pressrelease

3 November 2010

Alliance Boots mid-year update

Continued strong financial performance

Following the publication in May of the 2009/10 Annual Review for the year ended 31 March 2010, Alliance Boots today provides a mid-year update covering the six months ended 30 September 2010.

Highlights

Group

- Revenue* up 6.0% – up 6.6% in constant currency
- Step change in international expansion of pharmaceutical wholesaling
  - Controlling interest in Hedef Alliance acquired in July (Turkey, Egypt)
  - Acquisition of ANZAG announced in October (Germany, Romania, Lithuania)
- Internationalisation of product brands progressing well
- Key strategic partnerships implemented – Waitrose, Procter & Gamble and Mothercare

Health & Beauty Division

- Revenue* up 2.0% – up 1.8% in constant currency
- Boots UK
  - Like for like revenue up 1.8% (incl. VAT)
  - Like for like dispensing volume up 4.1%

Pharmaceutical Wholesale Division

- Revenue* up 7.7% – up 8.7% in constant currency
- Expansion into new geographical markets through acquisitions

* continuing operations

Stefano Pessina, Executive Chairman, commented:

"In the last three years, we have made substantial capital investments in Boots in the UK to improve our stores and drive efficiency, while at the same time investing in our people. This has created a stable platform which, combined with our profit growth and strong cash flow, enables us to focus increasingly on international opportunities.

"We have made great strides forward to accelerate our growth plans in the past few months. I am delighted that we have become the majority shareholder in Hedef Alliance in Turkey and are acquiring ANZAG in Germany, both of which will make a significant contribution to future profitability."

Andy Hornby, Group Chief Executive, said:

"We are pleased with the way the Group has performed given the challenging trading conditions across Europe. Boots has delivered a good performance in a difficult UK consumer environment and we have increased market share in our core health and beauty categories. Our Pharmaceutical Wholesale Division has performed strongly right across our international markets.

"Strong cash flow combined with the benefit of low interest rates has enabled us to reduce net borrowings while continuing to invest in the future of Alliance Boots. It is testament to all of our colleagues across the Group that we continue to make such good financial and operational progress."

Corporate development

We have a strong focus on corporate development in support of our strategy to enter new geographical markets and to expand our presence in existing markets through acquisition and strategic partnerships.

In July, we became the majority shareholder in Hedef Alliance, one of the largest pharmaceutical wholesalers in Turkey, having previously had a 50% associate interest for many years. We now own 60% and will further augment our ownership in stages over the next two years. Hedef Alliance also has a controlling 50% stake in UCP, the leading pharmaceutical wholesaler in Egypt, and an associate interest in Hydrapharm, the largest wholesaler in Algeria. Hedef Alliance has consolidated revenue of around £2.4 billion (of which £1.9 billion is in Turkey and £0.5 billion in Egypt).

In July, we also transferred ownership of a 51% stake in our Italian businesses to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited. This is a reflection of the unique structure and financing of the Italian pharmaceutical wholesale market. The cash consideration was in line with both book and fair value. Net borrowings reduced by over £250 million as a result of this transaction and we now account for the remaining 49% stake as an associate.

In October, we and our shareholders announced an agreement to acquire a further 51.65% stake in our associate ANZAG, which is one of the three largest pharmaceutical wholesalers in Germany, Europe's largest pharmaceutical market. In addition, ANZAG has pharmaceutical wholesale businesses in Lithuania and Romania and an associate in Croatia. For its financial year ended 31 August 2010, ANZAG announced revenue of €4.2 billion (c.£3.7 billion) and profit before tax of €40 million (c.£35 million). The acquisition and a voluntary tender offer for the remaining shares (18.4%) we do not own are both subject to regulatory approvals.

Our strategy to internationalise our product brands continues to move at a pace. Following the successful launch of the Boots Laboratories skincare product range in France and Portugal last year, we recently launched the range in the Italian market in partnership with Procter & Gamble. This partnership combines Procter & Gamble's distribution capabilities with the trust and heritage of the Boots brand. In addition, we have launched the Boots Laboratories brand in Spain.

Financial information

The financial information in this press release is unaudited. Figures quoted are for the six months ended 30 September 2010.

Revenue by Division

	Total £million	Growth over first half of last year*
Health & Beauty	3,637	+2.0%
Pharmaceutical Wholesale	5,914	+7.7%
Contract Manufacturing	120	-3.2%
Intra-group	(724)	
	8,947	+6.0%

* continuing operations (i.e. excludes Italian discontinued operations)

Health & Beauty

Revenue in our Health & Beauty Division increased by 2.0% on the first half of last year to £3,637 million. On a constant currency basis, revenue increased by 1.8% in total, up 0.3% on a like for like basis.

Boots UK revenue increased by 1.8% (including VAT) on a like for like basis. We continued to increase market share in our core health and beauty product categories which we attribute to our strong product offering combined with excellent customer service.

Categories that performed particularly well included self selection cosmetics, where we enhanced our product ranges in new merchandising units, premium beauty, fragrances and beauty accessories. In September, we further developed our range of No7 skincare products with the launch of No7 Protect & Perfect Intense Day Cream with 5-star rated UVA protection and sun protection factor 15.

Boots UK dispensing volumes increased by 4.1% on a like for like basis, our growth being particularly strong in the patient specific packs category and from prescriptions collected on behalf of patients from doctors' practices. We also increased related income from pharmacy services, the number of medicine check-ups carried out by our pharmacists increasing by 14% against the prior period.

Our partnership with Waitrose was extended during the period. 12 Boots stores now sell a combined Boots and Waitrose lunchtime food offering and a further seven stores incorporate a larger range of lunchtime and convenience food, including the Essential Waitrose range. In addition, Waitrose is selling Boots health and beauty products in 12 of their shops. Initial results from these trials are encouraging. In September, in partnership with Mothercare, we successfully launched 'mini club', a new clothing and accessories brand for babies and children aged 0-6 years, which is being sold in around 370 Boots stores.

In October, we launched 'Treat Street', a new online shopping service which enables Boots Advantage Card customers to collect points when they shop online with around 50 well known retail brands.

Boots Opticians revenue increased by 9.7% as a result of the acquisition of Dollond & Aitchison at the beginning of May 2009. The rebranding of these practices is on track to be largely completed by the end of 2010/11, which will double the number of Boots Opticians branded practices. This, together with a new customer offer, is helping to ensure that the business competes strongly in what is currently a subdued market.

Total revenue in countries outside the UK increased by 8.2% on the first half of last year. On a constant currency basis, revenue increased by 6.7% in total, down 1.8% on a like for like basis. The continuing fragile state of the Irish economy together with the civil unrest in Thailand between March and May adversely impacted trading. In Norway, we are on track to complete the rebranding of our pharmacies as 'Boots apotek' by the end of December. Although The Netherlands remains a challenging market for pharmacists, our trial of the 'Boots apotheek' concept is being extended beyond the initial five pharmacies.

To further support our international expansion, we expect our first Boots branded franchise pharmacy to open in Sweden in the new year as part of our partnership with Farmacevtföretagarna and we have recently signed a distributor agreement for the No7 product range to be sold in Finland.

Pharmaceutical Wholesale

Revenue in our Pharmaceutical Wholesale Division, Alliance Healthcare, increased by 7.7% on the first half of last year to £5,914 million, an increase of 8.7% on a constant currency basis. This performance is encouraging given market conditions continue to be difficult, mainly due to regulatory changes in a number of markets, competition from co-operatives and changes in the way which prescription medicines are supplied to pharmacies.

Adjusting for the acquisition of Hedef Alliance, like for like revenue on a constant currency basis was up 0.6%. As in the 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. Adjusting for this accounting treatment, our more comparable underlying like for like sales growth was around 3%. Underlying growth was strongest in Russia, Norway and the UK.

We recently commenced a second phase of the Division-wide restructuring programme, which aims to further adapt our pharmaceutical wholesale businesses to better fulfil the expectations of customers and payors, as well as securing new opportunities in the marketplace. It affects all businesses in the Division (with the exception of businesses acquired this year) and will result in a 2% reduction in headcount across the Division, which will be partially achieved through staff turnover. The programme is targeted to reduce operating costs by around £24 million per annum by 2013/14 and has resulted in an exceptional charge of £28 million.

We continue to further differentiate our wholesale offering by developing the range of services offered to independent pharmacy customers. This includes membership of our Alphega Pharmacy network, where membership is now approaching 3,200 pharmacies (including members in our associate Italian business).

At the beginning of October, we completed the transfer of responsibilities to Alliance Healthcare UK for purchasing and distribution of those prescription medicines which Boots previously sourced directly. This decision, which followed a review of the dispensing supply chain, was taken in light of future business growth and will lead to increased efficiencies over time.

Corporate social responsibility

In September we published our 2009/10 Corporate Social Responsibility Report, which outlines our progress and achievements in the main areas of corporate social responsibility activity.

Outlook

Following the good results in the first half of the year, we are well positioned for the second half which includes the important Christmas trading period. While government and consumer spending is under renewed pressure, we expect to deliver strong results for the full year, driven by our transformation programmes, our differentiated product offering, excellent customer service and international expansion through value-enhancing corporate transactions.

– Ends –

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