for sale		**3**	5
Derivative financial instruments	24	**11**	–
		5,120	5,905
Total assets		**17,477**	19,133
Liabilities			
Current liabilities			
Borrowings	24	**(301)**	(152)
Trade and other payables	23	**(4,236)**	(5,431)
Current tax liabilities		**(132)**	(105)
Provisions	28	**(9)**	(24)
Derivative financial instruments	24	**(3)**	–
		(4,681)	(5,712)
Net current assets		**439**	193
Non-current liabilities			
Borrowings	24	**(5,444)**	(6,519)
Other payables	23	**(158)**	(128)
Deferred tax liabilities	22	**(781)**	(976)
Retirement benefit obligations	34	**(174)**	(98)
Provisions	28	**(16)**	(25)
Derivative financial instruments	24	**–**	(4)
		(6,573)	(7,750)
Net assets		**6,223**	5,671
Equity			
Share capital	29	**1,079**	1,079
Share premium		**2,184**	2,879
Retained earnings		**2,894**	1,460
Other reserves	30	**29**	82
Shareholders' equity		**6,186**	5,500
Non-controlling interests		**37**	171
Total equity		**6,223**	5,671

Consolidated financial statements

Group statement of changes in equity

for the year ended 31 March 2014

2014	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million (Shareholders' equity)	Non-controlling interests £million	Total equity £million
At 1 April 2013	**1,079**	**2,879**	**1,460**	**82**	**5,500**	**171**	**5,671**
Profit for the year	–	–	**936**	–	**936**	**35**	**971**
Other comprehensive income for the year							
Defined benefit schemes – net remeasurements	–	–	**(182)**	–	**(182)**	**(7)**	**(189)**
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	**(158)**	**(158)**	**(25)**	**(183)**
Fair value movements on cash flow hedging instruments including amounts recycled	–	–	–	**6**	**6**	–	**6**
Movements on available-for-sale investments including amounts recycled	–	–	–	**7**	**7**	–	**7**
Share of post-tax other comprehensive income of associates and joint ventures	–	–	–	**(1)**	**(1)**	–	**(1)**
Amounts recycled on distribution of associate	–	–	–	**(78)**	**(78)**	–	**(78)**
Tax on other comprehensive income for the year	–	–	**32**	**(5)**	**27**	**1**	**28**
	–	–	**(150)**	**(229)**	**(379)**	**(31)**	**(410)**
Total comprehensive income for the year	–	–	**786**	**(229)**	**557**	**4**	**561**
Transactions with owners							
Settlement of distribution obligation	–	**(695)**	**695**	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	**(7)**	**(7)**
Purchase of non-controlling interests	–	–	**(47)**	**176**	**129**	**(131)**	**(2)**
	–	**(695)**	**648**	**176**	**129**	**(138)**	**(9)**
At 31 March 2014	**1,079**	**2,184**	**2,894**	**29**	**6,186**	**37**	**6,223**

2013	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million (Shareholders' equity)	Non-controlling interests £million	Total equity £million
At 1 April 2012	1,065	2,795	1,561	47	5,468	233	5,701
Profit for the year	–	–	707	–	707	34	741
Other comprehensive income for the year:							
Defined benefit schemes – net remeasurements	–	–	(72)	–	(72)	–	(72)
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	30	30	(2)	28
Fair value movements on cash flow hedging instruments including amounts recycled	–	–	–	(2)	(2)	–	(2)
Movements on available-for-sale investments including amounts recycled	–	–	–	5	5	–	5
Share of post-tax other comprehensive income of associates and joint ventures	–	–	–	2	2	–	2
Tax on other comprehensive income for the year	–	–	16	(2)	14	–	14
	–	–	(56)	33	(23)	(2)	(25)
Total comprehensive income for the year	–	–	651	33	684	32	716
Transactions with owners:							
Equity share capital issued	14	84	–	–	98	–	98
Dividends paid to non-controlling interests	–	–	–	–	–	(19)	(19)
Future distribution obligation	–	–	(651)	–	(651)	–	(651)
Purchase of non-controlling interests	–	–	(101)	2	(99)	(75)	(174)
	14	84	(752)	2	(652)	(94)	(746)
At 31 March 2013	1,079	2,879	1,460	82	5,500	171	5,671

Owners comprise equity shareholders of the Company and non-controlling interests

Group statement of cash flows

for the year ended 31 March 2014

	Notes	2014 £million	2013 £million
Operating activities			
Profit from operations		**1,327**	1,101
Adjustments to reconcile profit from operations to cash generated from operations:			
Share of post-tax earnings of associates and joint ventures		**(86)**	(39)
Depreciation and amortisation		**338**	345
Negative goodwill		**–**	(4)
Net losses on disposal of property, plant and equipment		**1**	11
Impairment of goodwill and other intangible assets		**–**	62
Net gains relating to associates		**(109)**	(8)
Decrease/(increase) in inventories		**16**	(66)
Decrease in receivables		**230**	168
(Decrease)/increase in payables and provisions		**(130)**	167
Movement in retirement benefit assets and obligations		**(43)**	(89)
Cash generated from operations		**1,544**	1,648
Net tax paid		**(141)**	(114)
Net cash from operating activities		**1,403**	1,534
Investing activities			
Acquisitions of businesses (net of cash and bank overdrafts), associates and joint ventures	27	**(19)**	(10)
Disposals of businesses and investment in associates	27	**1**	4
Purchase of property, plant and equipment, and intangible assets		**(253)**	(200)
Purchase of available-for-sale investments		**(16)**	(6)
Redemption of profit participating notes		**–**	193
Loan repayments net of amounts advanced		**57**	(55)
Disposal of other assets and investments		**17**	17
Dividends received from associates and joint ventures		**49**	18
Interest received		**35**	59
Net cash (used in)/from investing activities		**(129)**	20
Financing activities			
Interest paid		**(270)**	(318)
Interest element of finance lease obligations		**(1)**	(1)
Proceeds from borrowings		**770**	86
Repayment and repurchase of borrowings and settlement of derivatives		**(1,658)**	(1,353)
Fees associated with financing activities		**(19)**	(48)
Movement in restricted cash		**9**	88
Repayment of capital element of finance lease obligations		**(6)**	(8)
Issue of ordinary share capital		**–**	2
Dividends paid to non-controlling interests		**(17)**	(29)
Purchase of non-controlling interests	27	**(143)**	(65)
Net cash used in financing activities		**(1,335)**	(1,646)
Net decrease in cash and cash equivalents in the year		**(61)**	(92)
Cash and cash equivalents at 1 April		**579**	668
Currency translation differences		**(18)**	3
Cash and cash equivalents at 31 March	20	**500**	579

Notes to the consolidated financial statements

for the year ended 31 March 2014

1 General information

Alliance Boots GmbH is a private company incorporated in Switzerland. The address of its registered office is Alliance Boots GmbH, Untermattweg 8, 3027 Bern, Switzerland. The principal activities of the Group are pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution in many major international markets.

The consolidated financial statements for the year ended 31 March 2014 were approved by the Board on 12 May 2014.

2 Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below:

Basis of accounting

The consolidated financial statements have been prepared in Sterling reflecting the denomination of the currency of the most significant proportion of the trade and cash flows of Alliance Boots GmbH ('Company') and its subsidiaries and their interests in associates and joint ventures (together referred to as 'Group') and have been rounded to the nearest £1 million. The consolidated financial statements have been prepared in accordance with the requirements of Swiss law and International Financial Reporting Standards as issued by the International Accounting Standards Board ('IFRSs'), as they apply to the consolidated financial statements for the year ended 31 March 2014. Had the consolidated financial statements been prepared under IFRSs as adopted by the European Union, there would be no material changes to the information presented in these consolidated financial statements.

The consolidated financial statements have been prepared principally on the historical cost basis. Other applicable measurement bases applied in the preparation of the consolidated financial statements are identified in the accounting policies below. Certain amounts in the prior year financial information have been reclassified to conform to the current year presentation.

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the consolidated financial statements. The areas involving a higher degree of judgement, or areas where assumptions or estimates were significant to the consolidated financial statements are disclosed in note 36.

Going concern

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future, and have therefore continued to adopt the going concern basis for preparing the consolidated financial statements.

Changes in accounting policies and disclosures

The following new accounting standards have been adopted by the Group with a date of initial application of 1 April 2013, and have had the following impact on the consolidated financial statements:

- IFRS 10 Consolidated Financial Statements introduces new principles for control which focuses on whether the Group is exposed to, or has rights to, variable returns from its involvement with entities and has the ability to affect those returns through its power over those entities. In accordance with the transitional provisions of IFRS 10, the Group reassessed its control as at 1 April 2013 and has concluded there was no change in the classification of entities requiring consolidation from that date.
- IFRS 11 Joint Arrangements focuses on the rights and obligations of the parties to a joint arrangement rather than its legal form in determining whether it is a joint venture or a joint operation. The Group has re-evaluated its involvement in joint arrangements as at 1 April 2013 and concluded there is no change in the classification and treatment of its joint ventures.
- IFRS 13 Fair Value Measurement improves consistency by providing a precise definition of fair value and a single source of fair value measurement disclosure requirements for use across other standards within IFRSs. IFRS 13 does not extend the use of fair value accounting, but replaces and expands the disclosure requirements about fair value measurements in other IFRSs. The adoption of IFRS 13 has not had a material impact on the Group accounts.

The following amendment to an accounting standard and new accounting standard have been adopted by the Group, with a date of initial application of 1 April 2013 and relate only to disclosure:

- Amendment to IAS 1 Presentation of Financial Statements requires items within other comprehensive income to be grouped and presented on the basis of whether they may be reclassified subsequently to profit or loss.
- IFRS 12 Disclosures of Interests in Other Entities expands the disclosure requirements for all interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

Comparative information has been presented in line with the new requirements.

There have been no other changes in accounting policies during the year.

During the prior year, the Group early adopted the revised IAS 19 Employee Benefits standard, with a date of initial application of 1 April 2012 and changed its basis for determining the income or expense related to defined benefit schemes.

There are no other IFRSs or IFRS Interpretations Committee interpretations that are not yet effective that are expected to have a material impact on the Group.

Consolidation

The consolidated financial statements as at and for the year ended 31 March 2014 comprise the Company and its subsidiaries and their interests in associates and joint ventures.

Subsidiaries

Subsidiaries are entities where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries acquired or disposed during the year are included in the Group income statement from or to the date that control commences or ceases, as appropriate.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Non-controlling interests

Transactions with non-controlling interests are treated as transactions with owners in their capacity as owners. When an equity interest is purchased from a non-controlling interest, an amount proportionate to the interest purchased is transferred from equity attributable to non-controlling interests to equity attributable to shareholders.

Associates and joint ventures

Associates are entities over which the Group is in a position to exercise significant influence by participating in, but without control or joint control, the financial and operating policies of the entities. Joint ventures are entities in which the Group has joint control and rights to the net assets of the entities, rather than rights to their assets and obligations for their liabilities.

Associates and joint ventures are accounted for using the equity method. Unrealised profits and losses recognised by the Group on transactions with associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture concerned. Financial statements of some associates and joint ventures are prepared for different reporting years to that of the Group. Adjustments are made for the effects of transactions and events that occur between the reporting date of an associate or joint venture and the reporting date of the consolidated financial statements.

Currency

Currency transactions

Transactions denominated in currencies other than an entity's functional currency are translated into an entity's functional currency at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in currencies other than an entity's functional currency at the year end are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured at historical cost and are denominated in currencies other than an entity's functional currency are translated using the exchange rates at the date of the transaction. Non-monetary items that are measured at fair value and are denominated in currencies other than an entity's functional currency are translated using the exchange rates at the date when the fair value was determined. Exchange gains and losses are recognised in the income statement.

Non-Sterling denominated entities

The assets and liabilities of non-Sterling denominated entities, including goodwill and fair value adjustments arising on consolidation, are translated into Sterling at exchange rates prevailing at the year end. The results and cash flows of non-Sterling denominated entities are translated into Sterling at the average exchange rate for the year, which approximates to the underlying actual rates.

Exchange differences arising from the translation of the results and net assets of non-Sterling denominated entities are recognised in the translation reserve.

When a non-Sterling denominated entity is disposed, the related balance in the translation reserve is recognised in the income statement as part of the gain or loss on disposal.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for making resource allocation decisions in the attainment of strategic objectives and assessing the performance of the operating segments, have been identified as the executive Directors.

The Group has two reportable segments, being the Health & Beauty Division and the Pharmaceutical Wholesale Division. The main activity of the Health & Beauty Division is pharmacy-led health and beauty retailing, and the main activity of the Pharmaceutical Wholesale Division is pharmaceutical wholesaling and distribution.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

2 Accounting policies continued

Revenue

Revenue shown on the face of the income statement is the amount derived from the sale of goods and services outside of the Group in the normal course of business and is measured at the fair value of consideration received or receivable net of trade discounts, value added tax and other sales-related taxes. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably. Revenue from services is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

The accounting policies for the major revenue categories by operating segment are:

Health & Beauty Division

Reimbursement of dispensing revenue and revenue derived from optical services is initially estimated because the actual reimbursement is often not known until after the month of sale.

Consideration received from retail and optical sales is recorded as revenue at the point of sale less appropriate adjustments for returns.

In respect of loyalty schemes (principally the Boots Advantage Card) as points are issued to customers the retail fair value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as revenue. Sales of gift vouchers are only included in revenue when vouchers are redeemed.

Pharmaceutical Wholesale Division

Wholesale revenue is recognised upon despatch of goods.

When the Group acts in the capacity of an agent, or a logistics service provider, revenue is the service fees and is recognised upon performance of the services concerned.

Other segments

Revenue is recognised upon despatch of goods.

Supplier rebates

Certain suppliers offer rebates when purchases made in a period meet or exceed a predetermined level. Rebates are only recognised when there is clear evidence of this type of binding arrangement with the supplier and the rebate receipt is both probable and can be reasonably estimated. Rebates are recognised as a reduction in the purchase price.

Warrants

Warrants held by the Group linked to executory contracts are accreted to the income statement, net of the related call option, over the period to their expiry date, based on the period end valuations.

Exceptional items

Certain items are not regarded as forming part of the underlying trading activities of the Group and are therefore separately identified to allow users to understand the elements of and the trends in financial performance.

Finance income

Finance income comprises interest receivable on funds invested calculated using the effective interest rate method, net exchange gains relating to financing items, net interest on net defined benefit scheme assets, net fair value gains on derivative financial instruments used to hedge certain risks attributable to hedged items that are financing in nature, gains on derecognition of available-for-sale investments, fair value movements on cash flow hedge financing derivatives recycled from the cash flow hedge reserve, dividends received from investments and discounts on the repurchase of bank loans provided to the Group, which are accounted for as loan redemptions. Dividend income is recognised when the right to receive payment is established.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, financing fees, net exchange losses relating to financing, net interest on net defined benefit scheme liabilities, the interest expense component of finance lease payments, net fair value losses on derivative financial instruments used to hedge certain risks attributable to hedged items that are financing in nature, fair value movements on cash flow hedge financing derivatives recycled from the cash flow hedge reserve, impairment of loan assets, impairment of available-for-sale investments and reassessment of obligations to and unwind of discount on non-controlling interests.

Current/non-current classification

Current assets include assets held primarily for trading purposes, cash and cash equivalents, restricted cash and assets expected to be realised in, or intended for sale or consumption in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 Business Combinations using the acquisition method of accounting. The cost of acquisition is the consideration given in exchange for the identifiable net assets. This consideration includes any cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group. Where a share-for-share exchange transaction is accounted for as a business combination, the cost of acquisition is the fair value of the equity transferred. Contingent consideration is recognised at fair value at the acquisition date. If contingent consideration comprises equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of contingent consideration are recognised in the income statement.

The acquired net assets are initially recognised at fair value which is deemed cost in the consolidated financial statements. Where the Group does not acquire 100% ownership of the acquired company, non-controlling interests are recorded either at fair value or at their proportion of the fair value of the acquired identifiable net assets.

Goodwill comprises the fair value of the consideration plus the recognised amount of any non-controlling interests in the acquiree, plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less the fair value of the identifiable net assets acquired. Any difference between the carrying value and fair value of pre-existing equity interest in the acquiree is recognised in the income statement. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired business and are recorded in the local currency of that business. Where the fair value of the identifiable net assets exceeds the fair value of the consideration, the excess is recognised as negative goodwill and recognised in the income statement immediately.

The costs of integrating and reorganising acquired businesses are charged to the post-acquisition income statement. Goodwill is carried at cost less accumulated impairment losses. No amortisation is charged.

Increases in the ownership interests in subsidiaries are accounted for as equity transactions. The carrying amounts of interests of equity shareholders and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any differences between amounts by which non-controlling interests are adjusted and the fair value of the consideration paid are recognised directly in equity and attributed to equity shareholders of the Company.

Other intangible assets

Intangible assets are stated at cost or deemed cost less any impairment and accumulated amortisation. The principal categories of intangible assets are:

Pharmacy licences

Pharmacy licences, being the exclusive right to operate as a pharmacy, are capitalised where there is an asset that can be separated from other identifiable assets that together form a pharmacy business.

Brands

Brands consist of corporate and product brands acquired as part of business combinations that meet the criteria for separate recognition. Costs in relation to internally generated brands are not capitalised.

Customer relationships

Customer relationships consist of relationships with customers established through contracts, or non-contractual customer relationships that meet the criteria for separate recognition, that have been acquired in a business combination.

Software

Software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs for employees devoting time to the software projects, are capitalised once the project has reached the application development stage. The costs are amortised from when the asset is ready for use. Costs incurred during the preliminary project stage, maintenance and training costs, and research and development costs are expensed as incurred.

Amortisation

Where an intangible asset is considered to have a finite life, amortisation is charged to the income statement on a straight-line basis over the useful life from the date the asset is available for use. Pharmacy licences recognised as intangible assets do not expire and therefore are considered to have an indefinite life. Certain brands have been identified as having an indefinite life, based on their life and history along with current market strength and future development plans. Those assets considered to have an indefinite life are not amortised and are tested for impairment at each year end. The useful lives for those intangible assets with a finite life are:

- Brands – 10 to 20 years;
- Customer relationships – 4 to 20 years; and
- Software – 3 to 8 years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

2 Accounting policies continued

Property, plant and equipment

All property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, in equal instalments over their expected useful economic lives which are:

Land and buildings

- Freehold land and assets in the course of construction – not depreciated;
- Freehold and long leasehold buildings – not more than 50 years; and
- Short leasehold land and buildings – remaining period of lease.

Fixtures, plant and equipment

- Fixtures, plant and equipment – 3 to 20 years.

Residual values, remaining useful economic lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Impairment of assets

The Group's assets are reviewed at each year end to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, referred to as cash generating units.

For goodwill and other intangible assets that have an indefinite life and assets not yet available for use, the recoverable amount is estimated annually or more frequently when there is an indication that the asset is impaired.

Assets held for sale

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through sale rather than through continuing use. The asset or disposal group must be available for immediate sale and the sale must be highly probable and be expected to complete within one year of the year end. Where applicable, assets and disposal groups classified as held for sale are measured at the lower of fair value less costs of disposal and carrying amount.

Impairment losses on initial classification as held for sale are included in the income statement. Gains reversing previous impairment losses or losses on subsequent remeasurements are also included in the income statement.

Assets classified as held for sale are disclosed separately on the face of the statement of financial position and classified as current assets or liabilities with disposal groups being separated between assets held for sale and liabilities held for sale. No amortisation or depreciation is charged on assets, including those in disposal groups, classified as held for sale.

Available-for-sale investments

The Group classifies its listed and unlisted investments as available-for-sale financial assets and measures them at fair value. Gains and losses arising from changes in fair values and exchange translation are recognised in equity unless they arise from significant or prolonged declines in value, in which case impairment losses are recorded in the income statement. When an investment is disposed or derecognised, the related balance in the available-for-sale reserve is recognised in the income statement as part of the gain or loss on disposal.

Trade receivables and other receivables

Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost, less allowances for impairment where appropriate. These are reviewed for impairment on an individual or collective basis, depending on the size of the receivable and the period for which it is overdue.

Where the contractual rights to the cash flows from receivables are transferred to another party in transactions by which substantially all the risks and rewards of ownership of the receivables are transferred, then the receivables are derecognised.

Inventories
Inventories are valued at the lower of cost and net realisable value. With the exception of retail inventory in the Health & Beauty Division, cost is determined using the first in, first out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

The cost of raw materials and packaging is their purchase price. The cost of work in progress and finished goods comprises the purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Retail inventory is valued at retail prices and reduced by appropriate margins to take into account factors such as average cost, obsolescence, seasonality and damage.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and short term deposits with maturities of three months or less from the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Restricted cash
Restricted cash comprises cash which is restricted for specific purposes and so is not available for the use of the Group in its day to day operations.

Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to currency translation and interest rate risks arising from operating, financing and investing activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value with movements taken to the income statement, including equity purchase commitments accounted for as derivative financial instruments.

Derivative financial instruments are recognised initially at fair value, with movements on remeasurement recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Hedges
Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the cash flow hedge reserve.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or non-financial liability.

If the hedged forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period, or periods, during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period, or periods, during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Hedge of monetary assets and liabilities
Where a derivative financial instrument is used to hedge economically the currency translation exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of net investment in non-Sterling denominated entities
On consolidation, the effective portion of the gain or loss on an instrument designated as a hedge of net investment in a non-Sterling denominated entity that is determined to be an effective hedge is recognised directly in the translation reserve. The ineffective portion is recognised immediately in the income statement.

When a non-Sterling denominated entity is disposed, the cumulative currency gains or losses on the hedging instrument associated with that non-Sterling entity are removed from the translation reserve and recognised in the income statement as part of the gain or loss on disposal.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

2 Accounting policies continued

Trade payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Amendments to existing borrowings are assessed on a qualitative and quantitative basis to determine whether they are considered significant modifications. Transaction costs attributable to non-significant modifications are deducted from the carrying values of borrowings and amortised over the remaining terms of the modified borrowings by recalculating the effective interest rate.

Liabilities to non-controlling interests

Commitments to acquire equity stakes from non-controlling interests, including put options, are recognised as financial liabilities when they are made, with corresponding debits recognised as a special reserve within shareholders' equity. Commitments including put options are derecognised on acquisition with corresponding releases from the special reserve. Dividend obligations to non-controlling interests are recognised as financial liabilities when commitments are made, with corresponding debits recognised within equity attributable to non-controlling interests.

Changes to estimates of amounts payable under these commitments and obligations are recognised as exceptional items within finance costs.

Retirement benefits

The Group operates a number of retirement benefit schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the Group's finances. Where a retirement benefits arrangement is unfunded, provision is made in the statement of financial position for the obligation.

Defined benefit schemes

A defined benefit scheme is a retirement benefit scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The Group's net obligation or asset in respect of defined benefit schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The discount rate is the yield at the year end on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in profit from operations. Net interest income/expense on net defined benefit assets/liabilities is determined by applying discount rates used to measure defined benefit obligations at the beginning of the year to net defined benefit assets/liabilities at the beginning of the year and is included in finance income/costs. All remeasurement gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of comprehensive income.

Curtailment gains resulting from changes to the membership composition of defined benefit schemes are recognised in the income statement and as a reduction in the present value of defined benefit scheme liabilities.

Settlement gains or losses resulting from scheme amendments transferring liabilities of defined benefit schemes are recognised in the income statement and as a reduction in the present value of defined benefit scheme liabilities.

Defined contribution schemes

Obligations for contributions to defined contribution retirement benefit schemes are recognised as an expense in the income statement as they fall due.

Leases

Leases for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases, including outsourced assets held exclusively for the use of the Group. The cost of assets held under finance leases is deemed to be the present values of the minimum lease payments and is included within property, plant and equipment. Depreciation is provided in accordance with the policy for the class of asset concerned over the period of the lease. The corresponding obligations under these leases are shown as liabilities. The finance charge element of rentals is charged to the income statement through finance costs to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations. Lease premiums paid in advance are treated as prepayments and are amortised over the period of the lease.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the period of the lease. Predetermined rental increases included in the lease are recognised on a straight-line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the income statement on a straight-line basis over the period of the lease.

Lease income is recognised on a straight-line basis over the period of the lease.

Where leased properties become vacant, a provision is recognised and measured at the lower of the cost of terminating the lease and the expected net cash outflows of continuing with the lease.

Tax

Tax on the profit or loss for the year represents the sum of current tax and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not ever taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the year end, and any adjustments to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided in full using the statement of financial position liability method. It is the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. The following temporary differences are not provided for: those arising from the initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each year end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Additional income taxes that arise from receipt of dividends from the Group's subsidiaries, associates and joint ventures are recognised at the same time as the payee recognises the liability to pay the related dividend except where the timing of the payment is not controlled by the Group, in which case a deferred tax liability is recognised in full against those distributable reserves.

Deferred tax assets and liabilities are offset in the statement of financial position when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions

Provisions are recognised in the statement of financial position when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

Equity instruments

An equity instrument is any contract which evidences a residual interest in the net assets of an entity. A financial instrument is treated by the Group as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of shares, or is a derivative which will be settled only by the Group exchanging a fixed amount of cash or other financial assets, for a fixed number of its own equity instruments.

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of applicable tax, from the proceeds. An incremental share issue cost is one which would not have arisen if shares had not been issued.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

2 Accounting policies continued

Additional performance measures

The Directors believe that certain additional performance measures provide useful information to assist in understanding the performance of the Group. These measures, which are used for internal performance measurement, are not defined by IFRSs and therefore may not be directly comparable with other companies' adjusted measures. The key measures are:

EBITDA

Trading profit before underlying depreciation and amortisation.

IAS 39 timing differences

Derivative financial instruments are used to hedge interest rate and currency exposures. IAS 39 dictates whether changes in the fair value of these instruments can be matched in the income statement by changes in the fair value of the item being hedged. Where they cannot be matched, or do not fully match, the unmatched amount represents a timing difference that will reverse over the life of the financial instruments. Derivative financial instruments are also used as credit instruments and changes in fair value which reverse over the life of these instruments similarly represent a timing difference.

Net borrowings

Cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of unamortised prepaid financing fees.

Net finance costs

Finance costs net of finance income.

Share of underlying post-tax earnings of associates and joint ventures

Share of post-tax earnings of associates and joint ventures (excluding distributed associate) before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Timing differences within net finance costs

IAS 39 timing differences and the unwinding of the discount on obligations to non-controlling interests.

Trading profit

Profit from operations before amortisation of customer relationships and brands, exceptional items and share of post-tax earnings of associates and joint ventures.

Underlying depreciation and amortisation

Depreciation and amortisation adjusted to exclude amortisation of customer relationships and brands and depreciation and amortisation within exceptional items.

Underlying effective tax rate

Underlying tax charge as a percentage of trading profit less underlying net finance costs.

Underlying net finance costs

Net finance costs adjusted to exclude exceptional items and timing differences within net finance costs.

Underlying profit

Profit for the year (excluding share of post-tax earnings of distributed associate) before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Underlying profit attributable to equity shareholders

Underlying profit excluding amounts attributable to non-controlling interests.

Underlying tax charge

Tax adjusted to exclude tax on amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and exceptional tax.

3 Exchange rates

The principal exchange rates relative to Sterling used in the preparation of the consolidated financial statements were:

	Average		Closing	
	2014	2013	**At 31 March 2014**	At 31 March 2013
Euro	**1.19**	1.23	**1.21**	1.18
US Dollar	**1.59**	1.58	**1.66**	1.51
Turkish Lira	**3.20**	2.84	**3.63**	2.74
Swiss Franc	**1.46**	1.49	**1.48**	1.44
Norwegian Krone	**9.53**	9.13	**9.99**	8.86
Russian Rouble	**52.51**	49.20	**59.44**	46.98

4 Segmental information

The Group's externally reportable operating segments reflect the internal reporting structure of the Group, which is the basis on which resource allocation decisions are made by the executive Directors in the attainment of strategic objectives. Inter-segment pricing is determined on an arm's length basis.

The Group comprises the following operating segments:

Health & Beauty Division

Comprises all of the pharmacy-led health and beauty retail businesses across the Group. These businesses are located in the UK, Norway, Republic of Ireland, The Netherlands and Thailand.

Pharmaceutical Wholesale Division

Comprises all of the pharmaceutical wholesaling and distribution businesses across the Group. These businesses are located in France, Germany, UK, Turkey, Spain, The Netherlands, Russia, Egypt, Czech Republic, Romania, Norway and Lithuania.

All other segments comprise the activities of Contract Manufacturing and Corporate. These did not meet the quantitative thresholds for determining reportable operating segments in 2014 or 2013.

Information regarding the results of each reportable segment is included within this note. Segment performance measures are revenue, EBITDA and trading profit/(loss) as included in the internal management reports that are reviewed by the executive Directors. These measures are used to monitor performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

4 Segmental information continued

Definitions of the measures set out in the tables below are provided in the accounting policies.

2014	**Health & Beauty Division £million**	**Pharmaceutical Wholesale Division £million**	**All other segments £million**	**Eliminations £million**	**Total £million**
External revenue	**7,655**	**15,599**	**113**	–	**23,367**
Intra-group revenue	**7**	**1,562**	**113**	**(1,682)**	–
Total revenue	**7,662**	**17,161**	**226**	**(1,682)**	**23,367**
EBITDA	**1,071**	**478**	**(41)**	–	**1,508**
Underlying depreciation and amortisation	**(185)**	**(50)**	**(3)**	–	**(238)**
Trading profit/(loss)	**886**	**428**	**(44)**	–	**1,270**
Share of underlying post-tax earnings of associates and joint ventures					**79**
Underlying net finance costs					**(311)**
Underlying tax charge (note 11)					**(150)**
Underlying profit					**888**
Less: non-controlling interests					**(48)**
Underlying profit attributable to equity shareholders					**840**

2013 Re-presented	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Eliminations £million	Total £million
External revenue	7,477	14,817	112	–	22,406
Intra-group revenue	5	1,561	126	(1,692)	–
Total revenue	7,482	16,378	238	(1,692)	22,406
EBITDA	1,049	484	(28)	–	1,505
Underlying depreciation and amortisation	(184)	(49)	(7)	–	(240)
Trading profit/(loss)	865	435	(35)	–	1,265
Share of underlying post-tax earnings of associates and joint ventures					(6)
Underlying net finance costs					(320)
Underlying tax charge (note 11)					(179)
Underlying profit					760
Less: non-controlling interests					(51)
Underlying profit attributable to equity shareholders					709

Share of underlying post-tax earnings of associates and joint ventures excludes Galenica Ltd. which ceased to be an associate of the Group in May 2013 following its distribution to the Group's ultimate parent company. Comparative amounts are re-presented on this basis.

The reconciliation of trading profit to profit before tax was:

	2014 £million	2013 £million
Trading profit	**1,270**	1,265
Amortisation of customer relationships and brands	**(100)**	(105)
Exceptional items	**(38)**	(106)
Profit from operations before associates and joint ventures	**1,132**	1,054
Share of post-tax earnings of associates and joint ventures	**86**	39
Net gains relating to associates	**109**	8
Profit from operations	**1,327**	1,101
Net finance costs	**(354)**	(264)
Profit before tax	**973**	837

The reconciliation of underlying profit to statutory profit for the year was:

	2014 £million	2013 Re-presented £million
Underlying profit	**888**	760
Amortisation of customer relationships and brands	**(100)**	(105)
Share of post-tax earnings of distributed associate	**7**	45
Net exceptional items before tax	**18**	(66)
Timing differences within net finance costs	**10**	24
Tax credit on items not in underlying profit	**35**	45
Exceptional tax credits	**113**	38
Profit for the year	**971**	741

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

4 Segmental information continued

The Group's reportable segment assets and liabilities at the year end were:

	2014			2013		
	Assets £million	**Liabilities £million**	**Net £million**	Assets £million	Liabilities £million	Net £million
Health & Beauty Division	**10,226**	**(1,279)**	**8,947**	10,215	(1,205)	9,010
Pharmaceutical Wholesale Division	**6,273**	**(3,266)**	**3,007**	7,120	(3,883)	3,237
All other segments	**82**	**(100)**	**(18)**	149	(99)	50
Eliminations	**(226)**	**226**	**–**	(236)	236	–
Allocated segment assets/(liabilities)	**16,355**	**(4,419)**	**11,936**	17,248	(4,951)	12,297
Unallocated:						
Investments in associates and joint ventures	**318**	**–**	**318**	958	–	958
Future distribution obligation	**–**	**–**	**–**	–	(657)	(657)
Available-for-sale investments	**67**	**–**	**67**	48	–	48
Retirement benefit (obligations)/assets	**–**	**(174)**	**(174)**	62	(98)	(36)
Assets classified as held for sale	**3**	**–**	**3**	5	–	5
Net current and deferred tax	**37**	**(913)**	**(876)**	30	(1,081)	(1,051)
Net cash/(borrowings)	**697**	**(5,748)**	**(5,051)**	782	(6,675)	(5,893)
	17,477	**(11,254)**	**6,223**	19,133	(13,462)	5,671

Allocated segment assets at the year end comprised goodwill of £4,625 million (2013: £4,710 million), other intangible assets of £5,309 million (2013: £5,416 million), property, plant and equipment of £1,907 million (2013: £1,918 million), inventories of £1,892 million (2013: £2,030 million), and trade and other receivables of £2,622 million (2013: £3,174 million).

Allocated segment liabilities at the year end comprised trade and other payables, excluding the future distribution obligation, of £4,394 million (2013: £4,902 million) and provisions of £25 million (2013: £49 million).

Eliminations included inter-segmental trading accounts between subsidiary undertakings.

Other information in respect of the Group's segments was:

2014	**Health & Beauty Division £million**	**Pharmaceutical Wholesale Division £million**	**All other segments £million**	**Total £million**
Amortisation of other intangible assets	**78**	**75**	**–**	**153**
Depreciation of property, plant and equipment	**146**	**36**	**3**	**185**
Additions to non-current assets:				
– other intangible assets	**50**	**20**	**–**	**70**
– property, plant and equipment	**161**	**43**	**7**	**211**

2013	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Total £million
Amortisation of other intangible assets	73	79	–	152
Depreciation of property, plant and equipment	150	37	6	193
Impairment	–	62	–	62
Additions to non-current assets:				
– other intangible assets	50	19	–	69
– property, plant and equipment	94	39	4	137

The Group's revenues for groups of similar products and services were:

	2014 £million	2013 £million
Health & Beauty Division		
Dispensing and Related Income	**2,593**	2,609
Retail	**4,633**	4,475
Optical	**349**	335
Other	**87**	63
	7,662	7,482
Pharmaceutical Wholesale Division		
Wholesale and Related Services	**17,161**	16,378
	17,161	16,378
All other segments and eliminations	**(1,456)**	(1,454)
	23,367	22,406

The Group's external revenue based on the geographical location of customers was:

	2014 £million	2013 £million
UK	**9,077**	8,747
France	**3,799**	3,883
Germany	**3,735**	3,508
Other	**6,756**	6,268
	23,367	22,406

Revenue arising from customers in Switzerland, the Company's country of domicile was £65 million (2013: £6 million).

Segmental non-current, non-financial assets, excluding deferred tax assets and retirement benefit assets, based on the geographical location of the assets were:

	2014 £million	2013 £million
UK	**10,052**	10,050
France	**522**	557
Germany	**109**	118
Switzerland	**38**	671
Other	**1,438**	1,606
	12,159	13,002

Segment non-current, non-financial assets at the year end comprised goodwill of £4,625 million (2013: £4,710 million), other intangible assets of £5,309 million (2013: £5,416 million), property, plant and equipment of £1,907 million (2013: £1,918 million) and investments in associates and joint ventures of £318 million (2013: £958 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

5 Profit from operations before associates and joint ventures

2014	**Before amortisation of customer relationships and brands, and exceptional items £million**	**Amortisation of customer relationships and brands £million**	**Exceptional items £million**	**Total £million**
Revenue	**23,367**	–	–	**23,367**
Cost of sales	**(18,458)**	–	–	**(18,458)**
Gross profit	**4,909**	–	–	**4,909**
Selling, distribution and store costs	**(3,137)**	**(100)**	–	**(3,237)**
Administrative costs	**(502)**	–	**(38)**	**(540)**
Profit from operations before associates and joint ventures	**1,270**	**(100)**	**(38)**	**1,132**

2013	Before amortisation of customer relationships and brands, and exceptional items £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Total £million
Revenue	22,406	–	–	22,406
Cost of sales	(17,552)	–	(31)	(17,583)
Gross profit	4,854	–	(31)	4,823
Selling, distribution and store costs	(3,099)	(105)	(6)	(3,210)
Administrative costs	(490)	–	(69)	(559)
Profit from operations before associates and joint ventures	1,265	(105)	(106)	1,054

6 Exceptional items

	2014 £million	2013 £million
Within profit from operations		
Call option for warrants[1]	**(34)**	–
Impairment of goodwill and other intangible assets[2]	–	(62)
Contract Manufacturing restructuring programme[3]	–	(31)
Other[4]	**(4)**	(13)
Within profit from operations before associates and joint ventures	**(38)**	(106)
Gain on disposal and distribution of associates[5]	**116**	2
Impairment of investment in associate	**(7)**	–
Gain on acquisition of a controlling interest in an associate	–	6
	71	(98)
Within finance income		
Repurchase and repayment of acquisition borrowings[6]	**(14)**	28
Fair value movement of equity purchase commitment[7]	**7**	–
	(7)	28
Within finance costs		
Impairment of available-for-sale investment	–	(3)
Reassessment of obligations to non-controlling interests	**(3)**	13
Reassessment of distribution obligation[5]	**(43)**	(6)
	(46)	4
Within tax		
Tax credit on exceptional items	**7**	12
Exceptional tax credits[8]	**113**	38
	120	50
	138	(16)

1 During the prior year, the Group together with Walgreen Co. and its subsidiaries ('Walgreens') signed agreements with AmerisourceBergen Corporation ('AmerisourceBergen') which included the Group receiving warrants to purchase up to 8% of the equity of AmerisourceBergen at future dates. Simultaneously, the Group issued a call option to Walgreens for Walgreens to purchase these warrants from the Group, only exercisable if Walgreens exercises its option to acquire the remaining 55% equity stake of the Group that they do not currently own.

2 During the prior year, the Group recorded an impairment of goodwill and other intangible assets relating to the Megapharm operations within the Pharmaceutical Wholesale Germany business.

3 During the prior year, the Group announced a restructuring programme within Contract Manufacturing to improve the efficiency and overall performance of the UK factory.

4 Other comprises net gains/(losses) on disposal of other assets and acquisition related costs, and in the prior year also included legal and other advisory costs for the Walgreens and AmerisourceBergen transactions, residual costs in relation to other previously announced exceptional projects and negative goodwill.

5 During the prior year, the Company entered a Purchase and Option Agreement with its parent company, AB Acquisitions Holdings Limited, and Walgreens for Walgreens to acquire a 45% equity stake in the Group. As part of this agreement, the Company made a commitment to distribute or otherwise transfer its subsidiary's investment in Galenica Ltd. and any related dividend distributions or proceeds to the selling shareholders at a future date without any payment. The Group recognised this commitment as a liability measured at fair value. On 10 May 2013, the Group distributed its investment in Galenica Ltd. recognising a gain on distribution of £115 million. The increase in the fair value of the liability for this commitment since the beginning of the year to the date of distribution was £43 million.

6 During the year, the Group repurchased and repaid acquisition borrowings with a net value of £1,258 million (2013: £1,124 million). Pre-paid financing fees expensed on these repurchases and repayments were £13 million.

7 During the prior year, the Group entered into a contract to acquire a 12% stake in Nanjing Pharmaceutical Company Limited. The fair value gain in the year on this derivative financial instrument was £7 million.

8 The exceptional credit in the year mainly relates to the net reduction in deferred tax assets and liabilities resulting from the three percentage point reduction in the rate of future UK corporation tax enacted during the year. This comprised a two percentage point reduction applicable from April 2014 and the further one percentage point reduction applicable from April 2015. The exceptional tax credits in the prior year mainly related to a one percentage point reduction in the rate of UK corporation tax applicable from April 2013.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

7 Profit from operations

The following items have been deducted in arriving at profit from operations:

	2014 £million	2013 £million
Amortisation of other intangible assets	**153**	152
Depreciation of property, plant and equipment	**185**	193
Impairment	**–**	62
Net losses on disposal of property, plant and equipment	**1**	11
Operating lease rentals	**391**	389
Employee costs	**2,009**	1,970

An analysis of the total remuneration paid to the Group's principal auditor is provided below:

	2014 £million	2013 £million
Audit:		
– consolidated financial statements	**0.1**	0.1
– subsidiary financial statements	**1.8**	1.4
	1.9	1.5
Other services for the Group:		
– transaction services	**0.2**	0.1
– taxation	**0.1**	0.1
– other	**0.4**	0.4
	0.7	0.6
Walgreens reporting (reimbursed)	**2.0**	2.5
	4.6	4.6

8 Employee costs

The average monthly number of persons employed by the Group over the year, including Directors and part-time employees, was:

	2014		2013	
	Number of heads	**Full-time equivalents**	Number of heads	Full-time equivalents
Health & Beauty Division	**74,157**	**50,743**	72,667	49,324
Pharmaceutical Wholesale Division	**26,417**	**23,889**	25,656	23,134
Contract Manufacturing & Corporate	**2,180**	**2,137**	2,231	2,187
	102,754	**76,769**	100,554	74,645

Costs incurred in respect of these employees were:

	2014 £million	2013 £million
Wages and salaries	**1,700**	1,661
Social security costs	**219**	218
Retirement benefit costs:		
– defined benefit schemes (current service costs)	**2**	3
– defined contribution schemes	**88**	88
	2,009	1,970

9 Finance income

	2014 £million	2013 £million
Bank deposit and other interest income	**30**	31
Net interest income on net defined benefit scheme assets	**3**	2
Other finance income	**7**	48
	40	81
Exceptional items:		
– repurchase and repayment of acquisition borrowings	**(14)**	28
– fair value movement of equity purchase commitment	**7**	–
	(7)	28
	33	109

10 Finance costs

	2014 £million	2013 £million
Interest on bank loans and overdrafts	**267**	322
Net interest cost on net defined benefit scheme liabilities	**3**	4
Financing fees	**55**	62
Net fair value movements on non-designated derivative financial instruments	**(22)**	(57)
Unwind of discount on obligations to non-controlling interests	**12**	22
Other finance costs	**26**	24
	341	377
Exceptional items:		
– impairment of available-for-sale investment	**–**	3
– reassessment of obligations to non-controlling interests	**3**	(13)
– reassessment of distribution obligation	**43**	6
	46	(4)
	387	373

Interest on bank loans and overdrafts includes £4 million (2013: £22 million) of rolled up interest on mezzanine debt which is payable when the debt itself is settled. The total interest expense for financial liabilities not at fair value through profit or loss was £282 million (2013: £332 million). Financing fees include £19 million (2013: £27 million) of amortised fees which are expensed over the term of the financing being provided.

Interest income/expense related to derivative financial instruments is included within bank deposit and other interest income and interest on bank loans and overdrafts within finance income and finance costs respectively on a gross basis.

The net loss on financial assets/liabilities at fair value through profit or loss was £10 million (2013: £13 million gain).

Changes in the fair value of the Group's obligation to distribute its equity shareholding in Galenica Ltd. arose from the reassessment of this obligation up until the date of distribution on 10 May 2013.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

11 Tax

An analysis of the tax charge in the year was:

	2014 £million	2013 £million
Current tax		
Current tax charge for the year	**177**	184
Adjustments in respect of prior years	**(13)**	(15)
	164	169
Deferred tax		
Impact of change in tax rates	**(113)**	(38)
Deferred tax relating to the origination and reversal of temporary differences	**(49)**	(35)
	(162)	(73)
	2	96

The Group's principal operations are geographically dispersed and therefore the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit before tax. The reconciliation of the expected total tax charge was based on this weighted average standard tax rate of 23.6% (2013: 23.6%).

The reconciliation of the expected total tax charge to the reported tax charge in the year was:

	2014 £million	2013 £million
Profit before tax	**973**	837
Less: share of post-tax earnings of associates and joint ventures	**(86)**	(39)
	887	798
Expected tax charge at weighted average standard tax rate	**210**	188
Factors affecting charge for the year:		
– non-taxable gain on distribution of associate	**(24)**	–
– non-taxable items and tax credits/non-deductible items[1]	**(54)**	(47)
– impairment of available-for-sale investment	**–**	1
– unrelieved tax losses arising in the year	**11**	21
– recognition/utilisation of brought forward tax losses	**(1)**	(3)
– current tax adjustments in respect of prior years	**(13)**	(15)
– deferred tax adjustments in respect of prior years	**(17)**	(14)
– other differences	**3**	3
– exceptional tax credits[2]	**(113)**	(38)
	2	96

1 Non-taxable items include tax credits arising from updates to tax base costs of the Group's property and intangible assets, and other non-taxable finance income.

2 The exceptional credit in the year mainly relates to the net reduction in deferred tax assets and liabilities resulting from the three percentage point reduction in the rate of future UK corporation tax enacted during the year. This comprised a two percentage point reduction applicable from April 2014 and the further one percentage point reduction applicable from April 2015. The exceptional tax credits in the prior year mainly related to a one percentage point reduction in the rate of UK corporation tax applicable from April 2013.

The effective tax rate, which is defined as the tax charge expressed as a percentage of profit from operations excluding share of post-tax earnings of associates and joint ventures, net of finance income and finance costs was 0.2% (2013: 12.0%).

The underlying tax charge, which is the tax charge adjusted to exclude tax on amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and exceptional tax, reconciled to the tax charge in the year was:

	2014 £million	2013 £million
Underlying tax charge	**150**	179
Tax on:		
– amortisation of customer relationships and brands	**(31)**	(34)
– exceptional items	**(7)**	(12)
– timing differences within net finance costs	**3**	1
Exceptional tax credits	**(113)**	(38)
	2	96

The underlying effective tax rate, calculated as the underlying tax charge as a percentage of trading profit less underlying net finance costs, was 15.6% (2013: 18.9%).

Tax credit/(charge) on items taken directly to other comprehensive income comprised:

	2014			2013		
	Before tax £million	**Tax £million**	**After tax £million**	Before tax £million	Tax £million	After tax £million
Other comprehensive income						
Defined benefit schemes – net remeasurements	**(189)**	**33**	**(156)**	(72)	16	(56)
Net exchange differences on translation of non-Sterling denominated operations	**(183)**	**(3)**	**(186)**	28	(2)	26
Fair value movements on cash flow hedging instruments including amounts recycled	**6**	**(1)**	**5**	(2)	–	(2)
Movements on available-for-sale investments including amounts recycled	**7**	**(1)**	**6**	5	–	5
Share of post-tax other comprehensive income of associates and joint ventures	**(1)**	**–**	**(1)**	2	–	2
Amounts recycled on distribution of associate	**(78)**	**–**	**(78)**	–	–	–
	(438)	**28**	**(410)**	(39)	14	(25)

12 Goodwill

	2014 £million	2013 £million
Net book value		
At 1 April	**4,710**	4,751
Acquisitions of businesses	**9**	–
Impairment	**–**	(51)
Currency translation differences	**(94)**	10
At 31 March	**4,625**	4,710

During the prior year, an impairment in relation to the Megapharm operations within Pharmaceutical Wholesale Germany was recognised within profit from operations and classified as an exceptional item (note 6).

The cumulative impairment in the carrying value of goodwill at 31 March 2014 was £192 million (2013: £196 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

13 Other intangible assets

2014	Pharmacy licences £million	Brands £million	Customer relationships £million	Software £million	Other £million	Total £million
Cost						
At 1 April 2013	**1,280**	**2,990**	**1,465**	**486**	**16**	**6,237**
Acquisitions of businesses	**3**	**8**	**4**	–	–	**15**
Additions	–	–	–	**65**	**5**	**70**
Disposals	–	–	–	**(49)**	–	**(49)**
Currency translation differences	–	–	**(57)**	**(4)**	–	**(61)**
At 31 March 2014	**1,283**	**2,998**	**1,412**	**498**	**21**	**6,212**
Amortisation						
At 1 April 2013	–	**31**	**535**	**245**	**10**	**821**
Charge	–	**4**	**96**	**51**	**2**	**153**
Disposals	–	–	–	**(49)**	–	**(49)**
Currency translation differences	–	–	**(20)**	**(2)**	–	**(22)**
At 31 March 2014	–	**35**	**611**	**245**	**12**	**903**
Net book value	**1,283**	**2,963**	**801**	**253**	**9**	**5,309**

2013	Pharmacy licences £million	Brands £million	Customer relationships £million	Software £million	Other £million	Total £million
Cost						
At 1 April 2012	1,281	2,990	1,458	420	13	6,162
Acquisitions of businesses	–	–	–	1	–	1
Additions	–	–	–	66	3	69
Disposals	(1)	–	–	(2)	(1)	(4)
Currency translation differences	–	–	7	1	1	9
At 31 March 2013	1,280	2,990	1,465	486	16	6,237
Amortisation						
At 1 April 2012	–	27	424	200	3	654
Charge	–	4	101	46	1	152
Impairment	–	–	6	–	5	11
Disposals	–	–	–	(2)	–	(2)
Currency translation differences	–	–	4	1	1	6
At 31 March 2013	–	31	535	245	10	821
Net book value	1,280	2,959	930	241	6	5,416

The amortisation charge was £153 million (2013: £152 million), of which £120 million (2013: £123 million) was recognised in selling, distribution and store costs, and £33 million (2013: £29 million) in administrative costs.

The prior year impairment related to the Megapharm operations within Pharmaceutical Wholesale Germany (note 6).

The cumulative impairment in the carrying value of customer relationships at 31 March 2014 was £6 million (2013: £6 million), and of other intangible assets was £5 million (2013: £5 million). There were no other accumulated impairment losses at the beginning or end of the year.

Included within the carrying value of brands is the Boots brand which has a carrying value of £2,162 million (2013: £2,162 million).

Internally developed software and software under development totalling £16 million (2013: £6 million) was included within additions during the year.

14 Impairment testing of goodwill and other intangible fixed assets

Goodwill, pharmacy licences and brands which have an indefinite useful life are subject to annual impairment testing, or are assessed more frequently if there are indications of impairment.

Goodwill, pharmacy licences, brands and customer relationships have been allocated to the appropriate cash generating units ('CGUs') identified according to the country of operation and business. Those with significant amounts allocated at the year end are shown in the table below:

	2014				2013			
	Goodwill £million	**Pharmacy licences £million**	**Brands £million**	**Customer relationships £million**	Goodwill £million	Pharmacy licences £million	Brands £million	Customer relationships £million
Health & Beauty Division – Boots UK	**2,441**	**1,283**	**2,905**	**414**	2,441	1,280	2,909	445
Pharmaceutical Wholesale – UK	**1,044**	**–**	**–**	**76**	1,044	–	–	87
Other	**1,140**	**–**	**58**	**311**	1,225	–	50	398
	4,625	**1,283**	**2,963**	**801**	4,710	1,280	2,959	930

Other comprises individually non-significant CGUs in comparison with the Group's total carrying amount of goodwill and other intangible assets.

The recoverable amounts of the CGUs are determined from value-in-use calculations which use discounted cash flows for a period of five years taken from approved budgets and three year forecasts, and extrapolated cash flows for the periods beyond these using estimated long term growth rates. The key assumptions are:

- Long term average growth rates are used to extrapolate cash flows. These are determined with reference to both internal approved budgets and forecasts and available external long term growth data for both the country and sector of each CGU.
- Discount rates are calculated separately for each CGU and reflect the individual nature and specific risks relating to the market in which it operates.
- Gross margins are based on past performance and management's expectations of market development. No improvements to margins beyond periods covered by approved budgets and forecasts have been assumed.

The CGUs with significant amounts of intangible assets are Boots UK and the Pharmaceutical Wholesale business in the UK. For these UK CGUs, the pre-tax discount rate was 11.5% (2013: 11.0%), and the long term growth rates were 2.4% and 4.3% respectively (2013: 2.3% and 4.2% respectively). For other CGUs pre-tax discount rates ranged from 11.5% to 22.0% (2013: 11.0% to 23.0%), and the long term growth rates used ranged from 1.0% to 14.2% (2013: 0.7% to 14.9%). A sensitivity analysis has been performed in assessing the recoverable amounts of goodwill.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

15 Property, plant and equipment

2014	Land and buildings £million	Fixtures, plant and equipment £million	Total £million
Cost			
At 1 April 2013	**1,393**	**1,493**	**2,886**
Acquisitions of businesses	**1**	**–**	**1**
Additions	**18**	**193**	**211**
Disposals	**(16)**	**(97)**	**(113)**
Transferred to assets held for sale	**(6)**	**(1)**	**(7)**
Currency translation differences	**(20)**	**(24)**	**(44)**
At 31 March 2014	**1,370**	**1,564**	**2,934**
Depreciation			
At 1 April 2013	**194**	**774**	**968**
Charge	**29**	**156**	**185**
Disposals	**(11)**	**(93)**	**(104)**
Transferred to assets held for sale	**(1)**	**–**	**(1)**
Currency translation differences	**(4)**	**(17)**	**(21)**
At 31 March 2014	**207**	**820**	**1,027**
Net book value	**1,163**	**744**	**1,907**

2013	Land and buildings £million	Fixtures, plant and equipment £million	Total £million
Cost			
At 1 April 2012	1,393	1,451	2,844
Acquisitions of businesses	1	3	4
Additions	23	114	137
Disposals	(20)	(80)	(100)
Transferred to assets held for sale	(5)	–	(5)
Currency translation differences	1	5	6
At 31 March 2013	1,393	1,493	2,886
Depreciation			
At 1 April 2012	177	675	852
Charge	31	162	193
Disposals	(12)	(67)	(79)
Transferred to assets held for sale	(2)	–	(2)
Currency translation differences	–	4	4
At 31 March 2013	194	774	968
Net book value	1,199	719	1,918

Certain items previously classified as fixtures, plant and equipment, which predominantly related to leasehold improvements, have been reclassified as land and buildings, and amounts at the beginning of the comparative year have been restated accordingly.

Included within the net book values were amounts in respect of assets held under finance leases of £13 million (2013: £14 million) in fixtures, plant and equipment. Property, plant and equipment with a carrying amount of £13 million (2013: £14 million) have been pledged as security for certain local borrowing facilities.

Included within the net book values were assets in the course of construction of £6 million (2013: £5 million) in land and buildings and £14 million (2013: £14 million) in fixtures, plant and equipment.

The depreciation charge was £185 million (2013: £193 million), of which £2 million (2013: £11 million) was recognised in cost of sales, £154 million (2013: £159 million) in selling, distribution and store costs, and £29 million (2013: £23 million) in administrative costs.

16 Investments in associates and joint ventures

Details of the Group's principal associates and joint ventures are provided in note 35.

Movements in the carrying amounts of associates and joint ventures were:

	2014 Associates £million	**2014** Joint ventures £million	**2014** Total £million	2013 Associates £million	2013 Joint ventures £million	2013 Total £million
At 1 April	**803**	**155**	**958**	779	132	911
Acquisitions and investments	**–**	**5**	**5**	14	2	16
Gain on acquisition of a controlling interest	**–**	**–**	**–**	6	–	6
Derecognised on acquisition of a controlling interest	**–**	**–**	**–**	(3)	–	(3)
Disposals and distribution	**(650)**	**–**	**(650)**	(1)	–	(1)
Share of post-tax earnings	**12**	**74**	**86**	21	18	39
Share of other comprehensive income	**(1)**	**–**	**(1)**	2	–	2
Dividends	**(15)**	**(34)**	**(49)**	(14)	(4)	(18)
Impairment	**(7)**	**–**	**(7)**	–	–	–
Currency translation differences	**(10)**	**(14)**	**(24)**	(1)	7	6
At 31 March	**132**	**186**	**318**	803	155	958

The Group's share of contingent liabilities of associates and joint ventures was £4 million (2013: £38 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

16 Investments in associates and joint ventures continued

Investments in joint ventures

Walgreens Boots Alliance Development GmbH

Set out below is the summarised financial information for Walgreens Boots Alliance Development GmbH which is considered material to the Group. The information reflects the amounts derived from the financial statements of the joint venture at 100% (and not the Group's 50% share of those amounts) translated at the exchange rates sets out in note 3.

The summarised statement of comprehensive income for the year ended 31 March was:

	2014 £million	2013 £million
Revenue	**130**	17
Profit before tax	**127**	13
Tax	**(10)**	(1)
Profit for the year	**117**	12
Total comprehensive income for the year	**117**	12

During the year, dividends received from Walgreens Boots Alliance Development GmbH were £27 million (2013: £nil).

The summarised statement of financial position at 31 March was:

	2014 £million	2013 £million
Current assets		
Cash and cash equivalents	**50**	5
Other current assets	**165**	52
	215	57
Current liabilities	**(139)**	(41)
Net assets	**76**	16

The reconciliation of the movement in the net assets to the carrying amount was:

	2014 £million	2013 £million
At 1 April	**16**	–
Investments	–	4
Total comprehensive income	**117**	12
Dividends	**(53)**	–
Currency translation differences	**(4)**	–
At 31 March	**76**	16
Carrying amount at 50% (2013: 50%)	**38**	8

The Group's share of total comprehensive income of other joint ventures was £16 million (2013: £12 million).

17 Available-for-sale investments

	2014 £million	2013 £million
At 1 April	**48**	41
Additions	**16**	6
Disposals	**(2)**	(2)
Movements in fair value	**7**	2
Currency translation differences	**(2)**	1
At 31 March	**67**	48

Available-for-sale investments comprised:

	2014 £million	2013 £million
Listed securities – equity	**46**	26
Listed securities – non-equity (pledged as collateral)	**18**	20
Unlisted securities – equity	**3**	2
	67	48

18 Inventories

	2014 £million	2013 £million
Raw materials	**22**	23
Work in progress	**6**	6
Finished goods	**1,864**	2,001
	1,892	2,030

Included in the aggregate carrying value was £77 million (2013: £62 million) of inventories held at net realisable value.

The write-down in the carrying value of inventories to net realisable value, net of reversals in the year was £4 million (2013: £8 million). The cost of inventories expensed in both years presented was not materially different to the cost of sales recorded (note 5). Inventories with a carrying amount of £23 million (2013: £43 million) have been pledged as security for certain local borrowing facilities.

19 Trade and other receivables

	2014 £million	2013 £million
Non-current		
Trade receivables	**26**	19
Short leasehold premiums	**28**	31
Loan assets	**2**	7
Other receivables	**22**	14
	78	71
Current		
Trade receivables	**2,199**	2,659
Provision for impairment	**(46)**	(41)
	2,153	2,618
Prepayments and accrued income	**178**	194
Loan assets	**2**	89
Other receivables	**211**	202
	2,544	3,103

Where trade receivables are estimated to be less than their carrying values, provisions have been made to write these down to their estimated recoverable amounts. The aggregate gross carrying value of trade receivables which were either partially or fully impaired was £95 million (2013: £116 million) and the associated aggregate impairment was £46 million (2013: £41 million). Trade receivables with a carrying amount of £37 million (2013: £27 million) have been pledged as security for certain local borrowing facilities.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

19 Trade and other receivables continued

Included within the aggregate unimpaired trade receivables were £150 million (2013: £183 million) which were past due. These balances have been assessed for recoverability and the Group believes that their credit quality remains intact. An ageing analysis of these unimpaired past due trade receivables was:

	Less than 1 month past due £million	1-2 months past due £million	2-3 months past due £million	More than 3 months past due £million	Total past due £million
Carrying value at 31 March 2014	**98**	**22**	**10**	**20**	**150**
Carrying value at 31 March 2013	114	31	14	24	183

The movement in the provision for impairment of trade receivables was:

	2014 £million	2013 £million
At 1 April	**(41)**	(38)
Created	**(18)**	(9)
Utilised	**4**	3
Released	**7**	4
Currency translation differences	**2**	(1)
At 31 March	**(46)**	(41)

20 Cash and cash equivalents

	2014 £million	2013 £million
Bank balances	**196**	294
Short term deposits	**305**	298
Cash and cash equivalents	**501**	592
Bank overdrafts	**(1)**	(13)
Cash and cash equivalents in the statement of cash flows	**500**	579

21 Restricted cash

Restricted cash at 31 March 2014 of £156 million (2013: £167 million) consisted of deposits restricted under contractual agency agreements of £70 million (2013: £92 million), cash pledged as collateral on financial instruments of £66 million (2013: £72 million) and cash restricted by law and other obligations of £20 million (2013: £3 million).

22 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

The balance of deferred tax assets and liabilities at the year end was:

	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets/ obligations £million	Intangible assets £million	Rolled over gains £million	Other temporary differences £million	Total £million
At 31 March 2014							
Deferred tax assets	**4**	**1**	**5**	**2**	**–**	**4**	**16**
Deferred tax liabilities	**55**	**(84)**	**(16)**	**(731)**	**(21)**	**16**	**(781)**
	59	**(83)**	**(11)**	**(729)**	**(21)**	**20**	**(765)**
At 31 March 2013							
Deferred tax assets	4	–	3	–	–	4	11
Deferred tax liabilities	58	(99)	(59)	(882)	(25)	31	(976)
	62	(99)	(56)	(882)	(25)	35	(965)

The movement in deferred tax assets and liabilities during the year was:

2014	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets/ obligations £million	Intangible assets £million	Rolled over gains £million	Other temporary differences £million	Total £million
At 1 April 2013	**62**	**(99)**	**(56)**	**(882)**	**(25)**	**35**	**(965)**
Acquisitions of businesses	**–**	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Income statement (charge)/credit	**(2)**	**14**	**12**	**146**	**4**	**(12)**	**162**
Credited/(charged) to equity	**–**	**–**	**33**	**–**	**–**	**(3)**	**30**
Currency translation differences	**(1)**	**2**	**–**	**9**	**–**	**–**	**10**
At 31 March 2014	**59**	**(83)**	**(11)**	**(729)**	**(21)**	**20**	**(765)**

2013	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets/ obligations £million	Intangible assets £million	Rolled over gains £million	Other temporary differences £million	Total £million
At 1 April 2012	71	(125)	(62)	(934)	(26)	23	(1,053)
Acquisitions of businesses	2	–	–	–	–	(2)	–
Income statement (charge)/credit	(10)	26	(10)	56	1	10	73
Credited to equity	–	–	16	–	–	–	16
Currency translation differences	(1)	–	–	(4)	–	4	(1)
At 31 March 2013	62	(99)	(56)	(882)	(25)	35	(965)

Unrecognised deferred tax assets and liabilities

Deferred tax assets have only been recognised on deductible temporary differences, unused tax losses or tax credits to the extent that future taxable profits will be available against which the asset can be utilised, or where these can be utilised against other taxable temporary differences. The assets are recorded after reviewing the financial forecasts of the Group's position, depreciation and potential capital expenditure for capital allowances. Where it is not considered probable that a taxable profit will arise against which the temporary difference can be utilised, no asset has been recognised. Unrecognised deferred tax assets on losses were £45 million (2013: £43 million), of this amount £34 million (2013: £31 million) has no expiration date.

Deferred tax liabilities of £22 million (2013: £32 million) have not been recognised for the tax that would be payable on the unremitted earnings of certain subsidiary undertakings since the Group has discretion over the manner and timing of any distributions, if any, to be made in the future. Unremitted earnings of these subsidiary undertakings totalled £232 million (2013: £232 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

23 Trade and other payables

	2014 £million	2013 £million
Current		
Trade payables	**3,401**	3,725
Other taxation and social security	**141**	147
Accruals and deferred income	**430**	465
Liability to acquire equity stakes from non-controlling interests	–	171
Future distribution obligation	–	657
Future dividend obligations to non-controlling interests	**6**	11
Other payables	**258**	255
	4,236	5,431
Non-current		
Future dividend obligations to non-controlling interests	**73**	67
Other payables	**85**	61
	158	128

The liability to acquire equity stakes from non-controlling interests at the prior year end mainly related to Hedef Alliance Holding A.S. and Farmexpert DCI S.A., which were settled in the current year.

The future distribution obligation at the prior year end related to the distribution of Galenica Ltd., which was settled on 10 May 2013.

24 Financial assets and liabilities

The carrying amounts of financial assets and liabilities were:

	2014 £million	2013 £million
Current borrowings		
Loans – senior facilities	**(100)**	–
Other loans – committed	**(162)**	(67)
Other loans – uncommitted	**(34)**	(67)
Bank overdrafts	**(1)**	(13)
Finance lease liabilities	**(4)**	(5)
	(301)	(152)
Non-current borrowings		
Loans – senior facilities	**(5,049)**	(5,916)
Loans – subordinated facility	–	(397)
Other loans – committed	**(386)**	(198)
Finance lease liabilities	**(9)**	(8)
	(5,444)	(6,519)
Total borrowings	**(5,745)**	(6,671)
Cash and cash equivalents	**501**	592
Total borrowings net of cash and cash equivalents	**(5,244)**	(6,079)
Restricted cash	**156**	167
Derivative financial instruments – interest rate and credit instrument assets	**29**	23
Derivative financial instruments – currency and interest rate instrument liabilities	**(3)**	(4)
Derivative financial instruments – equity purchase commitment	**11**	–
Net borrowings	**(5,051)**	(5,893)
Available-for-sale investments	**67**	48
Loan assets	**4**	96
Trade receivables net of provision for impairment	**2,179**	2,637
Trade payables	**(3,401)**	(3,725)
Liability to acquire equity stakes from non-controlling interests	–	(171)
Future distribution obligation	–	(657)
Future dividend obligations to non-controlling interests	**(79)**	(78)
Net financial liabilities	**(6,281)**	(7,743)

The Group's principal borrowings at the year end were:

- Committed facilities – £5,697 million (2013: £6,578 million) in total:
  - Loans – senior facilities non-current borrowings: these variable rate loans, which are denominated in Sterling and Euros, are fully drawn and their aggregate carrying value at 31 March 2014 was £5,049 million (2013: £6,313 million) including the impact of currency revaluation and are reported net of unamortised fees incurred in respect of the loans. As at 31 March 2014, the contractual maturity dates of these facilities are between 2015 and 2018.
  - Loans – senior facilities current borrowings: this revolving credit facility of £677 million (2013: £577 million) provides access to funding in a range of currencies with 85% (2013: 83%) of the facility available until July 2016 and the balance available to July 2014. £100 million (2013: £nil) of this facility was drawn as at 31 March 2014.
  - Other loans: these loans totalling £548 million (2013: £265 million) represent a mix of fixed and variable rate borrowings denominated in Sterling, Euros, Czech Koruna and Turkish Lira with major maturities concentrated between 2014 and 2017.
- Uncommitted facilities – £35 million (2013: £80 million) in total:
  - Bank overdrafts and local bank loans repayable on demand. These facilities are denominated in Turkish Lira, Russian Rouble and Czech Koruna.
- Finance leases – £13 million (2013: £13 million) in total.

Cash and cash equivalents included gross bank overdrafts of £80 million (2013: £68 million) which are offset under cash pooling arrangements.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

24 Financial assets and liabilities continued

The Group's core borrowing is provided through committed bank facilities originally set up in 2007 when Alliance Boots became a privately owned company. During the year the Group completed the extension of certain senior facilities in accordance with the 'springing maturity' mechanism agreed with lenders in December 2012.

Maturity profile of financial liabilities

The table below shows the contractual maturities of financial liabilities on an undiscounted basis. Interest payments are calculated based on liabilities held at 31 March 2014 without taking account of any future debt issuance. Floating rate interest was estimated using prevailing interest conditions at 31 March 2014. Cash flows in non-Sterling currencies were translated using prevailing exchange rates at 31 March 2014. All floating rate borrowings re-price within three months of the year end.

	Contractual cash flows							
2014	1 year or less £million	1-2 years £million	2-3 years £million	3-5 years £million	>5 years £million	Total £million	Future interest payments and fee amortisation £million	Carrying value £million
Fixed								
Other loans – committed	**(2)**	**(2)**	**(3)**	**(15)**	**(5)**	**(27)**	**4**	**(23)**
Finance lease liabilities	**(4)**	**(4)**	**(3)**	**(3)**	**–**	**(14)**	**1**	**(13)**
Floating								
Loans – senior facilities	**(310)**	**(925)**	**(231)**	**(4,445)**	**–**	**(5,911)**	**762**	**(5,149)**
Other loans – committed	**(167)**	**(9)**	**(75)**	**(303)**	**–**	**(554)**	**29**	**(525)**
Other loans – uncommitted	**(34)**	**–**	**–**	**–**	**–**	**(34)**	**–**	**(34)**
Bank overdrafts	**(1)**	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Total borrowings	**(518)**	**(940)**	**(312)**	**(4,766)**	**(5)**	**(6,541)**	**796**	**(5,745)**
Trade payables	**(3,401)**	**–**	**–**	**–**	**–**	**(3,401)**	**–**	**(3,401)**
Total non-derivative financial liabilities	**(3,919)**	**(940)**	**(312)**	**(4,766)**	**(5)**	**(9,942)**	**796**	**(9,146)**
Forward currency derivatives	**(3)**	**–**	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Total derivative financial liabilities	**(3)**	**–**	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Total financial liabilities	**(3,922)**	**(940)**	**(312)**	**(4,766)**	**(5)**	**(9,945)**	**796**	**(9,149)**

In addition to the contractual maturities of financial liabilities presented above, the Group has an ongoing future dividend obligation in relation to the non-controlling interest in Boots Optical Investment Holdings Limited. The contractual undiscounted cash flows are £6 million within one year, £5 million between 1 and 2 years and £20 million between 2 and 5 years.

2013	1 year or less £million	1-2 years £million	2-3 years £million	3-5 years £million	>5 years £million	Contractual cash flows Total £million	Future interest payments and fee amortisation £million	Carrying value £million
Fixed:								
Other loans – committed	(56)	(8)	(2)	(2)	–	(68)	1	(67)
Finance lease liabilities	(6)	(3)	(3)	(3)	–	(15)	2	(13)
Floating:								
Loans – senior facilities	(244)	(247)	(1,482)	(4,889)	–	(6,862)	946	(5,916)
Loans – subordinated facility	(15)	(15)	(17)	(493)	–	(540)	143	(397)
Other loans – committed	(17)	(123)	(1)	(65)	–	(206)	8	(198)
Other loans – uncommitted	(67)	–	–	–	–	(67)	–	(67)
Bank overdrafts	(13)	–	–	–	–	(13)	–	(13)
Total borrowings	(418)	(396)	(1,505)	(5,452)	–	(7,771)	1,100	(6,671)
Trade payables	(3,725)	–	–	–	–	(3,725)	–	(3,725)
Liability to acquire equity stakes from non-controlling interests	(185)	–	–	–	–	(185)	14	(171)
Total non-derivative financial liabilities	(4,328)	(396)	(1,505)	(5,452)	–	(11,681)	1,114	(10,567)
Interest rate derivatives:								
– outflows	(17)	(18)	(6)	–	–	(41)		
– inflows	15	16	6	–	–	37		
Total derivative financial liabilities	(2)	(2)	–	–	–	(4)	–	(4)
Total financial liabilities	(4,330)	(398)	(1,505)	(5,452)	–	(11,685)	1,114	(10,571)

In addition to the contractual maturities of financial liabilities presented above, the Group had an ongoing future dividend obligation in relation to the non-controlling interest in Hedef Alliance Holding A.S. and Boots Optical Investment Holdings Limited. The contractual undiscounted cash flows were £11 million within one year, £4 million between 1 and 2 years and £14 million between 2 and 5 years.

Finance lease liabilities

	2014			2013		
	Minimum lease payments £million	**Interest £million**	**Present value of minimum lease payments £million**	Minimum lease payments £million	Interest £million	Present value of minimum lease payments £million
Less than one year	**4**	**–**	**4**	6	(1)	5
Between one year and five years	**10**	**(1)**	**9**	9	(1)	8
	14	**(1)**	**13**	15	(2)	13

Under the terms of the finance lease agreements entered into by the Group, no material contingent rents are payable.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

24 Financial assets and liabilities continued

Carrying value and fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Carrying values and fair values of the Group's financial assets and liabilities held to finance the Group's operations were:

	2014		2013	
	Carrying value £million	Fair value £million	Carrying value £million	Fair value £million
Liabilities held at amortised cost				
Loans – senior facilities	**(5,149)**	**(5,176)**	(5,916)	(5,965)
Loans – subordinated facility	–	–	(397)	(405)
Other loans – committed	**(548)**	**(548)**	(265)	(265)
Other loans – uncommitted	**(34)**	**(34)**	(67)	(67)
Bank overdrafts	**(1)**	**(1)**	(13)	(13)
Finance lease liabilities	**(13)**	**(14)**	(13)	(15)
Liability to acquire equity stakes from non-controlling interests	–	–	(171)	(171)
Future dividend obligations to non-controlling interests	**(79)**	**(79)**	(78)	(78)
Trade payables	**(3,401)**	**(3,401)**	(3,725)	(3,725)
	(9,225)	**(9,253)**	(10,645)	(10,704)
Liabilities held at fair value				
Future distribution obligation	–	–	(657)	(657)
Derivative financial instruments – currency and interest rate instrument liabilities	**(3)**	**(3)**	(4)	(4)
	(3)	**(3)**	(661)	(661)
Loans and receivables financial assets				
Trade receivables net of provision for impairment	**2,179**	**2,179**	2,637	2,637
Loan assets	**4**	**4**	96	96
	2,183	**2,183**	2,733	2,733
Financial assets held at fair value				
Derivative financial instruments – interest rate and credit instrument assets	**29**	**29**	23	23
Derivative financial instruments – equity purchase commitment	**11**	**11**	–	–
Available-for-sale investments	**67**	**67**	48	48
	107	**107**	71	71
Cash and cash equivalents	**501**	**501**	592	592
Restricted cash	**156**	**156**	167	167
Net financial liabilities	**(6,281)**	**(6,309)**	(7,743)	(7,802)

The fair values of bank overdrafts, other loans and trade receivables approximate to their carrying values due to either their short term nature or being re-priced at variable interest rates. The carrying value of the variable rate senior facility loans, were lower than the fair values of the instruments due mainly to the impact of unamortised fees included in the carrying value. The fair value of these loans has been estimated as level 2 in the fair value hierarchy.

The carrying values of financial assets and liabilities held at fair value, as analysed by the levels of the fair value hierarchy, were:

2014	**Level 1 £million**	**Level 2 £million**	**Level 3 £million**	**Total £million**
Financial liabilities				
Derivative financial instruments – currency	–	**(3)**	–	**(3)**
	–	**(3)**	–	**(3)**
Financial assets				
Derivative financial instruments – interest rate and credit instrument assets	–	**29**	–	**29**
Derivative financial instruments – equity purchase commitment	–	–	**11**	**11**
Available-for-sale investments	**67**	–	–	**67**
	67	**29**	**11**	**107**

2013	Level 1 £million	Level 2 £million	Level 3 £million	Total £million
Financial liabilities:				
Derivative financial instruments – interest rate	–	(4)	–	(4)
Future distribution obligation	–	(657)	–	(657)
	–	(661)	–	(661)
Financial assets:				
Derivative financial instruments – interest rate and credit instrument assets	–	23	–	23
Available-for-sale investments	48	–	–	48
	48	23	–	71

The levels of the fair value hierarchy reflect the significance of the valuation inputs used in making fair value measurements and are defined as follows:

Level 1: quoted prices in active markets for the same instrument.
Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based either directly or indirectly on observable market data.
Level 3: determined on inputs that are not based on observable market data.

Derivative financial instruments

The derivative financial instruments that the Group holds are not traded in an active market. Accordingly, their fair values are determined by using suitable valuation techniques that do not make use of entity-specific estimates or by using movements in observable prices for underlying financial instruments attributable to the hedged risks. 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. The fair value of interest rate caps is calculated using an option pricing methodology. 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. The fair value of credit derivatives is calculated by discounting anticipated cash flows using the applicable observable yield curve plus a margin derived from the current trading value of the underlying security. The fair value of the equity purchase commitment is calculated based on quoted market prices for equity instruments adjusted for the probability of the acquisition occurring. All computed fair values for derivative financial instruments include an appropriate adjustment for own and counterparty credit risk as appropriate.

Available-for-sale investments

The fair values of quoted investments are based on current bid prices.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

25 Financial risk management

Capital risk management

The Group's objectives in managing its capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure that reduces the cost of capital.

The Group defines its capital employed of £11,274 million (2013: £11,564 million) as total equity of £6,223 million (2013: £5,671 million) and net borrowings of £5,051 million (2013: £5,893 million).

The ability of certain Group companies to pay dividends, for ultimate distribution to shareholders, is restricted by the terms of the financing agreements to which they are party.

Financial risk management – overview

The Group's trading and financing activities expose it to various financial risks that could adversely impact on future earnings and cash flows. Although not necessarily mutually exclusive, these financial risks are categorised separately according to their different generic risk characteristics and include market risk (foreign currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group is actively engaged in the management of all of these financial risks in order to moderate their potential adverse impact on the Group's financial performance and position.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Access to cost-effective funding is managed by maintaining a range of committed and uncommitted facilities, sufficient to meet anticipated needs, arranging funding ahead of requirements, and developing diversified sources of funding.

Group liquidity is optimised through cash pooling and deposits with, or loans from, Group treasury companies.

The Group's core borrowings are provided through committed term loans. The carrying value of these loans, which are denominated in Sterling and Euros, at 31 March 2014 was £5,049 million (2013: £6,313 million) including the impact of repurchases, currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2015 and 2018 with 86% (2013: 80%) maturing in July 2017 or later. The Group also has access to a committed £677 million (2013: £577 million) revolving credit facility, £100 million (2013: £nil) of which was drawn down at 31 March 2014, £98 million (2013: £101 million) of which was utilised in providing guarantees and letters of credit principally to the Boots Pension Scheme and £479 million (2013: £476 million) of which was available as at 31 March 2014. This facility provides access to funding in a range of currencies with 85% (2013: 83%) of the facility available until July 2016 and the balance available to July 2014.

The Group's net borrowings vary throughout the year in a predictable seasonal pattern subject to material acquisitions and disposals. Net borrowings typically peak in the autumn due to the working capital requirements of Christmas trading.

The Group monitors its net borrowing position on a daily basis against both budget and a rolling two month cash forecast. The maturity profile of the Group's financial liabilities at 31 March 2014 is shown in note 24.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, derivative financial instruments, cash balances, restricted cash and short term deposits.

The maximum exposure to credit risk at the year end is represented by the carrying amount of each financial asset, including derivative financial instruments.

Credit risk exposure to commercial counterparties is managed through credit control functions in each of the businesses. New customers are credit checked, customer limits are reviewed at least annually and aged receivable reviews are undertaken regularly.

The Group considers the possibility of significant loss in the event of non-performance by a financial or commercial counterparty to be unlikely.

At 31 March 2014, there were no significant concentrations of credit risk in respect of trade receivables.

The maximum exposure to credit risk for trade receivables, net of provision for impairment and loan assets at 31 March by geographic region was:

	2014 £million	2013 £million
UK	**523**	774
Other European countries	**1,483**	1,783
Other countries	**177**	176
	2,183	2,733

Exposures to financial counterparties, principally arise from the use of derivative financial instruments, cash balances and short term deposits. The Group protects itself against the risk of financial loss arising from the failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties or their groups. Limits are set by reference to ratings issued by the major rating agencies, Standard and Poor's ('S&P') and Moody's Investors Service Limited ('Moody's').

At 31 March 2014, total exposures of the Group to financial counterparties, was £686 million (2013: £782 million) of which £29 million (2013: £23 million) related to derivative financial instruments, £501 million (2013: £592 million) was in respect of cash and cash equivalents and £156 million (2013: £167 million) was in respect of restricted cash.

£426 million (2013: £413 million) of derivative financial assets, cash and cash equivalents and restricted cash relate to balances managed centrally by Group treasury, £305 million (2013: £297 million) of which are directly deposited in AAA rated money market fund investments and the remaining spread across a number of high quality counterparties, all of whom have a credit rating of A- or better from either S&P or Moody's. The remaining £260 million (2013: £369 million) of cash and cash equivalents represents short term deposits, restricted cash, cash-in-transit and cash held in operational bank accounts across the Group with counterparties whom predominantly have a credit rating of A- or better from either S&P or Moody's.

£11 million (2013: £nil) of derivative financial assets relate to the valuation of an equity purchase commitment provided to a non-financial counterparty and £4 million (2013: £96 million) of other loans are lent to unrated entities.

Market risk

Market risk is the risk that changes in market prices, such as currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risks within acceptable parameters. The Group transacts in financial instruments including derivatives in order to manage these risks in accordance with the Group treasury policies approved by the Board.

Currency risk

The Group uses currency derivatives in the management of exchange rate exposures, which include forward currency exchange contracts. Movements in the fair value of all forward currency exchange contracts other than those that are designated and effective as cash flow hedges or net investment hedges are reported directly in the income statement.

The Group utilises forward currency exchange derivatives to hedge significant committed and highly probable future transactions and cash flows denominated in currencies other than the functional currency of a Group entity.

A loss of £1 million was recycled from the cash flow hedge reserve to cost of sales in respect of contracts designated as cash flow hedges of the attributable currency risk on highly probable forecast transactions (2013: £nil). During the year, there were no gains or losses recycled from the cash flow hedge reserve to non-current non-financial assets in respect of contracts designated as cash flow hedges of the attributable currency risk on capital expenditure projects (2013: £nil).

The Group has significant non-Sterling denominated currency net investments predominantly in Euros and in addition uses derivative financial instruments, specifically forward currency exchange contracts and non-Sterling currency borrowings to hedge the non-Sterling currency risk.

At 31 March 2014, £571 million (2013: £680 million) of non-Sterling currency borrowings with fair value of £571 million (2013: £680 million) were designated as net investment hedges.

The effect of derivative financial instruments to manage translation risk on net borrowings was:

	Net borrowings 2014			Net borrowings 2013		
	Before hedging £million	**Derivative financial instruments – currency £million**	**Total £million**	Before hedging £million	Derivative financial instruments – currency £million	Total £million
Sterling	**(3,689)**	**(103)**	**(3,792)**	(4,347)	(90)	(4,437)
Euro	**(1,387)**	**102**	**(1,285)**	(1,553)	115	(1,438)
Other	**28**	**(2)**	**26**	7	(25)	(18)
	(5,048)	**(3)**	**(5,051)**	(5,893)	–	(5,893)

At 31 March 2014, the total notional amount of outstanding forward currency exchange contracts that the Group has committed was £400 million (2013: £273 million).

At 31 March 2014, the statement of financial position carrying value of the Group's outstanding forward currency exchange contracts was a £3 million liability (2013: £nil).

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

25 Financial risk management continued

The table below shows the Group's sensitivity to non-Sterling exchange rates on its non-Sterling financial instruments, excluding trade payables and trade receivables, which do not represent a significant exposure to exchange rates.

A 10% (2013: 10%) strengthening of Sterling against the following currencies would have increased/(decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant and that instruments designated as net investment hedges remain highly effective. In this table, financial instruments are only considered sensitive for exchange rates where they are not in the functional currency of the entity that holds them.

	2014		2013	
	Impact on equity £million	**Impact on profit £million**	Impact on equity £million	Impact on profit £million
Euro	**61**	–	58	–
Turkish Lira	–	**(3)**	–	(9)
Swiss Franc	–	–	35	60
US Dollar	–	**(1)**	–	–
Norwegian Krone	–	–	2	–

A 10% (2013: 10%) weakening of Sterling against these currencies at 31 March 2014 would have had the equal and opposite effect to that shown above on the basis that all other variables remain constant.

The movements in equity relate to non-Sterling borrowings used during the year to hedge Group assets denominated in those currencies. An appreciation in the value of the borrowing would be matched by a corresponding depreciation in the value of the related Group asset, which would also be recorded in equity. Exchange rate sensitivities on Group assets other than financial instruments have not been shown in the table above.

Cash flow interest rate risk

The Group manages interest rate risk in accordance with the treasury policy approved by the Board. Exposures are hedged through a combination of interest rate caps and interest rate swaps.

The Group has a mixture of fixed and floating rate borrowings. Before the impact of derivative financial instruments, £36 million or 0.6% (2013: £80 million or 1.2%) of total borrowings were at fixed interest rates. The re-pricing risk of the fixed borrowings coincides with their maturity. The floating rate borrowings re-price within three months of the reporting date, based on short term borrowing rates for the relevant currency.

The Group has interest rate swap protection on principal amounts of £2,000 million (2013: £2,000 million) to swap outstanding borrowings from floating to fixed rates at a rate of 0.52% (2013: 0.52%) until July 2015. At 31 March 2014, £2,000 million of these swaps (2013: £1,600 million) with an asset fair value of £3 million (2013: £2 million liability) were designated as cash flow hedges. The Group also has interest rate caps with notional principal amounts of £1,500 million (2013: £1,500 million) and €2,000 million (2013: €2,000 million) to protect the Group from rising interest rates on the corresponding amounts of borrowings until July 2015. The Group also has interest rate swap protection of €760 million (2013: €10 million) the majority of which matures in November 2014.

After taking into account the impact of derivative financial instruments, £5,264 million or 92% (2013: £5,220 million or 78%) of the Group's total borrowings were at fixed or capped interest rates. All other borrowings re-price within three months of the year end.

The impact of a 1% increase and a 1% decrease in interest rates on 31 March 2014 on pre-tax profit are shown in the table below. This analysis assumes that all other variables are held constant.

	2014		2013	
	1% increase in interest rates £million	**1% decrease in interest rates £million**	1% increase in interest rates £million	1% decrease in interest rates £million
Gain/(loss) – derivative financial instruments	–	**1**	13	(9)
(Loss)/gain – variable rate financial instruments	**(31)**	**31**	(45)	45

The impact on equity would have been a gain of £28 million (2013: £36 million) or a loss of £29 million (2013: £37 million) for a +/- 1% movement in interest rates.

Equity price risk

The Group is exposed to equity price risk through its long term holdings of listed and unlisted securities, which are classified as available-for-sale investments and held at fair value. The associated measurement volatility on these investments is recorded directly in equity, unless an equity instrument has suffered a significant or prolonged decline, in which case an impairment loss is recorded in profit or loss. The Group is also exposed to equity price risk through its equity purchase commitment to acquire a 12% equity stake in Nanjing Pharmaceutical Company Limited, a commitment recognised at fair value with the associated measurement volatility recorded in exceptional finance income. The potential impact on the Group's equity resulting from the application of +/- 5% movement in the fair value of its available-for-sale investments would have been a gain/(loss) recorded in the available-for-sale reserve of £3 million (2013: £2 million). The potential impact on the Group's profit resulting from the application of +/- 5% movement in the fair value of its equity purchase commitment would have been a gain/(loss) recorded in exceptional finance income/(costs) of £3 million (2013: £nil).

26 Analysis of movement in net borrowings

Set out below is a reconciliation of the net decrease in cash and cash equivalents to the decrease in net borrowings:

	2014 £million	2013 £million
Net decrease in cash and cash equivalents	**(61)**	(92)
Movement in restricted cash	**(9)**	(88)
Cash and cash equivalents outflow from decrease in debt and debt financing	**895**	1,294
Movement in net borrowings resulting from cash flows	**825**	1,114
Repurchase and repayment of acquisition borrowings	**(14)**	28
Borrowings acquired with businesses	**(5)**	(9)
Finance leases entered into	**(5)**	–
Amortisation of prepaid financing fees	**(19)**	(27)
Capitalised finance costs	**(4)**	(22)
Currency translation differences and fair value movements on financial instruments	**64**	40
Movement in net borrowings in the year	**842**	1,124
Net borrowings at 1 April	**(5,893)**	(7,017)
Net borrowings at 31 March	**(5,051)**	(5,893)

Cash and cash equivalents outflow from decrease in debt and debt financing comprised repayment and net repurchase of borrowings and settlement of derivative financial instruments of £1,658 million (2013: £1,353 million), prepaid fees associated with financing activities of £1 million (2013: £19 million) and repayment of capital element of finance lease obligations of £6 million (2013: £8 million), less proceeds from borrowings of £770 million (2013: £86 million). Proceeds from borrowings include funding provided by the committed revolving credit facility.

Set out below is an analysis of the movement in net borrowings during the year:

2014	**Cash and cash equivalents £million**	**Restricted cash £million**	**Borrowings within current liabilities £million**	**Borrowings within non-current liabilities £million**	**Derivative financial instruments £million**	**Net borrowings £million**
At 1 April 2013	**592**	**167**	**(152)**	**(6,519)**	**19**	**(5,893)**
Net decrease in cash and cash equivalents	**(69)**	–	**8**	–	–	**(61)**
Movement in restricted cash	–	**(9)**	–	–	–	**(9)**
Cash and cash equivalents outflow from decrease in debt and debt financing	–	–	**(49)**	**950**	**(6)**	**895**
Repurchase and repayment of acquisition borrowings	–	–	–	**(14)**	–	**(14)**
Borrowings acquired with businesses	–	–	**(5)**	–	–	**(5)**
Finance leases entered into	–	–	**(5)**	–	–	**(5)**
Amortisation of prepaid financing fees	–	–	–	**(19)**	–	**(19)**
Capitalised finance costs	–	–	–	**(4)**	–	**(4)**
Non-cash movements	–	–	**(121)**	**121**	–	–
Currency translation differences and fair value movements on financial instruments	**(22)**	**(2)**	**23**	**41**	**24**	**64**
At 31 March 2014	**501**	**156**	**(301)**	**(5,444)**	**37**	**(5,051)**

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

26 Analysis of movement in net borrowings continued

2013	Cash and cash equivalents £million	Restricted cash £million	Borrowings within current liabilities £million	Borrowings within non-current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 1 April 2012	670	254	(153)	(7,641)	(147)	(7,017)
Net decrease in cash and cash equivalents	(82)	–	(10)	–	–	(92)
Movement in restricted cash	–	(88)	–	–	–	(88)
Cash and cash equivalents outflow from decrease in debt and debt financing	–	–	39	1,138	117	1,294
Discounts on repurchase of acquisition borrowings	–	–	–	28	–	28
Borrowings acquired with businesses	–	–	(9)	–	–	(9)
Amortisation of prepaid financing fees	–	–	–	(27)	–	(27)
Capitalised finance costs	–	–	–	(22)	–	(22)
Non-cash movements	–	–	(15)	15	–	–
Currency translation differences and fair value movements on financial instruments	4	1	(4)	(10)	49	40
At 31 March 2013	592	167	(152)	(6,519)	19	(5,893)

In the Group statement of cash flows, cash and cash equivalents included bank overdrafts classified as borrowings within current liabilities in the statement of financial position, which amounted to £1 million (2013: £13 million).

27 Movement in net borrowings resulting from acquisitions and disposals

	2014 £million	2013 £million
Acquisitions of businesses	**(20)**	(3)
Net cash/(borrowings) of businesses acquired:		
– cash and cash equivalents net of bank overdrafts	**1**	9
– borrowings	**(5)**	(9)
Disposals of businesses	–	1
Investments in associates and joint ventures	–	(16)
Disposal of investments in associates	**1**	3
Purchase of non-controlling interests	**(143)**	(65)
	(166)	(80)

28 Provisions

2014	Restructuring and reorganisation £million	Vacant property £million	Other £million	Total £million
At 1 April 2013	**11**	**14**	**24**	**49**
Created	**3**	–	**4**	**7**
Utilised	**(6)**	**(4)**	**(9)**	**(19)**
Released	**(2)**	–	**(9)**	**(11)**
Currency translation differences	–	–	**(1)**	**(1)**
At 31 March 2014	**6**	**10**	**9**	**25**
Current	**3**	**4**	**2**	**9**
Non-current	**3**	**6**	**7**	**16**
	6	**10**	**9**	**25**

Restructuring and reorganisation
The restructuring and reorganisation provision relates primarily to the restructuring programmes announced in the Pharmaceutical Wholesale Division and in the UK part of the Health & Beauty Division and related contract manufacturing activities respectively.

Vacant property
The vacant property provisions represent recognition of the present value of the expected net costs arising from vacant properties and sub-let properties. The exact timing of utilisation of these provisions will vary according to the individual properties concerned.

Other
The other provision relates mainly to long service award entitlements accrued on a probability-weighted basis.

29 Share capital

	2014		2013	
	Number of units	**£million**	Number of units	£million
Units of capital of CHF1,000:				
Issued and fully paid	**2,120,152**	**1,079**	2,120,152	1,079

During the prior year, 21,686 new units of capital of CHF1,000 were issued in exchange for equity owned by a non-controlling interest in a subsidiary of the Group. The fair value of the equity issued was £96 million and this gave rise to the recognition of share premium of £82 million. A further 466 units of capital of CHF1,000 were issued to the Company's parent company, AB Acquisitions Holdings Limited, for £2 million which gave rise to share premium of £2 million.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

30 Other reserves

Other reserves movements within equity were:

2014	Available-for-sale reserve £million	Translation reserve £million	Cash flow hedge reserve £million	Special reserve £million	Associates' and joint ventures' other comprehensive income £million	Total £million
At 1 April 2013	14	249	(2)	(176)	(3)	82
Net exchange differences on translation of non-Sterling denominated operations	–	(158)	–	–	–	(158)
Fair value movements on cash flow hedging instruments	–	–	5	–	–	5
Fair value movements on cash flow hedging instruments recycled to the income statement	–	–	1	–	–	1
Fair value movements on available-for-sale investments	7	–	–	–	–	7
Share of post-tax other comprehensive income of associates and joint ventures	–	–	–	–	(1)	(1)
Amounts recycled on distribution of associate	–	(82)	–	–	4	(78)
Purchase of non-controlling interests	–	–	–	176	–	176
Tax	(1)	(3)	(1)	–	–	(5)
At 31 March 2014	20	6	3	–	–	29

2013	Available-for-sale reserve £million	Translation reserve £million	Cash flow hedge reserve £million	Special reserve £million	Associates' and joint ventures' other comprehensive income £million	Total £million
At 1 April 2012	9	221	–	(178)	(5)	47
Net exchange differences on translation of non-Sterling denominated operations	–	30	–	–	–	30
Fair value movements on cash flow hedging instruments	–	–	(2)	–	–	(2)
Fair value movements on available-for-sale investments	2	–	–	–	–	2
Impairment of available-for-sale investment recycled	3	–	–	–	–	3
Share of post-tax other comprehensive income of associates and joint ventures	–	–	–	–	2	2
Purchase of non-controlling interests	–	–	–	2	–	2
Tax	–	(2)	–	–	–	(2)
At 31 March 2013	14	249	(2)	(176)	(3)	82

The nature and purpose of each reserve in equity is:

Retained earnings

The Group's retained earnings reserve, which is presented in the Group's statement of changes in equity, comprises the Group's retained earnings, net of distributions made to equity holders, movements related to non-controlling interests purchased, together with remeasurement gains and losses on defined benefit schemes and related tax movements.

Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of the Group's available-for-sale investments. Net fair value movements are recycled to the income statement if an underlying available-for-sale investment is either derecognised or impaired.

Translation reserve

The translation reserve comprises all currency exchange differences arising from the translation of the financial statements of non-Sterling denominated operations into the presentation currency of the Group, as well as from the translation of financial liabilities that hedge the Company's net investment in non-Sterling denominated subsidiaries.

Cash flow hedge reserve
The cash flow hedge reserve comprises the effective portion of designated hedges of the variability in cash flows of recognised liabilities and the cumulative net change in the fair value of cash flow hedging instruments related to the hedged risks on highly probable forecast transactions that have not yet occurred. When a forecast transaction occurs and the hedged risk is realised, an appropriate amount is recycled from the cash flow hedge reserve either to the income statement or to the carrying value of a non-current non-financial asset, according to where the underlying cash flow is recorded.

Special reserve
The special reserve comprises amounts recorded on the recognition of commitments to acquire equity stakes from non-controlling interests. When the commitments are derecognised, the amounts initially recorded are reversed.

Associates' and joint ventures' other comprehensive income
The associates' and joint ventures' other comprehensive income reserve records the Group's share of post-tax other comprehensive income of associates and joint ventures.

31 Acquisitions and disposals
Acquisitions during the year ended 31 March 2014
The Group acquired businesses during the year for cash consideration totalling £20 million. The fair value of net assets identified was £11 million with goodwill recognised of £9 million.

Acquisitions during the year ended 31 March 2013
On 1 November 2012, the Group acquired a 51% equity shareholding in Alliance Boots Investments 1 Limited from a fellow subsidiary of AB Acquisitions Holdings Limited. The Group had a pre-existing 49% interest which prior to 1 November 2012 was accounted for as an associate. The main activity of the business acquired is pharmaceutical wholesaling and distribution in Russia.

The net assets acquired and the attributable goodwill were:

	Fair value £million
Total identifiable net assets	10
Negative goodwill arising on acquisition	(4)
Fair value of existing interest	(3)
	3
Satisfied by:	
– cash	3

The negative goodwill reflected the value of net assets employed relative to the Russia business's enterprise value, and in accordance with IFRS 3 Business Combinations is included in the income statement within profit from operations. The remeasurement to fair value of the Group's existing 49% interest resulted in a gain of £6 million (fair value of £3 million plus £3 million carrying value of liability for equity accounted associate at acquisition date), which was recognised in the income statement within profit from operations.

The consolidated income statement for the prior year includes revenue of £434 million and profit for the year of £7 million in respect of the Russia business since the acquisition date. If the Russia business had been a subsidiary of the Group from the beginning of the prior year, taking into account their results prior to acquisition, revenue and profit for the combined Group on a pro forma basis would have been £22,862 million and £729 million respectively.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

32 Operating leases

At 31 March outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due were:

	2014 £million	2013 £million
Less than one year	**314**	317
Between one and five years	**914**	901
More than five years	**891**	967
	2,119	2,185

The Group leases a number of its properties under operating leases. The leases predominantly run for periods up to 25 years, with options to break the leases during the period and renew the leases at the end of the period. Lease rentals are increased at regular intervals to reflect market rentals. None of the leases include material contingent rentals. Rental income from sub-let properties was £19 million (2013: £20 million). Total future minimum sub-let income at the end of the year was £38 million (2013: £50 million).

33 Commitments and contingent arrangements

Commitments

Capital expenditure contracted for at the year end but not yet incurred was £39 million (2013: £24 million) in respect of property, plant and equipment and software.

Contingent arrangements

The Group had aggregate contingent liabilities of £55 million (2013: £63 million), including £10 million (2013: £17 million) for letters of guarantee provided to certain suppliers, a £17 million (2013: £17 million) guarantee provided by Alliance Healthcare Deutschland AG for certain of its customers and bank loans of £12 million (2013: £12 million) guaranteed by Hedef Alliance Holding A.S. for an associate interest of the Group, which were initially agreed in prior periods and are due to expire during the year to 31 March 2015.

34 Retirement benefit assets/obligations

The Group operates a number of retirement benefit schemes in the UK and other countries including both defined benefit and defined contribution schemes.

Defined benefit schemes

UK schemes

The Group's principal defined benefit scheme is the Boots Pension Scheme in the UK, which is a funded final salary defined benefit scheme providing pensions and death benefits to members. The Scheme was closed to future accrual from 1 July 2010 with pensions calculated based on salaries up until the point of closure. The Scheme is governed by a trustee board, which is independent of the Group and is subject to full actuarial valuation on a triennial basis.

At 31 March 2014, the Scheme liabilities of the Boots Pension Scheme represented 98% (2013: 97%) of the total liabilities for all of the Group's defined benefit schemes.

The Boots Pension Scheme cash contributions during the year mainly related to deficit funding payments.

Contributions totalling £22 million were made by two pension funding partnership structures under which, in prior years, the Group contributed interests in partnerships worth £273 million and transferred a number of properties under sale and leaseback arrangements. The partnerships will make similar annual contributions for a further 13 years, with £10 million per year thereafter for a further five years. In addition, a capital sum will be made in 2031 equal to the lower of £156 million and any funding deficit in the Scheme at that point in time. The Scheme's interests in the partnerships reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 accounting basis, as the investments held by the Scheme in the partnerships do not qualify as assets for the purposes of the Group's consolidated financial statements and are therefore not included within the fair value of plan assets. These funding initiatives are part of the Group's ongoing plans to ensure long term security of accrued benefits for its UK defined benefit pension schemes.

Other contributions in the year mainly related to those agreed following the triennial valuation of the Boots Pension Scheme as at 31 March 2010. Prior to year end, the trustees of the Boots Pension Scheme completed the 31 March 2013 triennial valuation. This has resulted in no additional contributions being required from the Group over and above those agreed at the 2010 valuation. As a result, the Group will contribute £53 million in each of the next three years in addition to the contributions from the pension funding partnership structures. The extent to which the Group may be required to make additional contributions if the assets' returns assumed in the recovery plan are not achieved, will be assessed as part of the 2016 valuation.

The Scheme has continued with its investment strategy of targeting to hold 85% of its assets in a diverse portfolio of high quality bonds with the remainder invested in equity and property assets backing longer term liabilities. Interest rate and inflation rate swaps are also employed to complement the role of fixed and index-linked bond holdings in liability risk management.

During the prior year, the Boots Pension Scheme implemented a Pension Increase Exchange scheme to allow Scheme members retiring on or after 24 September 2012 to elect for a higher initial pension in exchange for foregoing certain rights to future pension increases. This change resulted in a reduction in the estimated defined benefit scheme liabilities at the date of implementation of £24 million which was recognised within the prior year's profit from operations as a negative past service cost.

Since the Scheme closure date, the Group has operated a contract based defined contribution arrangement known as the Alliance Boots Retirement Savings Plan to which both employer and employee contribute. In addition there are two smaller defined benefit schemes in the UK which were closed to future accrual from 1 July 2010, the Boots Supplementary Pension Plan, which is a funded final salary scheme, and the Boots Additional Pension Arrangement, which is a secured unapproved arrangement.

Non-UK schemes

The Group has defined benefit schemes in Germany, France and Guernsey. In the year, the Group closed its defined benefit scheme in the Republic of Ireland and is in the process of transferring the obligations to a third party.

UK and non-UK schemes

The defined benefit schemes expose the Group to actuarial risks, such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or scheme specific risks.

The net amount recognised in respect of defined benefit schemes was:

	2014 £million	2013 £million
Present value of defined benefit scheme liabilities	**(5,209)**	(5,181)
Less fair value of defined benefit scheme assets:		
– government bonds	**1,500**	1,789
– corporate bonds and swaps	**2,699**	2,579
– equities	**524**	590
– property	**264**	137
– other scheme assets	**48**	50
	5,035	5,145
Net amount recognised	**(174)**	(36)
Analysed as:		
– scheme in surplus	–	62
– schemes in deficit	**(174)**	(98)
	(174)	(36)

All scheme assets, except the swaps, have quoted prices in active markets. The majority of the government bonds are issued by European governments and are AA+ rated or higher. Interest rate and inflation rate swaps are also employed to complement the role of fixed and index-linked bond holdings for liability risk management. The fair value of the interest rate and inflation swaps included within corporate bonds and swaps was a £311 million liability (2013: £198 million liability).

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

34 Retirement benefit assets/obligations continued

The change in the present value of defined benefit scheme liabilities was:

	2014 £million	2013 £million
At 1 April	**5,181**	4,588
Current service costs	**2**	3
Scheme administrative costs	**2**	2
Past service credit – scheme amendments	**1**	(24)
Past service credit – curtailments	**–**	(1)
Settlement	**(10)**	–
Interest on defined benefit scheme liabilities	**225**	232
Net remeasurement losses – financial	**44**	561
Net remeasurement gains – experience	**(120)**	(19)
Net remeasurement losses/(gains) – demographic	**53**	(1)
Benefits paid	**(167)**	(163)
Currency translation differences	**(2)**	3
At 31 March	**5,209**	5,181

The defined benefit scheme liabilities are 1% (2013: 1%) in respect of active scheme participants, 54% (2013: 54%) in respect of deferred scheme participants, and 45% (2013: 45%) in respect of retirees.

The weighted average duration of the UK defined benefit scheme liabilities at the end of the reporting period is 18 years (2013: 18 years).

The change in the fair value of defined benefit scheme assets was:

	2014 £million	2013 £million
At 1 April	**5,145**	4,539
Interest income on defined benefit scheme assets	**225**	230
Return on scheme assets, excluding interest income	**(212)**	469
Settlement	**(6)**	–
Employer contributions	**50**	70
Benefits paid	**(167)**	(163)
At 31 March	**5,035**	5,145

The Group expects to contribute approximately £76 million to its defined benefit schemes in the year ended 31 March 2015.

The net (expense)/credit recognised in the income statement comprised:

	2014 £million	2013 £million
Current service costs	**(2)**	(3)
Scheme administrative costs	**(2)**	(2)
Settlements	**4**	–
Past service (charge)/credits	**(1)**	25
	(1)	20
Net interest cost on net defined benefit scheme liabilities/assets	**–**	(2)
	(1)	18

The (expense)/credit was recognised in the following line items in the income statement:

	2014 £million	2013 £million
Selling, distribution and store costs	–	24
Administrative costs	(1)	(4)
Finance income	3	2
Finance costs	(3)	(4)
	(1)	18

The principal actuarial assumptions at the year end were:

	2014		2013	
	UK	Non-UK	UK	Non-UK
Discount rate for defined benefit scheme liabilities	4.4%	2.9% to 4.4%	4.5%	3.1% to 4.5%
Rate of inflation (RPI)	3.3%	1.8% to 3.3%	3.3%	1.8% to 3.3%
Rate of increase to pensions in payment	3.0%	1.8% to 3.0%	3.0%	1.8% to 3.0%
Rate of increase to pensions before retirement	3.0%	3.3%	3.0%	2.0% to 3.3%

As the defined benefit liability in the UK is no longer linked to salary increases, this is not a principal assumption.

For the Boots Pension Scheme, the projected life expectancy assumed from the age of 60 years was:

	2014 Currently aged 45	2014 Currently aged 60	2013 Currently aged 45	2013 Currently aged 60
Male	28.6	27.5	27.8	27.4
Female	30.6	28.9	29.7	28.2

The mortality assumptions adopted as at 31 March 2014 have been set to reflect the Company's best estimate view of life expectancies of members for each individual pension arrangement. These mortality assumptions vary by arrangement, each assumption reflecting the characteristics of the membership of that arrangement.

A sensitivity analysis on the principal assumptions used to measure the scheme liabilities at the year end is:

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase by 0.25%	Decrease by £230 million
Rate of inflation (RPI)	Increase by 0.25%	Increase by £141 million
Rate of increase to pensions in payment	Increase by 0.25%	Increase by £154 million
Rate of increase to pensions before retirement	Increase by 0.25%	Increase by £73 million
Assumed life expectancy at age 60 (rate of mortality)	Increase by 1 year	Increase by £164 million

Changes in RPI impact increases to pensions both before retirement and in payment, the majority of which are linked to RPI capped at 5% per annum.

The Boots Pension Scheme has a hedging strategy in place, based on swap contracts overlaying the bond portfolio, which aims to reduce volatility in the Scheme. Broadly the Scheme has hedging that covers 76% of interest rate movements and 76% of inflation movements. As such a 0.25% increase in interest rates would reduce the statement of financial position deficit by around £57 million and a 0.25% increase in inflation would increase the statement of financial position deficit by around £39 million.

The sensitivity information has been derived for the Boots Pension Scheme, which makes up the majority of the liability, using projected cash flows for the Scheme valued using the relevant assumptions and membership profile as at 31 March 2014. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate.

Defined contribution schemes
The Group operates a number of defined contribution schemes. The cost recognised in the income statement was £88 million (2013: £88 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

35 Related parties

Parent company and ultimate controlling parties

At 31 March 2014, AB Acquisitions Holdings Limited was the immediate and ultimate parent company of Alliance Boots GmbH.

AB Acquisitions Holdings Limited is incorporated in Gibraltar and its registered office is 57/63 Line Wall Road, Gibraltar. AB Acquisitions Holdings Limited is jointly controlled by Alliance Santé Participations S.A., and three private equity investment vehicles advised by Kohlberg Kravis Roberts & Co. L.P.. S. Pessina and O. Barra, who are Directors of Alliance Boots GmbH, are also directors of Alliance Santé Participations S.A., which is ultimately owned by a family trust.

Key management personnel

Key management personnel during the year comprise the Directors of Alliance Boots GmbH, the Directors of AB Acquisitions Holdings Limited and, from the date of their respective appointments as at 1 October 2013, the Managing Director, Health & Beauty UK and Republic of Ireland, and the Managing Director, Health & Beauty International and Brands.

The remuneration of the key management personnel of the Group comprised:

	2014 £million	2013 £million
Short term employee benefits	**6**	6
Long term employee benefits	**3**	2

Other transactions with key management personnel

Together with other senior managers, certain key management personnel participate in a management equity plan which is designed to enable them, as investors, to share in the future financial success of the Group through an investment of personal capital. To assist participation, the Group provided loans under commercial terms and at 31 March 2014 the loan amounts outstanding in respect of key management personnel were £0.2 million (2013: £0.2 million).

During the year, the Group paid £0.4 million to C. Britton as a fixed profit share for his services to the specialised investment fund established by the Group in the year. Prior to the fund being set up, the Group paid £0.3 million to a consultancy partnership of which C. Britton is a partner.

S. Pessina and O. Barra each own one share, which is less than a 0.1% interest, in Alliance Boots Management Services MC S.A.M., a subsidiary of the Group. Alliance Boots Management Services MC S.A.M. did not pay or declare any dividend during the year or prior year.

Key management personnel may purchase goods for personal and family use from the Health & Beauty Division businesses in the UK on the same terms and conditions as those available to all other UK employees of the Group. Two children of key management personnel were employed by the Group during the year. Their total remuneration was £109,000 (2013: £41,000).

During the prior year, A. Gourlay, together with family members, redeemed £18,846 of outstanding loan notes which were issued by the Group in a previous year.

During the prior year, S. Pessina received 277 shares and E. Jornod received 40,000 shares in Galenica Ltd. in lieu of fees for services as directors. On 10 May 2013, Galenica Ltd. was distributed, and at that date S. Pessina owned 1,592 shares (31 March 2013: 1,592 shares) and E. Jornod owned 47,261 shares (31 March 2013: 47,261 shares) in Galenica Ltd..

Transactions with AB Acquisitions Holdings Limited

On 10 May 2013, the Group distributed its investment in Galenica Ltd.. The distribution was in relation to the commitment made in the Purchase and Option Agreement entered into by the Company with AB Acquisitions Holdings Limited and Walgreens, for Walgreens to acquire a 45% equity stake in the Group.

Transactions with fellow subsidiaries of AB Acquisitions Holdings Limited

Transactions with fellow subsidiaries of AB Acquisitions Holdings Limited, which are related parties of the Group, were on an arm's length basis. A summary of these transactions is as follows:

During the year, the Group entered into forward foreign currency exchange contracts with a fellow subsidiary. At 31 March 2014, their carrying amount was a £0.2 million liability.

During the year, the Group repaid a £8.6 million loan from a fellow subsidiary together with £1.0 million of cumulative interest. Finance costs recognised in the income statement relating to the loan were £0.4 million (2013: £0.7 million). At 31 March 2013, the amount due to the fellow subsidiary in respect of the loan was £8.6 million together with interest payable of £0.5 million.

During the year, the Group received £56.5 million from the repayment of a loan from a fellow subsidiary advanced in the prior year together with £1.4 million of cumulative interest. Finance income recognised in the income statement relating to the loan was £1.2 million (2013: £0.5 million). At 31 March 2013, the amount due from the fellow subsidiary in respect of the loan was £56.5 million together with interest receivable of £0.2 million.

During the prior year, the Group acquired the entire 20% non-controlling interest in AB Acquisitions UK Holdco 5 Limited, the UK parent company of its German wholesale business, from a fellow subsidiary for consideration of £27.4 million which was settled by offset of a pre-existing loan and interest receivable. Finance income recognised in the income statement in the prior year relating to the loan was £0.4 million.

During the prior year, the Group acquired a 51% interest in Alliance Boots Investments 1 Limited, the UK parent of its formerly owned Russia business from a fellow subsidiary for £3.0 million bringing the Group's interest to 100%. Prior to the acquisition, the Group had a net receivable from Alliance Boots Investments 1 Limited and its subsidiaries, and finance income recognised in the prior year relating to this net receivable was £2.3 million.

Other transactions with associates of the Group which are fellow subsidiaries of AB Acquisitions Holdings Limited are included within the table set out in this note.

Transactions with Walgreens

Following Walgreens acquisition of a 45% equity stake in Alliance Boots GmbH in August 2012, Walgreen Co. and its subsidiaries are related parties. Transactions with Walgreens were on an arm's length basis. A summary of these transactions is as follows:

Transactions with Walgreens (excluding those Walgreens subsidiaries which the Group accounts for as joint ventures) were revenue of £29.5 million (2013: £3.5 million), the reimbursement of administrative costs (including secondments) of £2.6 million (2013: £2.5 million) and administrative costs (including secondments) of £0.2 million (2013: £nil). At 31 March 2014, amounts due from Walgreens were £4.3 million (2013: £2.0 million) and amounts due to Walgreens were £0.2 million (2013: £nil). During the year, employees were seconded from the Group to Walgreens and from Walgreens to the Group.

During the year, the Group purchased 446,070 shares in Walgreen Co. in the open market for £14.7 million in connection with the Group's long term incentive plan. At 31 March 2014, the fair and carrying value of the shares within available-for-sale investments was £17.7 million, with the net movement of £3.0 million recognised within other comprehensive income. Dividend income recognised within finance income relating to these shares was £0.3 million.

During the prior year, the Group together with Walgreens signed agreements with AmerisourceBergen which included the Group receiving warrants to purchase up to 8% of the equity of AmerisourceBergen at future dates. Simultaneously, the Group issued a call option to Walgreens for Walgreens to purchase these warrants from the Group, only exercisable if Walgreens exercises its option to acquire the remaining 55% equity stake of the Group that they do not currently own.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

35 Related parties continued

Transactions with other related parties

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

During the year, the Group paid £0.4 million (2013: £0.3 million) for accounting services to Avega S.à r.l., which is jointly controlled by W. Zettel who is a director of AB Acquisitions Holdings Limited.

During the prior year, the respective designees of Kohlberg Kravis Roberts & Co. L.P. and Alliance Participations Limited each received an annual monitoring fee of £3.3 million. At 31 March 2013, £0.8 million was outstanding to each and these were paid during the current year. No other amounts were paid or accrued during the year. S. Pessina and O. Barra are directors of Alliance Participations Limited which is owned by a family trust.

Walvis Verwaltungs GmbH, which is 100% owned by Alliance Santé Participations S.A., owns a 1.0% interest in Alliance Healthcare Deutschland Holdings 2 GmbH & Co. KG, a subsidiary of the Group, which in turn owns a 5.1% interest in Alliance Healthcare Deutschland AG, a subsidiary of the Group. Alliance Healthcare Deutschland Holdings 2 GmbH & Co. KG did not pay or declare any dividend during the year or prior year.

During the year, Dascoli Finance S.A., of which S. Pessina is a director, sold its 15.1% interest in AB Acquisitions Luxco 5 S.à r.l., a subsidiary of the Group, to AB Acquisitions Luxco 2A S.à r.l., a subsidiary of the Group, for £2,718. AB Acquisitions Luxco 5 S.à r.l. did not pay or declare any dividend during the year or prior year.

During the prior year, the Group acquired senior and subordinated facilities loans from Walvis Limited and Walvis 2 Limited, companies controlled by Dascoli Finance S.A., at the prevailing market price of £247.6 million, compared to the principal, which included rolled up interest due when the loans themselves were repaid, of £247.1 million.

During the prior year, profit participating notes issued by Walvis Limited and Walvis 2 Limited respectively were redeemed for £193.1 million, including rolled up interest which is paid when the note itself was redeemed. The gain on redemption of £13.9 million together with interest relating to these notes of £14.1 million was recognised in finance income. The Group's original investment in these notes was £154.9 million.

During the prior year, the Group acquired senior facilities loans from AF Lux Finance S.A., of which S. Pessina is a director, at the prevailing market price of £29.5 million compared to the principal of £30.0 million. Finance costs recognised in the prior year relating to the senior facilities loans owned by AF Lux Finance S.A. were £1.1 million.

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

Subsidiary undertakings, associates and joint ventures

The Group's principal subsidiary undertakings were:

	Percentage held by subsidiary undertakings	Country of operation	Main activity
Health & Beauty Division			
Boots UK Limited	100	UK	Pharmacy-led health and beauty retailing
Boots Opticians Professional Services Limited[1]	100	UK	Optical practices
Boots Norge A.S.	100	Norway	Pharmacy-led health and beauty retailing
Boots Retail (Ireland) Limited	100	Republic of Ireland	Pharmacy-led health and beauty retailing
Alliance Apotheek B.V.	100	The Netherlands	Retail pharmacy operator
Boots Retail (Thailand) Limited	100	Thailand	Pharmacy-led health and beauty retailing
Pharmaceutical Wholesale Division			
Alliance Healthcare France S.A.	99.8	France	Pharmaceutical wholesaling and distribution
Alliance Healthcare Deutschland AG	100	Germany	Pharmaceutical wholesaling and distribution
Alliance Healthcare (Distribution) Limited	100	UK	Pharmaceutical wholesaling and distribution
Hedef Ecza Deposu Ticaret A.S.	100	Turkey	Pharmaceutical wholesaling and distribution
Alliance Healthcare España S.A.	99.2	Spain	Pharmaceutical wholesaling and distribution
Alliance Healthcare Nederland B.V.	100	The Netherlands	Pharmaceutical wholesaling and distribution
OOO Alliance Healthcare Rus	100	Russia	Pharmaceutical wholesaling and distribution
United Company of Pharmacists S.A.E.	50.0	Egypt	Pharmaceutical wholesaling and distribution
Alliance Healthcare s.r.o.	97.1	Czech Republic	Pharmaceutical wholesaling and distribution
Farmexpert DCI S.A.	100	Romania	Pharmaceutical wholesaling and distribution
Alliance Healthcare Norge A.S.	100	Norway	Pharmaceutical wholesaling and distribution
Armila UAB	100	Lithuania	Pharmaceutical wholesaling and distribution
Contract Manufacturing			
BCM Limited	100	UK	Contract manufacturing

1 The Group has a 58% interest in Boots Optical Investment Holdings Limited which owns a 100% interest in Boots Opticians Professional Services Limited.

The respective countries of incorporation for the principal subsidiaries are the same as the country of operation, except for those operating in the UK where the country of incorporation is England & Wales.

As at 31 March 2014, the management equity plan had a 2.7% non-controlling interest in AB Acquisitions Luxco 1 S.à r.l. which is a holding company of the Group's principal subsidiaries, associates and joint ventures. If Walgreens exercises its option to acquire the 55% equity of the Company it does not currently own, this interest is exchanged for equity in the Company prior to completion.

Notes to the consolidated financial statements continued

for the year ended 31 March 2014

35 Related parties continued

The Group's principal associates and joint ventures were:

	Percentage interest in ordinary share capital and voting rights	Country of operation	Main activity
Associates			
Alliance Healthcare Italia S.p.a.	49.0	Italy	Pharmaceutical wholesaling and distribution and retail pharmacy operator
Alliance Healthcare S.A.	49.0	Portugal	Pharmaceutical wholesaling and distribution
Boots Hearingcare Limited	49.0	UK	Hearingcare services
Hydra Pharm SPA	30.0	Algeria	Pharmaceutical wholesaling and distribution
Oktal Pharma d.o.o.	49.0	Croatia	Pharmaceutical wholesaling and distribution
Joint ventures			
Walgreens Boots Alliance Development GmbH	50.0	Switzerland	Development company to facilitate delivery of synergies
Guangzhou Pharmaceuticals Corporation	50.0	China	Pharmaceutical wholesaling and distribution
UniDrug Distribution Group Limited	50.0	UK	Pre-wholesale and contract logistic services

The respective countries of incorporation for the principal associates and joint ventures are the same as the country of operation, except for those operating in the UK where the country of incorporation is England & Wales.

The accounting reference dates of the principal associates and joint ventures are 31 December with the exception of Alliance Healthcare Italia S.p.a. and Boots Hearingcare Limited whose accounting reference date is 31 March, Walgreens Boots Alliance Development GmbH whose accounting reference date is 31 January and UniDrug Distribution Group Limited whose accounting reference date is 30 September.

Transactions with associates and joint ventures, all of which are carried out on an arm's length basis, were:

	2014		2013	
	Associates £million	**Joint ventures £million**	Associates £million	Joint ventures £million
Revenue to	**23**	**71**	20	9
Other income receivable	**1**	**4**	–	1
Purchases from	**(28)**	**(1)**	(33)	(1)
Other charges from	**(4)**	**(1)**	(3)	(1)
Amounts due from	**3**	**16**	4	7
Amounts due to	**(1)**	**(1)**	(1)	–

36 Accounting estimates and judgements

In preparing the consolidated financial statements, the management of Alliance Boots GmbH is required to make estimates and judgements. The matters described below are considered to be the most important in understanding the judgements that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows. The Group's accounting policies are described in note 2.

Revenue

In the Health & Beauty Division, dispensing revenues are initially estimated because the actual reimbursements for such sales are often not known until after the month of sale.

In respect of loyalty schemes, principally the Boots Advantage Card, liabilities are recorded to estimate the proportion of the points issued which will be redeemed by customers.

Supplier rebates

The recognition of supplier rebates may require estimation when the reporting year ends are not coterminous with the end of predetermined periods over which rebates are earned.

Fair value measurement on a business combination

The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification and valuation of intangible assets which require the estimation of future cash flows and the selection of a suitable discount rate.

Impairment of intangible assets, including goodwill, and tangible assets

The Group has significant carrying values of goodwill and other intangible assets, such as pharmacy licences, brands and customer relationships. Goodwill and other indefinite life intangibles, such as pharmacy licences and certain brands are held at cost and tested annually for impairment. Amortised intangible and tangible assets are tested for impairment where there are indications of impairment. The impairment tests involve estimation of future cash flows and the selection of suitable discount rates. These require an estimation of the value-in-use of the cash generating units to which the intangible assets are allocated.

Measurement of defined benefit scheme liabilities

The Group recognises and measures costs relating to defined benefit schemes in accordance with IAS 19 Employee Benefits. In applying IAS 19, costs are assessed in accordance with the advice of independent qualified actuaries. This requires the exercise of significant judgements in relation to the estimation of future changes in salaries and inflation, as well as mortality rates, and the selection of suitable discount rates.

Provisions

Provisions are recognised when it becomes probable that there will be a future outflow of funds resulting from past operations or events which can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, prices and conditions, and can take place many years in the future, and therefore the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

Warrants

The measurement of the call option related to warrants held by the Group requires a judgement to be made regarding the probability that Walgreens will exercise its own call option over the remaining 55% equity stake in the Group that Walgreens does not currently own.

37 Risk assessment

The Group's executive Directors play the leading role in internal controls, monitoring the overall risk profile and regularly reporting to the Board through the audit and risk committee. In addition, the Board through the executive Directors is responsible for determining clear policies as to what the Group considers to be acceptable levels of risk. These policies seek to enable people throughout the Group to use their expertise to identify risks that could undermine performance and to devise ways of bringing them within acceptable levels. Where risks are identified that are not acceptable, action plans are developed to mitigate them with clear allocation of responsibilities and timescales for completion, which ensures that progress towards implementing these plans is monitored and reported upon.

Further detail on the risks faced by the Group and the internal control process is set out on pages 60 and 61.

38 Events after the year end

Subsequent to the year end, the Group announced that it had signed an agreement to acquire Farmacias Ahumada.

The acquisition comprises two main businesses, which together operate over 1,400 stores, with combined revenues of around £835 million. Farmacias Benavides is the third largest retail pharmacy chain in Mexico with around 1,000 stores, and Farmacias Ahumada is one of the three largest retail pharmacy chains in Chile with around 400 stores.

The transaction, which is subject to regulatory approvals, is expected to complete in the third quarter of 2014.

Additional information

Principal businesses, associates and joint ventures

Health & Beauty Division

Boots UK
1 Thane Road West
Nottingham
NG2 3AA
United Kingdom
Tel: +44 (0)115 950 6111
Web: www.boots-uk.com

Boots Opticians
1 Thane Road West
Nottingham
NG2 3AA
United Kingdom
Tel: +44 (0)115 950 6111
Web: www.bootsopticians.com

Boots Norge
Maridalsveien 323
PB 4593 Nydalen
N0404 Oslo
Norway
Tel: +47 (0)23 25 07 00
Web: www.bootsapotek.no

Boots Ireland
Unit 2F, Block 71A
Parkwest Business Park
Nangor Road
Dublin 12
Republic of Ireland
Tel: +353 (0)1 778 0000
Web: www.boots.ie

Alliance Apotheek
Pomphoekweg 1
5222 BE 's-Hertogenbosch
PO Box 210
5201 AE 's-Hertogenbosch
The Netherlands
Tel: +31 (0)88 104 0211
Web: www.alliance-apotheek.nl

Boots Thailand
9 Pakin Building, 8th Floor
Ratchadapisek Road
Dindang, BKK 10400
Thailand
Tel: +66 (0)2 694 5999
Web: www.th.boots.com

In addition, Boots has a sales office in the US and Armila has a small number of pharmacies in Lithuania.

Pharmaceutical Wholesale Division

Alliance Healthcare France
222 rue des Caboeufs
92230 Gennevilliers
France
Tel: +33 (0)1 40 80 51 00
Web: www.alliance-healthcare.fr

Alliance Healthcare Deutschland
Solmsstraße 25
60486 Frankfurt am Main
Germany
Tel: +49 (0)69 7920 3-0
Web: www.alliance-healthcare.de

Alliance Healthcare (Distribution)
43 Cox Lane
Chessington
Surrey KT9 1SN
United Kingdom
Tel: +44 (0)20 8391 2323
Web: www.alliance-healthcare.co.uk

Hedef Alliance
Basin Ekspres Yolu
Kavak Sokak Ser Plaza
No:3 A Blok Kat 3
34530 Yenibosna
Istanbul
Turkey
Tel: +90 212 452 72 00
Web: www.hedefalliance.com.tr

Alliance Healthcare España
Av. Verge de Montserrat 6
Pol. Ind. Estruch
08820 El Prat de Llobregat
Barcelona
Spain
Tel: +34 93 739 72 00
Web: www.alliance-healthcare.es

UCP
4 Athar Al Naby Street
Dar Al Salam
Cairo
Egypt
Tel: +202 2529 56 00
Web: www.unitedcompanyof pharmacists.com

Alliance Healthcare Netherlands
Pomphoekweg 1
5222 BE 's-Hertogenbosch
PO Box 210
5201 AE 's-Hertogenbosch
The Netherlands
Tel: +31 (0)88 104 0211
Web: www.alliance-healthcare.nl

Alliance Healthcare Czech Republic
Podle Trati 624/7
108 00 Praha 10 – Malešice
Czech Republic
Tel: +420 800 310 101
Web: www.alliance-healthcare.cz

Alliance Healthcare Russia
Peschanij karier
3. Building 1 – 1B
109383 Moscow
Russia
Tel: +7 (0)495 287 77 00
Web: www.alliance-healthcare.ru

Farmexpert
7 Amilcar C.Sandulescu Street
District 6
060859 Bucharest
Romania
Tel: +40 21 407 77 11
Web: www.farmexpert.ro

Alliance Healthcare Norge
Snipetjernvegen 10
PO Box 3554
1402 Ski
Norway
Tel: +47 64 85 03 00
Web: www.alliance-healthcare.no

Armila UAB
Ateities str. 10
LT – 08303
Vilnius
Lithuania
Tel: +370 (0)52 777596
Web: www.armila.com

Principal businesses, associates and joint ventures continued

Contract Manufacturing

BCM
D10 Building
Thane Road
Nottingham
NG90 2PR
United Kingdom
Tel: +44 (0)115 968 6326
Web: www.bcm-manufacturing.com

BCM has three manufacturing facilities in the UK, France and Germany.

Associates

Alliance Healthcare Italia
Via Moggia 75/a
16033 Lavagna (GE)
Italy
Tel: +39 (0)185 315 71
Web: www.alliance-healthcare.it

Alliance Healthcare Portugal
Rua Eng. Ferreira Dias
728, 3º Piso Sul
4149-014 Porto
Portugal
Tel: +351 22 532 24 00
Web: www.alliance-healthcare.pt

Boots Hearingcare
21 Trinity Square
Llandudno
Conwy
LL30 2RH
United Kingdom
Tel: +44 (0)1492 877 989
Web: www.bootshearingcare.com

Hydra Pharm
10 rue, Ibrahim Hadjres
Beni Messous 16202
Algeria
Tel: +213 21 93 43 00
Web: www.groupehydrapharm.com

Oktal Pharma
Utinjska 40
10020 Zagreb
Croatia
Tel: +385 1 6595 777
Web: www.oktal-pharma.hr

Oktal Pharma also trades in Bosnia Herzegovina, Serbia and Slovenia.

Joint ventures

Walgreens Boots Alliance Development
Untermattweg 8
CH-3027 Bern
Switzerland
Tel: +41 (0)58 852 8300
Web: www.wbadev.com

Guangzhou Pharmaceuticals Corporation
No. 97-103 Datong Road
Liwan District
Guangzhou 510410
Guangdong Province
People's Republic of China
Tel: +86 20 8181 4966
Web: www.gzmpc.com

UDG
Amber Park
Berristow Lane
South Normanton
Alfreton
DE55 2FH
United Kingdom
Tel: +44 (0)1773 510 123
Web: www.udg.co.uk

In addition, Alliance Boots has a buying office in Hong Kong.

Glossary of key terms

Constant currency
Exchange rates applicable for the financial information for the year ended 31 March 2013.

EBITDA
Trading profit before underlying depreciation and amortisation.

EBITDA including share of associates and joint ventures
EBITDA including share of associates and joint ventures (excluding share of EBITDA of distributed associate).

Exceptional items
Items classified by Alliance Boots as exceptional in nature. These are not regarded as forming part of the underlying trading activities of the Group and so merit separate presentation to allow stakeholders to understand the elements of financial performance and assess trends in financial performance.

IAS 39 timing differences
Derivative financial instruments are used to hedge interest rate and currency exposures. IAS 39 dictates whether changes in the fair value of these instruments can be matched in the income statement by changes in the fair value of the item being hedged. Where they cannot be matched, or do not fully match, the unmatched amount represents a timing difference that will reverse over the life of the financial instruments. Derivative financial instruments are also used as credit instruments and changes in fair value which reverse over the life of these instruments similarly represent a timing difference.

Interest cover
Trading profit divided by underlying net finance costs excluding net finance costs relating to retirement benefit obligations.

Like for like revenue
Revenue on a constant currency basis excluding the impact of business acquisitions and disposals, new store openings, closures and major extensions.

Net borrowings
Cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of unamortised prepaid financing fees.

Net finance costs
Finance costs net of finance income.

Restricted cash
Cash which is restricted for specific purposes and so is not available for the use of the Group in its day to day operations.

Revenue including share of associates and joint ventures
Revenue including share of associates and joint ventures (excluding share of revenue of distributed associate).

Share of underlying post-tax earnings of associates and joint ventures
Share of post-tax earnings of associates and joint ventures (excluding distributed associate) before amortisation of customer relationships and brands, exceptional items timing differences within net finance costs and related tax.

Timing differences within net finance costs
IAS 39 timing differences and the unwind of the discount on obligations to non-controlling interests.

Trading margin
Trading profit expressed as a percentage of revenue.

Trading profit
Profit from operations before amortisation of customer relationships and brands, exceptional items and share of post-tax earnings of associates and joint ventures.

Trading profit including share of associates and joint ventures
Trading profit including share of associates and joint ventures (excluding share of trading profit of distributed associate).

Underlying depreciation and amortisation
Depreciation and amortisation adjusted to exclude amortisation of customer relationships and brands and depreciation and amortisation within exceptional items.

Underlying effective tax rate
Underlying tax charge as a percentage of trading profit less underlying net finance costs.

Underlying net finance costs
Net finance costs adjusted to exclude exceptional items and timing differences within net finance costs.

Underlying profit
Profit for the year (excluding share of post-tax earnings of distributed associate) before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Underlying profit attributable to equity shareholders
Underlying profit excluding amounts attributable to non-controlling interests.

Underlying tax charge
Tax charge adjusted to exclude tax on amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and exceptional tax.

This report is printed on Heaven 42 paper that has been independently certified on behalf of the Forest Stewardship Council® (FSC).

Printed at PurePrint, ISO14001, FSC certified and a CarbonNeutral® company.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C022913

Design and production by
RADLEY YELDAR

Registered office
Alliance Boots GmbH
Untermattweg 8
CH-3027 Bern
Switzerland
Tel: +41 58 852 8299

Contact:
enquiries@allianceboots.com

Website:
allianceboots.com

For more information

allianceboots.com

Registered office:

Alliance Boots GmbH

Untermattweg 8

CH-3027 Bern

Switzerland

Contact:

enquiries@allianceboots.com