Helping people look and feel their best

Alliance Boots Annual Report 2012/13

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

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Our financial performance in 2012/13

for the year ended 31 March 2013

"Underlying profit after tax increased by 12.7%.

- **Revenue: £22.4 billion**

  down 2.6% (up 0.6% in constant currency)

- **Trading profit: £1,265 million**

  up 6.1% (up 7.4% in constant currency)

- **Underlying profit (after tax): £805 million**

  up 12.7%

- **Statutory profit for the year: £741 million**

  up 25.0%

- **Cash generated from operations: £1,648 million**

  up £47 million

- **Net borrowings reduction: £1,124 million**

  to £5,893 million

	£million
Revenue	**22,406**
EBITDA	**1,505**
Underlying depreciation and amortisation	(240)
Trading profit	**1,265**
Share of underlying post tax earnings of associates and joint ventures	39
Underlying net finance costs	(320)
Underlying tax charge	(179)
Underlying profit (after tax)	**805**

A reconciliation of underlying profit (after tax) to statutory profit for the year is set out below:

	£million
Underlying profit (after tax)	**805**
Amortisation of customer relationships and brands	(105)
Net exceptional items before tax	(66)
Timing differences within net finance costs	24
Tax credit on items not in underlying profit	45
Exceptional tax credit	38
Profit for the year	**741**

Financial information for the prior years has been re-stated for the adoption of the revised IAS 19 Employee Benefits standard.

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

Overview

Our Group at a glance

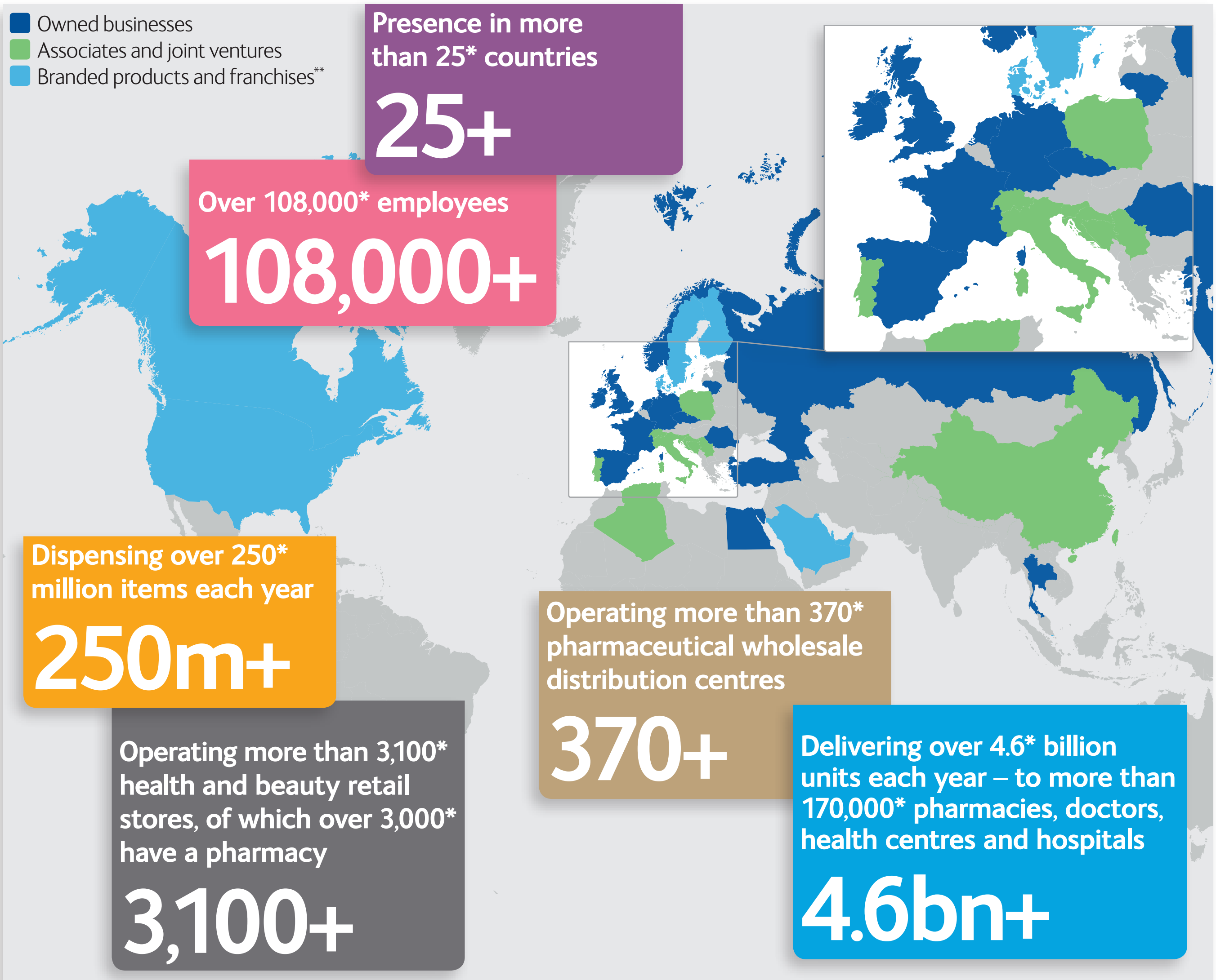
Alliance Boots is a leading international, pharmacy-led health and beauty group delivering a range of products and services to customers.

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.



We also have around 605* optical practices, of which around 190* operate on a franchise basis, and around 390* hearingcare practices. In addition, Galenica, an associate of the Group's ultimate parent company, operates around 250 pharmacies and has a pharmaceutical wholesaling and distribution business in Switzerland.

* Figures are approximations as at 31 March 2013, and include associates and joint ventures other than Galenica (as it ceased to be an associate of the Group in May 2013, while continuing as an associate of the Group's ultimate parent company). The year on year reduction in employee numbers, dispensing items and stores/pharmacies is primarily due to the change in status of Galenica.

** 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).

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.

Overview

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 3,100 health and beauty retail stores, of which over 3,000 have a pharmacy. 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 75 Boots branded stores operate in the Middle East on a franchise basis.

Our stores are located in convenient locations and put the pharmacist 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 offering is differentiated from that of competitors due to the product brands which 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 605 practices, of which around 190 operate on a franchise basis. In addition, through an associate investment, we now have a leading position in the UK hearingcare market with around 390 practices, mainly trading as Boots hearingcare.

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 multi-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 which we have successfully launched in recent years, 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, we are developing a programme to sell Boots product brands in Walgreens drugstores and in Asia, we are partnering with Dairy Farm to sell Boots product brands in their retail stores, starting with Mannings health and beauty stores in Hong Kong. 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 2013, and include associates and joint ventures other than Galenica (as it ceased to be an associate of the Group in May 2013).

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 170,000 pharmacies, doctors, health centres and hospitals from over 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 network for independent pharmacies which has a membership of over 4,700 pharmacies in six countries, and vivesco in Germany, with around 1,100 members.

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. We also 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.

Overview

Executive Chairman's statement

Stefano Pessina
Executive Chairman

> "A transformational year for Alliance Boots.

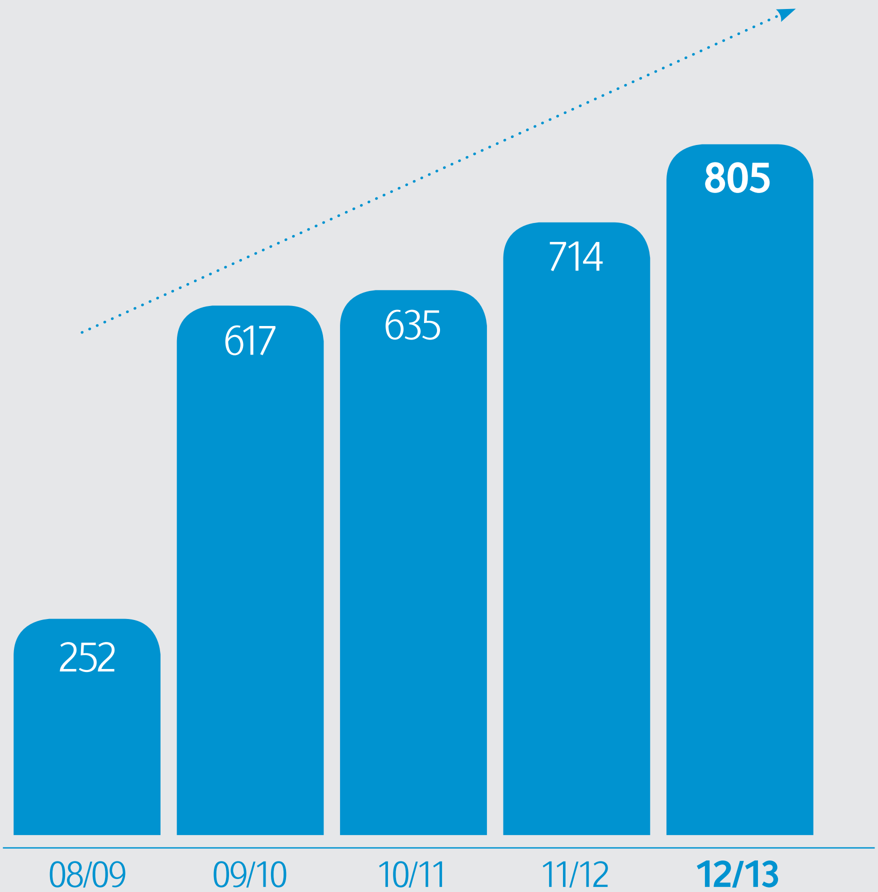
Introduction

It is with great pride that I share with you the Alliance Boots results for 2012/13, in what has been a transformational year for the Group, due to our exciting new strategic partnership with Walgreen Co. ('Walgreens'), the largest retail drugstore chain in the US. This is being further strengthened by our recent joint agreement to partner with AmerisourceBergen, which will enable AmerisourceBergen to become the largest pharmaceutical wholesaler in the US.

Against the backdrop of this major corporate activity, which has absorbed significant management time, and the continuing challenging market conditions prevalent across the world, we have again delivered a double digit growth in underlying profit (after tax). This increase, in the profit measure we are focusing on post the Walgreens transaction, was almost all organic, with both our Divisions delivering good profit growth. In addition, we have again generated a strong operating cash flow, enabling us to substantially reduce net borrowings.

Underlying profit (after tax)

£million



During the year, we also extended our existing loan maturities by two to three years at attractive rates, more than two and a half years before the majority matured, in line with our prudent and active capital management policy. This further strengthens the Group's financial position.

The markets in which we operate are not straightforward, technical factors that control costs and move value within markets often obscuring what is actually happening. The underlying trends in healthcare remain unchanged, with demographic and social pressures continuing to drive demand for healthcare and medicines while payers continue to attempt to constrain overall costs. These trends continue to drive demand for generic medicines and for high quality services delivered to local communities, both of which we are ideally placed to meet.

Our ability to deliver good financial results, while at the same time establishing the new strategic partnerships that have created more value than ever before in a single year, is a great testament to the strength and dedication of our senior management team. They have again proved they understand their markets well, and are uniquely able to lead transformation in our industry.

Health & Beauty Division

In 2012/13, the Health & Beauty Division delivered a good overall performance, despite tough retail markets across Europe and further regulatory pressures which impacted dispensing profitability. The UK profit performance was particularly good due to a strong retail product mix, effective margin management and tight cost controls. Good progress was made in growing sales and profitability in Asia and North America, which was more than offset by a disappointing performance across our European markets, these being impacted to varying degrees by a number of factors.

The executive team
From left to right:
George Fairweather
Group Finance Director
Alex Gourlay
Chief Executive,
Health & Beauty Division
Stefano Pessina
Executive Chairman
Ornella Barra
Chief Executive,
Pharmaceutical Wholesale Division
Marco Pagni
Group Legal Counsel &
Chief Administrative Officer

Pharmaceutical Wholesale Division

The Pharmaceutical Wholesale Division similarly delivered a good overall performance, despite challenging market conditions in many countries. Profit growth was almost all organic, reflecting our strong customer offering for both manufacturers and independent pharmacies, combined with tight cost controls. Performance was particularly strong in our key markets in Northern Europe. In January 2013, we achieved full ownership of ANZAG, which was subsequently delisted from the Frankfurt Stock Exchange.

Strategic partnerships

Partnership has always been one of our core values and is the reason why we have the word "alliance" in our Group's name.

The strategic partnership with Walgreens announced in June 2012 is central to our ambitions, the first step being Walgreens initial investment in Alliance Boots in August 2012. This is the largest partnership in our history and when, as we expect, Walgreens exercises its option to fully merge with Alliance Boots, it will enable us to realise our ambition to become the first global pharmacy-led, health and wellbeing enterprise.

This transaction brings together two great companies with iconic brands, complementary geographic footprints, shared values and a heritage of trusted healthcare services, through pharmaceutical wholesaling and community pharmacy care, dating back over 100 years. It will provide us with significant synergies, enabling us to strengthen our core business areas, accelerate our strategy and achieve our joint vision for the future.

Since August 2012, good progress has been made towards delivering the joint synergy programme, which we are on track to deliver. This includes the establishment of Walgreens Boots Alliance Development, a new joint venture in Switzerland where a team formed from secondees from both companies is fully operational and delivering initial synergies.

To align our interests, two Alliance Boots Directors, Dominic Murphy and myself, were appointed to the Walgreens Board and Gregory Wasson, President and Chief Executive Officer of Walgreens, and three of his executive colleagues, Wade Miquelon, Thomas Sabatino and Robert Zimmerman, joined our own Board.

In March 2013, we together with Walgreens announced a long term partnership with AmerisourceBergen, one of the largest pharmaceutical wholesalers in the US. Walgreens will expand its existing relationship into a 10-year agreement with AmerisourceBergen for pharmaceutical distribution, all three companies will collaborate on global supply chain opportunities and, together, Walgreens and Alliance Boots have rights to acquire a minority equity position in AmerisourceBergen, including through valuable warrants to be issued when the transaction completes.

In addition, in February 2013, we extended our hearingcare partnership with Sonova through a 49% minority investment in its UK subsidiary that operates Boots hearingcare practices across the UK.

Corporate social responsibility

The Group's commitment to corporate social responsibility is as strong as ever, 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 new and 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.

Our people

On behalf of the Board, I would like to thank people across the Group for their dedication and excellent work throughout the year. Their efforts have enabled us to achieve another strong financial performance whilst delivering consistently high levels of patient and customer service. Our people are at the heart of everything we do and it is through clear leadership combined with great teamwork that we have been able to deliver such consistently good results.

Outlook

Looking forward, we expect the economic environment to remain difficult with ongoing pressure on both consumer and governmental expenditure. This macro-economic backdrop will generate challenges but also create new opportunities for us to pursue.

We continue to be confident about our prospects and ability to pursue profitable growth, organically, from our synergy programmes and through international expansion. Our strong operating cash flow and secure funding arrangements will also enable us to continue to invest for the future while at the same time substantially reducing net borrowings.

In a world where globalisation is increasing at a pace, our transformational partnerships put us together in a unique position to become the clear world leader in both pharmacy and pharmaceutical wholesaling. I truly believe that we have the brands, intellectual capital and, most importantly, the management expertise to create value for our stakeholders across the world for many years ahead.

Stefano Pessina
Executive Chairman
13 May 2013

Stefano Pessina discusses Alliance Boots "transformational year" online at **www.allianceboots.com**

Overview

Alliance Boots and Walgreens form strategic partnership.

Stefano Pessina shaking hands with Greg Wasson of Walgreens to mark the announcement of a strategic partnership to create the first global pharmacy-led, health and wellbeing enterprise.

For more information about our partnership with Walgreens, go to our Business review on page 18 or online at **www.allianceboots.com**

Walgreens

Alliance Boots

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'. 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 new 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

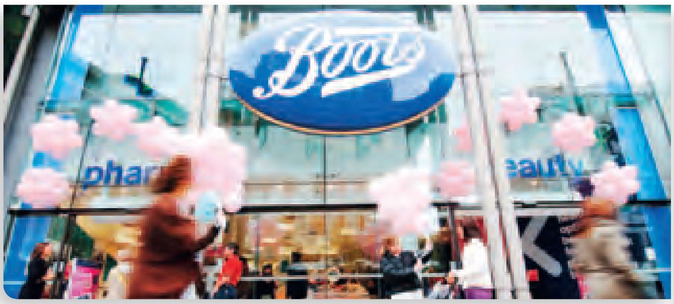
Customer care is at the heart of everything Boots does. To achieve this we have comprehensive training programmes to develop product knowledge, including regular e-learning modules, and we run a comprehensive leadership development programme. All are aimed at ensuring that we have the best people supporting 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.

Creating a compelling multi-channel health and wellbeing consumer offering

We are continuing to develop our profitable multi-channel offering to make it easier for Boots customers to access products and services at home and with mobile technology in an increasingly integrated way. This has been supported by investment in logistics to fulfil online orders more quickly for collection in store or deliveries to customers' homes. In addition, BootsWebMD.com continues to offer consumer health and wellbeing information.



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

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 the Republic of Ireland, Thailand and the Middle East, the latter through our franchise partner, with trading formats developed to meet local country needs. In addition, we will, over time, consider establishing Boots stores in new countries where legislation permits and it makes economic sense to do so, and further franchising opportunities.

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 in over 1,770 Target stores and are being introduced in Walgreens, and Asia, where we are partnering with Dairy Farm, a leading pan-Asian retailer, to sell Boots product brands in their retail stores, starting with Mannings health and beauty stores in Hong Kong. In Europe, we are expanding boots.com to fulfil orders from outside the UK and have full responsibility for the Boots Laboratories brand, from product innovation to marketing, selling and distribution.

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, having recently launched the Alcura brand for our expanding 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 in what we believe will become the largest pharmaceutical wholesaler in the US), 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 new 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. Our new joint (with Walgreens) partnership with AmerisourceBergen will further expand this opportunity.

Internationalising our much loved brands across the world.

No7 launches range in Walgreens new Hollywood store with dedicated beauty advisors.

No7 at Walgreens

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


NEW
No7


Walgreens


No7

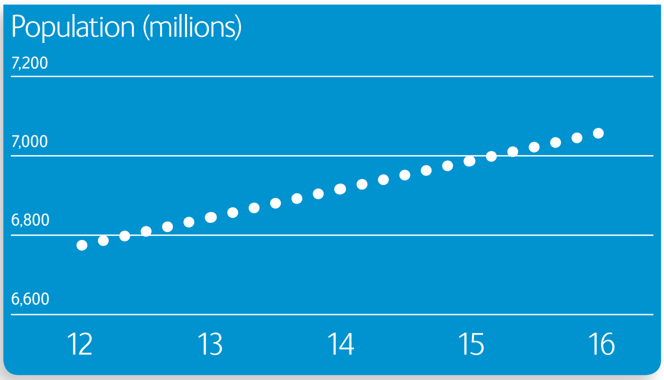
Overview

Our markets and business environment

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

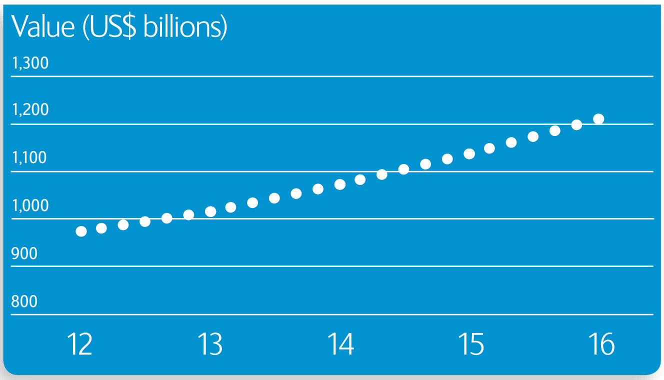
We expect increasing life expectancy and product innovation to continue to drive demand for prescription medicines and related healthcare services. At the same time, we believe that a growing customer focus on personal wellbeing will drive demand for health and beauty consumer products and related services.

World population forecasts



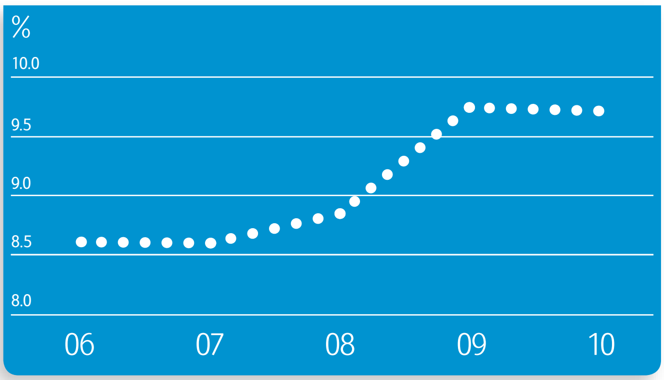
Source: IMS Market Prognosis Global 2012–2016, Economist Intelligence Unit

World pharmaceutical market forecasts*



* Constant exchange rates based on average rates for quarter 4 2011 as recorded by IMS Health
Source: IMS Market Prognosis Global 2012–2016

Healthcare expenditure as a percentage of GDP



Source: OECD Health Data 2012

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, along with certain other leading manufacturers of beauty products, 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 and, in our view, is unlikely in the near future.

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.

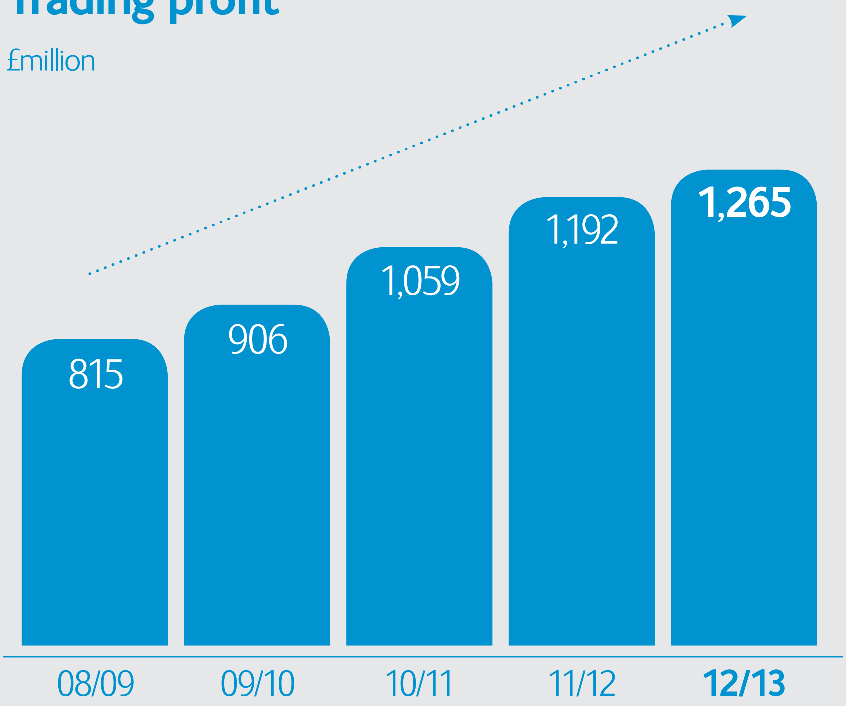
Overview

Our financial record

"Alliance Boots has a long track record of delivering higher profits year after year.

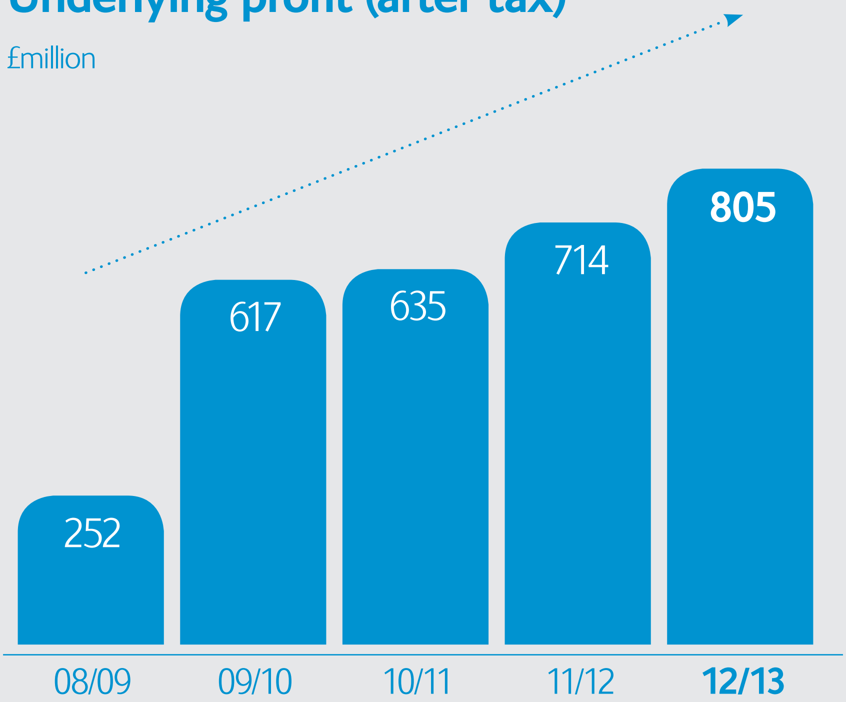
Trading profit

£million



Underlying profit (after tax)

£million



Financial results

for the years ended 31 March

	2008/09 £million	2009/10 £million	2010/11 £million	2011/12 £million	2012/13 £million
Revenue					
Health & Beauty	7,120	7,492	7,624	7,671	7,482
Pharmaceutical Wholesale	9,746	10,626	13,154	16,828	16,378
Contract Manufacturing	106	252	253	255	238
Intra-group	(1,309)	(1,459)	(1,603)	(1,745)	(1,692)
Group	**15,663**	**16,911**	**19,428**	**23,009**	**22,406**
Share of associates and joint ventures	2,779	3,148	2,555	1,804	2,221
	18,442	20,059	21,983	24,813	24,627
EBITDA					
Group	**1,063**	**1,158**	**1,306**	**1,440**	**1,505**
Share of associates and joint ventures	42	75	69	53	27
	1,105	1,233	1,375	1,493	1,532
Trading profit					
Health & Beauty	667	723	763	810	865
Pharmaceutical Wholesale	195	225	332	414	435
Contract Manufacturing & Corporate Costs	(47)	(42)	(36)	(32)	(35)
Group	**815**	**906**	**1,059**	**1,192**	**1,265**
Share of associates and joint ventures	72	92	59	46	18
	887	998	1,118	1,238	1,283
Underlying profit (after tax)	**252**	**617**	**635**	**714**	**805**
Profit for the year	**119**	**626**	**621**	**593**	**741**
Cash generated from operations	**1,045**	**1,130**	**1,309**	**1,601**	**1,648**
Total cash flow	**158**	**504**	**573**	**782**	**1,105**
(Increase)/decrease in net borrowings	**(288)**	**645**	**546**	**826**	**1,124**
Net borrowings – year end	**9,034**	**8,389**	**7,843**	**7,017**	**5,893**
Total equity – year end	**4,224**	**4,340**	**5,124**	**5,701**	**5,671**

Financial information for the prior years has been re-stated for the adoption of the revised IAS 19 Employee Benefits standard.

Revenue, EBITDA and trading profit where including share of associates and joint ventures excludes Galenica (as it ceased to be an associate of the Group in May 2013, while continuing as an associate of the Group's ultimate parent company). Total equity at 31 March 2013 was lower than at the end of the previous year due to the future distribution obligation in the Walgreens agreement to distribute at fair value the Group's associate investment in Galenica.

Business review: Overview

> "In 2012/13, we again delivered a double digit growth in underlying profit after tax, almost all of which was organic.

Trading profit

+6.1%
Reported

+7.4%
Constant currency

Underlying profit (after tax)

+12.7%

Performance by Division

for the year ended 31 March 2013

Continuing operations:	Total £million	Year on year growth Reported	Year on year growth Constant currency
Revenue			
Health & Beauty	7,482	-2.5%	-2.1%
Pharmaceutical Wholesale	16,378	-2.7%	+1.5%
Contract Manufacturing	238	-6.7%	-6.5%
Intra-group	(1,692)		
Group	**22,406**	**-2.6%**	**+0.6%**
Share of revenue of associates and joint ventures	2,221	+23.1%	+25.2%
	24,627	-0.7%	+2.4%
Trading profit[1]			
Health & Beauty	865	+6.8%	+7.0%
Pharmaceutical Wholesale	435	+5.1%	+8.2%
Contract Manufacturing & Corporate Costs	(35)		
Group	**1,265**	**+6.1%**	**+7.4%**
Share of trading profit of associates and joint ventures	18	-60.9%	-63.6%
	1,283	+3.6%	+4.7%

[1] Trading profit comprises profit from operations before amortisation of customer relationships and brands, exceptional items and share of post tax earnings of associates and joint ventures.

Throughout the "Business review", financial information for the prior year has been re-stated for the adoption of the revised IAS 19 Employee Benefits standard. Revenue, EBITDA and trading profit where including share of associates and joint ventures excludes Galenica (as it ceased to be an associate of the Group in May 2013, while continuing as an associate of the Group's ultimate parent company).

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.

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

In 2012/13, the Group has again delivered a double digit growth in underlying profit (after tax), almost all organic, with good profit growth in both Divisions, while at the same time generating a strong operating cash flow, enabling net borrowings to be substantially reduced while funding investment to drive future growth.

Financial highlights

Revenue totalled £22,406 million, up 0.6% year on year in constant currency, but down 2.6% on a reported basis due to adverse currency translation, Sterling being stronger against the Group's other operating currencies, particularly the Euro.

Trading profit totalled £1,265 million, up 7.4% in constant currency and 6.1% on a reported basis taking into account adverse currency translation. EBITDA totalled £1,505 million, up 5.8% in constant currency and 4.5% on a reported basis.

Underlying profit (after tax) was £805 million, a 12.7% increase year on year.

Cash generated from operations was strong at £1,648 million. During the year, we spent £200 million on capital expenditure, largely on our retail stores, information technology projects and logistics, and £84 million on acquisition related expenditure. Net borrowings at the year end were £5,893 million, a year on year reduction of £1,124 million, and total equity was £5,671 million.

During the year we extended £5,161 million of existing private senior syndicated loan facilities by two to three years at attractive rates, more than two and a half years before the majority matured, in line with our prudent and active capital management policy. This has further strengthened the Group's financial position.

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 June 2012, we announced a transformational strategic partnership with Walgreens, the largest retail drugstore chain in the US, to create the first global pharmacy-led, health and wellbeing enterprise. This is the largest partnership in our history and when, as we expect, Walgreens exercises its option to fully merge with Alliance Boots, it will enable us to realise our ambition to become the first global pharmacy-led, health and wellbeing enterprise.

This transaction brings together two great companies with iconic brands, complementary geographic footprints, shared values and a heritage of trusted healthcare services, through pharmaceutical wholesaling and community pharmacy care, dating back over 100 years. Importantly, it provides us with significant synergies, enabling us to strengthen our core business areas, accelerate our strategy and achieve our joint vision for the future.

The first step of the transaction, completed on 2 August 2012, was the acquisition by Walgreens of a 45% equity ownership stake in Alliance Boots from existing shareholders (excluding the Group's minority interest in Galenica), for a combination of Walgreens shares and cash. As a result, Alliance Santé Participations, of which Stefano Pessina and Ornella Barra (respectively Executive Chairman and Chief Executive, Pharmaceutical Wholesale Division of Alliance Boots) are Directors and whose ultimate ownership is a family trust, is now Walgreens largest shareholder. Walgreens has the option to proceed to a full combination by acquiring the remaining 55% of Alliance Boots, which is exercisable during the six month period beginning on 2 February 2015.

We believe that the structure of this two-step transaction balances financial returns and risk management and enables synergies to be realised in the short term, whilst allowing both management teams to maintain focus on expanding their respective core businesses while carefully planning for the anticipated future combination.

Since August 2012, good progress has been made towards delivering the joint synergy programme, including the establishment of Walgreens Boots Alliance Development, a new joint venture based in Bern, Switzerland, where a team formed from secondees from both companies is fully operational. Synergies achieved up until 31 March 2013 are in line with our expectations, reflecting the set-up time and related costs required to establish the various work streams. Our share of synergies (net of direct costs) totalled approximately £14 million (before tax) across owned operations and the new joint venture.

In March 2013, we, together with Walgreens, announced a long term partnership with AmerisourceBergen, one of the largest pharmaceutical wholesalers in the US. This agreement, which is subject to customary regulatory approvals, will enable Walgreens, Alliance Boots and AmerisourceBergen to benefit from greater scale and global opportunities and work together on programmes to improve service levels and efficiencies, while reducing costs and increasing patient access to pharmaceuticals.

Under this new agreement, Walgreens will expand its existing relationship into a 10-year agreement with AmerisourceBergen for pharmaceutical distribution (which will enable AmerisourceBergen to become the largest pharmaceutical wholesaler in the US) and all three companies will collaborate on global supply chain opportunities.

Together, Walgreens and Alliance Boots have rights to acquire a 23% minority equity position in AmerisourceBergen. This comprises rights to purchase up to 7% in the open market and warrants allocated equally for 16% in aggregate of its fully diluted equity. The first tranche of 8% has a strike price of $51.50 and will be exercisable for a six-month period beginning in March 2016 and the second, also for 8%, has a strike price of $52.50 and will be exercisable for a six-month period beginning in March 2017.

In addition to these two industry transforming strategic partnerships, good progress was made across the Group in other key areas of corporate development.

In September 2012, we announced a strategic partnership with Nanjing Pharmaceutical, with an intention to acquire a 12% equity interest in the business, subject to various regulatory approvals. Nanjing Pharmaceutical is a leading regional pharmaceutical wholesaler in Eastern China and one of the largest national wholesalers. Our existing joint venture, Guangzhou Pharmaceuticals Corporation, has a strong presence in Southern China.

In January 2013, we achieved full ownership of the shares in ANZAG, our German pharmaceutical wholesaling subsidiary which we have subsequently rebranded as Alliance Healthcare Deutschland, having successfully completed the squeeze-out of the minority shareholders and carried out the related de-listing from the Frankfurt Stock Exchange.

In February 2013, we extended our hearingcare partnership with Sonova through a 49% minority investment in its UK subsidiary that operates Boots hearingcare practices across the UK.

Health & Beauty Division

Alex Gourlay
Chief Executive, Health & Beauty Division

> "Boots UK's profit performance was strong due to a focus on our core health and beauty categories.

Trading profit

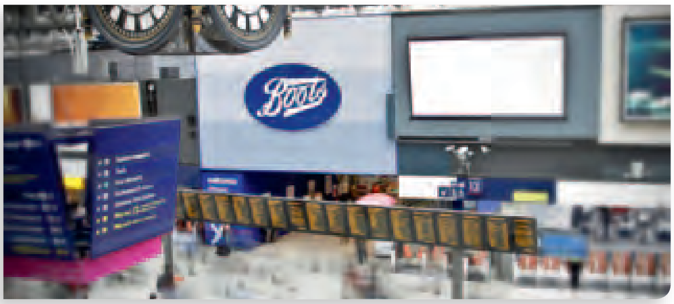
+6.8%
Reported

+7.0%
Constant currency

Performance by business

for the year ended 31 March 2013

Continuing operations:	Total £million	Year on year growth Reported	Constant currency	Like for like
Revenue				
UK:				
Boots UK	6,212	-2.5%	-2.5%	-3.1%
Boots Opticians	335	+0.9%	+0.9%	+2.7%
	6,547	**-2.4%**	**-2.4%**	**-2.9%**
International:				
Norway	401	-2.7%	-0.8%	-1.6%
Republic of Ireland	232	-2.5%	+3.4%	-4.4%
The Netherlands	135	-16.7%	-12.0%	-12.5%
Thailand	99	+13.8%	+12.9%	+3.7%
Other	68	+3.0%	+3.4%	+2.8%
	935	**-3.1%**	**-0.1%**	**-3.4%**
	7,482	**-2.5%**	**-2.1%**	**-2.9%**
Trading profit				
UK	813	+8.8%	+8.8%	
International	52	-17.5%	-14.3%	
	865	**+6.8%**	**+7.0%**	
Trading margin				
UK	12.4%	+1.3pp	+1.3pp	
International	5.6%	(0.9)pp	(0.9)pp	
	11.6%	**+1.0pp**	**+1.0pp**	



Our Health & Beauty Division delivered a good overall performance, despite tough retail markets across Europe and further regulatory pressures which impacted dispensing profitability. The UK profit performance was particularly strong due to a focus on our core health and beauty categories, combined with the benefits of further development of the operating platform. Results were, however, disappointing across our other European markets, which were partially offset by good progress in building profitable sales in Asia and North America.

We attribute this performance to the hard work and commitment of our people. They have enabled us to deliver excellent customer care and develop and launch exciting new innovative products and services.

Trading profit for the Division totalled £865 million, up 7.0% year on year in constant currency and 6.8% on a reported basis, trading margin increasing by 1.0 percentage point to 11.6%. Revenue totalled £7,482 million, down 2.1% in constant currency and 2.5% on a reported basis due to lower dispensing revenues.

Health & Beauty Division – UK

In the UK, trading profit increased by 8.8% to £813 million, trading margin increasing by 1.3 percentage points to 12.4%. Revenue was 2.4% lower at £6,547 million, mainly as a result of several important branded medicines coming off patent protection and being substituted by lower priced generic medicines, as we anticipated, combined with lower dispensing volumes.

Boots UK delivered good profit growth, despite lower dispensing profitability, due to a strong retail product mix, effective margin management and tight cost controls, in what has been a particularly challenging environment.

Boots UK revenue by product category
for the year ended 31 March 2013

Continuing operations	£million	Year on year growth[4]
Dispensing & Related Income	**2,209**	**-7.3%**
Retail:		
Retail Health[1]	904	+1.3%
Beauty & Toiletries[2]	2,178	+1.2%
Lifestyle[3]	921	-2.6%
	4,003	**+0.3%**
	6,212	**-2.5%**

[1] Retail Health comprises sales of non-prescription medicines and other health related products.
[2] Beauty & Toiletries comprises the cosmetics & fragrances, accessories and toiletries sub categories.
[3] Lifestyle comprises the baby, nutrition, photography, electrical, seasonal and other lifestyle sub categories, including miscellaneous sales.
[4] Prior year figures have been re-stated to reflect certain category reclassifications.

Revenue from Dispensing & Related Income decreased by 7.3% in value, mainly as a result of several important branded medicines coming off patent protection and being substituted by lower priced generic medicines, as anticipated at the beginning of the year, together with lower dispensing volumes, this being partially offset by continuing growth in fee income from pharmacy services.

Dispensing volumes totalled 222 million items, a year on year decrease of 0.8% on a like for like basis. This reduction was mainly due to calendar impacts, including one less day. Walk-in prescription business in pharmacies was also impacted by competitor openings under the '100 hour opening' entry exemption in England. With the removal of this exemption in September 2012, we expect the rate of competitor openings to slow considerably over the coming year. Our like for like dispensing volumes increased in both Scotland and Northern Ireland, where the '100 hour opening' entry exemption did not apply. Profitability was, however, adversely impacted by lower reimbursement prices on generic medicines.

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 multi-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.

Health & Beauty Division continued

We now have 16 doctors' surgeries located in Boots stores and our travel health service, launched in September 2011, is now available in over 100 stores and is proving to be popular with customers. Our transactional website, boots.com, and BootsWebMD.com, our consumer health and wellness information portal, are two of the most visited health websites in the UK, the number of site visitors for both continuing to increase very substantially year on year, with BootsWebMD.com receiving average monthly visitor figures of around 2.5 million. During the year, we also launched a new range of consultation services focused on the most important health conditions impacting families in the UK. The first launch, in January 2013, was the Diabetes Risk Awareness Service, a free Type II diabetes assessment which has been well received by customers, with over 13,000 consultations carried out by the year end.

In February 2013, we extended our partnership with Sonova, a leading provider of innovative hearing healthcare solutions, through a 49% minority investment in its UK subsidiary that operates Boots hearingcare practices across the UK. Through this associate investment, we now have a leading position in the UK hearingcare market, with around 390 practices, mainly trading as Boots hearingcare within Boots stores and Boots Opticians practices.

Retail revenue increased by 0.3%, reflecting the challenging consumer market, a decrease of 0.7% on a like for like basis largely due to calendar impacts, including one less day. Revenue growth was particularly strong in both multi-channel and in our airport stores, local pharmacy being the most challenging. On a geographical basis, the London and South East regions were much stronger than the rest of the UK.

Revenue in the highly competitive Retail Health category, where we have been the market leader for many years, increased by 1.3% to £904 million, due to higher sales in both the positive healthcare and non prescription medicine sub categories, the latter benefiting from a higher incidence of cough and cold ailments.

We continue to develop innovative new products for the Boots Pharmaceuticals brand, an example being the Boots Pharmaceuticals Non-Contact Thermometer launched in August 2012. 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.

Revenue in the Beauty & Toiletries category, where we have leading market positions and exclusive product brands, increased by 1.2% to £2,178 million, both beauty and toiletries growing at a similar rate, gross margin increasing in all sub categories other than haircare.

Within beauty, sales of premium beauty products and accessories were particularly strong, our premium offering benefiting from the full year impact of leading brands launched in Boots in the previous year, new product developments and the launch of exclusive brands such as Smashbox, the LA studios inspired cosmetics brand which is 'exclusive to Boots' stores in the UK. Accessories sales were strong due to new product development.

Sales of No7, the UK's leading skincare brand, similarly increased year on year, further demonstrating the strength of the brand. During the year, the No7 brand was re-launched with more contemporary packaging, new in-store merchandising units to better merchandise the evolving product range and new uniforms for our No7 beauty consultants. At the same time we continued to invest in new product development and innovation.

Following the successful launch of No7 Lift & Luminate Day & Night Serum in April 2012, the No7 Foundation Match Made Service was launched in August, complemented by a range of over 80 No7 foundations in skin-true colour shades. This 'exclusive to Boots' service, where a No7 beauty consultant uses a device to determine the customer's best foundation match, has proved very popular with customers, supported by an integrated marketing campaign that combined social media, online and traditional advertising. Other No7 launches during the year included a No7 Lift & Luminate Dark Spot Corrector, clinically proven to fade age spots, and No7 lip crayons, providing glossy lip colour in a lightweight crayon format.

Fragrances sales were lower after a number of years of strong growth, mainly during the important Christmas selling season where we experienced significant competitor discounting.

In toiletries, sales growth was particularly strong in haircare, where we strengthened our customer proposition across the mass part of the product value range, and in indulgent bathing, due to a strong performance in Mother's Day gifts and 'exclusive to Boots' products.

In the Lifestyle category, revenue decreased by 2.6% to £921 million reflecting the continuing decline in the photographic market and lower sales of food and beverages, seasonal and baby products, which were partially offset by increased sales of electrical beauty products. Category gross margin improved due to effective margin management.

Boots retail performance was robust in the important Christmas selling period. We had a differentiated customer offer, including many unique products sourced via our Asian sourcing operation based in Hong Kong, together with attractive promotions, including our renowned 'offer of the week', supported by a new advertising campaign featuring real families and our first Christmas gift app.

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 are very important drivers of revenue and margin. In addition to the innovative new No7 products and expansion of the Boots Pharmaceuticals range, other new developments during the year included the re-launch of Botanics, our range of natural skincare products developed in collaboration with the Royal Botanical Gardens, Kew, and the re-launch of our Shapers and Delicious food ranges, with new packaging and an extended product offering including the 'Shapers Food For Later' range of healthy, calorie controlled evening meals.

Multi-channel is becoming an increasingly important part of the Boots offer. Sales via boots.com continued to grow strongly, with revenue up 17% year on year, reflecting a strong growth in visitor numbers and increased average revenue per order. Our mobile site is becoming increasingly important, accounting for over 25% of visitors to boots.com during the year. "Order-online and collect-in-store", which is available in nearly all our stores across the UK, remains very popular, comprising around 45% of online orders in the year. Net contribution, after all direct costs including depreciation, increased substantially year on year. We continue to expand the range of products available on boots.com and the related online health and beauty advice. The new boots.com automated logistics facility, which commenced operations in the prior year, has enabled us to offer improved delivery options for customers, including next day delivery for orders before 5pm and increased delivery flexibility.

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. During the year, 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) increased to 17.9 million, reflecting its well established position as one of the largest and most valued loyalty schemes in the UK. In May 2012, we further integrated the offer with our multi-channel platform, allowing customers to redeem points when they shop at boots.com. Over 60% of retail transactions continue to be made by Boots Advantage Card members, who now spend on average over 60% more per transaction than non cardholders. As in previous years, around 90% of active members are women, representing nearly two thirds of the adult female population in the UK.

We continue to attribute much of Boots success to our passionate focus on customer service and care. Our internal customer care measure further improved year on year, reaching record levels during the important Christmas trading period, as a result of our ongoing focus on areas that we know are important to our customers, including 'value for money', 'quick and easy to pay', 'staff available and approachable', and 'time taken to get my prescription'.

During the year, we recruited in total around 700 pre-registration pharmacy graduates and fully qualified pharmacists and continued to invest in our people. An example of this is our e-learning system, which is extensively used by store colleagues throughout the UK. Several new modules were introduced, including pharmacists training to provide better condition-led care for diabetes.

At the same time, we continue to invest in our store portfolio, making our products more accessible and convenient for customers to buy. During the year, we opened 26 new Boots stores, 11 of which were relocations, closed 16 stores, and refitted over 200 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 2,476 health and beauty stores in the UK, of which 2,386 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.

Boots Opticians revenue increased by 0.9%, like for like revenue from owned practices increasing by 2.7% due to good growth in revenues from spectacle sales. This followed the introduction of a broader range of attractive frames, clearer pricing and an improved practice layout in over 300 practices. Total revenue growth was held back by the portfolio rationalisation programme, where practices in overlapping locations were combined to improve profitability, which is now largely complete, and the switch of a net two company operated practices to a franchised basis. Trading profit increased significantly, due to benefits from the rationalisation programme combined with further cost efficiencies. At the year end, Boots Opticians had 604 practices, including 188 which operate on a franchise basis.

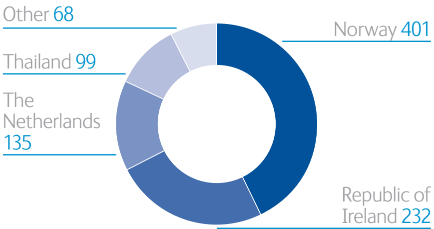
Health & Beauty Division continued

Health & Beauty Division – International

Good progress was made in growing sales and profitability in Asia and North America, which was more than offset by a disappointing performance across our European markets, these being impacted to varying degrees by a number of factors. These included pressure on dispensing reimbursement rates, strong competition and the weaker Euro which impacted input prices in Ireland.

Revenue in countries outside the UK totalled £935 million, which was broadly flat year on year in constant currency but down 3.1% on a reported basis. Trading profit of £52 million was down 14.3% in constant currency and 17.5% on a reported basis. A net 26 stores were added during the year, most of which were in Thailand, bringing the year end total to 554.

Revenue by country
for the year ended 31 March 2013 (£million)



Stores by country
at 31 March 2013

	Number
Norway	155
Republic of Ireland	74
The Netherlands	72
Thailand	225
Lithuania	28
	554

In Norway, where our pharmacies are branded 'Boots apotek', revenue on a constant currency basis decreased by 0.8%, like for like revenue decreasing by 1.6% due to the impact of competitor store openings. Profitability was adversely impacted by the lower sales, lower dispensing margins and higher operating costs, which were partially offset by better retail gross margin from improved product mix.

In the Republic of Ireland, where we trade as Boots, revenue increased by 3.4% on a constant currency basis due to new store openings in both the current and prior years. Like for like dispensing item volume growth was strong, the resulting revenue growth being partially offset by lower reimbursement rates, but overall like for like revenue was down 4.4%, the fragile state of the Irish economy continuing to impact retail sales. Trading profit was adversely impacted by higher input prices resulting from the weaker Euro. Boots customers in Ireland are increasingly recognising the benefits of having a Boots Advantage Card, the number of active members increasing by 9% to nearly one million. Five new stores were opened during the year. We will also be launching a new dedicated Irish website, boots.ie, selling over 26,000 products including many not available in our smaller Irish stores, with full Boots Advantage Card functionality.

In The Netherlands, revenue decreased by 12.0% on a constant currency basis, like for like revenue decreasing by 12.5%. Revenues and profits were adversely impacted by the Dutch healthcare insurers' use of tenders to select the lowest price generic medicines, referred to as the "preference policy", and a reduction in the government determined dispensing fee per item. We have 25 stores trading as 'Boots apotheek', which has a much stronger retail offering than a typical Dutch pharmacy, including a range of Boots branded health and beauty products.

In Thailand, where Boots is one of the largest health and beauty pharmacy chains, revenue increased by 12.9% on a constant currency basis, like for like revenue increasing by 3.7%. Beauty sales growth was particularly strong, mainly due to No7. A net 22 stores were added in the year which, together with good margin growth and scale economies, enabled the business to increase profits. By the year end, over one million customers had joined the Boots loyalty card programme which was specifically developed for the Thai market. Over 40% of sales during the year were to cardholders who on average spent more than 2.5 times per transaction than non cardholders.

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

Total revenue from these activities increased by 3.4% on a constant currency basis, growth being strongest in sales to the US which increased by around 12%. At retail value, US sales totalled almost $100 million, our leading brands being No7 and Botanics. In November 2012, No7 was launched in the new Walgreens flagship store in Hollywood, with dedicated beauty advisors and the new No7 freestanding in-store merchandising units, subsequent launches being in flagship stores in Washington DC and Boston. Plans are being developed to extend the sale of Boots product brands to other Walgreens stores. In addition, Walgreens.com now has a 'Boots shop' where customers can buy a wide range of around 300 Boots products including No7, Botanics, 'Boots expert', Boots Extracts and Champneys, which is 'exclusive to Boots'.

Boots products continue to be sold in over 1,770 Target stores in the US, around 350 of which have a Boots beauty advisor, and online on target.com. In addition, Boots products are available on drugstore.com™ and Beauty.com® (both owned by Walgreens), and on our own direct to consumer website us.boots.com. No7 is also sold in 550 Ulta beauty stores across the US, on ulta.com and in 70 College stores.

In October 2012, we commenced a trial with Dairy Farm, a leading pan-Asian retailer, to sell Boots products, including No7 and Botanics, in selective Mannings health and beauty stores in Hong Kong. At the year end, 23 stores had the Boots product offering, almost all with a dedicated No7 beauty advisor.

At the year end, we also operated 28 retail pharmacies in Lithuania. In addition, 75 Boots stores were operated by our franchise partner in the United Arab Emirates, Kuwait, the Kingdom of Saudi Arabia, Bahrain and Qatar, a year on year increase of 17%, including seven new openings in the Kingdom of Saudi Arabia.

Boots product brands are now available for purchase in over 20 countries. In Europe, we will shortly launch international.boots.com, a new international website with over 23,000 products from the boots.com range. In addition, we now have full responsibility for the Boots Laboratories brand, from product innovation to marketing, selling and distribution, which we anticipate will generate development opportunities across Europe.

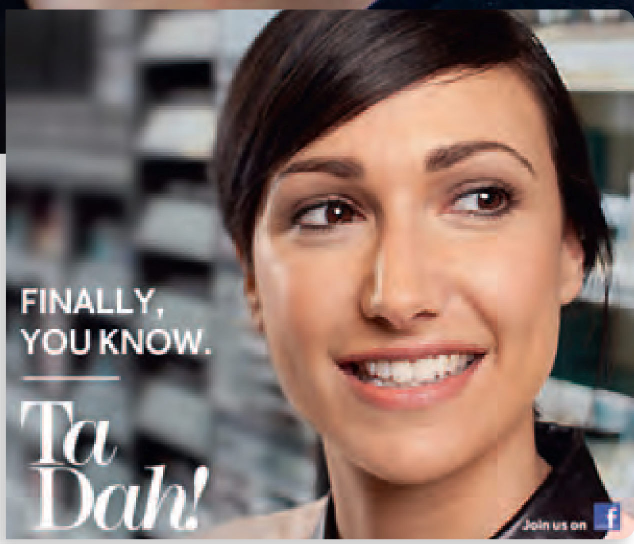
Developing and launching innovative new products.

No7 Foundation Match Made Service – the new way to find your perfect match.

No7
Foundation
Match Made
Service

our Health & Beauty Division, go to our Business review on page 18 or online at **www.allianceboots.com**


N°7
Measuring
N°7


FINALLY,
YOU KNOW.
Ta
Dah!
Join us on

Pharmaceutical Wholesale Division

Ornella Barra
Chief Executive, Pharmaceutical Wholesale Division

> "Alliance Healthcare has continued to deliver good profit growth in difficult market conditions.

Trading profit

+5.1% Reported

+8.2% Constant currency

Performance by business

for the year ended 31 March 2013

Continuing operations:	Total £million	Year on year growth Reported	Year on year growth Constant currency
Revenue			
France	3,859	-13.9%	-8.8%
Germany	3,491	-6.6%	-1.0%
UK	3,381	+9.5%	+9.5%
Turkey	1,625	-1.7%	+0.9%
Spain	1,020	-15.8%	-10.8%
Egypt	708	+18.4%	+22.0%
The Netherlands	665	-13.0%	-7.8%
Czech Republic	461	-6.3%	+1.3%
Russia	434	n/a	n/a
Romania	375	-1.1%	+9.4%
Norway	325	-16.0%	-14.6%
Lithuania	46	-16.4%	-10.9%
Intra-group	(12)		
	16,378	**-2.7%**	**+1.5%**
Trading profit	**435**	**+5.1%**	**+8.2%**
Trading margin	**2.7%**	**+0.2pp**	**+0.2pp**

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 a good overall performance, despite challenging market conditions in many countries. Profit growth was almost all organic, reflecting our strong customer offering for both manufacturers and independent pharmacies, combined with tight cost controls. Performance was particularly strong in our key markets in Northern Europe.

Revenue totalled £16,378 million, up 1.5% in constant currency but down 2.7% on a reported basis due to adverse currency translation, Sterling being stronger against the Group's other operating currencies, particularly the Euro. Trading profit totalled £435 million, up 8.2% in constant currency and 5.1% on a reported basis. Overall trading margin was 2.7%, a 0.2 percentage point increase on last year. Adjusting for acquisitions and disposals, on a constant currency basis, like for like revenue decreased by 1.2%, reflecting increased generic penetration (including the impact of branded medicine patent expiries) and government measures to constrain growth in healthcare costs.

We estimate that the wholesale markets in which we operate grew by around 2% in volume terms, reflecting underlying growth in demand for prescription medicines, this growth being weighted on the basis of our wholesaling volumes. In value terms we estimate that our markets contracted by just over one percent in value, this growth being in constant currency and weighted on the basis of our wholesale revenues. This is the first time our market has contracted in value for many years and reflects government measures across Europe to constrain growth in healthcare costs, resulting in lower reimbursement prices and increasing penetration of generic medicines, partly as a result of branded medicine patent expiries. In the coming year, we expect the market to return to the modest value growth rates we have seen in recent years, taking into account a lower impact from patent expiries.

Generic penetration rates 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 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 is growing 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 rapidly 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. Completion of our joint partnership with AmerisourceBergen will create additional global supply chain opportunities, 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 has owned operations in six countries and a presence in a further four countries through our associates, works with manufacturers providing them with pre-wholesale and contract logistics services to access wholesalers, pharmacies and hospitals on a pan-European basis.

Pharmaceutical Wholesale Division
continued

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

In March 2013, we launched Alcura, which will become the international service brand for our innovative and specialised healthcare services, covering clinical homecare, medicine support, dispensing services, medicine preparation and clinical trial support. First launched in the UK, where we rebranded our Central Homecare business and, since the year end, we have launched Alcura in Spain and have plans for further launches in the coming 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 670 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 9% in constant currency.

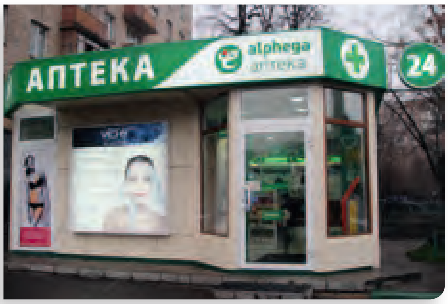
Alvita, our range of patient care products, is sold in six countries, total Alvita sales increasing year on year by around 5% in constant currency.

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. Alphega Pharmacy, which operates in six countries, including our associate in Italy, increased its membership year on year by over 7% to more than 4,700 pharmacies. During the year, Alphega Pharmacy continued to work closely with vivesco, our network of around 1,100 German pharmacies, to enhance the range of services offered by both.

In France, revenue decreased by 8.8% on a constant currency and like for like basis. This was mainly due to regulatory changes designed to both reduce consumption of prescription medicines (including quotas for doctors) and substantially increase market penetration of generic medicines, together with strong competition from co-operatives and indirectly from the growing direct to pharmacy channel. The impact of lower revenue was partially mitigated by lower healthcare taxes and the benefits of action taken during the latest and prior year to reorganise the business and reduce the cost base. Profitability was, however, lower.

In Germany, revenue decreased by 1.0% on a constant currency and like for like basis due to strong competition. Despite this reduction, trading profit increased year on year, mainly as a result of improved mix and margin management combined with substantial cost efficiencies, which was partially offset by a weaker performance from Megapharm, our specialist provider of wholesale and logistics services for oncology products, which was further impacted by government measures introduced in the prior years. In January 2013, we achieved full ownership of ANZAG, which we have subsequently rebranded as Alliance Healthcare Deutschland, having successfully completed the squeeze out of minority shareholders and carried out the related de-listing from the Frankfurt Stock Exchange.

In the UK, revenue increased by 9.5%, growth largely coming from a number of significant multi-year contracts with pharmaceutical manufacturers, including the full year benefit of contracts which commenced in the second half of the prior year, together with a new contract to supply one the UK's largest pharmacy chains. This substantial revenue growth, combined with improved product mix and further productivity gains, enabled the business to deliver a significant increase in profits. Sales of Almus generic medicines grew strongly, reflecting growth in the generics category and new Almus product launches. We continue to develop and expand services for our independent pharmacy customers and pharmaceutical manufacturers, Alphega Pharmacy membership in the UK increasing by more than 20%. In March 2013, Central Homecare, which provides home healthcare services to patients who require management of complex drug therapies, was rebranded under the Alcura brand. Revenues from this specialty activity increased by around 30% year on year.



In Turkey, revenue increased 0.9% on a constant currency and like for like basis, market growth being held back by regulatory changes. Toiletries revenue continued to grow, continuing the trend seen in the previous year. Trading profit was adversely impacted by lower margins on generics, which were partially offset by lower costs.

In Spain, revenue decreased by 10.8% in constant currency and 11.2% on a like for like basis, the difference being the acquisition of T2Picking in December 2011 which was subsequently integrated into Alloga España. The decrease in revenue was mainly due to further government action to reduce healthcare expenditure and increased penetration of lower value generics. Profits increased year on year due to improved product mix and margin management, together with benefits arising from the previous year's acquisition. Sales of Almus generic medicines increased by around 30%, Alphega membership increasing by more than 100 to over 550 independent pharmacies.

In Egypt, revenue increased by 22.0% on a constant currency and like for like basis, reflecting strong market growth, both in volume and value, following the political unrest seen in the prior year, and market share gains. This, together with effective margin management, enabled the business to deliver excellent profit growth.

In The Netherlands, revenue decreased by 7.8% on a constant currency and like for like basis, reflecting intense competition and lower market value following government actions to reduce healthcare expenditure. Profitability was lower due to the reduced revenue, the impact of which was partially offset by effective margin management and lower operating costs. In the latter part of the year, the business won a select number of contracts with pharmaceutical manufacturers to supply certain of their products to all Dutch hospitals on an exclusive basis. As a result, revenue in the final quarter increased by over 13% in constant currency when compared to the comparable quarter in the prior year.

In November 2012, we acquired full ownership of our associate Alliance Healthcare Russia from AB Acquisitions Holdings, the ultimate parent of Alliance Boots. This followed the formation of the strategic partnership with Walgreens, which included, among other things, an option for Walgreens to acquire the Alliance Healthcare Russia shareholding on exercise of its option to proceed to a full merger with Alliance Boots. This change aligned the accounting for the Group's interests in Russia under IFRS and US GAAP. Revenue since the acquisition was £434 million, resulting in a small trading profit.

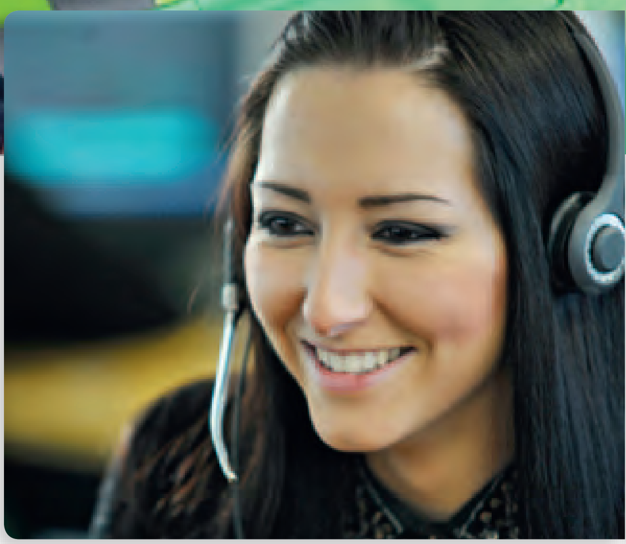
In our other smaller markets, revenue in the Czech Republic increased by 1.3% on a constant currency and like for like basis, profits increasing due to higher service income and tight cost control. In Romania revenue on the same basis grew by 9.4%, supported by strong market growth, but in Norway revenue decreased by 14.6% following the loss of a low margin health authority contract towards the end of the prior year, profitability improving due to lower operating costs.

Delivering excellent customer service.

Alliance Healthcare strives to provide a first class service to all its customers, whether it's frequency of delivery, product availability or reliability.

Alliance Healthcare
Bringing healthcare closer

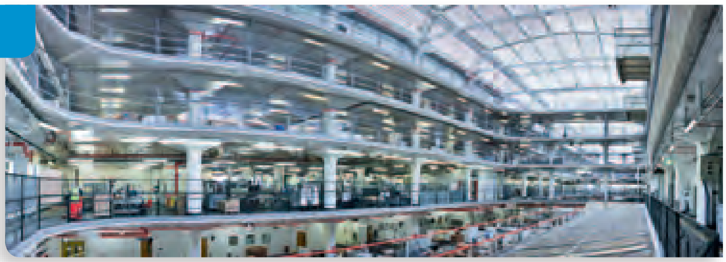
Wholesale Division, go to our Business review on page 18 or online Annual Report at **www.allianceboots.com**




Dunn's Pharmacy
alphega
pharmacy
Established 1934

Business 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 6.7% to £238 million in what was a challenging year for the business, following a fall in external market demand for contract manufacturing and an increase of regulatory compliance requirements. Trading profit also declined by £4 million to a loss of £3 million.

In March 2013, we announced a programme to improve the efficiency and overall performance of the UK factory including investment in new product technologies to enable greater flexibility and support for the Group's leading beauty and skincare product brands. The one-off exceptional cost of this restructuring programme, which was all incurred in 2012/13, was £31 million, of which £18 million was non-cash. This includes the write-off of fixed assets and inventory, and the reduction of around 200 roles within the Nottingham factory over the next two years.

Corporate Costs continue to be tightly controlled, decreasing year on year by £1 million to £32 million.

Associates and joint ventures

Investment in associates and joint ventures, almost all of whom wholesale and distribute pharmaceuticals, is an important component of our Group's activities.

Our share of underlying post tax earnings of associates and joint ventures totalled £39 million, a year on year decrease of 32.8%, mainly as a result of losses in our pharmaceutical wholesale associates in Southern Europe.

Alliance Healthcare Russia ceased to be an associate in November 2012, when we acquired full ownership of the business from AB Acquisitions Holdings, the ultimate parent of Alliance Boots.

In China, Guangzhou Pharmaceuticals Corporation, our joint venture established in 2008, performed well, both in terms of revenue and profit growth. The business, which is the sixth largest pharmaceutical wholesaler in China, continues to expand its operations through a combination of organic growth and targeted acquisitions, mainly outside Guangdong province, one acquisition being made during the year.

In October 2012, we announced that we had set up Walgreens Boots Alliance Development, a new company based in Bern, Switzerland, jointly owned with Walgreens, as part of our synergy programme. A team formed from secondees from both companies is fully operational, synergies achieved up until 31 March 2013 being in line with our expectations.

Alliance Healthcare Italia had a particularly difficult year, revenue and profit being adversely impacted by challenging market conditions, which resulted in lower revenue and margins and increased provisioning for overdue customer debts, combined with a number of operational issues in the first half of the year. These issues have now largely been addressed following management changes, although the market is still difficult. Business performance in the second half of the year was better as a result.

Alliance Healthcare Portugal significantly increased revenue and market share due to an enhanced commercial policy and customer segmentation strategy in what continues to be a challenging pharmacy market. Profitability was, however, impacted by lower margins and increased provisioning for overdue customer debts.

Other associates include 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.

Since the year end, we have distributed our equity interest in Galenica to the Group's ultimate parent company, AB Acquisitions Holdings, in accordance with the Walgreens agreement. Galenica continues to be an associate of AB Acquisitions Holdings.

Business review

Financial review

George Fairweather
Group Finance Director

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

Cash generated from operations
£1,648m

Total cash flow
£1,105m

Net borrowings reduction
£1,124m

Cash flow

for the year ended 31 March 2013

	£million
Trading profit	**1,265**
Underlying depreciation and amortisation	240
EBITDA from continuing operations	1,505
Exceptional items	(30)
Net gain on disposal of property, plant and equipment	(1)
Net movement in working capital and provisions	263
Movement in net retirement benefit assets and obligations	(89)
Cash generated from operations	**1,648**
Interest	(289)
Tax	(114)
Acquisition related expenditure	(84)
Capital expenditure	(200)
Other	144
Total cash flow	**1,105**

Income statement summary
for the year ended 31 March 2013

	Underlying £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Timing differences £million	Statutory £million
Trading profit/profit from operations before associates and joint ventures	**1,265**	**(105)**	**(106)**	**–**	**1,054**
Share of post tax earnings of associates and joint ventures	39	–	–	–	39
Gain on disposal of associates	–	–	2	–	2
Gain on acquisition of a controlling interest in an associate	–	–	6	–	6
	1,304	(105)	(98)	–	1,101
Net finance costs	(320)	–	32	24	(264)
Tax (charge)/credit	(179)	34	50	(1)	(96)
Underlying profit (after tax)/profit for the year	**805**	**(71)**	**(16)**	**23**	**741**
Year on year increase	**91**				**148**

In this financial review, prior year figures have been re-stated for the adoption of the revised IAS 19 Employee Benefits standard.

Trading profit, which we define as profit from operations before amortisation of customer relationships and brands, exceptional items and share of post tax earnings of associates and joint ventures, totalled £1,265 million, up 7.4% in constant currency and 6.1% on a reported basis taking into account adverse currency translation.

Underlying profit (after tax), which we define as profit for the year before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax, increased year on year by 12.7% to £805 million.

On a statutory basis, profit from operations before associates and joint ventures was £1,054 million (2011/12: £1,033 million), profit from operations was £1,101 million (2011/12: £1,091 million) and profit for the year was £741 million (2011/12: £593 million).

Exceptional items within profit from operations comprised the following:

	£million
Impairment of goodwill and other intangible assets	(62)
Contract Manufacturing restructuring programme	(31)
Other	(13)
Within profit from operations before associates and joint ventures	(106)
Gain on disposal of associates	2
Gain on acquisition of a controlling interest in an associate	6
	(98)

The impairment of goodwill and other intangible assets related to the Megapharm operations within the Pharmaceutical Wholesale business in Germany, and resulted from the impact of the government measures introduced in the prior years.

Other exceptional items mainly comprised legal and other advisory costs for the Walgreens and AmerisourceBergen transactions.

The gain on acquisition of a controlling interest in an associate related to Alliance Healthcare Russia, which the Group acquired from its ultimate parent company, and where the carrying value of the pre-existing interest was remeasured to fair value.

Net finance costs

Net finance costs comprised the following:

	Underlying £million	Exceptional items £million	Timing differences £million	Statutory £million
Finance income	81	28	–	109
Finance costs	(401)	4	24	(373)
Net finance costs	**(320)**	32	24	**(264)**
Year on year decrease	**64**			**139**

Underlying net finance costs, which we define as net finance costs before exceptional items and timing differences, decreased year on year by £64 million to £320 million, mainly due to lower net borrowings and Euro interest rates. Interest cover, which we define as the ratio of trading profit to underlying net finance costs, increased to 4.0x trading profit (2011/12: 3.1x).

Exceptional items within finance income mainly related to discounts on repurchase of acquisition borrowings from holders in the secondary market. The nominal value of acquisition borrowings acquired during the year was £1,124 million at a cost of £1,096 million. In total, £2,420 million has been repurchased since the programme began in early 2009 at a cost of £2,130 million. The discounts, net of related prepaid financing fees, have been accounted for as loan redemptions, reducing net borrowings.

Financial review continued

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 £179 million (2011/12: £154 million), equating to an underlying effective tax rate (which we define as the underlying tax charge as a percentage of trading profit less underlying net finance costs) of 18.9% (2011/12: 19.1%).

The year on year decrease of 0.2 percentage points was mainly due to higher favourable adjustments in respect of prior years and a two percentage point reduction in the rate of UK corporation tax, which was largely offset by a different profit mix and the recognition of a deferred tax credit on brought forward losses in the prior year.

Tax analysis

	UK £million	Other countries £million	Total £million	Effective tax rate
Underlying tax charge				
Current year	(132)	(75)	(207)	21.9%
Adjustments in respect of prior years	26	2	28	
Total	(106)	(73)	**(179)**	18.9%
Year on year increase	(19)	(6)	**(25)**	
Tax paid	(64)	(50)	**(114)**	
Year on year (increase)/ decrease	(38)	7	(31)	

Tax paid in the UK was lower than the underlying tax charge in the income statement mainly due to UK tax relief on contributions made to pension funding partnership structures in the prior year. These partnerships were established by the Group and the trustees of the Boots Pension Scheme as part of our ongoing programme to ensure long term security of accrued benefits for our defined benefit pension schemes.

Exceptional items within the tax charge mainly comprised an exceptional tax credit relating to the net reduction in deferred tax assets and liabilities resulting from a one percentage point reduction in the rate of UK corporation tax applicable from April 2013.

Cash flow

During the year the Group generated a strong operating cash flow, enabling us to substantially reduce net borrowings.

Cash inflow from working capital (net of provisions) was £263 million with receivables and payables improving year on year as a result of our ongoing programme to further improve working capital efficiency.

Net interest paid of £289 million was lower than underlying net finance costs in the income statement, mainly due to the amortisation of prepaid financing fees of £27 million and £22 million of rolled up interest on subordinated debt which is payable when the debt itself is repaid.

Tax paid was lower than the underlying tax charge in the income statement for the reasons set out in the tax section.

£84 million of cash was spent on acquisition related expenditure. This mainly related to the acquisition of the 18.1% of shares we did not previously own in ANZAG (subsequently rebranded as Alliance Healthcare Deutschland), the 49% minority investment in Sonova's subsidiary which operates Boots hearingcare practices across the UK and the final payment for the 20% additional equity stake in Farmexpert acquired in the prior year.

£200 million of cash was invested on capital expenditure. Just over two thirds of this investment was in our Health & Beauty Division, primarily in the UK. Key areas of expenditure were on our retail stores, information technology projects and logistics.

Other net cash inflows included £193 million from the redemption of profit participating notes issued by a related party, partially offset by a £54 million loan advanced to a fellow subsidiary of the Group's ultimate parent company.

Net borrowings

At the year end, net borrowings (defined as cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of unamortised prepaid financing fees) were £5,893 million, a year on year reduction of £1,124 million.

Movement in net borrowings in the year

	£million
Total cash inflow	**1,105**
Discounts on repurchase of acquisition borrowings	28
Amortisation of prepaid financing fees	(27)
Capitalised finance costs	(22)
Currency translation differences and fair value adjustments on financial instruments	40
Decrease in net borrowings	**1,124**
Net borrowings at 1 April 2012	(7,017)
Net borrowings at 31 March 2013	**(5,893)**

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 2013

	£million
Cash and cash equivalents	592
Restricted cash	167
Derivative financial instruments	19
Borrowings	(6,671)
	(5,893)

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 2013, consisted of deposits restricted under contractual agency agreements, cash pledged as collateral on financial instruments and other obligations and cash restricted by law.

Derivative financial instruments are carried at fair value and mainly relate to interest rate swaps.

Equity

Total equity decreased during the year by £30 million to £5,671 million at the year end, shareholders' equity increasing by £32 million to £5,500 million.

Movement in shareholders' equity in the year

	£million
Profit for the year	**741**
Attributable to non controlling interests	(34)
Profit for the year attributable to equity shareholders	**707**
Income and expense recognised directly in equity:	
Currency translation differences	30
Defined benefit schemes – net remeasurements	(72)
Other	5
Tax on items recognised directly in equity	14
Transactions with owners:	
Equity share capital issued	98
Purchase of non controlling interests	(99)
Future distribution obligation	(651)
Net movement in shareholders' equity	**32**
Shareholders' equity at 1 April 2012	5,468
Shareholders' equity at 31 March 2013	**5,500**

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 weaker Sterling at the year end compared to the prior year relative to the Euro and Turkish Lira.

The equity share capital issued mainly related to the purchase of a non controlling interest in a subsidiary of the Group.

The future distribution obligation relates to the Group's obligation under the Walgreens agreement, which was signed in June 2012, to distribute at fair value the Group's associate investment in Galenica. This distribution was completed subsequent to the year end.

Retirement benefit obligations

Movement in net retirement benefit obligations in the year

	£million
Income statement:	
Net income within profit from operations	20
Net finance costs	(2)
	18
Net remeasurements	(72)
Cash contributions	70
Currency translation differences	(3)
Net movement in retirement benefit obligations	**13**
Net retirement benefit obligations at 1 April 2012	(49)
Net retirement benefit obligations at 31 March 2013	**(36)**

Net income within profit from operations mainly related to a negative past service cost for the offer of a pension increase exchange to members of the Boots Pension Scheme when they retire, whereby a higher initial pension can be taken in lieu of future increases.

Net remeasurements loss of £72 million comprised a loss of £541 million from an increase in scheme liabilities which was largely offset by a gain of £469 million from an increase in scheme assets. The asset increase was mainly due to an increase in corporate and government bond values invested in by the Boots Pension Scheme in the UK, which is consistent with the general bond markets. The increase in bond values corresponds to a lower yield, which is used to discount the Scheme's future cash flows, and this has the effect of increasing the value of the liabilities.

Cash contributions during the year mainly related to deficit funding payments to the Boots Pension Scheme. £29 million of the contributions were made under the Memorandum of Understanding entered into by the Group during 2007. The main elements were an agreement that conservative investment strategies would be maintained and a commitment to pay additional cash contributions. Up to 31 March 2013, £181 million of additional contributions have been made, with a further £88 million committed in three equal annual instalments from August 2014. The Group has two pension funding partnership structures under which the Group has contributed interests in partnerships worth £273 million, and transferred a number of properties under sale and leaseback arrangements. The partnerships made contributions of £22 million between them in the year, and will make similar annual contributions for a further 14 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 remaining payments mainly related to those agreed following the most recent triennial valuation of the Boots Pension Scheme as at 31 March 2010.

Financial review continued

> **"Over £5.1 billion of borrowing facilities were extended in the year at attractive rates.**

The Scheme's interests in the partnerships described on page 39 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.

The Scheme has continued with its investment strategy of targeting to hold 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years, and 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.

Capital structure

Our policy as a privately owned Group 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 bank borrowings, 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 bank facilities originally set up in 2007 when Alliance Boots became a privately owned company. During the year, the Group invited lenders to amend and extend these facilities. £5,161 million of existing facilities, representing around 80% of the net outstanding amount, were extended at attractive rates by two to three years, with staggered maturities starting in 2016. Overwhelming lender approval was given for all the requested amendments, including those to facilitate the full combination of the Group with Walgreens. These included permitting loans to remain in place post exercise of Walgreens option and the distribution of the Group's holding in Galenica.

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.

During the year, the Group took out interest rate swaps with notional principal amounts of £2,000 million at 0.52%. These swaps mature in July 2015. Combined with existing interest rate caps taken out in 2009, a significant proportion of the Group's borrowings are subject to some form of fixed or capped interest rate.

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, £1,438 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 2012/13	As at 31 March 2013	Average 2011/12	As at 31 March 2012
Euro	1.23	1.18	1.16	1.19
Turkish Lira	2.84	2.74	2.77	2.83
Swiss Franc	1.49	1.44	1.41	1.44
Norwegian Krone	9.13	8.86	8.97	9.12
Russian Rouble	49.20	46.98	47.25	46.69

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.

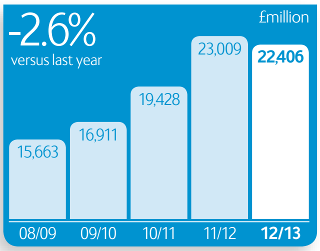
Business review

Performance measures

Group

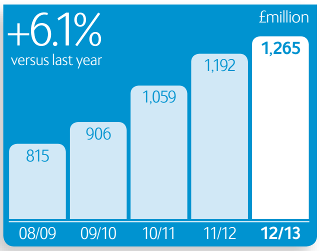
How fast we are growing

Revenue



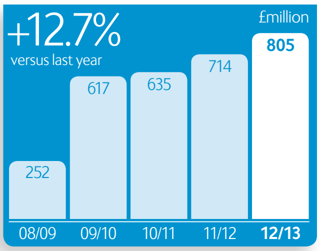
Our profit performance

Trading profit



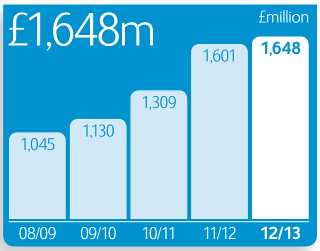
Our profit performance

Underlying profit (after tax)



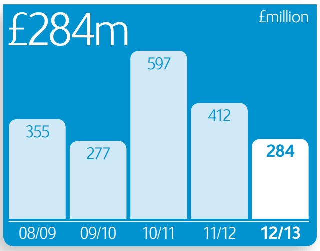
The cash we are producing

Cash generated from operations



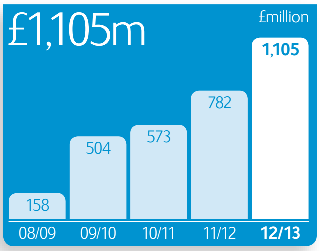
The cash we are investing in our future

Cash investment



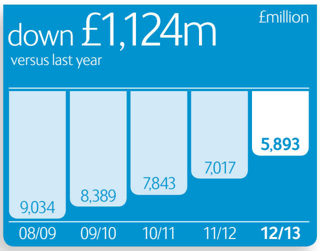
Our total cash flow

Total cash flow



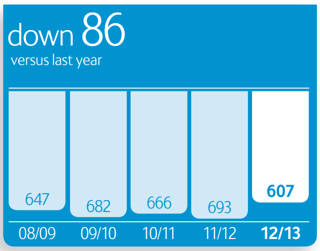
How fast we are reducing our debt

Net borrowings



Health & Safety

Work related 'greater than three day lost time accidents'



Health & Beauty Division

How fast we are growing

Revenue

-2.1% c. currency*
-2.5% reported
versus last year

Our profit performance

Trading profit

+7.0% c. currency*
+6.8% reported
versus last year

Pharmaceutical Wholesale Division

How fast our markets are growing

Market value

c.-1% c. currency*
versus last year

How fast we are growing

Revenue

+1.5% c. currency*
-2.7% reported
versus last year

Our profit performance

Trading profit

+8.2% c. currency*
+5.1% reported
versus last year

* Constant currency

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 around 700 pre-registration pharmacy graduates and fully qualified pharmacists in the UK. In addition, we support and encourage our people to learn and develop additional skills. This can take many forms, including global participation by 2,700 employees in our selective Group-wide assessment and development programmes 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. During the year, a key focus in this area was communicating the strategic partnership with Walgreens.

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.

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. As a result, we introduced a new Group communication channel, an internal online video magazine called AB TV.

The Boots colleague engagement survey, which measures the level of engagement employees have within the workplace, continues as an important element of Boots UK and Boots Opticians annual human resource programmes. Since the colleague engagement survey started in 2005 in Boots UK, we have regularly seen year on year increases in scores. In addition, Alliance Healthcare España recently introduced a similar survey.

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.

Our businesses continue to achieve success in independent reviews which rate us as an employer of choice. In the UK, both Boots and Boots Opticians were jointly ranked 20th in the country and awarded "top class" status in the "Sunday Times 25 Best Big Companies to Work For" 2013 awards. This is the fourth consecutive year they have made the top 25. Boots Ireland achieved 11th place in the "Best Large Workplaces in Ireland 2013".

Improving the health and wellbeing of the communities we serve.

Over 1,350 Boots pharmacists can provide in-store support to people affected by cancer.

WE ARE MACMILLAN. CANCER SUPPORT + Boots

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


Discover more with
our free health guides
Cancer Support
Let's go through it together


QUESTIONS
ABOUT

Corporate social responsibility

Ornella Barra
Chief Executive, Pharmaceutical Wholesale Division

> “Our businesses strive to help the communities they serve every day.

As a Group dedicated to helping people to look and feel their best, corporate social responsibility is integral to our operations. Our stakeholders, whether customers, patients, suppliers or our employees, expect a leading pharmacy-led health and beauty group to act as a responsible corporate citizen.

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 corporate social responsibility. This includes issues related to the environment, health and safety, diversity and equal opportunities, race relations, employment of people with disabilities, charitable giving and 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, who understand the importance of our corporate social responsibility agenda.

Long term partnerships play a vital role in support of this agenda and also in our Group's continued support for the fight against cancer. The Alliance Boots pan-European partnership with the EORTC Charitable Trust is helping to develop new and better treatments for cancer through pioneering research and we, with the support of our employees and key suppliers, have now raised €1.0 million for their studies since our partnership began. In addition, many of our businesses have complementary national partnerships with local cancer charities, such as Macmillan Cancer Support in the UK, the Irish Cancer Society and our associate business, Alliance Healthcare Italia, continues its support to those children living with cancer, through Fondo Chiara Rama, which supports research on lymphoma.

As well as supporting charities through fundraising and awareness raising activities, we are able to use our trusted position within the communities we serve to provide practical advice and emotional support for those living with the disease. For example, during the year, and in support of our partnership with Macmillan Cancer Support, over 1,350 Boots pharmacists have received bespoke training to enable them to talk to customers about the concerns people affected by cancer may have, and signpost them to further specialist cancer information and support if needed. Boots pharmacists trained to provide expert advice to patients living with cancer, referring patients where relevant to Macmillan Cancer Support advice networks. In addition, as part of our 'Macmillan In Every Community' initiative, several Boots UK colleagues were awarded the Deborah Hutton Award by Macmillan in recognition of their volunteer work to give practical and emotional support to people affected by cancer in their own homes.

In response to the UK Government's public policy focus on 'high street vitality', Alex Gourlay, Chief Executive of our Health & Beauty Division, was recently appointed co-chairman of the new national Future High Street Forum set up to advise the UK Government, continuing our support for local high streets and Boots role within local communities.

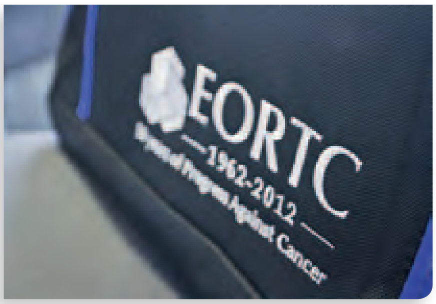
In addition, Marco Pagni, Group Legal Counsel & Chief Administrative Officer, who is also a member of the Social responsibilities committee, has established, with the support of Business in the Community, a Reducing Reoffending Taskforce. The Taskforce, which comprises a number of our key suppliers, aims to give people with criminal convictions the opportunity to access employment.

For the second consecutive year, in April 2013, we achieved platinum status awarded by Business in the Community as part of its 2013 Corporate Responsibility Index. To be awarded this accolade is testament to the combined efforts of all our people and we are proud to lead the way within the responsible business agenda.

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 £1.4 million.

We will publish our dedicated and detailed Corporate Social Responsibility Report for 2012/13 on our website in September 2013. The report will provide a comprehensive overview of the Group's corporate social responsibility activities and will continue to be written following the Global Reporting Initiative guidelines and criteria. It will also include an independent assurance report by KPMG.

Ornella Barra
Chief Executive,
Pharmaceutical Wholesale Division
Chairman of the social responsibilities committee



In our Corporate Social Responsibility Report 2011/12, we set ourselves a series of objectives and priorities for 2012/13. 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 2012/13 were:

To raise over €5 million by 2016 to establish a 'Biobank' for colorectal cancer in partnership with the EORTC Charitable Trust.

In 2012/13, Alliance Boots businesses raised €0.7 million for the EORTC Charitable Trust bringing the cumulative total to €1.0 million. Across the Group, our businesses have created a range of fundraising initiatives which have raised the profile of, and funds for, the EORTC Charitable Trust partnership. For example, Alliance Healthcare Deutschland held a sponsored "Kick Against Cancer" football match, which involved 920 players on a football pitch for over 33 consecutive hours. The event raised over €50,000 for the EORTC Charitable Trust and set a world record for the "most football players in an exhibition match". At Alliance Healthcare in the UK, a team of colleagues cycled the length of Britain and, supported by clients, suppliers and employees, raised over £70,000.

For each principal business to establish local targets with supporting activities to improve the health and wellbeing of people within its local community.

During the year, 14 of our businesses worked towards local targets. For example, Alliance Healthcare in the UK met their fundraising target for the year, raising a total of £30,000 for their charity partnerships with CLIC Sargent, Leonard Cheshire Disability and Prostate Cancer UK. Following the launch of a new partnership with the Irish Cancer Society in June 2012, Boots Ireland raised €148,000 for the charity. The partnership will see our stores in Ireland become community-based destinations for a range of cancer information and advice. Other initiatives include Alliance Healthcare España working with local organisations in Barcelona to provide food to the destitute and our associate business, Alliance Healthcare Portugal, working with Assistência Médica Internacional in their fight against poverty by providing hampers and gifts for underprivileged families at Christmas. Boots UK entered its ninth year of supporting BBC Children in Need, raising around £0.7 million, bringing the cumulative total to almost £5.5 million.

To make use of our significant consumer reach – through our owned and franchise pharmacies as well as the Alphega Pharmacy and vivesco networks – with local programmes to deliver health related information and advice to customers and patients.

In addition to the training of over 1,350 Boots UK pharmacists to become Boots Macmillan Information Pharmacists, many other businesses have developed local programmes to deliver health related information and advice. For example, 'Boots apotek' in Norway has produced a series of information cards relating to health conditions and related products, including how to prevent skin damage from UV rays. Alphega Pharmacy has helped pharmacists offer customers advice on aspects of their health and wellbeing, including maintaining a healthy heart, weight loss, asthma, diabetes and smoking cessation. In addition, Boots UK, Alphega Pharmacy in the Czech Republic and Alphega Farmacia in Spain have all re-launched advice services for expectant mothers.

Objective: To support our employees who wish to volunteer their time to make a difference in the communities that we serve. Our priority for 2012/13 was:

To increase the number of our businesses that have employee volunteering programmes in place.

BCM in the UK has an employee volunteering programme in place. Across our businesses employees are also encouraged to participate in employee volunteering programmes with local charity organisations on an individual basis. This year many employees volunteered to support Alliance Healthcare France's charity cycling tour and Alliance Healthcare Deutschland's charity football match "Kick Against Cancer".

Corporate social responsibility continued

Marco Pagni
Group Legal Counsel & Chief Administrative Officer
Director responsible for the leadership of Health & Safety

> "We continue to introduce a range of initiatives designed to improve safety at all levels and for all employees.

Environment

Objective: To reduce the Group's like for like CO_2 emissions. Our priorities for 2012/13 were:

To achieve a like for like percentage decrease in usage of energy emissions (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 Corporate Social Responsibility Report 2012/13 in September when the relevant data has been collated and checked. We continue to introduce a range of energy saving initiatives to reduce the impact of our businesses. An example is Boots UK applying knowledge from its lower carbon trial store at Eastbourne in new store openings. More of our businesses are helping to reduce carbon emissions from deliveries through education, drivers at Alliance Healthcare France and Alliance Healthcare in the UK completing eco-driver training during the year.

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

Many businesses across the Group together with corporate functions are making much greater use of this new enhanced technology, including the Group Board and related committees. This is saving valuable management time and travel costs as well as reducing carbon emissions and is becoming increasingly important due to increased activity arising from the Group's strategic partnership with Walgreens in the US.

Objective: To reduce the Group's like for like total waste levels and increase the proportion of waste that is recycled. Our priority for 2012/13 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 2012/13 in September when the relevant data has been collated and checked. Across the Group, businesses have undertaken numerous recycling initiatives to work towards achieving this target. An example is Alliance Healthcare España, which introduced an integrated waste management system with an external provider across the majority of its distribution centres and offices. Boots Opticians has similarly introduced the use of reusable totes for deliveries to all practices following a successful trial.

Objective: To incorporate acquired businesses into our CSR framework and reporting processes on a timely basis, recognising that the collection of robust environmental data in many countries is challenging. Our priority for 2012/13 was:

To appoint local CSR champions and implement the Group scorecard approach within any newly acquired businesses and to incorporate these businesses into our CSR data performance reporting.

The Group did not acquire any new businesses during the year other than Alliance Healthcare Russia, which was already fully participating in the Group CSR programme as an associate business.

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 2012/13 was:

To extend Boots UK's supplier verification programme to other major suppliers to the Group.

Limited progress was made during the year to extend the programme to other major suppliers across the Group, following the expansion of the programme in the prior year to include suppliers to Boots Opticians and the Pharmaceutical Wholesale Division's Almus and Alvita brands. Plans are being developed to address this in the coming year.

Objective: To ensure that an awareness of, and focus on, sustainability is embedded within our activities across the Group. Our priority for 2012/13 was:

To facilitate a third party evaluation of the Boots UK developed product sustainability methodology and to share the insight and best practices identified.

We continue to work closely with Forum for the Future (a non-profit organisation which works globally with businesses and governments to create a sustainable future) following their detailed review of Boots UK's product sustainability methodology in 2010. During the year, Botanics, the first complete product range to be evaluated using this methodology, was re-launched incorporating many identified improvements. These included changes to packaging (reducing weight, improving recyclability, using materials from sustainable or recycled sources) and to the sourcing of materials, such as sustainable palm oil.

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 priority for 2012/13 was:

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

In 2012/13 there were no employee fatalities within each principal business. There were 607 employee related 'greater than three day lost time accidents', a year on year decrease of 86. The majority of the accidents were fractures related to trips and falls. We continue to place significant focus on health and safety issues across the Group. Marco Pagni, the Director responsible for the leadership of health and safety, has overseen a range of initiatives designed to improve safety at all levels and for all employees. For example, at Alliance Healthcare Norge, employees have undertaken training on safe driving, hazardous chemicals and avoiding back injuries.

Objective: To engage with our employees through regular feedback sessions and through local forms of employee appraisal and development plans. Our priority for 2012/13 was:

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

Nine of our businesses now have an employee feedback programme in place. During the year, Alliance Healthcare España introduced an employee feedback scheme, the results of which are reviewed by senior management and fed into organisational strategy. In addition, our associate, Alliance Healthcare Portugal, has introduced an employee satisfaction survey.

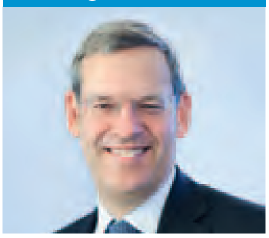
Governance

Board of Directors

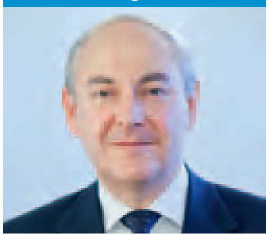
The Board comprises the Executive Chairman, four other executive Directors, three Directors representing KKR, four Directors representing Walgreens and four non-executive Directors.

01 Stefano Pessina

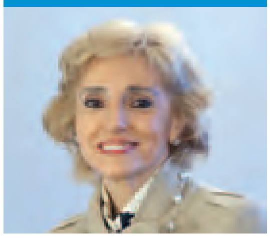
02 George Fairweather



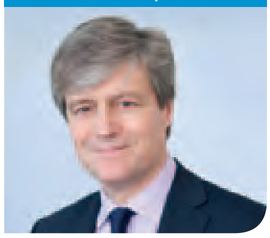
03 Marco Pagni



04 Ornella Barra



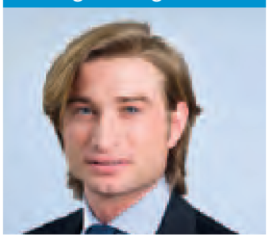
05 Alex Gourlay



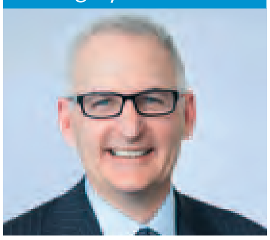
06 Dominic Murphy

07 Mattia Caprioli

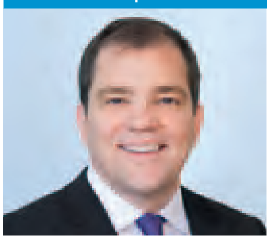
08 Sergio D'Angelo



09 Gregory Wasson



10 Wade Miquelon



11 Thomas Sabatino

12 Robert Zimmerman

13 Nick Land

14 Chris Britton

15 Tony De Nunzio CBE

16 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. 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, Pharmaceutical Wholesale Division •

Ornella Barra was appointed Chief Executive of the Pharmaceutical Wholesale Division in January 2009, having previously been Wholesale & Commercial Affairs Director. She 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.

05 Alex Gourlay
Chief Executive, Health & Beauty Division

Alex Gourlay was appointed to the Board of Alliance Boots in January 2009, when he became Chief Executive of the Health & Beauty Division. He was previously Managing Director of Boots UK and a member of the Alliance Boots Group operating committee following the acquisition of Alliance Boots plc by AB Acquisitions Limited in 2007. Prior to this, he was Healthcare Director of Boots the Chemists, having held senior management positions in store operations and human resources. In February 2013, Alex became co-chairman of the new national Future High Streets Forum set up to advise the UK Government. Alex is also a Board member of Business in the Community. He is a pharmacist and a member of the Royal Pharmaceutical Society of Great Britain.

Board of Directors continued

06 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.

07 Mattia Caprioli •
Kohlberg Kravis Roberts

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

08 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.

09 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 Board of the Retail Industry Leaders Association, the Healthcare Leadership Council, the Consumer Goods Forum, World Business Chicago and the Midtown Educational Foundation in Chicago. Gregory is a pharmacist.

10 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, and a member of the Board of the Lyric Opera of Chicago and the Shedd Aquarium in Chicago. He is also a member of the Dean's Advisory Board for the Sam M. Walton College of Business, University of Arkansas.

11 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. He is a Director of Unigene Laboratories, a biotechnology company headquartered in the United States. Thomas is also Chairman of the Association of Corporate Counsel, a member of the advisory Board of Corporate Pro Bono, and is on the general counsel committee of the American Bar Association. Thomas is a member of the Bar in Massachusetts, Illinois, California and New Jersey.

12 Robert Zimmerman
Walgreens

Robert Zimmerman was appointed to the Board of Alliance Boots in August 2012. Robert is Senior Vice President of International and International Chief Administration Officer for Walgreens. Since joining Walgreens in 1977, he has worked in various financial and corporate development positions, including Senior Vice President/Chief Strategy Officer.

13 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 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 SNR Denton. He is also a member of the finance and audit committees of The National Gallery in the UK. 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.

14 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 April 2013, Chris provides services to Alliance Boots through his consultancy partnership. In addition, he is a non-executive Director of DS Smith and non-executive Chairman of Ella's Kitchen, a baby food business. Previously he was Chief Executive Officer of Findus Group, a major European food business and before that Chris was an Executive Board Member and President – Baby Food Division of Royal Numico, a Netherlands based multinational infant and clinical nutrition group. He has also worked for Diageo in various marketing and general management positions, latterly as Global Marketing Director.

15 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 Executive Chairman of Maxeda DIY Group, a Netherlands based international retail group in which KKR funds hold a significant investment, non-executive Chairman of Pets at Home, the UK retailer owned by KKR funds, and Chairman of the Advisory Board of Manchester Business School. 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.

16 Etienne Jornod

Non-executive Director

Etienne Jornod was appointed as a non-executive Director in March 2008. Etienne is Executive Chairman of Galenica, which was an associate company of Alliance Boots until May 2013, 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

Throughout the year the Board comprised the Executive Chairman, four other executive Directors, three Directors representing KKR and four non-executive Directors. On 2 August 2012, Gregory Wasson, Wade Miquelon, Thomas Sabatino and Robert Zimmerman were appointed to the Board on the completion of the initial investment in the strategic partnership between Walgreens and Alliance Boots.

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.

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. All the Walgreens appointees to the Board completed this programme shortly after joining the Board.

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 www.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 (from August 2012)

Stefano Pessina resigned from the committee following the appointment of 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 (from August 2012)

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 2013 on the Company's website at www.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 www.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 www.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 4 and 5, 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 14 private equity funds that have received capital commitments of more than $59 billion. KKR have completed more than 200 private equity investments with a total transaction value in excess of $470 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.

The remaining 45% of the Company's shares were acquired by Walgreens on 2 August 2012 through Walgreens Swiss International GmbH, a subsidiary company of Walgreens registered in Switzerland. 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. Gregory Wasson, Wade Miquelon, Thomas Sabatino and Robert Zimmerman are the Walgreens executives who joined the Company's Board in August 2012.

Walgreens, which is a US listed company, is the largest drugstore chain in the US, with fiscal 2012 sales of $71.6 billion and operating more than 8,000 drugstores in all 50 states, the District of Columbia and Puerto Rico. Stefano Pessina and Dominic Murphy were appointed as non-executive Directors of Walgreens in August 2012.

Frank Standish
Company Secretary
13 May 2013

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 www.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 2013 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 100 (excluding financial services and oil and gas companies). Basic salaries following the latest review, which will be effective from June 2013, are as follows:

Director	£
S. Pessina	600,000
O. Barra	572,000
G. Fairweather	632,000
A. Gourlay	572,000
M. Pagni	539,000

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 2012/13 provided a maximum bonus potential of 125% 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% of target trading profit.

Short term bonus amounts earned by each executive Director for the year ended 31 March 2013 are detailed in the emoluments section on page 58.

Long term incentive plan

Following completion of Walgreens 45% investment in Alliance Boots, a new 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. The 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 that 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.

Ornella Barra is a deferred member of a tax approved pension scheme into which defined contributions were made by the Group until the plan was closed to future accrual in 2010. Ornella Barra has agreed to the wind-up of the scheme. As a result, as previously reported, a payment of £1,552,000 was made to meet the unfunded past service liabilities of the scheme.

Alex Gourlay is a deferred member of the Boots Pension Scheme, the Boots Supplementary Pension Plan and the Boots Additional Pension Arrangement which are defined benefit schemes that were closed to future accrual for all members in 2010. His total accrued deferred pension at 31 March 2013 was £200,630, an increase relative to the previous year of £9,630. Net of inflation at 3.2% the increase was £3,410.

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 2013 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
A. Gourlay	29 January 2009	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 2011
A. De Nunzio	4 June 2008	12 May 2011
E. Jornod	31 March 2008	12 May 2011
N. Land	31 March 2008	12 May 2011

The basic fee paid to each non-executive Director for the year ended 31 March 2013 was £65,000 per annum. In addition, Nick Land receives a fee of £20,000 per annum for chairing the audit and risk committee. Going forward, Nick Land and Tony De Nunzio will receive an additional fee of £20,000 per annum, reflecting the substantial increase in 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.

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 2013 are 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 2013 £'000	Total emoluments excluding long term incentives 2012 £'000
S. Pessina	600	–	–	71	671	701
O. Barra	518	459	207	96	1,280	1,193
G. Fairweather	573	508	229	23	1,333	1,248
A. Gourlay	518	459	207	17	1,201	1,089
M. Pagni	488	433	195	23	1,139	1,097
	2,697	**1,859**	**838**	**230**	**5,624**	**5,328**

Tony De Nunzio
Chairman of the remuneration committee
13 May 2013

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 and Mattia Caprioli who all served throughout the year and Wade Miquelon who was appointed in August 2012 when Walgreens acquired 45% of the Company. In order to comply with the Committee's terms of reference and maintain the balance of executive to non-executive Directors, Stefano Pessina resigned from the Committee during the year following the appointment of Wade Miquelon. The Executive Chairman, Group Finance Director, Group Financial Controller, Director of Internal Audit & 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 & 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 & 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, 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 www.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:

- key controls within the treasury function;
- changes to management of information technology across the Group;
- a programme to further strengthen controls, consistent with achieving Sarbanes Oxley compliance; and
- information prepared for Walgreens external reporting, including for their US Securities and Exchange Commission filings.

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 www.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 www.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. In March 2013, the committee agreed to roll out the reporting service provided by InTouch across the rest of the Group to all businesses (other then where prohibited to do so by law or regulation).

Nick Land
Chairman of the audit and risk committee
13 May 2013

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 multi-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 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. 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 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. All UK defined benefit schemes are closed to future accrual.

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 2013.

Directors' responsibility

The Directors are responsible for the preparation and fair presentation 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 and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The 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 and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 2013 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 the 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
13 May 2013

Group income statement

for the year ended 31 March 2013

	Notes	2013 £million	2012 Re-stated £million
Continuing operations:			
Revenue	4	**22,406**	23,009
Profit from operations before associates and joint ventures	4,5	**1,054**	1,033
Share of post tax earnings of associates and joint ventures	17	**39**	58
Gain on disposal of associates		**2**	–
Gain on acquisition of a controlling interest in an associate	17	**6**	–
Profit from operations	4,7	**1,101**	1,091
Finance income	9	**109**	111
Finance costs	10	**(373)**	(514)
Profit before tax		**837**	688
Tax	11	**(96)**	(38)
Profit for the year from continuing operations		**741**	650
Discontinued operations:			
Loss for the year from discontinued operations	12	**–**	(57)
Profit for the year		**741**	593
Attributable to:			
Equity shareholders of the Company		**707**	571
Non controlling interests		**34**	22
		741	593

Group statement of comprehensive income

for the year ended 31 March 2013

	Notes	2013 £million	2012 Re-stated £million
Profit for the year		**741**	593
Other comprehensive income for the year			
Net exchange differences on translation of non-Sterling denominated operations		**28**	(52)
Defined benefit schemes – net remeasurements	36	**(72)**	100
Fair value losses on cash flow hedging instruments net of amounts recycled	32	**(2)**	–
Movements on available-for-sale reserve including amounts recycled	32	**5**	(9)
Share of post tax other comprehensive income of associates and joint ventures		**2**	(1)
		(39)	38
Tax on other comprehensive income for the year	11	**14**	(24)
		(25)	14
Total comprehensive income for the year		**716**	607
Attributable to:			
Equity shareholders of the Company		**684**	614
Non controlling interests		**32**	(7)
		716	607

Group statement of financial position

as at 31 March 2013

	Notes	2013 £million	2012 £million
Assets			
Non-current assets			
Goodwill	13	**4,710**	4,751
Other intangible assets	14	**5,416**	5,508
Property, plant and equipment	16	**1,918**	1,992
Investments in associates and joint ventures	17	**958**	911
Available-for-sale investments	18	**48**	41
Trade and other receivables	20	**71**	283
Deferred tax assets	24	**11**	32
Retirement benefit assets	36	**62**	30
Current tax assets		**11**	7
Derivative financial instruments	26	**23**	8
		13,228	13,563
Current assets			
Inventories	19	**2,030**	1,782
Trade and other receivables	20	**3,103**	3,078
Cash and cash equivalents	21	**592**	670
Restricted cash	22	**167**	254
Current tax assets		**8**	–
Assets classified as held for sale	23	**5**	5
		5,905	5,789
Total assets		**19,133**	19,352
Liabilities			
Current liabilities			
Borrowings	26	**(152)**	(153)
Trade and other payables	25	**(5,431)**	(4,172)
Current tax liabilities		**(105)**	(32)
Provisions	30	**(24)**	(50)
Derivative financial instruments	26	**–**	(154)
		(5,712)	(4,561)
Net current assets		**193**	1,228
Non-current liabilities			
Borrowings	26	**(6,519)**	(7,641)
Other payables	25	**(128)**	(251)
Deferred tax liabilities	24	**(976)**	(1,085)
Retirement benefit obligations	36	**(98)**	(79)
Provisions	30	**(25)**	(33)
Derivative financial instruments	26	**(4)**	(1)
		(7,750)	(9,090)
Net assets		**5,671**	5,701
Equity			
Share capital	31	**1,079**	1,065
Share premium	31	**2,879**	2,795
Retained earnings		**1,460**	1,561
Other reserves	32	**82**	47
Shareholders' equity		**5,500**	5,468
Non controlling interests		**171**	233
Total equity		**5,671**	5,701

Group statement of changes in equity

for the year ended 31 March 2013

	Shareholders' equity						
2013	**Share capital £million**	**Share premium £million**	**Retained earnings £million**	**Other reserves £million**	**Total £million**	**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							
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	**30**	**30**	**(2)**	**28**
Defined benefit schemes – net remeasurements	–	–	**(72)**	–	**(72)**	–	**(72)**
Fair value losses on cash flow hedging instruments net of amounts recycled	–	–	–	**(2)**	**(2)**	–	**(2)**
Movements on available-for-sale reserve 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**

	Shareholders' equity						
2012 Re-stated	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million	Non controlling interests £million	Total equity £million
At 1 April 2011	1,065	2,795	939	(15)	4,784	340	5,124
Profit for the year	–	–	571	–	571	22	593
Other comprehensive income for the year:							
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	(23)	(23)	(29)	(52)
Defined benefit schemes – net remeasurements net of surplus restriction	–	–	100	–	100	–	100
Movements on available-for-sale reserve including amounts recycled	–	–	–	(9)	(9)	–	(9)
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	(1)	(1)	–	(1)
Tax on other comprehensive income for the year	–	–	(26)	2	(24)	–	(24)
	–	–	74	(31)	43	(29)	14
Total comprehensive income for the year	–	–	645	(31)	614	(7)	607
Transactions with owners:							
Liability to acquire equity stakes from non controlling interests	–	–	–	(2)	(2)	–	(2)
Dividends paid to non controlling interests	–	–	–	–	–	(27)	(27)
Purchase of non controlling interests	–	–	(23)	95	72	(72)	–
Non controlling interests in businesses disposed	–	–	–	–	–	(2)	(2)
Contribution from non controlling interests	–	–	–	–	–	1	1
	–	–	(23)	93	70	(100)	(30)
At 31 March 2012	1,065	2,795	1,561	47	5,468	233	5,701

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

Group statement of cash flows

for the year ended 31 March 2013

	Note	2013 £million	2012 Re-stated £million
Operating activities			
Profit/(loss) from operations:			
Continuing operations		**1,101**	1,091
Discontinued operations		**–**	(35)
		1,101	1,056
Adjustments to reconcile profit from operations to cash generated from operations:			
Share of post tax earnings of associates and joint ventures		**(39)**	(58)
Depreciation and amortisation		**345**	372
Negative goodwill		**(4)**	–
Net loss/(gain) on disposal of property, plant and equipment		**11**	(1)
Impairment of goodwill and other intangible assets		**62**	11
Gain on acquisition of a controlling interest in an associate		**(6)**	–
Gain on disposal of associates		**(2)**	–
(Increase)/decrease in inventories		**(66)**	73
Decrease in receivables		**168**	142
Increase in payables and provisions		**167**	87
Movement in retirement benefit assets and obligations		**(89)**	(81)
Cash generated from operations		**1,648**	1,601
Tax paid		**(114)**	(83)
Net cash from operating activities		**1,534**	1,518
Investing activities			
Acquisitions of businesses		**(3)**	(10)
Cash and cash equivalents of businesses acquired net of overdrafts		**9**	2
Disposals of businesses		**1**	5
Cash and cash equivalents of businesses disposed net of overdrafts		**–**	(13)
Purchase of property, plant and equipment, and intangible assets		**(200)**	(262)
Investments in associates and joint ventures		**(16)**	(20)
Disposal of investment in associates		**3**	–
Purchase of available-for-sale investments		**(6)**	(1)
Redemption of profit participating notes		**193**	–
Loans advanced net of repayments		**(55)**	–
Disposal of property, plant and equipment, and intangible assets		**12**	11
Disposal of available-for-sale investments		**2**	–
Disposal of assets classified as held for sale		**3**	1
Dividends received from associates and joint ventures		**18**	16
Dividends received from available-for-sale investments		**–**	1
Interest received		**59**	60
Net cash from/(used in) investing activities		**20**	(210)
Financing activities			
Interest paid		**(318)**	(379)
Interest element of finance lease obligations		**(1)**	(1)
Proceeds from borrowings		**86**	207
Repayment and repurchase of borrowings and settlement of derivatives		**(1,353)**	(878)
Fees associated with financing activities		**(48)**	(23)
Net cash and cash equivalents transferred from restricted cash		**88**	27
Repayment of capital element of finance lease obligations		**(8)**	(7)
Issue of ordinary share capital		**2**	–
Dividends paid to non controlling interests		**(29)**	(43)
Purchase of non controlling interests		**(65)**	(122)
Contribution from non controlling interests		**–**	1
Net cash used in financing activities		**(1,646)**	(1,218)
Net (decrease)/increase in cash and cash equivalents in the year		**(92)**	90
Cash and cash equivalents at 1 April		**668**	594
Currency translation differences		**3**	(16)
Cash and cash equivalents at 31 March	21	**579**	668

Notes to the consolidated financial statements

for the year ended 31 March 2013

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 2013 were approved by the Board on 13 May 2013.

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 (the "Company") and its subsidiaries and their interests in associates and joint ventures (together referred to as "the 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 2013. 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 38.

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.

Change in accounting policy

Defined benefit schemes

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.

As a result of the change, the Group now determines the net interest income/expense on the net defined benefit assets/liabilities for the year by applying the discount rates used to measure the defined benefit obligations at the beginning of the year to the net defined benefit assets/liabilities at the beginning of the year, taking into account any changes in the net defined benefit assets/liabilities during the year as a result of contributions and benefit payments. The net interest on the defined benefit assets/liabilities comprises interest cost on the defined benefit obligations and interest income on the scheme assets.

Previously, the Group determined interest income on scheme assets based on their long term rate of expected return. Scheme administrative costs which were previously deducted from the expected return on assets in finance income are now included as administrative costs.

Impact of change in accounting policy

The change in accounting policy has been applied retrospectively. The impact of the change was to reduce the defined benefit expense recognised in profit or loss by £50 million for the year ended 31 March 2013 (2012: £28 million) with a corresponding reduction in the defined benefit scheme remeasurement gain recognised in other comprehensive income as follows:

	2013 £million	2012 £million
Increase in administrative costs	**(2)**	(3)
Reduction in finance income	**(177)**	(196)
Reduction in finance costs	**229**	227
Increase in profit before tax	**50**	28
Increase in tax charge	**(12)**	(7)
Increase in profit for the year	**38**	21
Reduction in defined benefit schemes – net remeasurement	**(50)**	(28)
Reduction in tax charge on other comprehensive income for the year	**12**	7
Reduction in total other comprehensive income for the year	**(38)**	(21)

The change in accounting policy had no impact on net assets as at 31 March 2013 or 31 March 2012.

New, amended and revised IFRSs and International Financial Reporting Interpretations Committee pronouncements ("IFRICs")

Other than the early adoption of the revised IAS 19 Employee Benefits standard described above, there were no amendments or revisions to IFRSs effective for the first time in the year ended 31 March 2013 which had an impact on the consolidated financial statements.

The following amendments and revisions to IFRSs which were effective for the first time in the year ended 31 March 2013 did not have any material impact on the consolidated financial statements:

Amendments and revisions to IFRSs	
IFRS 7	Financial Instruments: Disclosures
IAS 12	Income Taxes

The following IFRSs and amendments and revisions to IFRSs were available for early adoption, but have not yet been applied in the preparation of the consolidated financial statements:

New IFRSs		Effective for periods beginning on or after
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
Amendments and revisions to IFRSs		**Effective for periods beginning on or after**
IAS 1	Presentation of Financial Statements	1 July 2012
IFRS 7	Financial Instruments: Disclosures	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Financial Instruments: Presentation	1 January 2014
various	Improvements to IFRSs – minor amendments	various

The Directors do not anticipate that the adoption of these new IFRSs and amendments and revisions to IFRSs will have a material impact on the consolidated financial statements in the period of initial application with the exception of IFRS 9, where classification and measurement amendments will be required to assets currently classified as available-for-sale.

Consolidation

The consolidated financial statements as at and for the year ended 31 March 2013 comprise the Company and its subsidiaries and their interests in associates and joint ventures.

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the year are included in the Group income statement from or to the date that control commences or ceases, as appropriate.

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.

Prior to 1 April 2010, transactions with non controlling interests were treated as transactions with parties that were external to the Group, and when an equity interest was purchased from a non controlling interest, the difference between the consideration paid and the relevant share of the carrying value of the net assets acquired was recognised as goodwill and the underlying non controlling interest derecognised.

Associates and joint ventures

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but without control, or joint control, of the financial and operating policies of the entity. A joint venture is an entity over which the Group, either directly or indirectly, is in a position to jointly control the financial and operating policies of the entity. 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 from 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.

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

2 Accounting policies continued

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 ruling 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 ruling 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 sold, the related balance in the translation reserve is recognised in the income statement as part of the gain or loss on sale.

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.

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. The rebate is recognised as a reduction in the purchase price.

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 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. Prior to 1 April 2010, non controlling interests were recorded at their proportion of the fair value of the acquired identifiable net assets.

For acquisitions after 1 April 2010, 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. For acquisitions prior to 1 April 2010, goodwill comprises the excess of the fair value of the consideration plus directly attributable costs over the fair value of the identifiable net assets acquired. 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

2 Accounting policies continued

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.

Other intangible assets

Other intangible assets comprise product licences which give the right to sell certain products in specific countries and clinical data used to review therapy effectiveness which are recognised separately as intangible assets when they are acquired.

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;
- Product licences – 5 to 15 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.

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:

- Freehold land and assets in the course of construction – not depreciated;
- Freehold and long leasehold buildings – not more than 50 years;
- Short leasehold land and buildings – remaining period of lease;
- Plant and machinery – 3 to 10 years; and
- Fixtures, fittings, tools 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 and discontinued operations

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 to sell 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. Discontinued operations are components of the Group's business that represent separate major lines of business or geographical areas of operations. Classification as discontinued operations occurs upon the date of disposal or when operations meet the criteria for classification as held for sale, if earlier. When operations are classified as discontinued, the comparative income statement is re-presented as if the operations had been discontinued from the start of the comparative year and included in the income statement as a separate line entitled 'Profit/loss for the year from discontinued operations'.

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 of 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 sale.

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.

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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

2 Accounting policies continued

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 sold, 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 sale.

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 a corresponding debit recognised as a special reserve within shareholders' equity. Dividend obligations to non controlling interests are recognised as financial liabilities when the commitments are made, with a corresponding debit 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

2 Accounting policies continued

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.

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 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 (after tax)

Profit for the year before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

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 rate	
	2013	2012	**At 31 March 2013**	At 31 March 2012
Euro	**1.228**	1.159	**1.184**	1.193
Turkish Lira	**2.841**	2.766	**2.744**	2.831
Swiss Franc	**1.486**	1.407	**1.443**	1.438
Norwegian Krone	**9.134**	8.969	**8.856**	9.121
Russian Rouble	**49.197**	47.252	**46.977**	46.685

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, the 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, Egypt, The Netherlands, Czech Republic, Russia, 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 2013 or 2012.

Information regarding the results from continuing operations of each reportable segment is included below. 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.

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

2013	**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					**39**
Underlying net finance costs					**(320)**
Underlying tax charge (note 11)					**(179)**
Underlying profit (after tax)					**805**

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

4 Segmental information continued

2012 Re-stated	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Eliminations £million	Total £million
External revenue	7,666	15,217	126	–	23,009
Intra-group revenue	5	1,611	129	(1,745)	–
Total revenue	7,671	16,828	255	(1,745)	23,009
EBITDA	998	467	(25)	–	1,440
Underlying depreciation and amortisation	(188)	(53)	(7)	–	(248)
Trading profit/(loss)	810	414	(32)	–	1,192
Share of underlying post tax earnings of associates and joint ventures					60
Underlying net finance costs					(384)
Underlying tax charge (note 11)					(154)
Underlying profit (after tax)					714

The reconciliation of trading profit to profit before tax is set out below:

	2013 £million	2012 Re-stated £million
Trading profit	**1,265**	1,192
Amortisation of customer relationships and brands	**(105)**	(115)
Exceptional items	**(106)**	(44)
Profit from operations before associates and joint ventures	**1,054**	1,033
Share of post tax earnings of associates and joint ventures	**39**	58
Gain on disposal of associates	**2**	–
Gain on acquisition of a controlling interest in an associate	**6**	–
Profit from operations	**1,101**	1,091
Net finance costs	**(264)**	(403)
Profit before tax	**837**	688

The share of post tax earnings of associates and joint ventures is stated after the Group's share of exceptional items of associates and joint ventures of £nil (2012: £2 million expense).

The reconciliation of underlying profit (after tax) to statutory profit for the year is set out below:

	2013 £million	2012 Re-stated £million
Underlying profit (after tax)	**805**	714
Amortisation of customer relationships and brands	**(105)**	(115)
Net exceptional items before tax	**(66)**	(33)
Timing differences within net finance costs	**24**	(32)
Tax credit on items not in underlying profit	**45**	41
Exceptional tax credit	**38**	75
Profit for the year from continuing operations	**741**	650
Loss for the year from discontinued operations	**–**	(57)
Profit for the year	**741**	593

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

	2013 Assets £million	2013 Liabilities £million	2013 Net £million	2012 Assets £million	2012 Liabilities £million	2012 Net £million
Health & Beauty Division	**10,215**	**(1,205)**	**9,010**	10,610	(1,337)	9,273
Pharmaceutical Wholesale Division	**7,120**	**(3,883)**	**3,237**	6,754	(3,343)	3,411
All other segments	**149**	**(99)**	**50**	299	(95)	204
Eliminations	**(236)**	**236**	**–**	(269)	269	–
Allocated segment assets/(liabilities)	**17,248**	**(4,951)**	**12,297**	17,394	(4,506)	12,888
Unallocated:						
Investments in associates and joint ventures	**958**	**–**	**958**	911	–	911
Future distribution obligation	**–**	**(657)**	**(657)**	–	–	–
Available-for-sale investments	**48**	**–**	**48**	41	–	41
Retirement benefit assets/(obligations)	**62**	**(98)**	**(36)**	30	(79)	(49)
Assets classified as held for sale	**5**	**–**	**5**	5	–	5
Net current and deferred tax	**30**	**(1,081)**	**(1,051)**	39	(1,117)	(1,078)
Net cash/(borrowings)	**782**	**(6,675)**	**(5,893)**	932	(7,949)	(7,017)
	19,133	**(13,462)**	**5,671**	19,352	(13,651)	5,701

Allocated segment assets at the year end comprised goodwill of £4,710 million (2012: £4,751 million), other intangible assets of £5,416 million (2012: £5,508 million), property, plant and equipment of £1,918 million (2012: £1,992 million), inventories of £2,030 million (2012: £1,782 million), and trade and other receivables of £3,174 million (2012: £3,361 million).

Allocated segment liabilities at the year end comprised trade and other payables excluding the future distribution obligation of £4,774 million (2012: £4,172 million), current provisions of £24 million (2012: £50 million), non-current other payables of £128 million (2012: £251 million) and non-current provisions of £25 million (2012: £33 million).

Eliminations included inter-segmental trading accounts between subsidiary undertakings.

Other information in respect of the Group's segments (including discontinued operations) was:

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**

2012	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Total £million
Amortisation of other intangible assets	74	91	–	165
Depreciation of property, plant and equipment	158	41	8	207
Additions to non-current assets:				
– goodwill	1	4	–	5
– other intangible assets	72	19	–	91
– property, plant and equipment	125	41	4	170

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

4 Segmental information continued

Segmental revenue based on the geographical location of customers was:

	2013 £million	2012 £million
UK	**8,837**	8,674
France	**3,909**	4,536
Germany	**3,536**	3,782
Other	**6,213**	6,103
Intra-group	**(89)**	(86)
	22,406	23,009

No revenues arose in Switzerland, the Company's country of domicile.

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

	2013 £million	2012 £million
UK	**9,995**	10,145
France	**590**	575
Germany	**179**	253
Switzerland	**671**	632
Other	**1,567**	1,557
	13,002	13,162

Segment non-current, non-financial assets at the year end comprised goodwill of £4,710 million (2012: £4,751 million), other intangible assets of £5,416 million (2012: £5,508 million), property, plant and equipment of £1,918 million (2012: £1,992 million) and investments in associates and joint ventures of £958 million (2012: £911 million).

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

	2013 £million	2012 £million
Health & Beauty Division		
Dispensing and Related Income	**2,609**	2,802
Retail	**4,475**	4,475
Optical	**335**	332
Other	**63**	62
	7,482	7,671
Pharmaceutical Wholesale Division		
Wholesale and Related Services	**16,378**	16,828
	16,378	16,828
All other segments and eliminations	**(1,454)**	(1,490)
	22,406	23,009

5 Profit from operations before associates and joint ventures

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**

2012 Re-stated	Before amortisation of customer relationships and brands, and exceptional items £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Total £million
Revenue	23,009	–	–	23,009
Cost of sales	(18,192)	–	–	(18,192)
Gross profit	4,817	–	–	4,817
Selling, distribution and store costs	(3,140)	(115)	(39)	(3,294)
Administrative costs	(485)	–	(5)	(490)
Profit from operations before associates and joint ventures	1,192	(115)	(44)	1,033

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

6 Exceptional items

	2013 £million	2012 £million
Within profit from operations		
Impairment of goodwill and other intangible assets[1]	**(62)**	–
Contract Manufacturing restructuring programme[2]	**(31)**	–
UK Health & Beauty restructuring programme[3]	**–**	(30)
Pharmaceutical Wholesale Division restructuring programme[4]	**–**	(11)
Negative goodwill[5]	**4**	–
Other[6]	**(17)**	(3)
Within profit from operations before associates and joint ventures	**(106)**	(44)
Within share of post tax earnings of associates and joint ventures	**–**	(2)
Gain on disposal of associates	**2**	–
Gain on acquisition of a controlling interest in an associate[5]	**6**	–
	(98)	(46)
Within finance income		
Discounts on repurchase of acquisition borrowings[7]	**28**	24
Gain on disposal of available-for-sale investments	**–**	1
	28	25
Within finance costs		
Impairment of available-for-sale investment[8]	**(3)**	(16)
Impairment of investment loan asset	**–**	(2)
Reassessment of obligations to non controlling interests	**13**	6
Reassessment of distribution obligation[9]	**(6)**	–
	4	(12)
Within tax		
Tax credit on exceptional items	**12**	2
Exceptional tax credit[10]	**38**	75
	50	77
	(16)	44

1 During the year, the Group recorded an impairment of goodwill and other intangible assets relating to the Megapharm operations within Pharmaceutical Wholesale Germany, resulting from the impact of government measures introduced in prior years. The impairment was calculated using a net present value of future cash flows methodology and a discount rate of 12.5% (2012: 13.0%).

2 During the year, the Group announced a programme within Contract Manufacturing to improve the efficiency and overall performance of the UK factory including investment in new product technologies to enable greater flexibility and support for the Group's leading beauty and skincare product brands. The one-off exceptional cost of this restructuring programme, which was all incurred in the year, was £31 million, of which £18 million was non-cash. This includes the write-off of fixed assets and inventory, and the reduction of around 200 roles within the Nottingham factory over the next two years.

3 In the year ended 31 March 2011, the Group commenced a programme within the UK part of its Health & Beauty Division and related contract manufacturing activities to provide best in class support for stores and drive future growth. The programme, which focuses on optimising end-to-end business processes, includes moving to a leaner central support organisation, supported by new systems, a streamlining of manufacturing operations and optimisation of supply chain activities. Related exceptional charges incurred during the year ended 31 March 2012 were as previously announced.

4 In the year ended 31 March 2011, the Group commenced the second phase of the restructuring programme in its Pharmaceutical Wholesale Division, which further adapts its pharmaceutical wholesale businesses to better fulfil the expectations of customers and payors, as well as securing new opportunities in the marketplace. During the year ended 31 March 2012, the programme was extended to include businesses acquired in 2010/11 resulting in additional exceptional charges.

5 In the prior year, the Group sold 51% of its interest in Alliance Boots Investments 1 Limited, the UK parent company of its Russia business, to a fellow wholly owned subsidiary of AB Acquisitions Holdings Limited, the Group's parent and ultimate controlling entity. From that date the Group no longer had the ability to control the businesses operated and owned by Alliance Boots Investments 1 Limited and so the Group's remaining 49% interest in Alliance Boots Investments 1 Limited was accounted for as an associate. During the current year, the Group re-acquired a controlling interest in Alliance Boots Investments 1 Limited. Negative goodwill arose on the acquisition of this controlling interest in the Russia business and the carrying value of pre-existing interests was remeasured to fair value giving rise to a gain.

6 Other relates to net gain/losses on disposal of non-current assets, acquisition related costs, legal and other advisory costs for the Walgreen Co. and AmerisourceBergen transactions and residual costs in relation to other previously announced exceptional projects.

7 During the year, the Group repurchased acquisition borrowings from holders in the secondary market, which included a related party. The nominal value of acquisition borrowings repurchased was £1,124 million (2012: £655 million) and the total discount, net of related prepaid financing fees, was accounted for as a redemption of bank loans, reducing the Group's net borrowings.

8 During the year and the prior year, the Group recorded impairments of its investment in Cegedim, a listed group, to reflect the market value of its shares.

9 On 18 June 2012, the Company entered into a Purchase and Option Agreement with its ultimate parent company, AB Acquisitions Holdings Limited, and Walgreen Co. for Walgreen Co. 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. At the agreement date, the Group recognised this commitment as a liability measured at fair value. For the period since initial recognition, changes in the fair value of the liability are recorded within exceptional finance costs.

10 The exceptional credit in the current year mainly relates to the net reduction in deferred tax assets and liabilities resulting from a one percentage point reduction in the rate of UK corporation tax applicable from April 2013 and enacted during the year. The exceptional tax credit in the prior year related to a two percentage point reduction in the rate of UK corporation tax applicable from April 2012 and enacted in that year.

7 Profit from operations

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

	2013 £million	2012 Re-stated £million
Amortisation of other intangible assets	**152**	163
Depreciation of property, plant and equipment	**193**	206
Impairment of goodwill and other intangible assets	**62**	–
Net loss/(gain) on disposal of property, plant and equipment	**11**	(1)
Operating lease rentals	**389**	384
Employee costs	**1,970**	1,975

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

	2013 £million	2012 £million
Audit:		
– consolidated financial statements	**0.1**	0.1
– subsidiary financial statements	**1.4**	1.2
	1.5	1.3
Other services for the Group:		
– transaction services	**0.1**	0.3
– taxation	**0.1**	0.2
– other	**0.4**	0.3
	0.6	0.8
Walgreen Co. reporting (reimbursed)	**2.5**	–
	4.6	2.1

Total remuneration paid to the Group's principal auditor in respect of discontinued operations was £nil (2012: £146,000).

8 Employee costs

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

	2013		2012	
	Number of heads	**Full-time equivalents**	Number of heads	Full-time equivalents
Health & Beauty Division	**72,667**	**49,324**	74,851	49,808
Pharmaceutical Wholesale Division	**25,656**	**23,134**	24,954	22,555
Contract Manufacturing & Corporate	**2,231**	**2,187**	2,093	2,047
	100,554	**74,645**	101,898	74,410

Costs incurred in respect of these employees were:

	2013 £million	2012 Re-stated £million
Wages and salaries	**1,661**	1,661
Social security costs	**218**	225
Retirement benefit costs:		
– defined benefit schemes (current service costs)	**3**	4
– defined contribution schemes	**88**	85
	1,970	1,975

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

9 Finance income

	2013 £million	2012 Re-stated £million
Bank deposit and other interest income	**31**	51
Net interest income on net defined benefit scheme assets	**2**	–
Other finance income	**48**	35
	81	86
Exceptional items:		
– discounts on repurchase of acquisition borrowings	**28**	24
– gain on disposal of available-for-sale investments	**–**	1
	28	25
	109	111

10 Finance costs

	2013 £million	2012 Re-stated £million
Interest on bank loans and overdrafts	**322**	387
Net interest cost on net defined benefit scheme liabilities	**4**	12
Financing fees	**62**	55
Net fair value movements on non-designated derivative financial instruments	**(57)**	12
Unwind of the discount on obligations to non controlling interests	**22**	24
Other finance costs	**24**	12
	377	502
Exceptional items:		
– impairment of available-for-sale investment	**3**	16
– impairment of investment loan asset	**–**	2
– reassessment of obligations to non controlling interests	**(13)**	(6)
– reassessment of distribution obligation	**6**	–
	(4)	12
	373	514

Interest on bank loans and overdrafts includes £22 million (2012: £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 and loss was £332 million (2012: £371 million). Financing fees include £27 million (2012: £27 million) of amortised fees which are being 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 and loss was £13 million (2012: £38 million loss).

On 18 June 2012, the Company entered a Purchase and Option Agreement with its ultimate parent company, AB Acquisitions Holdings Limited, and Walgreen Co. for Walgreen Co. 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. At the agreement date, the Group recognised this commitment as a liability measured at fair value. For the period from initial recognition, changes in the fair value of the liability were recorded within exceptional finance costs.

11 Tax

An analysis of the tax charge in the year was:

	2013 £million	2012 Re-stated £million
Current tax		
Current tax charge for the year	**184**	101
Adjustments in respect of prior years	**(15)**	(11)
	169	90
Deferred tax		
Impact of change in tax rates	**(38)**	(75)
Deferred tax relating to the origination and reversal of temporary differences	**(35)**	20
	(73)	(55)
	96	35
Arising from:		
– continuing operations	**96**	38
– discontinued operations	**–**	(3)
	96	35

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% (2012 re-stated: 26.3%). The 2.7 percentage point decrease in the weighted average standard tax rate is mainly due to the impact of the two percentage point reduction in the rate of corporation tax in the UK from 26% to 24%, and the impact of profit mix.

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

	2013 £million	2012 Re-stated £million
Profit/(loss) before tax		
Continuing operations	**837**	688
Discontinued operations	**–**	(60)
	837	628
Less: share of post tax earnings of associates and joint ventures	**(39)**	(58)
	798	570
Expected tax charge at weighted average standard tax rate	**188**	150
Factors affecting charge for the year:		
– non-taxable items and tax credits/non-deductible items[1]	**(47)**	(36)
– impairment of available-for-sale investment	**1**	6
– unrelieved tax losses arising in the year	**21**	12
– recognition of brought forward tax losses	**(3)**	(10)
– current tax adjustments in respect of prior years	**(15)**	(11)
– deferred tax adjustments in respect of prior years	**(14)**	(3)
– other differences	**3**	2
– exceptional tax credit[2]	**(38)**	(75)
	96	35

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 Exceptional tax credit in the current year relates to the net reduction in deferred tax assets and liabilities resulting from a one percentage point reduction in the rate of UK corporation tax applicable from April 2013 and enacted during the year. Exceptional tax credit in the prior year related to a two percentage point reduction in the rate of UK corporation tax applicable from April 2012 and enacted in that year.

In the prior year, the Government announced that the rate of UK corporation tax will reduce by a further two percentage points from April 2014 to 21%, and in the year ended 31 March 2013, a further percentage point reduction was announced bringing the applicable rate to 20% by April 2015. When these rate changes are substantively enacted it is estimated that this will result in an additional exceptional deferred tax credit of approximately £37 million for each percentage point reduction in the rate.

The effective tax rate, which is defined as the tax charge expressed as a percentage of profit from operations (continuing and discontinued) excluding share of post tax earnings of associates and joint ventures, net of finance income and finance costs (continuing and discontinued) was 12.0% (2012 re-stated: 6.1%).

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11 Tax continued

The underlying tax charge, which is the tax charge on continuing operations 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:

	2013 £million	2012 Re-stated £million
Underlying tax charge	**179**	154
Tax on:		
– amortisation of customer relationships and brands	**(34)**	(43)
– exceptional items	**(12)**	(2)
– timing differences within net finance costs	**1**	4
Exceptional tax credit	**(38)**	(75)
Tax charge arising from continuing operations	**96**	38
Tax credit arising on discontinued operations	**–**	(3)
	96	35

The underlying effective tax rate, calculated as the underlying tax charge as a percentage of trading profit less underlying net finance costs, was 18.9% (2012 re-stated: 19.1%).

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

	2013			2012 re-stated		
	Before tax £million	Tax £million	After tax £million	Before tax £million	Tax £million	After tax £million
Other comprehensive income						
Net exchange differences on translation of non-Sterling denominated operations	**28**	**(2)**	**26**	(52)	2	(50)
Defined benefit schemes – net remeasurements net of surplus restriction	**(72)**	**16**	**(56)**	100	(26)	74
Fair value losses on cash flow hedging instruments net of amounts recycled	**(2)**	**–**	**(2)**	–	–	–
Movements on available-for-sale reserve including amounts recycled	**5**	**–**	**5**	(9)	–	(9)
Share of post tax other comprehensive income of associates and joint ventures	**2**	**–**	**2**	(1)	–	(1)
	(39)	**14**	**(25)**	38	(24)	14

12 Discontinued operations

In the prior year, on 31 March 2012, the Group sold 51% of its interest in Alliance Boots Investments 1 Limited, the UK parent company of its Russia business, to a fellow wholly owned subsidiary of AB Acquisitions Holdings Limited, the Group's ultimate parent company. From that date the Group no longer had the ability to control the businesses operated and owned by Alliance Boots Investments 1 Limited, and since Russia was considered to be a significant separate geography, the results from Russia were shown separately as discontinued operations.

From the date of disposal, the Group's remaining 49% interest in Alliance Boots Investments 1 Limited was accounted for as an associate until 1 November 2012 when the 51% interest previously sold was re-acquired (note 33).

The cash flow from discontinued operations was as follows:

	2013 £million	2012 £million
Net cash outflow from operating activities	**–**	(37)
Net cash generated from investing activities	**–**	6
Net cash from financing activities	**–**	34
Net increase in cash and cash equivalents	**–**	3

The consideration received on the sale of the Group's 51% interest in Alliance Boots Investments 1 Limited was £3 million, and net borrowings at disposal were £28 million, which was net of £13 million of cash and cash equivalents.

The effect of the disposal on the financial position of the Group was:

	2013 £million	2012 £million
Intangible assets	–	1
Property, plant and equipment	–	3
Inventories	–	141
Trade and other receivables	–	166
Cash and cash equivalents	–	13
Borrowings	–	(40)
Trade and other payables, and provisions	–	(263)
Derivative financial instruments	–	(1)
Net deferred tax assets	–	1
Net assets	–	21

In the prior year, up to the date of disposal, the average number of employees in the discontinued operations was 1,647.

The loss for the year from discontinued operations was:

	2013 £million	2012 £million
Revenue	–	796
Cost of sales	–	(760)
Gross profit	–	36
Selling, distribution and store costs	–	(55)
Administrative costs	–	(16)
Loss from operations	–	(35)
Finance costs	–	(10)
Loss before tax	–	(45)
Tax	–	3
Loss on disposal of discontinued operation	–	(15)
Loss for the year	–	(57)

In the prior year, the loss from operations included £1 million of amortisation of customer relationships and brands and £11 million of exceptional items which comprised £3 million of goodwill impairment and £8 million of customer relationship impairment.

13 Goodwill

	2013 £million	2012 £million
Net book value		
At 1 April	**4,751**	4,815
Acquisitions of businesses	–	5
Impairment	**(51)**	(3)
Currency translation differences	**10**	(66)
At 31 March	**4,710**	4,751

Impairment during the year related to the Megapharm operations within Pharmaceutical Wholesale Germany. Impairment is recognised within profit from operations and classified as an exceptional item (note 6).

Impairment during the prior year related to the Russia business which was subsequently sold on 31 March 2012 (note 12).

The cumulative impairment in the carrying value of goodwill at 31 March 2013 was £196 million (2012: £141 million).

Notes to the consolidated financial statements continued

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14 Other intangible assets

2013	Pharmacy licences £million	Brands £million	Customer relationships £million	Software £million	Other intangible assets £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**

2012	Pharmacy licences £million	Brands £million	Customer relationships £million	Software £million	Other intangible assets £million	Total £million
Cost						
At 1 April 2011	1,284	2,990	1,519	342	7	6,142
Acquisitions of businesses	–	–	3	–	–	3
Additions	–	–	–	85	6	91
Disposals of businesses	(3)	–	(13)	(2)	–	(18)
Disposals	–	–	–	(1)	–	(1)
Currency translation differences	–	–	(51)	(4)	–	(55)
At 31 March 2012	1,281	2,990	1,458	420	13	6,162
Amortisation						
At 1 April 2011	–	23	331	157	1	512
Charge	–	4	112	47	2	165
Impairment	–	–	8	–	–	8
Disposals of businesses	–	–	(13)	(1)	–	(14)
Disposals	–	–	–	(1)	–	(1)
Currency translation differences	–	–	(14)	(2)	–	(16)
At 31 March 2012	–	27	424	200	3	654
Net book value	1,281	2,963	1,034	220	10	5,508

The amortisation charge in respect of continuing operations was £152 million (2012: £163 million), of which £123 million (2012: £131 million) was recognised in selling, distribution and store costs, and £29 million (2012: £32 million) was recognised in administrative costs. In the prior year, the amortisation charge included continuing and discontinued operations.

Impairment during the year related to the Megapharm operations within Pharmaceutical Wholesale Germany (note 6). Impairment during the prior year related to the Russia business which was subsequently disposed of on 31 March 2012.

The cumulative impairment in the carrying value of customer relationships at 31 March 2013 was £6 million (2012: £nil) and of other intangible assets was £5 million (2012: £nil). 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 (2012: £2,162 million).

Internally developed software and software under development totalling £6 million (2012: £12 million) was included within additions during the year.

15 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:

	2013				2012			
	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**	**1,280**	**2,909**	**445**	2,441	1,281	2,912	477
Pharmaceutical Wholesale – UK	**1,044**	**–**	**–**	**87**	1,044	–	–	100
Other	**1,225**	**–**	**50**	**398**	1,266	–	51	457
	4,710	**1,280**	**2,959**	**930**	4,751	1,281	2,963	1,034

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 11.0% (2012: 12.0%), and the long term growth rates were 2.3% and 4.2% respectively (2012: 2.3% and 4.2% respectively). For other CGUs pre tax discount rates ranged from 11.0% to 23.0% (2012: 11.5% to 18.5%), and the long term growth rates used ranged from 0.7% to 14.9% (2012: 0.9% to 14.7%). Given the current economic climate, a sensitivity analysis has been performed in assessing the recoverable amounts of goodwill.

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16 Property, plant and equipment

2013	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Total £million
Cost				
At 1 April 2012	**1,117**	**216**	**1,511**	**2,844**
Acquisitions of businesses	**1**	**–**	**3**	**4**
Additions	**13**	**7**	**117**	**137**
Disposals	**(6)**	**(31)**	**(63)**	**(100)**
Reclassified to assets held for sale	**(5)**	**–**	**–**	**(5)**
Currency translation differences	**1**	**–**	**5**	**6**
At 31 March 2013	**1,121**	**192**	**1,573**	**2,886**
Depreciation				
At 1 April 2012	**61**	**76**	**715**	**852**
Charge	**17**	**16**	**160**	**193**
Disposals	**(1)**	**(24)**	**(54)**	**(79)**
Reclassified to assets held for sale	**(2)**	**–**	**–**	**(2)**
Currency translation differences	**–**	**1**	**3**	**4**
At 31 March 2013	**75**	**69**	**824**	**968**
Net book value	**1,046**	**123**	**749**	**1,918**

2012	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Total £million
Cost				
At 1 April 2011	1,175	188	1,415	2,778
Transfers	(38)	5	33	–
Acquisitions of businesses	–	–	2	2
Additions	12	38	120	170
Disposals of businesses	–	–	(5)	(5)
Disposals	(6)	(10)	(38)	(54)
Reclassified to assets held for sale	(4)	–	–	(4)
Currency translation differences	(22)	(5)	(16)	(43)
At 31 March 2012	1,117	216	1,511	2,844
Depreciation				
At 1 April 2011	48	68	593	709
Charge	20	19	168	207
Disposals of businesses	–	–	(2)	(2)
Disposals	(2)	(8)	(34)	(44)
Reclassified to assets held for sale	(1)	–	–	(1)
Currency translation differences	(4)	(3)	(10)	(17)
At 31 March 2012	61	76	715	852
Net book value	1,056	140	796	1,992

The depreciation charge in respect of continuing operations was £193 million (2012: £206 million), of which £11 million (2012: £6 million) was recognised in cost of sales, £159 million (2012: £166 million) was recognised in selling, distribution and store costs, and £23 million (2012: £34 million) was recognised in administrative costs. In the prior year, the depreciation charge included continuing and discontinued operations.

Included within the net book values were amounts in respect of assets held under finance leases of £nil (2012: £2 million) in land and buildings, £3 million (2012: £4 million) in plant and machinery and £11 million (2012: £11 million) in fixtures, fittings, tools and equipment. Property, plant and equipment with a carrying amount of £14 million (2012: £23 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 £5 million (2012: £2 million) in land and buildings, £2 million (2012: £5 million) in plant and machinery and £12 million (2012: £17 million) in fixtures, fittings, tools and equipment.

17 Investments in associates and joint ventures

	2013 £million	2012 £million
At 1 April	**911**	838
Acquisitions of businesses	**16**	25
Gain on acquisition of a controlling interest in an associate	**6**	–
Derecognised on acquisition of a controlling interest in an associate	**(3)**	–
Disposals of businesses	**(1)**	–
Share of post tax earnings	**39**	58
Share of other comprehensive income	**2**	(1)
Dividends	**(18)**	(16)
Currency translation differences	**6**	7
At 31 March	**958**	911

Amounts derecognised on acquisition of a controlling interest in an associate in the year relate to Alliance Boots Investments 1 Limited, the UK parent of the Group's Russia business which became a subsidiary in November 2012 as a result of the acquisition of a controlling interest (note 33).

Acquisitions of businesses related to a 49% minority investment in David Ormerod Hearing Centres Limited, a company which operates Boots hearingcare practices in the UK and an investment in a new company jointly owned with Walgreen Co., called Walgreens Boots Alliance Development GmbH, as part of our strategic partnership's synergy programme.

In the prior year, acquisitions comprised a £14 million additional investment into Guangzhou Pharmaceuticals Corporation, our existing joint venture, various Health & Beauty investments which totalled £8 million and the recognition of an associate investment of £3 million in the Russia business disposed of by the Group on 31 March 2012 (note 12).

At 31 March 2013, the carrying value of associates totalled £803 million (2012: £779 million) and the carrying value of joint ventures totalled £155 million (2012: £132 million).

Included within the total carrying value of investments in associates and joint ventures was £664 million (2012: £634 million) in respect of Galenica Ltd., a company listed in Switzerland. The market value of the Group's share of Galenica Ltd., based on the closing share price at 31 March 2013, was £657 million (2012: £680 million). After the year end, on 10 May 2013, the Group distributed its entire 25.5% equity shareholding in Galenica Ltd. to its ultimate parent company, AB Acquisitions Holdings Limited.

Details of the Group's principal associates and joint ventures are provided in note 37.

The aggregate assets and liabilities reported by associates and joint ventures at 31 March were:

	2013 £million	2012 £million
Total assets	**4,506**	4,094
Total liabilities	**(3,075)**	(2,770)
Net assets	**1,431**	1,324
Group's share	**469**	446

The Group's share of contingent liabilities of associates and joint ventures was £38 million (2012: £43 million).

The aggregate revenues reported by associates and joint ventures for the year ended 31 March were:

	2013 £million	2012 £million
Total revenue	**6,958**	6,038
Group's share	**2,810**	2,374

The Group's share of revenues reported by associates and joint ventures presented above includes the share in respect of Galenica Ltd..

The aggregate post tax earnings attributable to equity shareholders reported by associates and joint ventures for the year ended 31 March were:

	2013 £million	2012 £million
Total post tax earnings	**172**	198
Group's share	**39**	58

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

18 Available-for-sale investments

	2013 £million	2012 £million
At 1 April	**41**	67
Additions	**6**	1
Disposals	**(2)**	(1)
Movements in fair value	**2**	(24)
Currency translation differences	**1**	(2)
At 31 March	**48**	41

Available-for-sale investments comprised:

	2013 £million	2012 £million
Listed securities – equity	**26**	25
Listed securities – non-equity (pledged as collateral)	**20**	16
Unlisted securities – equity	**2**	–
	48	41

19 Inventories

	2013 £million	2012 £million
Raw materials	**23**	27
Work in progress	**6**	10
Finished goods	**2,001**	1,745
	2,030	1,782

Included in the aggregate carrying value was £62 million (2012: £86 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 £8 million (2012: £10 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 £43 million (2012: £28 million) have been pledged as security for certain local borrowing facilities.

20 Trade and other receivables

	2013 £million	2012 £million
Non-current		
Trade receivables	**19**	5
Short leasehold premiums	**31**	31
Profit participating notes	**–**	172
Loan assets	**7**	62
Other receivables	**14**	13
	71	283
Current		
Trade receivables	**2,659**	2,724
Provision for impairment	**(41)**	(38)
	2,618	2,686
Prepayments and accrued income	**194**	201
Loan assets	**89**	14
Other receivables	**202**	177
	3,103	3,078

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 £116 million (2012: £117 million) and the associated aggregate impairment was £41 million (2012: £38 million). Trade receivables with a carrying amount of £27 million (2012: £30 million) have been pledged as security for certain local borrowing facilities.

Included within the aggregate unimpaired trade receivables were £123 million (2012: £107 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 2013	**79**	**18**	**9**	**17**	**123**
Carrying value at 31 March 2012	63	18	8	18	107

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

	2013 £million	2012 £million
At 1 April	**(38)**	(33)
Disposals of businesses	**–**	1
Provision for impairment	**(9)**	(25)
Amounts written off	**3**	6
Reversal of provision for impairment	**4**	12
Currency translation differences	**(1)**	1
At 31 March	**(41)**	(38)

21 Cash and cash equivalents

	2013 £million	2012 £million
Bank balances	**294**	214
Short term deposits	**298**	456
Cash and cash equivalents	**592**	670
Bank overdrafts	**(13)**	(2)
Cash and cash equivalents in the statement of cash flows	**579**	668

22 Restricted cash

Restricted cash at 31 March 2013 of £167 million (2012: £254 million) consisted of deposits restricted under contractual agency agreements of £92 million (2012: £93 million), cash pledged as collateral on financial instruments and other obligations of £72 million (2012: £82 million), cash restricted by law of £3 million (2012: £3 million) and cash pledged as collateral for loan notes of £nil (2012: £76 million).

23 Assets classified as held for sale

The carrying amounts of assets classified as held for sale were:

	2013 £million	2012 £million
Property, plant and equipment	**5**	5

During the year and the prior year, the Group disposed of property, plant and equipment, which had previously been reclassified as assets held for sale. The proceeds on disposal of these assets were £3 million (2012: £1 million). There were no gains or losses on disposal (2012: £nil).

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

24 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following after offset:

	2013 Net £million	2012 Net £million
Unrelieved tax losses	**62**	71
Accelerated capital allowances	**(99)**	(125)
Retirement benefit obligations	**(56)**	(62)
Intangible assets	**(882)**	(934)
Rolled over gains	**(25)**	(26)
Other temporary differences	**35**	23
Net deferred tax liabilities	**(965)**	(1,053)

The movement in the net deferred tax liabilities were:

	2013 £million	2012 Re-stated £million
At 1 April	**(1,053)**	(1,092)
Acquisitions of businesses	**–**	(1)
Disposals of businesses	**–**	(1)
Income statement credit	**73**	55
Credited/(charged) to equity	**16**	(26)
Currency translation differences	**(1)**	12
At 31 March	**(965)**	(1,053)

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

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
Deferred tax assets							
At 1 April 2012	11	1	7	2	–	11	32
Income statement (charge)/credit	(7)	–	(1)	–	–	2	(6)
Reclassified from liabilities	–	(1)	(3)	(2)	–	(9)	(15)
At 31 March 2013	4	–	3	–	–	4	11
Deferred tax liabilities							
At 1 April 2012	60	(126)	(69)	(936)	(26)	12	(1,085)
Acquisitions of businesses	2	–	–	–	–	(2)	–
Income statement (charge)/credit	(3)	26	(9)	56	1	8	79
Credited to equity	–	–	16	–	–	–	16
Reclassified to assets	–	1	3	2	–	9	15
Currency translation differences	(1)	–	–	(4)	–	4	(1)
At 31 March 2013	58	(99)	(59)	(882)	(25)	31	(976)
Net deferred tax assets/(liabilities)	62	(99)	(56)	(882)	(25)	35	(965)

2012 Re-stated	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
Deferred tax assets:							
At 1 April 2011	14	–	3	–	–	–	17
Income statement (charge)/credit	(2)	1	1	2	–	1	3
Credited to equity	–	–	3	–	–	–	3
Reclassified from liabilities	–	–	–	–	–	9	9
Currency translation differences	(1)	–	–	–	–	1	–
At 31 March 2012	11	1	7	2	–	11	32
Deferred tax liabilities:							
At 1 April 2011	76	(110)	6	(1,047)	(29)	(5)	(1,109)
Acquisitions of businesses	–	–	–	(1)	–	–	(1)
Disposals of businesses	(3)	–	–	–	–	2	(1)
Income statement (charge)/credit	(12)	(18)	(46)	109	3	16	52
Charged to equity	–	–	(29)	–	–	–	(29)
Reclassified to assets	–	–	–	–	–	(9)	(9)
Currency translation differences	(1)	2	–	3	–	8	12
At 31 March 2012	60	(126)	(69)	(936)	(26)	12	(1,085)
Net deferred tax assets/(liabilities)	71	(125)	(62)	(934)	(26)	23	(1,053)

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 £43 million (2012: £15 million), of this amount £12 million (2012: £nil) expires before March 2023 and the balance has no expiration date.

Deferred tax liabilities of £32 million (2012: £18 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 (2012: £121 million).

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for the year ended 31 March 2013

25 Trade and other payables

	2013 £million	2012 £million
Current		
Trade payables	**3,725**	3,185
Other taxation and social security	**147**	160
Accruals and deferred income	**465**	485
Liability to acquire equity stakes from non controlling interests	**171**	33
Future distribution obligation	**657**	–
Future dividend obligations to non controlling interests	**11**	12
Other payables	**255**	297
	5,431	4,172
Non-current		
Liability to acquire equity stakes from non controlling interests	**–**	132
Future dividend obligations to non controlling interests	**67**	70
Other payables	**61**	49
	128	251

The liability to acquire equity stakes from non controlling interests mainly relates to amounts the Group is committed to further increase its ownership in Hedef Alliance Holding A.S. and Farmexpert DCI S.A. respectively.

In June 2012, the Company entered a Purchase and Option Agreement with its ultimate parent company, AB Acquisitions Holdings Limited, and Walgreen Co. for Walgreen Co. 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. At the agreement date, the Group recognised this commitment as a liability measured at fair value. This future distribution obligation is reassessed at each period end with fair value changes recorded as exceptional finance costs in the income statement.

26 Financial assets and liabilities

The carrying amounts of financial assets and liabilities were:

	2013 £million	2012 £million
Current borrowings		
Loans – senior facilities agreement	**–**	(18)
Other loans – committed	**(67)**	(48)
Loan notes	**–**	(76)
Overdrafts	**(13)**	(2)
Other loans – uncommitted	**(67)**	(2)
Finance lease liabilities	**(5)**	(7)
	(152)	(153)
Non-current borrowings		
Loans – senior facilities agreement	**(5,916)**	(6,759)
Loans – subordinated facility agreement	**(397)**	(628)
Other loans – committed	**(198)**	(240)
Finance lease liabilities	**(8)**	(14)
	(6,519)	(7,641)
Total borrowings	**(6,671)**	(7,794)
Cash and cash equivalents	**592**	670
Total borrowings net of cash and cash equivalents	**(6,079)**	(7,124)
Restricted cash	**167**	254
Derivative financial instruments – interest rate and credit instrument assets	**23**	8
Derivative financial instruments – currency and interest rate instrument liabilities	**(4)**	(155)
Net borrowings	**(5,893)**	(7,017)
Available-for-sale investments	**48**	41
Profit participating notes	**–**	172
Loan assets	**96**	76
Trade receivables net of provision for impairment	**2,637**	2,691
Trade payables	**(3,725)**	(3,185)
Liability to acquire equity stakes from non controlling interests	**(171)**	(165)
Future distribution obligation	**(657)**	–
Future dividend obligations to non controlling interests	**(78)**	(82)
Net financial liabilities	**(7,743)**	(7,469)

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

- Committed facilities – £6,578 million (2012: £7,769 million) in total:
  - Loans – senior and subordinated facilities: these variable rate loans, which are denominated in Sterling and Euros, are fully drawn and their aggregate carrying value at 31 March 2013 was £6,313 million (2012: £7,405 million) including the impact of currency revaluation and reported net of unamortised fees incurred in respect of the loans. As at 31 March 2013 the contractual maturity dates of these facilities are between 2015 and 2017. Subject to addressing springing maturity requirements these loans will mature between 2015 and 2018.
  - Other loans: these loans totalling £265 million (2012: £288 million), represent a mix of fixed and variable rate borrowings denominated in Sterling, Euros, Czech Koruna and Russian Rouble with major maturities concentrated between 2014 and 2016.
  - Undrawn revolving credit facility: this facility of £476 million (2012: £491 million) provides access to funding in a range of currencies. The facility was originally available until 2014, and during the year 82% of it was extended and is now available until 2016.
- Uncommitted facilities – £80 million (2012: £4 million) in total:
  - Bank overdrafts and local bank loans repayable on demand. These facilities are denominated in Turkish Lira, Czech Koruna and Romanian New Lei.
- Finance leases – £13 million (2012: £21 million) in total.

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

26 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. A number of loan facility amendments were made during the year which were considered to be non-significant modifications for accounting purposes with the exception being where the currency of the facility was changed. Fees incurred for the non-significantly modified facilities were deducted from the carrying values of the loans and are being amortised over the remaining terms of the amended loans on an effective interest basis.

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 2013 without taking account of any future debt issuance. Floating rate interest was estimated using prevailing interest conditions at 31 March 2013. Cash flows in non-Sterling currencies were translated using prevailing exchange rates at 31 March 2013. All floating rate borrowings re-price within one month of the year end.

	Contractual cash flows							
2013	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	(56)	(8)	(2)	(2)	–	(68)	1	(67)
Finance lease liabilities	(6)	(3)	(3)	(3)	–	(15)	2	(13)
Floating								
Loans – senior facilities agreement	(244)	(247)	(1,482)	(4,889)	–	(6,862)	946	(5,916)
Loans – subordinated facility agreement	(15)	(15)	(17)	(493)	–	(540)	143	(397)
Other loans – committed	(17)	(123)	(1)	(65)	–	(206)	8	(198)
Overdrafts	(13)	–	–	–	–	(13)	–	(13)
Other loans – uncommitted	(67)	–	–	–	–	(67)	–	(67)
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 has an ongoing future dividend obligation in relation to the non controlling interest arising on the acquisitions of Hedef Alliance Holding A.S. and Dollond & Aitchison in previous years. The contractual undiscounted cash flows are £11 million (2012: £12 million) within one year, £4 million (2012: £11 million) between 1 and 2 years and £14 million (2012: £18 million) between 2 and 5 years. The Group also has a future obligation to distribute its investment in Galenica Ltd. which is not shown in the table above as there are no contractual cash flows.

2012	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	(20)	(37)	(8)	(3)	–	(68)	5	(63)
Finance lease liabilities	(8)	(5)	(3)	(5)	(18)	(39)	18	(21)
Floating:								
Loans – senior facilities agreement	(342)	(249)	(1,067)	(6,163)	–	(7,821)	1,044	(6,777)
Loans – subordinated facility agreement	(31)	(24)	(31)	(73)	(778)	(937)	309	(628)
Other loans – committed	(46)	(4)	(124)	(67)	–	(241)	16	(225)
Loan notes	(76)	–	–	–	–	(76)	–	(76)
Overdrafts	(2)	–	–	–	–	(2)	–	(2)
Other loans – uncommitted	(2)	–	–	–	–	(2)	–	(2)
Total borrowings	(527)	(319)	(1,233)	(6,311)	(796)	(9,186)	1,392	(7,794)
Trade payables	(3,185)	–	–	–	–	(3,185)	–	(3,185)
Liability to acquire equity stakes from non controlling interests	(33)	(152)	–	–	–	(185)	20	(165)
Total non-derivative financial liabilities	(3,745)	(471)	(1,233)	(6,311)	(796)	(12,556)	1,412	(11,144)
Interest rate derivatives:								
– outflows	(39)	(1)	–	–	–	(40)		
– inflows	8	–	–	–	–	8		
	(31)	(1)	–	–	–	(32)	11	(21)
Currency swaps:								
– outflows	(555)	–	–	–	–	(555)		
– inflows	416	–	–	–	–	416		
	(139)	–	–	–	–	(139)	5	(134)
Total derivative financial liabilities	(170)	(1)	–	–	–	(171)	16	(155)
Total financial liabilities	(3,915)	(472)	(1,233)	(6,311)	(796)	(12,727)	1,428	(11,299)

Finance lease liabilities

	2013			2012		
	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	**6**	**(1)**	**5**	8	(1)	7
Between one year and five years	**9**	**(1)**	**8**	13	(4)	9
More than five years	**–**	**–**	**–**	18	(13)	5
	15	**(2)**	**13**	39	(18)	21

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

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26 Financial assets and liabilities continued

Carrying value and fair value

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

	2013		2012	
	Carrying value £million	**Fair value £million**	Carrying value £million	Fair value £million
Liabilities held at amortised cost				
Loans – senior facilities agreement	**(5,916)**	**(5,965)**	(6,777)	(6,842)
Loans – subordinated facility agreement	**(397)**	**(405)**	(628)	(640)
Other loans – committed	**(265)**	**(265)**	(288)	(288)
Loan notes	**–**	**–**	(76)	(76)
Overdrafts	**(13)**	**(13)**	(2)	(2)
Other loans – uncommitted	**(67)**	**(67)**	(2)	(2)
Finance lease liabilities	**(13)**	**(15)**	(21)	(36)
Liability to acquire equity stakes from non controlling interests	**(171)**	**(171)**	(165)	(165)
Future dividend obligations to non controlling interests	**(78)**	**(78)**	(82)	(82)
Trade payables	**(3,725)**	**(3,725)**	(3,185)	(3,185)
	(10,645)	**(10,704)**	(11,226)	(11,318)
Liabilities held at fair value				
Future distribution obligation	**(657)**	**(657)**	–	–
Derivative instruments – interest rate	**(4)**	**(4)**	(21)	(21)
Derivative instruments – currency	**–**	**–**	(134)	(134)
	(661)	**(661)**	(155)	(155)
Loans and receivables financial assets				
Trade receivables net of provision for impairment	**2,637**	**2,637**	2,691	2,691
Profit participating notes	**–**	**–**	172	172
Loan assets	**96**	**96**	76	76
	2,733	**2,733**	2,939	2,939
Financial assets held at fair value				
Derivative instruments – interest and credit	**23**	**23**	8	8
Available-for-sale investments	**48**	**48**	41	41
	71	**71**	49	49
Cash and cash equivalents	**592**	**592**	670	670
Restricted cash	**167**	**167**	254	254
Net financial liabilities	**(7,743)**	**(7,802)**	(7,469)	(7,561)

The fair values of 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 values of the senior facilities and subordinated facility loans, which are variable rate, were lower than the fair values of the instruments due mainly to the impact of unamortised fees included in the carrying value.

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

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

2012	Level 1 £million	Level 2 £million	Total £million
Financial liabilities:			
Interest rate derivatives	–	(21)	(21)
Cross currency swap derivatives	–	(134)	(134)
	–	(155)	(155)
Financial assets:			
Derivative instruments – interest and credit	–	8	8
Available-for-sale investments	41	–	41
	41	8	49

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: valuation techniques for which any significant input is 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 options pricing methodology. The fair value of cross currency contracts and 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. 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.

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27 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 £11,564 million (2012: £12,718 million) as total equity of £5,671 million (2012: £5,701 million) and net borrowings of £5,893 million (2012: £7,017 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 2013 was £6,313 million (2012: £7,387 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 2017 with 80% (2012: 9%) maturing in 2017. The Group also has access to a committed £577 million (2012: £627 million) revolving credit facility, £nil (2012: £18 million) of which was drawn down at 31 March 2013, £101 million (2012: £118 million) of which was utilised in providing guarantees and letters of credit principally to the Boots Pension Scheme and £476 million (2012: £491 million) of which was available as at 31 March 2013. This facility provides access to funding in a range of currencies. The facility was originally available until 2014, and during the year 82% of it was extended and is now available until 2016.

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 2013 is shown in note 26.

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 2013, there were no significant concentrations of credit risk in respect of trade receivables and loan assets.

The maximum exposure to credit risk for trade receivables, net of provision for impairment, loan assets and profit participating notes at 31 March by geographic region was:

	2013 £million	2012 £million
UK	**774**	1,060
Other European countries	**1,783**	1,728
Other countries	**176**	151
	2,733	2,939

Exposures to financial counterparties, including AAA rated money market fund investments, arise from other non trade receivables, 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 and Moody's Investors Service Limited.

At 31 March 2013, total exposures of the Group to financial counterparties, including AAA rated money market funds, was £782 million (2012: £932 million) of which £23 million (2012: £8 million) related to derivative financial instruments, £592 million (2012: £670 million) was in respect of cash and cash equivalents and £167 million (2012: £254 million) was in respect of restricted cash.

£345 million (2012: £534 million) of derivative financial assets, cash and cash equivalents and restricted cash relate to balances managed centrally by Group treasury 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 £437 million (2012: £398 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.

£96 million (2012: £76 million) of other loans are lent to unrated entities. Profit participating notes issued by unrated entities totalled £nil (2012: £172 million).

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 a variety of currency derivatives in the management of exchange rate exposures, including cross currency swaps and 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.

At 31 March 2013, the Group had no outstanding forward currency exchange contracts (2012: £nil) that were designated and effective as cash flow hedges of committed forecast transactions.

During the year, there were no gains or losses recycled from the cash flow hedge reserve in respect of contracts designated as cash flow hedges of the attributable currency risk on highly probable forecast transactions (2012: £1 million gain). 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 (2012: £nil).

The Group has significant non-Sterling denominated currency net investments predominantly in Euros and in addition uses derivative financial instruments, specifically cross currency swaps, forward currency exchange contracts and non-Sterling currency borrowings to hedge the non-Sterling currency risk.

At 31 March 2013, £680 million (2012: £952 million) of non-Sterling currency borrowings with fair value of £680 million (2012: £952 million) were designated as net investment hedges. During the year, all of the senior facility loan denominated in Swiss Francs was redenominated into Euros.

Cross currency swaps designated as net investment hedges of non-Sterling denominated currency net investments matured during the year. In addition, legacy cross currency swap contracts designated as held for trading, where currency risk was hedged through the use of short dated forward currency exchange contracts also matured.

The effect of currency swaps and forward currency exchange contracts to manage translation risk on net borrowings was:

	Net borrowings 2013			Net borrowings 2012		
	Before hedging £million	**Derivative instruments – currency £million**	**Total £million**	Before hedging £million	Derivative instruments – currency £million	Total £million
Sterling	**(4,347)**	**(90)**	**(4,437)**	(5,192)	156	(5,036)
Euro	**(1,553)**	**115**	**(1,438)**	(1,500)	(104)	(1,604)
Swiss Franc	**1**	**–**	**1**	(277)	(143)	(420)
Other	**6**	**(25)**	**(19)**	86	(43)	43
	(5,893)	**–**	**(5,893)**	(6,883)	(134)	(7,017)

At 31 March 2013, the total notional amount of outstanding forward currency exchange contracts that the Group has committed was £273 million (2012: £358 million).

At 31 March 2013, the statement of financial position carrying value of the Group's outstanding forward currency exchange contracts was £nil (2012: £nil).

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27 Financial risk management continued

Currency risk – sensitivity analysis

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% (2012: 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.

	2013 Impact on equity £million	**2013 Impact on profit £million**	2012 Impact on equity £million	2012 Impact on profit £million
Euro	**58**	**–**	61	–
Turkish Lira	**–**	**(9)**	–	(9)
Swiss Franc	**35**	**60**	36	–
Norwegian Krone	**2**	**–**	2	–
Other	**–**	**–**	–	(2)

A 10% (2012: 10%) weakening of Sterling against these currencies at 31 March 2013 would have had the equal and opposite effect to that shown above on the basis that all other variables remain constant.

The 2013 impact on profit for the Swiss Franc relates to the commitment to distribute or otherwise transfer the investment in Galenica Ltd.. Subsequent to the year end, Galenica Ltd. was distributed to AB Acquisitions Holdings Limited.

The movements in equity relate to non-Sterling borrowings, cross currency swaps and forward foreign exchange contracts used during the year to hedge Group assets denominated in those currencies. An appreciation in the value of the borrowing or cross currency swap 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, £80 million or 1.2% (2012: £84 million or 1.1%) 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 one month 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 (2012: £500 million) to swap outstanding borrowings from floating to fixed rates at a rate of 0.52% (2012: 4.91%) until July 2015. At 31 March 2013, £1,600 million of these swaps (2012: £nil) with a fair value liability of £2 million (2012: £nil) were designated as cash flow hedges. The Group also has interest rate caps with notional principal amounts of £1,500 million (2012: £1,500 million) and €2,000 million (2012: €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 €10 million (2012: €10 million).

After taking into account the impact of derivative financial instruments, £5,220 million or 78% (2012: £5,357 million or 69%) of the Group's total borrowings were at fixed or capped interest rates. All other borrowings re-price within one month of the year end.

At 31 March 2013, £5,189 million or 81% (2012: £5,341 million or 72%) of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc was hedged.

The impact of a 1% increase and a 1% decrease in interest rates on 31 March 2013 on pre tax profit are shown in the table below. This analysis assumes that all other variables are held constant.

	2013 1% increase in interest rates £million	**2013 1% decrease in interest rates £million**	2012 1% increase in interest rates £million	2012 1% decrease in interest rates £million
Gain/(loss) – derivative financial instruments	**13**	**(9)**	–	1
(Loss)/gain – variable rate financial instruments	**(45)**	**45**	(65)	65

The impact on equity would have been a gain of £36 million (2012: £nil) or a loss of £37 million (2012: £nil) 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 commitment to distribute Galenica Ltd., a future distribution obligation recognised at fair value with the associated measurement volatility recorded in exceptional finance costs.

Equity price risk – sensitivity analysis
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 £2 million (2012: £2 million). The potential impact on the Group's profit resulting from the application of +/- 5% movement in the fair value of its future distribution obligation would have been a (loss)/gain recorded in exceptional finance costs of £33 million (2012: £nil).

28 Analysis of movement in net borrowings
Set out below is a reconciliation of the net (decrease)/increase in cash and cash equivalents to the decrease in net borrowings at 31 March 2013:

	2013 £million	2012 £million
Net (decrease)/increase in cash and cash equivalents	**(92)**	90
Net decrease in restricted cash	**(88)**	(27)
Cash and cash equivalents outflow from decrease in debt and debt financing	**1,294**	678
Movement in net borrowings resulting from cash flows	**1,114**	741
Discounts on repurchase of acquisition borrowings	**28**	24
Borrowings acquired with businesses	**(9)**	–
Borrowings derecognised on disposal of businesses	**–**	41
Finance leases entered into	**–**	(7)
Amortisation of prepaid financing fees	**(27)**	(27)
Capitalised finance costs	**(22)**	(22)
Currency translation differences and fair value adjustments on financial instruments	**40**	76
Movement in net borrowings in the year	**1,124**	826
Net borrowings at 1 April	**(7,017)**	(7,843)
Net borrowings at 31 March	**(5,893)**	(7,017)

Cash and cash equivalents outflow from decrease in debt and debt financing comprised of proceeds from borrowings of £86 million (2012: £207 million), less repayment and repurchase of borrowings and settlement of derivatives of £1,353 million (2012: £878 million), prepaid fees associated with financing activities of £19 million (2012: £nil) and repayment of capital element of finance lease obligations of £8 million (2012: £7 million).

Set out below is an analysis of the movement in net borrowings during the year:

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 borrowing £million**
At 1 April 2012	**670**	**254**	**(153)**	**(7,641)**	**(147)**	**(7,017)**
Net decrease in cash and cash equivalents	**(82)**	**–**	**(10)**	**–**	**–**	**(92)**
Net decrease 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 adjustments on financial instruments	**4**	**1**	**(4)**	**(10)**	**49**	**40**
At 31 March 2013	**592**	**167**	**(152)**	**(6,519)**	**19**	**(5,893)**

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28 Analysis of movement in net borrowings continued

2012	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 2011	629	285	(274)	(8,274)	(209)	(7,843)
Net increase in cash and cash equivalents	58	–	32	–	–	90
Net decrease in restricted cash	–	(27)	–	–	–	(27)
Cash and cash equivalents outflow from decrease in debt and debt financing	–	–	49	564	65	678
Discounts on repurchase of acquisition borrowings	–	–	–	24	–	24
Borrowings derecognised on disposal of businesses	–	–	40	–	1	41
Finance leases entered into	–	–	(2)	(5)	–	(7)
Amortisation of prepaid financing fees	–	–	–	(27)	–	(27)
Capitalised finance costs	–	–	–	(22)	–	(22)
Non-cash movements	–	–	(4)	4	–	–
Currency translation differences and fair value adjustments on financial instruments	(17)	(4)	6	95	(4)	76
At 31 March 2012	670	254	(153)	(7,641)	(147)	(7,017)

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 £13 million (2012: £2 million).

29 Movement in net borrowings resulting from acquisitions and disposals of businesses and investments

	2013 £million	2012 £million
Acquisitions of businesses	**(3)**	(10)
Net cash/(borrowings) of businesses acquired:		
– cash and cash equivalents net of overdrafts	**9**	2
– borrowings	**(9)**	–
Disposals of businesses	**1**	5
Net borrowings of businesses disposed:		
– cash and cash equivalents net of overdrafts	**–**	(13)
– borrowings	**–**	41
Investments in associates and joint ventures	**(16)**	(20)
Disposal of investments in associates	**3**	–
Purchase of non controlling interests	**(65)**	(122)
	(80)	(117)

30 Provisions

2013	Restructuring and reorganisation £million	Vacant property £million	Other £million	Total £million
At 1 April 2012	**37**	**22**	**24**	**83**
Acquisition of business	**–**	**–**	**1**	**1**
Provisions created	**5**	**1**	**11**	**17**
Provisions utilised	**(29)**	**(7)**	**(5)**	**(41)**
Provisions released	**(2)**	**(3)**	**(6)**	**(11)**
Currency translation differences	**–**	**1**	**(1)**	**–**
At 31 March 2013	**11**	**14**	**24**	**49**
Current	**7**	**10**	**7**	**24**
Non-current	**4**	**4**	**17**	**25**
	11	**14**	**24**	**49**

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.

31 Share capital

	2013 Number of units	**2013 £million**	2012 Number of units	2012 £million
Units of capital of CHF1,000:				
Issued and fully paid	**2,120,152**	**1,079**	2,098,000	1,065

During the 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 parent company, AB Acquisitions Holdings Limited, for £2 million and this gave rise to share premium of £2 million.

Notes to the consolidated financial statements continued

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32 Other reserves

Other reserves movements within equity were:

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**
Net fair value movements on cash flow hedging instruments	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Net fair value gains on available-for-sale investments deferred in equity	**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**

2012	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 2011	18	242	–	(271)	(4)	(15)
Net exchange differences on translation of non-Sterling denominated operations	–	(23)	–	–	–	(23)
Net fair value movements on cash flow hedging instruments	–	–	1	–	–	1
Cumulative net fair value movements on cash flow hedging instruments recycled to the income statement and to non-current non-financial assets	–	–	(1)	–	–	(1)
Net fair value losses on available-for-sale investments deferred in equity	(24)	–	–	–	–	(24)
Gain on disposal of available-for-sale investments	(1)	–	–	–	–	(1)
Impairment of available-for-sale investment recycled	16	–	–	–	–	16
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	–	(1)	(1)
Liability to acquire equity stakes from non controlling interests	–	–	–	(2)	–	(2)
Purchase of non controlling interests	–	–	–	95	–	95
Tax	–	2	–	–	–	2
At 31 March 2012	9	221	–	(178)	(5)	47

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.

33 Acquisitions and disposals of businesses
Acquisitions
Russia
On 1 November 2012, the Group acquired a controlling shareholding in Alliance Boots Investments 1 Limited, the UK parent company of the Russia business which was disposed of in the prior year on 31 March 2012. The Group had a pre-existing 49% interest which prior to 1 November 2012 was accounted for as an associate.

The Group acquired the additional 51% stake from a subsidiary of AB Acquisitions Holdings Limited, the ultimate parent company of the Group, for consideration of £3 million which was settled in cash. This follows the recently established strategic partnership with Walgreen Co. which included, among other things, an option for Walgreen Co. to acquire the Russia business shareholding on exercise of its option to proceed to a full merger with Alliance Boots.

The net assets acquired at the date of acquisition, as adjusted from book to fair value, and the attributable goodwill were:

	Book and fair value at acquisition £million
Other intangible assets	**1**
Property, plant and equipment	**3**
Inventories	**163**
Trade and other receivables	**126**
Cash and cash equivalents net of borrowings	**2**
Trade and other payables, and provisions	**(285)**
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 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 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.

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33 Acquisitions and disposals of businesses continued

Andreae-Noris Zahn AG ("ANZAG")

Through Alliance Healthcare Deutschland Holdings 1 GmbH, a company that was indirectly owned 80% by the Group and 20% by AB Acquisitions UK Holdco 5 Limited, a fellow subsidiary owned by the Group's ultimate parent company, the Group acquired further equity stakes in ANZAG during the year increasing its ownership by 18.1% to full ownership of the equity for consideration of £50 million. The Group also acquired the 20% interest in AB Acquisitions UK Holdco 5 Limited, the UK parent of Alliance Healthcare Deutschland Holdings 1 GmbH from the fellow subsidiary owned by the Group's parent and ultimate controlling entity for consideration of £27 million which was settled by offset of a pre-existing loan from the Group. At 31 March 2013, 100% of ANZAG is attributable to equity shareholders of the Group.

On 1 April 2013, ANZAG's name was changed to Alliance Healthcare Deutschland AG.

Other acquisitions

The Group acquired a number of other businesses in the year for cash consideration totalling £nil (2012: £10 million). Net assets identified included the fair value of customer relationships of £nil (2012: £3 million) and £2 million of borrowings (2012: £nil). Goodwill on these acquisitions was £nil (2012: £5 million). The Group also paid £13 million relating to the final payment for the 20% additional equity stake in Farmexpert DCI S.A. acquired in the prior year.

Acquisition related costs

The Group incurred acquisition related costs of £1 million (2012: £1 million) in respect of the acquisitions described above and other acquisition related projects. These costs have been included within administrative costs in the Group's consolidated income statement and classified as exceptional items.

Disposals during the year ended 31 March 2012

On 31 March 2012 the Group sold 51% of its interest in Alliance Boots Investments 1 Limited, the UK parent company of its Russia business, to a fellow wholly owned subsidiary of AB Acquisitions Holdings Limited, the Group's parent and ultimate controlling entity (note 12).

34 Operating leases

At 31 March outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due were:

	2013 £million	2012 £million
Less than one year	**317**	327
Between one and five years	**901**	957
More than five years	**967**	1,093
	2,185	2,377

The Group leases a number of its properties under operating leases. The leases run predominantly for periods from 1 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 £20 million (2012: £22 million). Total future minimum sub-let income at the end of the year was £50 million (2012: £53 million).

35 Commitments and contingent liabilities

Commitments

Capital expenditure contracted for at the year end but not yet incurred was £24 million (2012: £32 million) in respect of property, plant and equipment and software.

Contingent liabilities

The Group had aggregate contingent liabilities of £63 million (2012: £78 million), including £17 million (2012: £15 million) for letters of guarantee provided to certain suppliers, a £17 million (2012: £17 million) guarantee provided by Alliance Healthcare Deutschland AG (formerly ANZAG) for certain of its customers and a financial guarantee issued to a third party to underwrite £3 million (2012: £10 million) of loan finance on asset disposals that occurred in a prior year.

36 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. The latest such valuation was performed as at 31 March 2010.

At 31 March 2013, the Scheme liabilities of the Boots Pension Scheme represented 97% (2012: 97%) of the total liabilities for all of the Group's defined benefit schemes.

The Boots Pension Scheme entered into a Memorandum of Understanding during 2007 with the Group, the main elements of which were an agreement that conservative investment strategies would be maintained (the Boots Pension Scheme has continued with its investment strategy of planning to hold 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years and the remainder invested in equity and property assets backing longer term liabilities), and a commitment to pay additional contributions. Cash contributions of £29 million were made during the year under the Memorandum of Understanding and up to 31 March 2013, £181 million of additional contributions have been made, with a further £88 million committed in equal annual instalments from August 2014.

The Group has two pension funding partnership structures under which the Group has contributed interests in partnerships worth £273 million, and transferred a number of properties under sale and leaseback arrangements. Between them, the partnerships made contributions of £22 million in the year, and will make similar annual contributions for a further 14 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. In addition, £14 million was paid in following the most recent triennial valuation of the Boots Pension Scheme as at 31 March 2010.

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 scheme assets.

During the year, the Boots Pension Scheme implemented a Pension Increase Exchange ("PIE") 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 profit from operations as a negative past service cost.

In a previous year, UK legislation changed to set the Consumer Prices Index (CPI) as the statutory measure for applying increases to pensions in payment and for revaluing preserved pensions for occupational pension schemes. Previously the Retail Prices Index (RPI) was used. A small number of Scheme members were affected by this change and, as CPI was projected to continue to increase at a lower rate than RPI, this change resulted in a reduction in the defined benefit scheme liabilities of £24 million in the prior year which was recognised within 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, the Republic of Ireland and Guernsey. In the prior year, the Group closed its defined benefit scheme in The Netherlands to future accrual and subsequently transferred 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:

	2013 £million	2012 £million
Present value of defined benefit scheme liabilities	**(5,181)**	(4,588)
Less fair value of defined benefit scheme assets:		
– government bonds	**1,789**	1,591
– corporate bonds	**2,579**	2,292
– equities	**590**	504
– property	**137**	136
– other scheme assets	**50**	16
	5,145	4,539
Net amount recognised	**(36)**	(49)
Analysed as		
– scheme in surplus	**62**	30
– schemes in deficit	**(98)**	(79)
	(36)	(49)

All scheme assets have quoted prices in active markets. All 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

36 Retirement benefit assets/obligations continued

The change in the present value of defined benefit scheme liabilities was:

	2013 £million	2012 Re-stated £million
At 1 April	**4,588**	4,363
Current service costs	**3**	4
Scheme administrative costs	**2**	3
Past service credit – scheme amendments	**(24)**	(30)
Past service credit – curtailments	**(1)**	(8)
Settlements	**–**	(59)
Interest on defined benefit scheme liabilities	**232**	239
Net remeasurement losses – financial	**561**	166
Net remeasurement (gains)/losses – experience	**(19)**	66
Net remeasurement gains – demographic	**(1)**	–
Employee contributions	**–**	1
Benefits paid	**(163)**	(155)
Currency translation differences	**3**	(2)
At 31 March	**5,181**	4,588

The defined benefit scheme liabilities are 1% (2012: 1%) in respect of active scheme participants, 54% (2012: 54%) in respect of deferred scheme participants, and 45% (2012: 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 (2012: 18 years).

The change in the fair value of defined benefit scheme assets was:

	2013 £million	2012 Re-stated £million
At 1 April	**4,539**	4,149
Interest income on defined benefit scheme assets	**230**	227
Return on scheme assets, excluding interest income	**469**	323
Settlements	**–**	(64)
Employer contributions	**70**	56
Employee contributions	**–**	1
Benefits paid	**(163)**	(155)
Currency translation differences	**–**	2
At 31 March	**5,145**	4,539

The Group expects to contribute approximately £42 million to its defined benefit schemes in the year ended 31 March 2014.

The change in the asset surplus restriction of defined benefit schemes was:

	2013 £million	2012 £million
At 1 April	**–**	9
Surplus restriction reversal	**–**	(9)
At 31 March	**–**	–

The net credit recognised in the income statement comprised:

	2013 £million	2012 Re-stated £million
Current service costs	**(3)**	(4)
Scheme administrative costs	**(2)**	(3)
Past service credits	**25**	38
Settlement losses	**–**	(5)
	20	26
Net interest cost on net defined benefit scheme liabilities/assets	**(2)**	(12)
	18	14

The credit/(expense) was recognised in the following line items in the income statement:

	2013 £million	2012 Re-stated £million
Selling, distribution and store costs	**24**	22
Administrative costs	**(4)**	4
Finance income	**2**	–
Finance costs	**(4)**	(12)
	18	14

The principal actuarial assumptions at the year end were:

	2013		2012	
	UK	**Non-UK**	UK	Non-UK
Discount rate for defined benefit scheme liabilities	**4.5%**	**3.1% to 4.5%**	5.2%	4.5% to 5.2%
Rate of inflation (RPI)	**3.3%**	**1.8% to 3.3%**	3.2%	1.8% to 3.2%
Rate of increase to pensions in payment	**3.0%**	**1.8% to 3.0%**	3.1%	1.8% to 3.1%
Rate of increase to pensions before retirement	**3.0%**	**2.0% to 3.3%**	3.1%	2.0% to 3.1%

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:

	2013 Currently aged 45	**2013 Currently aged 60**	2012 Currently aged 45	2012 Currently aged 60
Male	**27.8**	**27.4**	27.7	27.4
Female	**29.7**	**28.2**	29.6	28.1

The mortality assumptions adopted as at 31 March 2013 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 £222 million**
Rate of inflation (RPI)	**Increase by 0.25%**	**Increase by £177 million**
Rate of increase to pensions in payment	**Increase by 0.25%**	**Increase by £155 million**
Rate of increase to pensions before retirement	**Increase by 0.25%**	**Increase by £71 million**
Assumed life expectancy at age 60 (rate of mortality)	**Increase by 1 year**	**Increase by £150 million**

Changes in RPI impact increases to pension 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 75% of interest rate movements and 84% of inflation movements. As such a 0.25% increase in interest rates would reduce the statement of financial position deficit by around £55 million and a 0.25% increase in inflation would increase the statement of financial position deficit by around £26 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 2013. 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 (2012: £85 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

37 Related parties

Parent company and ultimate controlling parties

At 31 March 2013, 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 by certain funds 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 comprise the Directors of Alliance Boots GmbH and, in addition, J.X. Chincotta, V. Nagrani and W. Zettel through their directorships of AB Acquisitions Holdings Limited. The Directors of Alliance Boots GmbH were:

S. Pessina* (Executive Chairman)
G.R. Fairweather*
M. Pagni*
O. Barra*
A. Gourlay*
D. Murphy
M. Caprioli
S. D'Angelo
G. Wasson (appointed 2 August 2012)
W. Miquelon (appointed 2 August 2012)
T. Sabatino (appointed 2 August 2012)
R. Zimmerman (appointed 2 August 2012)
N.C.E. Land
C. Britton
A. De Nunzio
E. Jornod

* Executive Directors

There was no change in Directors since 31 March 2013.

Key management personnel remuneration

The remuneration of the key management personnel of the Group comprised:

	2013 £million	2012 £million
Short term employee benefits	**6**	6
Long term employee benefits	**2**	–

Other transactions with key management personnel

Together with other senior managers, executive Directors 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 2013 the loan amounts outstanding in respect of key management personnel were £0.2 million (2012: £0.3 million).

During the year, A Gourlay, together with family members redeemed 18,846 (2012: 18,000) loan notes with a nominal value of £1 each which had been issued by the Group in a previous year. At 31 March 2013, there were no loan notes outstanding (2012: 18,846).

During the year, S. Pessina received 277 shares (2012: 264 shares) in Galenica Ltd., an associate investment of the Group, in lieu of fees for his services as a director. At 31 March 2013, S. Pessina owned 1,592 shares (2012: 1,315 shares) in Galenica Ltd.. On 1 January 2012, E. Jornod received 40,000 shares in Galenica Ltd. in lieu of director's fees for the period 1 January 2012 to 31 January 2016, and at 31 March 2013 he owned 47,261 shares (2012: 48,823 shares) in total in Galenica Ltd..

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 £41,000 (2012: one child £13,000).

Transactions with fellow subsidiaries of AB Acquisitions Holdings Limited
The Group has transacted with fellow subsidiaries of AB Acquisitions Holdings Limited during the current and prior years, all of which have been on arm's length bases. A summary of these transactions is as follows:

On 15 June 2012, the Group acquired the entire non controlling interest of 20% 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. The loan of £25.0 million was advanced to this fellow subsidiary under a committed loan facility in the year ended 31 March 2011. Finance income recorded in the income statement in relation to the loan in the current year was £0.4 million (2012: £1.6 million) and the cumulative amount of interest receivable at 15 June 2012 was £2.4 million (31 March 2012: £2.0 million).

On 1 November 2012, 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%. This 51% interest had previously been sold to the fellow subsidiary on 31 March 2012 for £3.0 million. At 31 March 2012, there was a net receivable due to the Group in respect of Alliance Boots Investments 1 Limited and its subsidiaries of £13.3 million which was repayable in 2014. In addition, the Group provided a Russian Rouble committed loan facility until 2014 equivalent to £30.0 million to the Russia business. No amounts were drawn down at 31 March 2012 under this facility.

During the year a Euro loan was advanced to a fellow subsidiary at arm's length interest rates which is due for repayment on 22 September 2013. At 31 March 2013 the amount due in respect of this loan was £56.5 million. Finance income recorded in the income statement in relation to the loan was £0.5 million and the cumulative amount of interest receivable at 31 March 2013 was £0.2 million. 51% of the amounts outstanding are guaranteed by a fellow subsidiary of AB Acquisitions Holdings Limited. In the prior year, £13 million was advanced to a fellow subsidiary which was repaid in full in that year.

At 31 March 2013, the Group owed £8.6 million (2012: £8.6 million) relating to a loan provided by a fellow subsidiary. Finance costs recorded in the income statement were £0.7 million (2012: £0.7 million) and the cumulative amount of interest payable at 31 March 2013 was £0.5 million (2012: £6.3 million). The loan is repayable in March 2014.

In the prior year, £0.9 million was received on behalf of a fellow subsidiary and was still held at 31 March 2012. The amount was repaid in full during the current year.

Trading transactions with associates which are also fellow subsidiaries of AB Acquisitions Holdings Limited are included within the table set out on page 118.

Transactions with Walgreen Co.
Following Walgreen Co.'s acquisition of a 45% equity stake in Alliance Boots GmbH on 2 August 2012, Walgreen Co. and its subsidiaries are related parties. Transactions with Walgreen Co. since 2 August 2012 (excluding Walgreens Boots Alliance Development GmbH which is a joint venture, transactions with which are disclosed at the end of this note), all of which are carried out on an arm's length basis were revenue of £3.5 million and the reimbursement of administrative costs of £2.5 million. At 31 March 2013, amounts due from Walgreen Co. were £2 million.

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

37 Related parties continued

Transactions with other related parties

As disclosed in the shareholder circular sent to the shareholders of Alliance Boots plc on 26 May 2007, Kohlberg Kravis Roberts & Co. L.P. and Alliance Participations Limited or their respective designees are each entitled to receive an annual monitoring fee. S. Pessina and O. Barra are directors of Alliance Participations Limited which is owned by a family trust. During the year, each party received £3.3 million (2012: £3.2 million), of which £0.8 million was outstanding to each at 31 March 2013 (2012: £0.8 million outstanding to each).

The Group, in its normal course of business, transacts with other entities controlled or significantly influenced by Kohlberg Kravis Roberts & Co. L.P.. All transactions are carried out on an arm's length basis.

During the year, the Group paid £0.3 million (2012: £0.3 million) for accounting services to an entity which is considered to be a related party by virtue of it being jointly controlled by a director of AB Acquisitions Holdings Limited. The transaction was on an arm's length basis.

At 31 March 2012, Walvis Limited and Walvis 2 Limited owned £84.7 million and £142.2 million respectively of the principal of the Group's senior and subordinated facilities loans. Walvis Limited and Walvis 2 Limited are both companies controlled by Dascoli Finance S.A.. S. Pessina is a director of Dascoli Finance S.A.. On 21 March 2013, the Group acquired these loans from Walvis Limited and Walvis 2 Limited respectively, at the prevailing market price of £247.6 million, compared to the principal, which included rolled up interest due when the loans themselves are repaid, of £247.1 million. In the prior year, Walvis 2 Limited acquired £106.2 million of the principal of the Group's senior facilities loans and the Group acquired £104.4 million of the principal of the Group's senior facilities loans from Walvis 2 Limited.

In previous years, the Group invested in profit participating notes issued by Walvis Limited and Walvis 2 Limited respectively, and at 31 March 2012, the Group's cumulative investment in these notes was £55.0 million and £99.9 million respectively. During the year, finance income recognised in the income statement in relation to these notes, which includes rolled up interest which is paid when the note itself is redeemed, was £14.1 million (2012: £15.4 million). At 31 March 2012, the carrying value of the Group's investment in these notes, including rolled up interest, was £171.6 million and, in addition, interest receivable was £11.1 million. During the year, the notes were redeemed for £193.1 million, giving rise to a gain on redemption of £13.9 million which was recognised in finance income, and all interest receivable was paid.

On 21 March 2013, the Group acquired £30.0 million of the principal of the Group's senior facilities loans at current market value of £29.5 million from AF Lux Finance S.A.. S. Pessina is a director of AF Lux Finance S.A.. At 31 March 2012, AF Lux Finance S.A. owned £30.0 million of the principal of the Group's senior facilities loans. During the year, £1.1 million (2012: £1.1 million) of finance costs were recorded in the income statement as payable to AF Lux Finance S.A., of which £nil was outstanding at 31 March 2013 (2012: £nil).

In the prior year, Dascoli Finance S.A. invested £2,718 in a subsidiary of the Group. S. Pessina is a director of Dascoli Finance S.A..

Walvis Verwaltungs GmbH owns a 1% controlling interest in a subsidiary of the Group. Walvis Verwaltungs GmbH is 100% owned by Alliance Santé Participations S.A.. S. Pessina and O. Barra are Directors of Alliance Santé Participations S.A..

Subsidiary undertakings
The Group's principal subsidiary undertakings, all of which are indirectly held, were:

	Percentage held by subsidiary undertakings	Percentage attributable to equity shareholders of the Company	Country of operation	Main activity
Health & Beauty Division				
Boots UK Limited	100	100	UK	Pharmacy-led health and beauty retailing
Boots Opticians Professional Services Limited	58.0	58.0	UK	Optical practices
Boots Norge A.S.	100	100	Norway	Pharmacy-led health and beauty retailing
Boots Retail (Ireland) Limited	100	100	Republic of Ireland	Pharmacy-led health and beauty retailing
Alliance Apotheek B.V.	100	100	The Netherlands	Retail pharmacy operator
Boots Retail (Thailand) Limited	100	100	Thailand	Pharmacy-led health and beauty retailing
Pharmaceutical Wholesale Division				
Alliance Healthcare France S.A.	99.8	99.8	France	Pharmaceutical wholesaling and distribution
Alliance Healthcare Deutschland AG	100	99.9	Germany	Pharmaceutical wholesaling and distribution
Alliance Healthcare (Distribution) Limited	100	100	UK	Pharmaceutical wholesaling and distribution
Hedef Ecza Deposu Ticaret A.S.	80.0	80.0	Turkey	Pharmaceutical wholesaling and distribution
Alliance Healthcare España S.A.	99.2	99.2	Spain	Pharmaceutical wholesaling and distribution
United Company of Pharmacists S.A.E.	50.0	40.0	Egypt	Pharmaceutical wholesaling and distribution
Alliance Healthcare Nederland B.V.	100	100	The Netherlands	Pharmaceutical wholesaling and distribution
Alliance Healthcare s.r.o.	97.1	97.1	Czech Republic	Pharmaceutical wholesaling and distribution
OOO Alliance Healthcare Rus	100	100	Russia	Pharmaceutical wholesaling and distribution
Farmexpert DCI S.A.	80.0	80.0	Romania	Pharmaceutical wholesaling and distribution
Alliance Healthcare Norge A.S.	100	100	Norway	Pharmaceutical wholesaling and distribution
Armila UAB	100	99.9	Lithuania	Pharmaceutical wholesaling and distribution
Contract Manufacturing				
BCM Limited	100	100	UK	Contract manufacturing

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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2013

37 Related parties continued

Associates and joint ventures

The Group's principal associates and joint ventures were:

	Percentage interest in ordinary share capital and voting rights	Percentage attributable to equity shareholders of the Company	Country of operation	Main activity
Associates				
Alliance Healthcare Italia S.p.a.	49.0	49.0	Italy	Pharmaceutical wholesaling and distribution and retail pharmacy operator
Alliance Healthcare S.A.	49.0	49.0	Portugal	Pharmaceutical wholesaling and distribution
Hydra Pharm SPA	30.0	18.0	Algeria	Pharmaceutical wholesaling and distribution
Oktal Pharma d.o.o.	49.0	49.0	Croatia	Pharmaceutical wholesaling and distribution
Galenica Ltd.[1]	25.5	25.5	Switzerland	Pharmaceutical manufacturing, pharmaceutical wholesaling and distribution and retail pharmacy operator
Joint ventures				
Guangzhou Pharmaceuticals Corporation	50.0	50.0	China	Pharmaceutical wholesaling and distribution
Walgreens Boots Alliance Development GmbH	50.0	50.0	Switzerland	Development company to facilitate delivery of synergies

[1] All shares have the same voting rights, but the Group may not exercise more than 20% of the votes.

The respective countries of incorporation for the principal associates and joint ventures are the same as the country of operation.

The accounting reference dates of the principal associates and joint ventures are 31 December with the exception of Alliance Healthcare Italia S.p.a. whose accounting reference date is 31 March and Walgreens Boots Alliance Development GmbH whose accounting reference date is 31 January.

Transactions with associates and joint ventures, all of which are carried out on an arm's length basis were:

	2013		2012	
	Associates £million	**Joint ventures £million**	Associates £million	Joint ventures £million
Revenue	**20**	**9**	24	–
Purchases	**(33)**	**(1)**	(23)	–
Other income received from	**–**	**1**	–	1
Other charges from	**(3)**	**(1)**	–	–
Amounts due from	**4**	**7**	3	–
Amounts due to	**(1)**	**–**	(2)	–

38 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

Following the acquisition of Alliance Boots plc in 2007, 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.

39 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.

40 Events after the year end

On 10 May 2013, the Group distributed its entire 25.5% equity shareholding in Galenica Ltd. to its ultimate parent company, AB Acquisitions Holdings Limited.

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 AL '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
5 Samir Sayed Ahmed Street
El Manial
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 AL '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)495 787 0000
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

HydraPharm
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

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

Walgreens Boots Alliance Development
Untermattweg 8
CH-3027 Bern
Switzerland
Tel: +41 (0)58 852 8300
Web: www.wbadev.com

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 2012.

EBITDA
Trading profit before underlying depreciation and amortisation.

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.

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

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 (after tax)
Profit for the year before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

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.

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