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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended November 30, 2015

or

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

For the transition period from ____ to ____

Commission File Number
001-36759

WALGREENS BOOTS ALLIANCE, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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

60015
(Zip Code)

(847) 315-2500

(Registrant's telephone number, including area code)

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

Yes No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

The number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of December 31, 2015 was 1,078,746,871.

[TABLE OF CONTENTS](#)

WALGREENS BOOTS ALLIANCE, INC.

FORM 10-Q FOR THE QUARTER ENDED NOVEMBER 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Condensed Financial Statements (Unaudited)	2
a) Balance Sheets	2
b) Statement of Equity	3
c) Statements of Earnings	4
d) Statements of Comprehensive Income	5
e) Statements of Cash Flows	6
f) Notes to Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3. Quantitative and Qualitative Disclosure about Market Risk	48
Item 4. Controls and Procedures	49
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	50
Item 1A. Risk Factors	50
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 6. Exhibits	50

[TABLE OF CONTENTS](#)

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

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

(In millions, except per share amounts)

	November 30, 2015	August 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,570	\$ 3,000
Accounts receivable, net	6,821	6,849
Inventories	9,884	8,678
Other current assets	956	1,130
Total Current Assets	<u>20,231</u>	<u>19,657</u>
Non-Current Assets:		
Property, plant and equipment, at cost, less accumulated depreciation and amortization	14,878	15,068
Goodwill	16,195	16,372
Intangible assets	12,040	12,351
Other non-current assets	5,313	5,334
Total Non-Current Assets	<u>48,426</u>	<u>49,125</u>
Total Assets	<u>\$ 68,657</u>	<u>\$ 68,782</u>
Liabilities and Equity		
Current Liabilities:		
Short-term borrowings	\$ 1,083	\$ 1,068
Trade accounts payable	10,643	10,088
Accrued expenses and other liabilities	4,886	5,225
Income taxes	262	176
Total Current Liabilities	<u>16,874</u>	<u>16,557</u>
Non-Current Liabilities:		
Long-term debt	13,194	13,315
Deferred income taxes	3,313	3,538
Other non-current liabilities	4,122	4,072
Total Non-Current Liabilities	<u>20,629</u>	<u>20,925</u>
Commitments and Contingencies (see Note 13)		
Equity:		
Preferred stock \$.01 par value; authorized 32 million shares, none issued	—	—
Common stock \$.01 par value; authorized 3.2 billion shares; issued 1,172,513,618 at November 30, 2015 and August 31, 2015	12	12
Paid-in capital	9,997	9,953
Employee stock loan receivable	(2)	(2)
Retained earnings	25,806	25,089
Accumulated other comprehensive (loss) income	(658)	(214)
Treasury stock, at cost; 86,857,537 shares at November 30, 2015 and 82,603,274 at August 31, 2015	<u>(4,446)</u>	<u>(3,977)</u>
Total Walgreens Boots Alliance, Inc. Shareholders' Equity	30,709	30,861
Noncontrolling interests	445	439
Total Equity	<u>31,154</u>	<u>31,300</u>
Total Liabilities and Equity	<u>\$ 68,657</u>	<u>\$ 68,782</u>

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

[TABLE OF CONTENTS](#)

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF EQUITY
(UNAUDITED)
For the three month period ended November 30, 2015
(In millions, except per share amounts)

Equity attributable to Walgreens Boots Alliance, Inc.									
	Common Stock Shares	Common Stock Amount	Treasury Stock Amount	Paid-In Capital	Employee Stock Loan Receivable	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total Equity
August 31, 2015	1,089,910,344	\$ 12	\$ (3,977)	\$ 9,953	\$ (2)	\$ (214)	\$ 25,089	\$ 439	\$ 31,300
Net earnings	—	—	—	—	—	—	1,110	7	1,117
Other comprehensive income (loss), net of tax	—	—	—	—	—	(444)	—	(1)	(445)
Dividends declared (\$0.36 per share)	—	—	—	—	—	—	(393)	—	(393)
Treasury stock purchases	(6,386,371)	—	(529)	—	—	—	—	—	(529)
Employee stock purchase and option plans	2,132,108	—	60	13	—	—	—	—	73
Stock-based compensation	—	—	—	31	—	—	—	—	31
November 30, 2015	1,085,656,081	\$ 12	\$ (4,446)	\$ 9,997	\$ (2)	\$ (658)	\$ 25,806	\$ 445	\$ 31,154

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

[TABLE OF CONTENTS](#)

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(UNAUDITED)
(In millions, except per share amounts)

	<u>Three Months Ended November 30,</u>	
	<u>2015</u>	<u>2014</u>
Net sales	\$ 29,033	\$ 19,554
Cost of sales	21,531	14,258
Gross Profit	7,502	5,296
Selling, general and administrative expenses	6,034	4,456
Equity earnings in Alliance Boots	—	214
Operating Income	1,468	1,054
Other income (expense)	(57)	199
Earnings Before Interest and Income Tax Provision	1,411	1,253
Interest expense, net	138	55
Earnings Before Income Tax Provision	1,273	1,198
Income tax provision	167	321
Post tax earnings from equity method investments	11	—
Net Earnings	1,117	877
Net earnings attributable to noncontrolling interests	7	27
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	<u>\$ 1,110</u>	<u>\$ 850</u>
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – basic	\$ 1.02	\$ 0.90
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted	\$ 1.01	\$ 0.89
Dividends declared per share	<u>\$ 0.3600</u>	<u>\$ 0.3375</u>
Average shares outstanding	1,089.0	945.8
Dilutive effect of stock options	9.6	10.2
Average diluted shares	<u>1,098.6</u>	<u>956.0</u>

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

[TABLE OF CONTENTS](#)

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

	<u>Three Months Ended November 30,</u>	
	<u>2015</u>	<u>2014</u>
Comprehensive Income		
Net Earnings	\$ 1,117	\$ 877
Other comprehensive income (loss), net of tax:		
Pension/postretirement obligations	3	(1)
Unrealized gain (loss) on cash flow hedges	1	(12)
Unrecognized gain (loss) on available-for-sale investments	1	99
Share of other comprehensive income (loss) of Alliance Boots	—	21
Currency translation adjustments	(450)	(189)
Total Other Comprehensive Income (Loss)	<u>(445)</u>	<u>(82)</u>
Total Comprehensive Income	672	795
Comprehensive income attributable to noncontrolling interests	<u>6</u>	<u>27</u>
Comprehensive Income Attributable to Walgreens Boots Alliance, Inc.	<u>\$ 666</u>	<u>\$ 768</u>

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

[TABLE OF CONTENTS](#)

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

	Three Months Ended November 30,	
	2015	2014
Cash Flows from Operating Activities :		
Net earnings	\$ 1,117	\$ 877
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation and amortization	382	319
Change in fair value of warrants and related amortization	57	(296)
Deferred income taxes	(158)	58
Stock compensation expense	31	31
Equity earnings from equity method investments	(11)	(214)
Other	115	94
Changes in operating assets and liabilities -		
Accounts receivable, net	(166)	(353)
Inventories	(1,306)	(436)
Other current assets	(38)	(20)
Trade accounts payable	740	874
Accrued expenses and other liabilities	(329)	(80)
Income taxes	231	204
Other non-current assets and liabilities	67	(27)
Net cash provided by operating activities	<u>732</u>	<u>1,031</u>
Cash Flows from Investing Activities :		
Additions to property, plant and equipment	(340)	(335)
Proceeds from sale leaseback transactions	54	291
Proceeds related to sale of business	43	—
Proceeds from sale of other assets	40	3
Business and intangible asset acquisitions, net of cash received	(72)	(13)
Purchases of short-term investments held to maturity	(25)	(17)
Proceeds from short-term investments held to maturity	25	16
Other	4	—
Net cash used for investing activities	<u>(271)</u>	<u>(55)</u>
Cash Flows from Financing Activities :		
Proceeds from short-term borrowings, net	52	—
Proceeds from issuance of long-term debt	—	10,020
Payments of long-term debt	(41)	—
Stock purchases	(529)	(500)
Proceeds related to employee stock plans	71	112
Cash dividends paid	(393)	(322)
Other	(13)	(61)
Net cash (used for) provided by financing activities	<u>(853)</u>	<u>9,249</u>
Effect of exchange rate changes on cash and cash equivalents	(38)	(10)
Changes in Cash and Cash Equivalents :		
Net (decrease) increase in cash and cash equivalents	(430)	10,215
Cash and cash equivalents at beginning of period	<u>3,000</u>	<u>2,646</u>
Cash and cash equivalents at end of period	<u>\$ 2,570</u>	<u>\$ 12,861</u>

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



[TABLE OF CONTENTS](#)

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

Note 1. Organization

Walgreens Boots Alliance, Inc. (“Walgreens Boots Alliance”) and subsidiaries are a global pharmacy-led health and wellbeing enterprise. Its operations are conducted through three reportable segments (Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale). See Note 19, Segment Reporting for further information.

On December 31, 2014, Walgreens Boots Alliance became the successor of Walgreen Co. (“Walgreens”) pursuant to a merger designed to effect a reorganization of Walgreens into a holding company structure (the “Reorganization”). Pursuant to the Reorganization, Walgreens became a wholly-owned subsidiary of Walgreens Boots Alliance, a Delaware corporation formed for the purposes of the Reorganization, and each issued and outstanding share of Walgreens common stock converted on a one-to-one basis into Walgreens Boots Alliance common stock. References to the “Company” refer to Walgreens Boots Alliance and its subsidiaries from and after the effective time of the Reorganization on December 31, 2014 and, prior to that time, to the predecessor registrant Walgreens and its subsidiaries, except as otherwise indicated or the context otherwise requires.

On December 31, 2014, following the completion of the Reorganization, Walgreens Boots Alliance completed the acquisition of the remaining 55% of Alliance Boots GmbH (“Alliance Boots”) that Walgreens did not previously own (the “Second Step Transaction”) in exchange for £3.133 billion in cash and approximately 144.3 million shares of Walgreens Boots Alliance common stock. Alliance Boots became a consolidated subsidiary and ceased being accounted for under the equity method immediately upon completion of the Second Step Transaction. For financial reporting and accounting purposes, Walgreens Boots Alliance was the acquirer of Alliance Boots. The consolidated financial statements (and other data) reflect the results of operations and financial position of Walgreens and its subsidiaries for periods prior to December 31, 2014 and of Walgreens Boots Alliance and its subsidiaries for periods from and after the effective time of the Reorganization on December 31, 2014.

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

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

Note 2. Accounting Policies

Basis of Presentation

The consolidated condensed financial statements of Walgreens Boots Alliance included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. The consolidated condensed financial statements include all subsidiaries in which the Company holds a controlling interest. Investments in less than majority-owned subsidiaries in which the Company does not have a controlling interest, but does have significant influence, are accounted for as equity method investments. All intercompany transactions have been eliminated.

TABLE OF CONTENTS

The Consolidated Condensed Balance Sheet as of November 30, 2015, the Consolidated Condensed Statement of Equity for the three-month period ended November 30, 2015, and the Consolidated Condensed Statements of Earnings, the Consolidated Condensed Statements of Comprehensive Income and the Consolidated Condensed Statements of Cash Flows for the three-month periods ended November 30, 2015 and 2014, have been prepared without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited consolidated condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Walgreens Boots Alliance Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

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

The preparation of financial statements in accordance with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. The Company bases its estimates on the information available at the time, its experience and on various other assumptions believed to be reasonable under the circumstances. Adjustments may be made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. Actual results may differ. For a discussion of the Company’s significant accounting policies, please see the Walgreens Boots Alliance Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

Note 3. Change in Accounting Policy

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

In accordance with ASC Topic 810, Consolidation, a change to eliminate a previously existing reporting lag is considered a change in accounting principle in accordance with ASC Topic 250, Accounting Changes and Error Corrections. Changes in accounting principles are to be reported through retrospective application of the new principle to all prior financial statement periods presented. Accordingly, the consolidated condensed financial statements have been recast to reflect the period specific effects of eliminating the three-month reporting lag.

TABLE OF CONTENTS

The elimination of the three-month reporting lag for the equity investment in Alliance Boots resulted in the adjustments as of and for the periods indicated below (in millions, except per share amounts).

	Three Months Ended November 30, 2014		
	As Reported	Adjustments	After Change in Accounting Principle
Consolidated Condensed Statements of Earnings			
Equity earnings in Alliance Boots	\$ 151	\$ 63	\$ 214
Operating Income	991	63	1,054
Earnings Before Income Tax Provision	1,135	63	1,198
Income tax provision	299	22	321
Net Earnings	836	41	877
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	809	41	850
Net earnings per common share attributable to Walgreens Boots Alliance, Inc.			
– basic	0.86	0.04	0.90
Net earnings per common share attributable to Walgreens Boots Alliance, Inc.			
– diluted	0.85	0.04	0.89

Consolidated Condensed Statements of Comprehensive Income			
Net Earnings	836	41	877
Share of other comprehensive income (loss) of Alliance Boots	(10)	31	21
Cumulative translation adjustments	(32)	(157)	(189)
Total Other Comprehensive Income	44	(126)	(82)
Total Comprehensive Income	880	(85)	795
Comprehensive Income Attributable to Walgreens Boots Alliance, Inc.	\$ 853	\$ (85)	\$ 768

	Three Months Ended November 30, 2014		
	As Reported	Adjustments	After Change in Accounting Principle
Consolidated Condensed Statement of Cash Flows			
Cash Flows from Operating Activities:			
Net earnings	\$ 836	\$ 41	\$ 877
Deferred income taxes	36	22	58
Equity earnings in Alliance Boots	(151)	(63)	(214)

The cumulative effect of eliminating the three-month reporting lag was recorded as an after-tax increase to retained earnings of \$98 million as of September 1, 2014, the first day of the Company's 2015 fiscal year.

Note 4. Restructuring

On April 8, 2015, the Walgreens Boots Alliance Board of Directors approved a plan to implement a new restructuring program (the "Cost Transformation Program") as part of an initiative to reduce costs and increase operating efficiencies. The Cost Transformation Program included plans to close approximately 200 stores across the U.S.; reorganize corporate and field operations; drive operating efficiencies; and streamline information technology and other functions. The actions under the Cost Transformation Program focus primarily on the Company's Retail Pharmacy USA segment, but includes activities from all segments and are expected to be substantially complete by the end of the Company's 2017 fiscal year. The Company estimates that it will recognize cumulative pre-tax charges to its GAAP financial results of between \$1.6 billion and \$1.8 billion, including costs associated with lease obligations and other real estate payments, asset impairments and employee termination and other business transition and exit costs. The Company expects to incur pre-tax charges of between \$525 million and \$600 million for real estate costs, including lease obligations (net of estimated sublease income); between \$650 million and \$725 million for asset impairment charges relating primarily to asset write-offs from store closures, information technology, inventory and other non-operational real estate asset

TABLE OF CONTENTS

write-offs; and between \$425 million and \$475 million for employee severance and other business transition and exit costs. The Company incurred pre-tax charges of \$90 million (\$52 million related to real estate costs, \$25 million in asset impairment charges and \$13 million in severance and other business transition and exit costs) related to the Cost Transformation Program during the three months ended November 30, 2015. No charges were incurred with respect to the Cost Transformation Program in the three months ended November 30, 2014. From inception through November 30, 2015, the Company incurred pre-tax charges of \$632 million (\$254 million in real estate costs, \$248 million related to asset impairment charges and \$130 million in severance and other business transition and exit costs) related to the Cost Transformation Program. All charges related to the Cost Transformation Program have been recorded within selling, general and administrative expenses. As the program is implemented, the restructuring charges will be recognized as the costs are incurred over time in accordance with GAAP.

In March 2014, the Walgreens Board of Directors approved a plan to close underperforming stores in efforts to optimize and focus resources within the Company's Retail Pharmacy USA segment in a manner intended to increase stockholder value. As of August 31, 2015, this plan was completed and no additional charges related to the plan are expected. For the three months ended November 30, 2014, the Company incurred pre-tax charges of \$17 million, which were primarily related to lease termination costs. All charges related to this plan have been recorded within selling, general and administrative expenses.

Restructuring costs by segment are as follows (in millions):

	<u>Retail Pharmacy</u>		<u>Pharmaceutical</u>	<u>Consolidated</u>
	<u>USA</u>	<u>International</u>	<u>Wholesale</u>	
Three Months Ended November 30, 2015				
Real estate costs	\$ 52	\$ —	\$ —	\$ 52
Asset impairments	25	—	—	25
Severance and other business transition and exit costs	8	5	—	13
Total restructuring costs	<u>\$ 85</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 90</u>
Three Months Ended November 30, 2014				
Real estate costs	\$ 17	\$ —	\$ —	\$ 17
Asset impairments	—	—	—	—
Severance and other business transition and exit costs	—	—	—	—
Total restructuring costs	<u>\$ 17</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17</u>

Note 5. Leases

Initial terms for leased premises in the U.S. are typically 15 to 25 years, followed by additional terms containing renewal options at five-year intervals, and may include rent escalation clauses. Non-U.S. leases are typically for shorter terms and may include cancellation clauses or renewal options. The commencement date of all lease terms is the earlier of the date the Company becomes legally obligated to make rent payments or the date the Company has the right to control the property. The Company recognizes rent expense on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, some leases provide for contingent rentals based upon a portion of sales.

The Company continuously evaluates its real estate portfolio in conjunction with its capital needs. The Company has entered into several sale-leaseback transactions. For the three-month periods ended November 30, 2015 and 2014, the Company recorded proceeds from sale-leaseback transactions of \$54 million and \$291 million, respectively.

The Company provides for future costs related to closed locations. The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. During the three-month period ended November 30, 2015, the Company recorded charges of \$66 million for facilities that were closed or relocated under long-term leases, including stores closed through the Company's restructuring activities. This compares to \$26 million for the three-month period ended November 30, 2014. These charges are reported in selling, general and administrative expenses on the Consolidated Condensed Statements of Earnings.

TABLE OF CONTENTS

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

	November 30, 2015	August 31, 2015
Balance – beginning of period	\$ 446	\$ 257
Provision for present value of non-cancellable lease payments on closed facilities	70	231
Assumptions about future sublease income, terminations and changes in interest rates	(9)	(6)
Interest accretion	5	27
Liability assumed through acquisition of Alliance Boots	—	13
Cash payments, net of sublease income	(26)	(76)
Balance – end of period	<u>\$ 486</u>	<u>\$ 446</u>

The Company remains secondarily liable on 71 leases. The maximum potential undiscounted future payments are \$347 million at November 30, 2015. Lease option dates vary, with some extending to 2039.

Note 6. Equity Method Investments

Equity method investments as of November 30, 2015 and August 31, 2015 were as follows (in millions, except percentages):

	November 30, 2015		August 31, 2015	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Equity method investments	<u>\$ 1,240</u>	12% - 50%	<u>\$ 1,242</u>	12% - 50%

Equity method investments primarily relate to the Company's investments in Guangzhou Pharmaceuticals Corporation and Nanjing Pharmaceutical Corporation Limited, the Company's pharmaceutical wholesale investments in China and the Company's investment in Option Care Inc., which it retained through the sale of a majority interest in Walgreens Infusion Services in April 2015. Also included are additional investments in pharmaceutical wholesaling and distribution, retail pharmacy and the Company's hearing care operator and the equity method investment retained through the sale of a majority interest in Take Care Employer in fiscal 2014. Equity method investments of the Company are recorded within other non-current assets on the Consolidated Condensed Balance Sheets. The Company reported \$11 million of post-tax equity earnings in equity method investments for the three-month period ended November 30, 2015 in the Consolidated Condensed Statements of Earnings. For the three-month period ended November 30, 2014, the Company reported equity earnings in Alliance Boots of \$214 million as its own line in the Consolidated Condensed Statements of Earnings. Post-tax equity earnings from the historical Walgreens equity method investments other than Alliance Boots for the three-month period ended November 30, 2014 were immaterial.

Summarized Financial Information

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

Balance Sheet s (in millions)

	November 30, 2015 ⁽¹⁾		August 31, 2015 ⁽¹⁾	
Current assets	\$	5,321	\$	5,015
Noncurrent assets		1,546		1,548
Current liabilities		4,255		3,936
Noncurrent liabilities		801		837
Shareholders' equity ⁽²⁾		1,811		1,790

TABLE OF CONTENTS

Statements of Earnings (in millions)

	Three Months Ended November 30,	
	2015 ⁽³⁾	2014 ^{(3) (4)}
Net sales	\$ 3,203	\$ 9,661
Gross Profit	328	2,189
Net Income	24	498
Share of income from equity method investments ⁽³⁾	11	216

- (1) Net assets in foreign equity method investments are translated at their respective November 30, 2015 and August 31, 2015 spot rates.
- (2) Shareholders' equity at November 30, 2015 and August 31, 2015 includes \$165 million and \$163 million respectively, related to noncontrolling interests.
- (3) Earnings in foreign equity method investments are translated at their respective average exchange rates.
- (4) Includes equity method investment in Alliance Boots. See Note 1, Organization.

Note 7. Available-for-Sale Investments

Walgreens, Alliance Boots and AmerisourceBergen Corporation ("AmerisourceBergen") entered into a Framework Agreement dated as of March 18, 2013, pursuant to which Walgreens and Alliance Boots together were granted the right to purchase a minority equity position in AmerisourceBergen, beginning with the right, but not the obligation, to purchase up to 19,859,795 shares of AmerisourceBergen common stock in open market transactions.

In conjunction with its long-term relationship with AmerisourceBergen, as of November 30, 2015, the Company held 11.5 million shares, approximately 5.6% of AmerisourceBergen's outstanding common stock, at a total fair value of \$1.1 billion. The Company did not acquire any AmerisourceBergen common shares in the three-month period ended November 30, 2015. The Company's cumulative cost basis of AmerisourceBergen shares acquired was \$717 million as of November 30, 2015.

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

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

	November 30, 2015			
	Amortized cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
AmerisourceBergen common stock	\$ 717	\$ 414	\$ —	\$ 1,131
Other investments	35	—	(2)	33
Total available-for-sale investments	<u>\$ 752</u>	<u>\$ 414</u>	<u>\$ (2)</u>	<u>\$ 1,164</u>
	August 31, 2015			
	Amortized cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
AmerisourceBergen common stock	\$ 717	\$ 430	\$ —	\$ 1,147
Other investments	37	—	(1)	36
Total available-for-sale investments	<u>\$ 754</u>	<u>\$ 430</u>	<u>\$ (1)</u>	<u>\$ 1,183</u>

TABLE OF CONTENTS

For the three-month period ended November 30, 2015, there were \$2 million of available-for-sale securities sold. There were no sales of available-for-sale investments for the three-month period ended November 30, 2014.

The Company has \$33 million of other available-for-sale investments classified within other current assets in the Consolidated Condensed Balance Sheets as of November 30, 2015.

Note 8. Acquisitions

Alliance Boots

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

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

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

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

	<u>Amount</u>
Consideration attributable to WBAD	\$ 2,559
Less: Carrying value of the Company's pre-existing noncontrolling interest	130
Impact to additional paid in capital	<u>\$ 2,429</u>

As of November 30, 2015, the Company had not completed the analysis to assign fair values to all tangible and intangible assets acquired, and therefore the purchase price allocation for Alliance Boots and WBAD has not been completed. The preliminary purchase price allocation will be subject to further refinement and may result in material changes. These changes are likely to primarily relate to the allocation of consideration and the fair value assigned to all tangible and intangible assets acquired and identified. The following table summarizes the consideration paid to acquire the remaining 55% interest in Alliance Boots and the preliminary amounts of identified assets acquired and liabilities assumed at the date of the Second Step Transaction (in millions).

Consideration paid	
Cash	\$ 4,874
Common stock	<u>10,977</u>
Total consideration transferred	15,851
Less: consideration attributed to WBAD	<u>(2,559)</u>
	13,292
Fair value of the investment in Alliance Boots held before the Second Step Transaction	<u>8,149</u>
Total consideration	<u>\$ 21,441</u>

[TABLE OF CONTENTS](#)

Identifiable assets acquired and liabilities assumed including noncontrolling interests	
Cash and cash equivalents	\$ 413
Accounts receivable	3,799
Inventories	3,713
Other current assets	894
Property, plant and equipment	3,847
Intangible assets	11,691
Other non-current assets	2,218
Trade accounts payable, accrued expenses and other liabilities	(7,711)
Borrowings	(9,010)
Deferred income taxes	(2,461)
Other non-current liabilities	(389)
Noncontrolling interests	(412)
Total identifiable net assets and noncontrolling interests	6,592
Goodwill	<u>\$ 14,849</u>

As a result of the Company acquiring the remaining 55% interest in Alliance Boots, the Company's previously held 45% interest was re-measured to fair value, resulting in a gain of \$563 million as of November 30, 2015. The gain has been previously recognized as Gain on previously held equity interest in the Consolidated Statements of Earnings for the fiscal year ended August 31, 2015. This gain is preliminary and may be subject to change as the Company finalizes purchase accounting.

The fair value of the previously held equity interest of \$8.1 billion in Alliance Boots was determined using the income approach methodology. The fair value for trade names and trademarks was determined using the relief from royalty method of the income approach; pharmacy licenses and customer relationships were determined using the excess earnings method of the income approach; and loyalty card holders were determined using the incremental cash flow method, which is a form of the income approach. Personal property fair values were determined primarily using the indirect cost approach, while real property fair values were determined using the income, market and/or cost approach. The fair value measurements of the previously held equity interest and intangible assets are based on significant inputs not observable in the market, and thus represent Level 3 measurements. The fair value estimates for the previously held equity interest and intangible assets are based on (a) projected discounted cash flows, (b) historical and projected financial information, (c) synergies including cost savings, and (d) attrition rates, as relevant, that market participants would consider when estimating fair values.

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

Definite-Lived Intangible Assets	Weighted-Average Useful Life (in years)	Amount (in millions)
Customer relationships	12	\$ 1,311
Loyalty card holders	20	742
Trade names and trademarks	9	399
Favorable lease interests	7	93
Total		<u>\$ 2,545</u>
Indefinite-Lived Intangible Assets		Amount (in millions)
Trade names and trademarks		\$ 6,657
Pharmacy licenses		2,489
Total		<u>\$ 9,146</u>

The preliminary goodwill of \$14.8 billion arising from the Second Step Transaction primarily reflects the expected purchasing synergies, operating efficiencies by benchmarking performance and applying best practices across the combined company, consolidation of operations, reductions in selling, general and administrative expenses and combining workforces.

TABLE OF CONTENTS

Following the completion of the Second Step Transaction, the Company realigned its operations into three reportable segments: Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale. The Company determined that the preliminary goodwill should be allocated across all segments recognizing that each segment will benefit from the expected synergies.

The preliminary goodwill allocated to the Retail Pharmacy USA segment of \$7.3 billion comprises \$3.5 billion of synergy benefits allocable to the segment on a source of procurement benefit basis and \$3.8 billion determined on a “with-and-without” basis. The source of procurement benefit basis allocates the synergy benefits to the segment whose purchase gave rise to the benefit. The “with-and-without” basis computes the difference between the fair value of the pre-existing business before the combination and its fair value after the combination, and since the pre-existing Walgreens business is now within the Retail Pharmacy USA segment, all of this difference is allocated to this segment. The “with-and-without” computation recognized that if the Second Step Transaction did not happen, then this was likely to negatively impact the existing Walgreens business, which already had a 45% interest in Alliance Boots, as the expected purchasing synergies and other benefits resulting from a full combination would not be fully realized.

Of the remaining preliminary goodwill, \$3.9 billion was allocated to the Retail Pharmacy International segment and \$3.6 billion was allocated to the Pharmaceutical Wholesale segment. The allocation of the goodwill to the individual reporting units within the respective segments has not been completed. Substantially all of the goodwill recognized is not expected to be deductible for income tax purposes.

The Company incurred legal and other professional services costs related to the Second Step Transaction, which were included in selling, general and administrative expenses, of \$87 million in fiscal 2015 (\$24 million in the three months ended November 30, 2014). No costs related to the Second Step Transaction were incurred in the three month period ended November 30, 2015.

The preliminary fair value of the assets acquired includes inventory having an estimated fair value of \$3.7 billion. This fair value includes a \$107 million fair value adjustment to capitalize the estimated profit in acquired finished goods inventory as of the date of the Second Step Transaction, which was expensed to cost of sales over the first inventory turn.

The following table presents supplemental unaudited condensed pro forma consolidated information for the three months ended November 30, 2014 as if the Second Step Transaction had occurred on September 1, 2014, the first day of the Company’s 2015 fiscal year. As described in Note 3, Change in Accounting Policy, the information has been presented without a lag. The unaudited condensed pro forma information reflect certain adjustments related to past operating performance and acquisition accounting adjustments, such as increased amortization expense based on the fair valuation of assets acquired, the impact of acquisition financing, transaction costs and the related income tax effects. The unaudited condensed pro forma information does not include any anticipated synergies that may be achievable subsequent to the date of the Second Step Transaction. The unaudited condensed pro forma information also excludes certain non-recurring items such as transaction related costs. Accordingly, the unaudited condensed pro forma information has been prepared for comparative purposes only and is not intended to be indicative of what the Company’s results would have been had the Second Step Transaction occurred at the beginning of the periods presented or the results which may occur in the future.

	<u>Three Months</u> <u>Ended November 30 ,</u> <u>2014</u>	
(in millions, except per share amounts)		
Net sales	\$	28,971
Net earnings		1,375
Net earnings per common share:		
Basic	\$	1.25
Diluted		1.24

Other Acquisitions

The aggregate purchase price of all businesses, net of cash received was \$72 million for the three-month period ended November 30, 2015. These acquisitions added \$24 million to goodwill and \$53 million to intangible assets, primarily an international beauty brand and the purchase of prescription files. The remaining fair value

TABLE OF CONTENTS

relates to immaterial amounts of tangible assets, less liabilities assumed. Operating results of the businesses acquired have been included in the Consolidated Condensed Statements of Earnings from their respective acquisition dates forward. Pro forma results of the Company, assuming all of the other acquisitions had occurred at the beginning of each period presented, would not be materially different from the results reported.

Note 9. Goodwill and Other Intangible Assets

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

	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Total
August 31, 2015	\$ 8,940	\$ 3,898	\$ 3,534	\$ 16,372
Acquisitions	—	24	—	24
Other ⁽¹⁾	—	(3)	—	(3)
Currency translation adjustments	—	(100)	(98)	(198)
November 30, 2015	\$ 8,940	\$ 3,819	\$ 3,436	\$ 16,195

(1) Other primarily represents immaterial purchase accounting adjustment for prior year company acquisitions.

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

	November 30, 2015	August 31, 2015
Gross Amortizable Intangible Assets		
Customer relationships	\$ 1,344	\$ 1,409
Purchased prescription files	899	885
Loyalty card holders	718	730
Trade names and trademarks	783	675
Favorable lease interests	459	440
Non-compete agreements	157	154
Purchasing and payer contracts	94	94
Total gross amortizable intangible assets	4,454	4,387
Accumulated amortization		
Customer relationships	157	132
Purchased prescription files	505	470
Loyalty card holders	34	41
Trade names and trademarks	97	83
Favorable lease interests	225	207
Non-compete agreements	100	92
Purchasing and payer contracts	67	65
Total accumulated amortization	1,185	1,090
Total amortizable intangible assets, net	\$ 3,269	\$ 3,297
Indefinite Lived Intangible Assets		
Trade names and trademarks	\$ 6,363	\$ 6,590
Pharmacy licenses	2,408	2,464
Total indefinite lived intangible assets	\$ 8,771	\$ 9,054
Total intangible assets, net	\$ 12,040	\$ 12,351

Amortization expense for intangible assets was \$92 million and \$69 million for the three-month periods ended November 30, 2015 and November 30, 2014, respectively.

Estimated annual amortization expense for intangible assets recorded at November 30, 2015 is as follows (in millions):

	2016	2017	2018	2019	2020
Estimated annual amortization expense	\$ 408	\$ 364	\$ 318	\$ 291	\$ 237

[TABLE OF CONTENTS](#)

Note 10. Short-Term Borrowings and Long-Term Debt

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

	November 30, 2015	August 31, 2015
Short-Term Borrowings ⁽¹⁾		
Unsecured variable rate notes due 2016	\$ 749	\$ 747
Other ⁽²⁾	334	321
Total short-term borrowings	<u>\$ 1,083</u>	<u>\$ 1,068</u>
Long-Term Debt ⁽¹⁾		
Unsecured Pound Sterling variable rate term loan due 2019 ⁽³⁾	\$ 2,178	\$ 2,229
1.750% unsecured notes due 2017	746	746
5.250% unsecured notes due 2019 ⁽⁴⁾	251	250
2.700% unsecured notes due 2019	1,243	1,243
2.875% unsecured Pound Sterling notes due 2020 ⁽³⁾	598	612
3.300% unsecured notes due 2021	1,241	1,241
3.100% unsecured notes due 2022	1,193	1,193
3.800% unsecured notes due 2024	1,985	1,985
3.600% unsecured Pound Sterling notes due 2025 ⁽³⁾	449	459
2.125% unsecured Euro notes due 2026 ⁽⁵⁾	788	836
4.500% unsecured notes due 2034	494	494
4.400% unsecured notes due 2042	492	492
4.800% unsecured notes due 2044	1,491	1,491
Other ⁽⁶⁾	45	44
Total long-term debt	<u>\$ 13,194</u>	<u>\$ 13,315</u>

- (1) All notes are presented net of unamortized discount and debt issuance costs, where applicable.
- (2) Other short-term borrowings represent a mix of fixed and variable rate borrowings with various maturities and working capital facilities denominated in various foreign currencies including bank overdrafts.
- (3) Pound Sterling denominated notes are translated at the November 30, 2015 spot rate of \$1.50 to one British Pound Sterling.
- (4) Also includes interest rate swap fair market value adjustments. See Note 12, Fair Value Measurements for additional fair value disclosures.
- (5) Euro denominated notes are translated at the November 30, 2015 spot rate of \$1.06 to one Euro.
- (6) Other long-term debt represents a mix of fixed and variable rate borrowings in various foreign currencies with various maturities.

\$8.0 Billion Note Issuance

On November 18, 2014, Walgreens Boots Alliance received net proceeds (after deducting underwriting discounts and estimated offering expenses) of \$7.9 billion from a public offering of notes with varying maturities and interest rates, the majority of which are fixed rate. The notes are unsecured, unsubordinated debt obligations of Walgreens Boots Alliance and rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens Boots Alliance from time to time outstanding. The notes were fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Walgreens until August 10, 2015, when such guarantees were unconditionally released and discharged (as described below). Total issuance costs relating to the notes, including underwriting discounts and estimated offering expenses, were \$44 million. The fair value of the notes as of November 30, 2015 was \$7.8 billion. Fair value for these notes was determined based upon quoted market prices.

TABLE OF CONTENTS

The following table summarizes each tranche of notes issued:

<u>Notes Issued (in millions)</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Interest Payment Dates</u>
\$ 750	May 18, 2016	Variable; three-month U.S. dollar LIBOR, reset quarterly, plus 45 basis points	February 18, May 18, August 18, and November 18; commencing on February 18, 2015
750	November 17, 2017	Fixed 1.750%	May 17 and November 17; commencing on May 17, 2015
1,250	November 18, 2019	Fixed 2.700%	May 18 and November 18; commencing on May 18, 2015
1,250	November 18, 2021	Fixed 3.300%	May 18 and November 18; commencing on May 18, 2015
2,000	November 18, 2024	Fixed 3.800%	May 18 and November 18; commencing on May 18, 2015
500	November 18, 2034	Fixed 4.500%	May 18 and November 18; commencing on May 18, 2015
1,500	November 18, 2044	Fixed 4.800%	May 18 and November 18; commencing on May 18, 2015
<u>\$ 8,000</u>			

Redemption Option

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

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

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

Change in Control

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

TABLE OF CONTENTS

£ 700 Million and € 750 Million Notes Issuance

On November 20, 2014, Walgreens Boots Alliance issued three series of debt securities denominated in Euros and Pound Sterling in a public offering, each with varying maturities and interest rates. Interest on all notes is payable annually on November 20, commencing on November 20, 2015. The notes are unsecured, unsubordinated debt obligations of Walgreens Boots Alliance and rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens Boots Alliance from time to time outstanding. The notes were fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Walgreens until August 10, 2015, when such guarantees were unconditionally released and discharged (as described below). Total issuance costs relating to the notes, including underwriting discounts and estimated offering expenses, were \$11 million. The fair value of the notes as of November 30, 2015 was \$1.8 billion. Fair value for these notes was determined based upon quoted market prices.

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

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

Redemption Option

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

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

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

Change in Control

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

\$4.0 Billion Note Issuance

On September 13, 2012, Walgreens obtained net proceeds from a public offering of \$4.0 billion of notes with varying maturities and interest rates, the majority of which, at issuance, were fixed rate. The notes are unsecured senior debt obligations and rank equally with all other unsecured and unsubordinated indebtedness of Walgreens.

TABLE OF CONTENTS

On December 31, 2014, Walgreens Boots Alliance fully and unconditionally guaranteed the outstanding notes on an unsecured and unsubordinated basis. The guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of Walgreens Boots Alliance and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens Boots Alliance. Total issuance costs relating to the notes, including underwriting discounts and fees, were \$26 million. On August 10, 2015, the 1.8000% fixed rate notes due September 15, 2017 in the aggregate principal amount of \$1.0 billion were redeemed in full. The redemption price was equal to 101.677% of the aggregate principal amount of the notes redeemed, plus accrued interest thereon to, but excluding, the redemption date, and included a \$17 million make whole premium, which was recorded as interest expense on the Company's Consolidated Statements of Earnings. Additionally, the Company repaid the \$750 million 1.000% fixed rate notes on their March 13, 2015 maturity date and the \$550 million variable rate notes on their March 13, 2014 maturity date.

The following table details each tranche of outstanding notes as of November 30, 2015:

<u>Notes Issued (in millions)</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Interest Payment Dates</u>
\$ 1,200	September 15, 2022	Fixed 3.100%	March 15 and September 15; commencing on March 15, 2013
500	September 15, 2042	Fixed 4.400%	March 15 and September 15; commencing on March 15, 2013
<u>\$ 1,700</u>			

The fair value of the notes outstanding as of November 30, 2015 was \$1.6 billion. Fair value for these notes was determined based upon quoted market prices.

Redemption Option and Change in Control

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

\$1.0 Billion Note Issuance

On January 13, 2009, Walgreens issued notes totaling \$1.0 billion bearing an interest rate of 5.250% paid semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2009. The notes will mature on January 15, 2019. The notes are unsecured senior debt obligations and rank equally with all other unsecured senior indebtedness of Walgreens. On December 31, 2014, Walgreens Boots Alliance fully and unconditionally guaranteed the outstanding notes on an unsecured and unsubordinated basis. The guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of Walgreens Boots Alliance and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens Boots Alliance. The notes are not convertible or exchangeable. Total issuance costs relating to this offering, including underwriting discounts and fees, were \$8 million. On August 10, 2015, \$750 million aggregate principal amount of the notes were redeemed. The redemption price was equal to 111.734% of the aggregate principal amount of the notes redeemed plus accrued interest thereon to, but excluding, the redemption date; and included a \$88 million make whole premium, which was recorded as interest expense on the Company's Consolidated Statements of Earnings. The partial redemption of the notes resulted in \$250 million aggregate principal amount of the notes remaining outstanding. The fair value of the notes outstanding as of November 30, 2015 was \$269 million. Fair value for these notes was determined based upon quoted market prices.

TABLE OF CONTENTS

Redemption Option and Change in Control

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

Other Borrowings

The Company periodically borrows under its commercial paper program and may borrow under it in future periods. There were no commercial paper borrowings outstanding as of November 30, 2015 or November 30, 2014, respectively. The Company had no activity under its commercial paper program during the three-month periods ended November 30, 2015 and 2014, respectively.

On November 10, 2014, Walgreens Boots Alliance and Walgreens entered into a term loan credit agreement (the “Term Loan Agreement”), which provides Walgreens Boots Alliance and Walgreens with the ability to borrow up to £1.45 billion on an unsecured basis. Borrowings under the Term Loan Agreement bear interest at a fluctuating rate per annum equal to the reserve adjusted LIBOR plus an applicable margin based on the Company’s credit ratings. As of November 30, 2015, Walgreens Boots Alliance had borrowed £1.45 billion (\$2.2 billion at the November 30, 2015 spot rate of \$1.50 to £1) under the Term Loan Agreement. The fair value of the Term Loan Agreement as of November 30, 2015 was \$2.2 billion. Fair value of the borrowings under the Term Loan Agreement was determined based upon quoted market prices.

On November 10, 2014, Walgreens Boots Alliance and Walgreens entered into a five-year unsecured, multicurrency revolving credit agreement (the “Revolving Credit Agreement”), replacing prior Walgreens agreements dated July 20, 2011 and July 23, 2012. The new unsecured revolving credit agreement initially totaled \$2.25 billion, of which \$375 million was available for the issuance of letters of credit. On December 29, 2014, upon the affirmative vote of the majority of common shares of Walgreens represented and entitled to vote at the Walgreens special meeting of shareholders to approve the issuance of the shares necessary to complete the Second Step Transaction, the available credit increased to \$3.0 billion, of which \$500 million is available for the issuance of letters of credit. The issuance of letters of credit reduces the aggregate amount otherwise available under the Revolving Credit Agreement for the making of revolving loans. Borrowings under the Revolving Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance’s option, the alternate base rate or the reserve adjusted LIBOR, in each case, plus an applicable margin calculated based on the Company’s credit ratings. As of November 30, 2015, there were no borrowings or letters of credit issued pursuant to the Revolving Credit Agreement.

Total upfront fees related to the Term Loan Agreement and Revolving Credit Agreement were \$14 million. The Company pays a facility fee to the financing banks to keep these lines of credit active.

In accordance with the terms of each of the Term Loan Agreement and the Revolving Credit Agreement, Walgreens guaranteed the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all of Walgreens Boots Alliance’s obligations under the Term Loan Agreement and Revolving Credit Agreement, as applicable until August 10, 2015, when such guarantees automatically terminated, without penalty to Walgreens or Walgreens Boots Alliance, and the obligations of Walgreens thereunder were unconditionally released and discharged.

On December 19, 2014, Walgreens Boots Alliance and Walgreens entered into a Revolving Credit Agreement (as amended, the “364-Day Credit Agreement”) with the lenders party thereto. The 364-Day Credit Agreement was a \$750 million, 364-day unsecured, multicurrency revolving facility. On July 9, 2015, Walgreens Boots Alliance amended the 364-Day Credit Agreement to remove Walgreens as a borrower thereunder, eliminate Walgreens’ guarantee of all obligations of Walgreens Boots Alliance thereunder and make certain conforming changes to effectuate those modifications, including modifications and deletions of certain definitions and cross-references. As of November 30, 2015, there were no borrowings against the 364-Day Credit Agreement. On December 17, 2015, the Company terminated the 364-Day Credit Agreement. See Note 21, Subsequent Events for more information.

TABLE OF CONTENTS

The Term Loan Agreement, Revolving Credit Agreement and the 364-Day Revolving Credit Agreement each contain or contained a covenant to maintain, as of the last day of each fiscal quarter, a ratio of consolidated debt to total capitalization not to exceed 0.60 to 1.00, as well as other customary restrictive covenants.

On October 27, 2015, the Company entered into an Agreement and Plan of Merger with Rite Aid Corporation (“Rite Aid”) and Victoria Merger Sub, Inc., a wholly-owned subsidiary of the Company (the “Merger Agreement”). In connection with the Merger Agreement, the Company entered into a bridge facility commitment letter (as amended and restated as of November 19, 2015, the “Commitment Letter”), with UBS Securities LLC and UBS AG, Stamford Branch for a \$12.8 billion senior unsecured bridge facility. See Note 21, Subsequent Events for more information.

Note 11. Financial Instruments

The Company uses derivative instruments to manage its exposure to interest rate and foreign currency exchange risks.

The notional amounts, fair value and balance sheet presentation of derivative instruments outstanding as of November 30, 2015, excluding warrants which are presented separately in this footnote, were as follows (in millions):

	<u>Notional ⁽¹⁾</u>	<u>Fair Value</u>	<u>Location in Consolidated Condensed Balance Sheets</u>
Derivatives designated as fair value hedges :			
Interest rate swaps	\$ 250	\$ 3	Other non-current assets
Derivatives not designated as hedges :			
Foreign currency forwards	668	15	Other current assets
Foreign currency forwards	609	9	Other current liabilities
Basis swap	2	1	Other current liabilities

(1) Amounts are presented in U.S. dollar equivalents.

The notional amounts, fair value and balance sheet presentation of derivative instruments outstanding as of August 31, 2015, excluding warrants which are presented separately in this footnote, are as follows (in millions):

	<u>Notional ⁽¹⁾</u>	<u>Fair Value</u>	<u>Location in Consolidated Condensed Balance Sheets</u>
Derivatives designated as fair value hedges :			
Interest rate swaps	\$ 250	\$ 2	Other non-current assets
Derivatives not designated as hedges :			
Foreign currency forwards	1,205	34	Other current assets
Foreign currency forwards	495	9	Other current liabilities
Basis swap	1	—	Other current assets

(1) Amounts are presented in U.S. dollar equivalents.

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

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

Fair Value Hedges

The Company entered into a series of interest rate swaps, converting \$750 million of its 5.250% fixed rate notes to a floating interest rate based on the six-month LIBOR in arrears plus a constant spread and an interest rate swap converting \$250 million of its 5.250% fixed rate notes to a floating interest rate based on the one-month

TABLE OF CONTENTS

LIBOR in arrears plus a constant spread. All swap termination dates coincide with the notes maturity date, January 15, 2019. These swaps were designated as fair value hedges. On August 10, 2015, the Company terminated \$500 million of the six-month LIBOR in arrears swaps and all of the one-month LIBOR in arrears swaps in connection with the repayment of the associated debt as described in Note 10, Short-Term Borrowings and Long-Term Debt.

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

	Location in Consolidated Condensed Statements of Earnings	Three Months Ended November 30,	
		2015	2014
Interest rate swaps	Interest expense, net	\$ (1)	\$ (10)
Notes	Interest expense, net	1	10

The changes in fair value of the Company's debt that was swapped from fixed to variable rate and designated as fair value hedges are included in short-term and long-term debt on the Consolidated Condensed Balance Sheets (see Note 10, Short-Term Borrowings and Long-Term Debt). At November 30, 2015 and August 31, 2015, the cumulative fair value adjustments resulted in an increase in long-term debt of \$2 million and \$1 million, respectively. No material gains or losses were recorded from ineffectiveness during the three-month periods ended November 30, 2015 or 2014.

Derivatives not Designated as Hedges

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

	Location in Consolidated Condensed Statements of Earnings	Three Months Ended November 30,	
		2015	2014
Foreign currency forwards	Selling, general and administrative expense	\$ (2)	\$ 96

Warrants

The Company holds (a) warrants to purchase up to 22,696,912 shares of AmerisourceBergen common stock at an exercise price of \$51.50 per share, exercisable during a six-month period beginning in March 2016, and (b) warrants to purchase up to 22,696,912 shares of AmerisourceBergen common stock at an exercise price of \$52.50 per share, exercisable during a six-month period beginning in March 2017.

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

	Location in Consolidated Condensed Balance Sheets	November 30,	August 31,
		2015	2015
Asset derivatives not designated as hedges:			
Warrants	Other non-current assets	\$ 2,078	\$ 2,140

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

	Location in Consolidated Condensed Statements of Earnings	Three Months Ended November 30,	
		2015	2014
Warrants	Other income (expense)	\$ (62)	\$ 290

Derivatives Credit Risk

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

TABLE OF CONTENTS

Derivatives Offsetting

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

Note 12. Fair Value Measurements

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

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs other than quoted prices in active markets.

Level 3 - Unobservable inputs for which there is little or no market data available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

	<u>November 30, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets :				
Restricted cash ⁽¹⁾	\$ 171	\$ 171	\$ —	\$ —
Money market funds ⁽²⁾	1,190	1,190	—	—
Available-for-sale investments ⁽³⁾	1,164	1,164	—	—
Interest rate swaps ⁽⁴⁾	3	—	3	—
Foreign currency forwards ⁽⁵⁾	15	—	15	—
Warrants ⁽⁶⁾	2,078	—	2,078	—
Liabilities :				
Basis swaps ⁽⁵⁾	1	—	1	—
Foreign currency forwards ⁽⁵⁾	9	—	9	—
August 31, 2015				
Assets :				
Restricted cash ⁽¹⁾	\$ 184	\$ 184	\$ —	\$ —
Money market funds ⁽²⁾	2,043	2,043	—	—
Available-for-sale investments ⁽³⁾	1,183	1,183	—	—
Interest rate swaps ⁽⁴⁾	2	—	2	—
Foreign currency forwards ⁽⁵⁾	34	—	34	—
Warrants ⁽⁶⁾	2,140	—	2,140	—
Liabilities :				
Foreign currency forwards ⁽⁵⁾	9	—	9	—

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

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

(3) Fair values of quoted investments are based on current bid prices as of the balance sheet dates. See Note 7, Available-for-Sale Investments for additional information .

(4) The fair value of interest rate swaps is calculated by discounting the estimated cash flows received and paid based on the applicable observable yield curves. See Note 11, Financial Instruments for additional information .

TABLE OF CONTENTS

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

There were no transfers between levels for the three-month periods ended November 30, 2015 and 2014, respectively.

The Company reports its debt instruments under the guidance of ASC Topic 825, Financial Instruments, which requires disclosure of the fair value of the Company's debt in the footnotes to the consolidated financial statements. Unless otherwise noted, the fair value for all notes was determined based upon quoted market prices and therefore categorized as Level 1. See Note 10, Short-Term Borrowings and Long-Term Debt for further information. The carrying values of accounts receivable and trade accounts payable approximated their respective fair values due to their short-term nature.

Note 13. Commitments and Contingencies

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

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

TABLE OF CONTENTS

On December 5 and 12, 2014, putative shareholders filed class actions in federal court in the Northern District of Illinois against the Walgreens Board of Directors, Walgreen Co., and Walgreens Boots Alliance, Inc. arising out of the Company's definitive proxy statement/prospectus filed with the SEC in connection with the special meeting of Walgreens shareholders on December 29, 2014. The actions asserted claims that the definitive proxy statement/prospectus was false or misleading in various respects. On December 23, 2014, solely to avoid the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, Walgreens entered into a memorandum of understanding with the plaintiffs in both actions, pursuant to which Walgreens made certain supplemental disclosures. The proposed settlement was subject to, among other things, court approval. On July 8, 2015, the Court preliminarily approved the settlement, and on November 20, 2015, the Court entered an order of final approval of the settlement. On December 17, 2015, a purported class member who had objected to the settlement appealed the Court's order. The appeal was docketed with the United States Court of Appeals for the Seventh Circuit, and is in an early stage.

On December 29, 2014, a putative shareholder filed a derivative action in federal court in the Northern District of Illinois against certain current and former directors and officers of Walgreen Co., and Walgreen Co. as a nominal defendant, arising out of certain public statements the Company made regarding its former fiscal 2016 goals. The action asserts claims for breach of fiduciary duty, waste and unjust enrichment. On April 10, 2015, the defendants filed a motion to dismiss. On May 18, 2015, the case was stayed in light of the securities class action that was filed on April 10, 2015, which is described below.

On April 10, 2015, a putative shareholder filed a securities class action in federal court in the Northern District of Illinois against Walgreen Co. and certain former officers of Walgreen Co. The action asserts claims for violation of the federal securities laws arising out of certain public statements the Company made regarding its former fiscal 2016 goals. On June 16, 2015, the Court entered an order appointing a lead plaintiff. Pursuant to the Court's order, lead plaintiff filed an amended complaint on August 17, 2015, and defendants moved to dismiss the amended complaint on October 16, 2015. Lead plaintiff filed a response to the motion to dismiss on December 22, 2015, and defendants plan to file a reply in support of the motion on February 5, 2016.

From November 3, 2015 through December 18, 2015, ten putative class action lawsuits were filed by purported Rite Aid stockholders arising out of the Company's proposed acquisition of Rite Aid. Eight of these lawsuits were filed in the Delaware Court of Chancery (the "Delaware actions"), one lawsuit was filed in the Pennsylvania Court of Common Pleas of Cumberland County (the "Pennsylvania action"), and one lawsuit was filed in a federal district court in the Middle District of Pennsylvania (the "federal court action").

The Delaware actions allege that the Rite Aid Board of Directors breached their fiduciary duties by, among other things, agreeing to an unfair and inadequate price, and agreeing to deal protection devices that preclude other bidders from making successful competing offers for Rite Aid, and failing to disclose all allegedly material information concerning the proposed merger. The Delaware actions allege that the Company and Victoria Merger Sub, Inc. aided and abetted these alleged breaches of fiduciary duty. The plaintiffs in the Delaware actions have jointly informed the Delaware court that they have agreed to consolidate the actions pending in that court. The lawsuits are at an early stage.

The Pennsylvania action alleges substantially similar allegations and claims as the Delaware actions. This lawsuit is at an early stage.

The federal court action alleges that Rite Aid's preliminary proxy statement filed with the SEC in connection with the proposed Rite Aid acquisition was false or misleading in various respects, and that the Company acted as a controlling person with respect to those alleged violations. This lawsuit is at an early stage.

Note 14 . Retirement Benefits

The Company sponsors several retirement plans, including defined benefit plans, defined contribution plans and a postretirement health plan. The Company uses an August 31 annual measurement date for its pension plans.

Defined Benefit Pension Plans (non-US plans)

The principal defined benefit pension plan is the Boots Pension Plan, which covers certain employees in the United Kingdom (the "Boots Plan"). The Boots Plan is a funded final salary defined benefit plan providing pensions and death benefits to members. The Boots Plan was closed to future accrual effective July 1, 2010, with pensions calculated based on salaries up until that date. The Boots Plan is governed by a trustee board, which is

TABLE OF CONTENTS

independent of the Company. The plan is subject to a full funding actuarial valuation on a triennial basis. The Company also has two smaller defined benefit pension plans in the United Kingdom, both of which were closed to future accruals effective July 1, 2010. Other defined benefit pension plans include smaller plans in Germany and France.

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

	<u>Three Months Ended November 30,</u>	
	<u>2015</u>	<u>2014</u>
Service costs	\$ 1	\$ —
Interest costs	81	—
Expected returns on plan assets	(65)	—
Total net periodic pension costs	<u>\$ 17</u>	<u>\$ —</u>

The Company made cash contributions to its defined benefit pension plans of \$9 million for the period ended November 30, 2015, which primarily related to committed funded payments. The Company plans to contribute an additional \$66 million to its defined benefit pension plans in fiscal 2016.

Defined Contribution Plans

The principal retirement plan for U.S. employees is the Walgreen Profit-Sharing Retirement Trust, to which both the Company and participating employees contribute. The Company's contribution, which has historically related to adjusted FIFO earnings before interest and taxes and a portion of which is in the form of a guaranteed match, is determined annually at the discretion of the Walgreens Boots Alliance Board of Directors (or Compensation Committee thereof). The profit-sharing provision was an expense of \$58 million for the three-month period ended November 30, 2015 compared to expense of \$75 million in the comparable prior year period.

The Company also has a contract based defined contribution arrangement, the Alliance Boots Retirement Savings Plan, to which both the Company and participating employees contribute. The cost recognized in the Consolidated Condensed Statements of Earnings for the period ended November 30, 2015 was \$35 million.

Postretirement Healthcare Plan

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

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

	<u>Three Months Ended November 30,</u>	
	<u>2015</u>	<u>2014</u>
Service cost	\$ 3	\$ 3
Interest cost	5	4
Amortization of actuarial loss	4	5
Amortization of prior service cost	(7)	(6)
Total postretirement benefit cost	<u>\$ 5</u>	<u>\$ 6</u>

Note 15. Earnings Per Share

The dilutive effect of outstanding stock options on earnings per share is calculated using the treasury stock method. Stock options are anti-dilutive and excluded from the earnings per share calculation if the exercise price exceeds the average market price of the common shares. There were 1.1 million outstanding options to purchase common shares that were anti-dilutive and excluded from the first quarter earnings per share calculation as of November 30, 2015 compared to 6.5 million as of November 30, 2014.

TABLE OF CONTENTS

Note 1 6 . Depreciation and Amortization

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

	Three Months Ended November 30,	
	2015	2014
Depreciation expense	\$ 298	\$ 256
Intangible asset and other amortization	84	63
Total depreciation and amortization expense	\$ 382	\$ 319

As discussed further in Note 8, Acquisitions, the Company completed the acquisition of the remaining 55% interest in Alliance Boots on December 31, 2014, as a result of which the financial results of Alliance Boots were fully consolidated into the results of the Company. The Company previously accounted for its 45% interest in Alliance Boots as an equity method investment.

Note 1 7 . Supplemental Cash Flow Disclosures

Cash interest paid was \$250 million and \$43 million in the three-month periods ended November 30, 2015 and 2014, respectively. Cash paid for income taxes was \$50 million and \$18 million in the three-month periods ended November 30, 2015 and 2014, respectively.

Note 1 8 . Accumulated Other Comprehensive Income (Loss)

The following is a summary of net changes in accumulated other comprehensive income by component and net of tax for the three-month periods ended November 30, 2015 and 2014 (in millions):

	Pension/ Post- retirement Obligations	Unrecognized Gain (Loss) on Available-for- Sale Investments	Unrealized Gain (Loss) on Cash Flow Hedges	Currency Translation Adjustments	Total
Balance at August 31, 2015	\$ 29	\$ 259	\$ (40)	\$ (462)	\$ (214)
Other comprehensive income (loss) before reclassification adjustments	3	(5)	—	(449)	(451)
Amounts reclassified from accumulated OCI	—	—	1	—	1
Tax benefit (provision)	—	6	—	—	6
Net other comprehensive income (loss)	3	1	1	(449)	(444)
Balance at November 30, 2015	<u>\$ 32</u>	<u>\$ 260</u>	<u>\$ (39)</u>	<u>\$ (911)</u>	<u>\$ (658)</u>

	Pension/ Post- retirement Obligations	Unrecognized Gain (L oss) on Available-for- Sale Investments	Unrealized Gain (Loss) on Cash Flow Hedges	Share of OCI of Alliance Boots	Currency Translation Adjustments	Total
Balance at August 31, 2014	\$ 15	\$ 107	\$ (27)	\$ (113)	\$ 154	\$ 136
Other comprehensive income (loss)	(2)	157	(20)	32	(289)	(122)
Tax benefit (provision)	1	(58)	8	(11)	100	40
Net other comprehensive income (loss)	(1)	99	(12)	21	(189)	(82)
Balance at November 30, 2014	<u>\$ 14</u>	<u>\$ 206</u>	<u>\$ (39)</u>	<u>\$ (92)</u>	<u>\$ 35</u>	<u>\$ 54</u>

Note 19 . Segment Reporting

The Company has three reportable segments: Retail Pharmacy USA, Retail Pharmacy International, and Pharmaceutical Wholesale. The operating segments have been identified based on the financial data utilized by the Company's Chief Executive Officer (the chief operating decision maker) to assess segment performance and allocate resources among the Company's operating segments, which have been aggregated as described below.

TABLE OF CONTENTS

The chief operating decision maker uses adjusted operating income to assess segment profitability. The chief operating decision maker does not use total assets by segment to make decisions regarding resources, therefore the total asset disclosure by segment has not been included.

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

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

The segment information for the three-month period ended November 30, 2015 reflects the operating results of the Company’s business segments. The Company began recording revenue and expense transactions using the new segments effective January 1, 2015. Beginning January 1, 2015, synergy benefits including WBAD operations have been allocated to the Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale segments on a source of procurement benefit basis. Under this method, the synergy benefits are allocated to the segment whose purchase gave rise to the benefit. A synergy arising on the purchase of an item for use in an entity in the Retail Pharmacy USA segment is recognized in the Retail Pharmacy USA segment and similarly for the Retail Pharmacy International and Pharmaceutical Wholesale segments. Procurement service income related to third parties is recognized in the Pharmaceutical Wholesale segment. Corporate costs have been allocated to segments based on their respective gross profit.

The Company has determined that it is impracticable to restate segment information for the three-month period ended November 30, 2014 as well as to provide disclosures under both the old basis and new basis of reporting for certain items. Specifically, WBAD operations historically were recorded in the Retail Pharmacy USA segment and not restated, as the Company believes it is impracticable to separate the information to the individual reportable segments. Equity earnings from Alliance Boots prior to the completion of the Second Step Transaction has been recorded within the Retail Pharmacy USA segment. The equity earnings of the 45% interest in Alliance Boots have not been separated into the Retail Pharmacy International and Pharmaceutical Wholesale segments for the prior period, as the Company believes it is impracticable.

TABLE OF CONTENTS

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

	Retail Pharmacy			Pharmaceutical Wholesale	Eliminations and Unallocated Items	Consolidated
	USA	International				
Three Months Ended November 30, 2015						
Sales to external customers	\$ 20,370	\$ 3,459	\$ 5,204	\$ —	\$ 29,033	
Intersegment sales	—	72	592	(664)	—	
Total Sales	20,370	3,531	5,796	(664)	29,033	
Adjusted Operating Income	\$ 1,243	\$ 315	\$ 166	\$ (5)	\$ 1,719	
Three Months Ended November 30, 2014						
Sales to external customers	\$ 19,554	\$ —	\$ —	\$ —	\$ 19,554	
Intersegment sales	—	—	—	—	—	
Total Sales	19,554	—	—	—	19,554	
Adjusted Operating Income	\$ 1,118	\$ —	\$ —	\$ —	\$ 1,118	

The following table reconciles adjusted operating income to operating income (in millions):

	Retail Pharmacy			Pharmaceutical Wholesale	Eliminations and Unallocated Items	Consolidated
	USA	International				
Three Months Ended November 30, 2015						
Adjusted Operating Income	\$ 1,243	\$ 315	\$ 166	\$ (5)	\$ 1,719	
Cost transformation					(90)	
Acquisition-related amortization					(81)	
LIFO provision					(46)	
Acquisition-related costs					(34)	
Operating Income					\$ 1,468	
Three Months Ended November 30, 2014						
Adjusted Operating Income	\$ 1,118	\$ —	\$ —	\$ —	\$ 1,118	
Acquisition-related amortization					(89)	
LIFO provision					(52)	
Store closures and other optimization costs					(28)	
Acquisition-related costs					(24)	
Increase in fair market value of warrants					129	
Operating Income					\$ 1,054	

Note 20. Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740). This ASU simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. This ASU may be applied either prospectively to all deferred tax assets and liabilities, or retrospectively to all periods presented for annual periods beginning after December 16, 2016 and interim periods thereafter (fiscal 2018), and may require additional disclosure based on the application method selected. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's financial position.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). This ASU simplifies the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirements to retrospectively account for those adjustments. This guidance applies to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the

TABLE OF CONTENTS

end of the reporting period in which the combination occurs and during the measurement period having an adjustment to provisional amounts recognized. This ASU is effective prospectively for annual periods beginning after December 31, 2016 and interim periods thereafter (fiscal 2018) with early adoption permitted. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's results of operations, cash flows or financial position.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), an update to ASU 2014-09. This ASU amends ASU 2014-09 to defer the effective date by one year for annual reporting periods beginning after December 15, 2017 (fiscal 2019). Early adoption is permitted for annual reporting periods beginning after December 15, 2016 (fiscal 2018). ASU 2014-09 provides a new revenue recognition standard with a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company is evaluating the effect of adopting this new accounting guidance.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330). This ASU simplifies current accounting treatments by requiring entities to measure most inventories at "the lower of cost and net realizable value" rather than using lower of cost or market. This guidance does not apply to inventories measured using last-in, first-out method or the retail inventory method. This ASU is effective prospectively for annual periods beginning after December 15, 2016 and interim periods thereafter (fiscal 2018) with early adoption permitted. Upon transition, entities must disclose the accounting change. The Company is evaluating the effect of adopting this new accounting guidance but does not expect adoption will have a material impact on the Company's results of operations, cash flows or financial position.

Note 21 . Subsequent Events

Bridge Credit Agreement and Term Loan Credit Agreement

On December 18, 2015, Walgreens Boots Alliance entered into a Bridge Term Loan Credit Agreement with the lenders party thereto and UBS AG, Stamford Branch, as administrative agent (the "Bridge Credit Agreement") and a Term Loan Credit Agreement with the lenders party thereto and Bank of America, N.A., as administrative agent (the "Term Loan Credit Agreement" and together with the Bridge Credit Agreement, the "Credit Agreements"). The Commitment Letter and the commitments contemplated thereby terminated upon Walgreens Boots Alliance entering into the Credit Agreements. See Note 10, Short-Term Borrowings and Long-Term Debt for further information.

The Bridge Credit Agreement is a 364-day unsecured bridge term loan facility. The aggregate commitments of all lenders under the Bridge Credit Agreement are equal to \$7.8 billion, provided that Walgreens Boots Alliance may increase the commitments under the Bridge Credit Agreement at any time prior to the funding of the loans thereunder by up to \$2.0 billion, subject to obtaining commitments from existing lenders and/or new lenders selected by Walgreens Boots Alliance and reasonably acceptable to the administrative agent. Walgreens Boots Alliance can extend up to \$3.0 billion of the loans under the Bridge Credit Agreement for an additional 90-day period if desired.

The Term Loan Credit Agreement is a two-tranche unsecured term loan facility, with the first tranche maturing three years after the earlier of the funding date and October 27, 2016, and the second tranche maturing five years after the earlier of the funding date and October 27, 2016. The aggregate commitments of all lenders under the Term Loan Credit Agreement are equal to \$5.0 billion, provided that Walgreens Boots Alliance may increase the commitments under the Term Loan Credit Agreement at any time prior to January 15, 2016 by up to \$450 million, subject to obtaining commitments from existing lenders and/or new lenders selected by Walgreens Boots Alliance and reasonably acceptable to the administrative agent.

Walgreens Boots Alliance will be the borrower under each of the Credit Agreements. The ability of Walgreens Boots Alliance to request the making of loans under each Credit Agreement is subject to the satisfaction (or waiver) of certain conditions set forth therein and will terminate upon the occurrence of certain events set forth therein. Borrowings under each Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the reserve adjusted Eurocurrency rate, in each case, plus an applicable margin calculated based on Walgreens Boots Alliance's credit ratings. Upfront fees paid to date in connection with the Credit Agreements totaled \$18 million. A maximum of a further \$17 million in upfront fees is payable prior to, or at funding, subject to certain conditions. In addition, Walgreens Boots

TABLE OF CONTENTS

Alliance will also pay to the lenders under each Credit Agreement certain customary fees, including a ticking fee based on the aggregate outstanding commitments of the lenders under the applicable Credit Agreement starting at 90 days after signing. Each of the Credit Agreements contains a covenant to maintain, as of the last day of each fiscal quarter, a ratio of consolidated debt to total capitalization not to exceed 0.60 to 1.00, as well as other customary restrictive covenants, which restrictive covenants shall not be in effect until the funding of the loans under the applicable Credit Agreement.

Termination of Prior 364-Day Credit Agreement

On December 17, 2015, the Company terminated the 364-Day Credit Agreement described in Note 10 above that had provided for a \$750 million 364-day unsecured, multicurrency revolving facility. The 364-Day Credit Agreement remained undrawn as of the date of termination and would have matured on December 30, 2015.

TABLE OF CONTENTS

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein and the consolidated financial statements, accompanying notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations and other disclosures contained in the Walgreens Boots Alliance, Inc. Annual Report on Form 10-K for the fiscal year ended August 31, 2015. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under “Cautionary Note Regarding Forward-Looking Statements” and in Item 1A “Risk Factors” in our Form 10-K for the fiscal year ended August 31, 2015. References herein to the “Company”, “we”, “us”, or “our” refer to Walgreens Boots Alliance, Inc. and its subsidiaries from and after the effective time of the Reorganization (as defined below) on December 31, 2014 and, prior to that time, to its predecessor Walgreen Co. and its subsidiaries, except as otherwise indicated or the context otherwise requires.

INTRODUCTION

On December 31, 2014, Walgreens Boots Alliance, Inc. (“Walgreens Boots Alliance”) became the successor to Walgreen Co. (“Walgreens”) pursuant to a merger to effect a reorganization of Walgreen Co. into a holding company structure (the “Reorganization”), with Walgreens Boots Alliance becoming the parent holding company. Pursuant to the Reorganization, Walgreens became a wholly owned subsidiary of Walgreens Boots Alliance, a Delaware corporation formed for the purposes of Reorganization, and each issued and outstanding share of Walgreens common stock converted on a one-to-one basis into Walgreens Boots Alliance common stock. Also on December 31, 2014, following the completion of the Reorganization, Walgreens Boots Alliance completed the acquisition of the remaining 55% of Alliance Boots GmbH (“Alliance Boots”) that Walgreens did not previously own (the “Second Step Transaction”) in exchange for £3.133 billion in cash and 144.3 million shares of Walgreens Boots Alliance common stock. Alliance Boots became a consolidated subsidiary and ceased being accounted for under the equity method immediately upon completion of the Second Step Transaction. For financial reporting and accounting purposes, Walgreens Boots Alliance was the acquirer of Alliance Boots. The consolidated financial statements (and other data, such as prescriptions filled) reflect the results of operations and financial position of Walgreens and its subsidiaries for periods prior to December 31, 2014 and of Walgreens Boots Alliance and its subsidiaries for periods from and after the effective time of the Reorganization on December 31, 2014.

On October 27, 2015, Walgreens Boots Alliance entered into an Agreement and Plan of Merger with Rite Aid Corporation (“Rite Aid”) and Victoria Merger Sub, Inc., a wholly-owned subsidiary of Walgreens Boots Alliance (the “Merger Agreement”), pursuant to which we agreed, subject to the terms and conditions thereof, to acquire Rite Aid, a drugstore chain in the United States with 4,560 stores in 31 states and the District of Columbia as of November 28, 2015. The transaction is expected to close in the second half of calendar 2016, subject to Rite Aid stockholder approval, regulatory approvals and other customary closing conditions.

SEGMENTS

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

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

COMPARABILITY

As a result of the completion of the Second Step Transaction on December 31, 2014, there are a number of items that affect comparability of reported results. Historically, our operations were within one reportable segment that included the results of the Retail Pharmacy USA division and corporate costs, along with the full consolidated results of Walgreens Boots Alliance Development GmbH (“WBAD”), a global sourcing enterprise formed by Walgreens and Alliance Boots, and equity earnings from Alliance Boots (on a three-month reporting lag). Upon completion of the Second Step Transaction, Alliance Boots became a consolidated subsidiary and we eliminated

TABLE OF CONTENTS

the three-month reporting lag. Prior period results have been recast to reflect the elimination of the reporting lag. Additionally, following the completion of the Reorganization and the Second Step Transaction on December 31, 2014, we now report results in three segments. Segmental reporting includes the allocation of synergy benefits, including WBAD's results, and the combined corporate costs for periods subsequent to December 31, 2014. We have determined that it is impracticable to allocate historical results to the current segmental presentation.

The completion of the Second Step Transaction on December 31, 2014 also means that results for the three months ended November 30, 2015 include the results of Alliance Boots on a fully consolidated basis, while the three months ended November 30, 2014 include the results of Alliance Boots as equity income from Walgreen Co.'s pre-merger 45 percent interest.

The Company's balance sheet reflects the full consolidation of Alliance Boots assets and liabilities as a result of the close of the Second Step Transaction on December 31, 2014. The Company's purchase accounting remains preliminary as contemplated by generally accepted accounting principles in the United States ("GAAP") and, as a result, there may be upon further review future changes to the value, as well as allocation, of the acquired assets and liabilities; associated amortization expense; goodwill; and the gain on the previously held equity interest. These changes may be material.

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

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

AMERISOURCEBERGEN CORPORATION RELATIONSHIP

On March 19, 2013, Walgreens, Alliance Boots and AmerisourceBergen Corporation ("AmerisourceBergen") announced various agreements and arrangements, including a ten-year pharmaceutical distribution agreement between Walgreens and AmerisourceBergen pursuant to which branded and generic pharmaceutical products will be sourced from AmerisourceBergen; an agreement which provides AmerisourceBergen the ability to access generics and related pharmaceutical products through WBAD, a global sourcing enterprise; and agreements and arrangements pursuant to which we have the right, but not the obligation, to purchase a minority equity position in AmerisourceBergen and gain associated representation on AmerisourceBergen's Board of Directors in certain circumstances. In addition to the information in this report, please refer to our Current Report on Form 8-K filed on March 20, 2013 for more detailed information regarding these agreements and arrangements. As of November 30, 2015, we owned approximately 5.6% of the outstanding common shares in AmerisourceBergen and had designated one member of AmerisourceBergen's Board of Directors.

RESTRUCTURING PROGRAMS

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

We currently estimate that we will recognize cumulative pre-tax charges to our GAAP financial results of between \$1.6 billion and \$1.8 billion, including costs associated with lease obligations and other real estate payments, asset impairments and employee termination and other business transition and exit costs. We expect to incur pre-tax charges of between \$525 million and \$600 million for real estate costs, including lease obligations (net of estimated sublease income); between \$650 million and \$725 million for asset impairment charges relating

TABLE OF CONTENTS

primarily to asset write-offs from store closures, information technology, inventory and other non-operational real estate asset write-offs; and between \$425 million and \$475 million for employee severance and other business transition and exit costs. We estimate that approximately 60% of the cumulative pre-tax charges will result in immediate or future cash expenditures, primarily related to lease and other real estate payments and employee separation costs.

We incurred pre-tax charges of \$90 million (\$52 million in real estate costs, \$25 million related to asset impairment charges and \$13 million in severance and other business transition and exit costs) related to the Cost Transformation Program during the three months ended November 30, 2015. No charges were incurred with respect to the Cost Transformation Program in the three months ended November 30, 2014. From inception through November 30, 2015, the Company incurred pre-tax charges of \$632 million (\$254 million in real estate costs, \$248 million related to asset impairment charges and \$130 million in severance and other business transition and exit costs) related to the Cost Transformation Program. All charges related to the Cost Transformation Program have been recorded within selling, general and administrative expenses.

In March 2014, the Walgreens Board of Directors approved a plan to close underperforming stores in efforts to optimize and focus resources within our Retail Pharmacy USA segment in a manner intended to increase stockholder value. As of August 31, 2015, this plan was completed and no additional charges related to the plan are expected. For the three months ended November 30, 2014, we incurred pre-tax charges of \$17 million, which were primarily related to lease termination costs. All charges related to this plan have been recorded within selling, general and administrative expenses.

Restructuring costs by segment are as follows (in millions):

	Retail Pharmacy		Pharmaceutical Wholesale	Consolidated
	USA	International		
Three Months Ended November 30, 2015				
Real estate costs	\$ 52	\$ —	\$ —	\$ 52
Asset impairments	25	—	—	25
Severance and other business transition and exit costs	8	5	—	13
Total restructuring costs	<u>\$ 85</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 90</u>
Three Months Ended November 30, 2014				
Real estate costs	\$ 17	\$ —	\$ —	\$ 17
Asset impairments	—	—	—	—
Severance and other business transition and exit costs	—	—	—	—
Total restructuring costs	<u>\$ 17</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17</u>

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

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

[TABLE OF CONTENTS](#)

EXECUTIVE SUMMARY

The following table presents the key financial statistics for the three months ended November 30, 2015 and 2014, respectively. Results for the three months ended November 30, 2014 have been recasted for removal of the three-month reporting lag. Additionally, as a result of the completion of the Second Step Transaction, the Company ceased recording equity earnings in Alliance Boots on December 31, 2014. As such, the three-month period ended November 30, 2015 reflects the full consolidation of Alliance Boots results, while the three-month period ended November 30, 2014 includes the results of Alliance Boots as equity income from Walgreens' pre-merger 45 percent interest.

	(in millions, except per share amounts)	
	Three Months Ended November 30,	
	2015	2014
Net sales	\$ 29,033	\$ 19,554
Gross Profit	7,502	5,296
Selling, general and administrative expenses	6,034	4,456
Operating Income	1,468	1,054
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	1,719	1,118
Earnings Before Interest and Tax Provision	1,411	1,253
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	1,110	850
Adjusted Net Earnings Attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure) ⁽¹⁾	1,132	749
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted	1.01	0.89
Adjusted net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (Non-GAAP measure) ⁽¹⁾	1.03	0.78
	Percentage Increases	
	Three Months Ended November 30,	
	2015	2014
Net sales	48.5	6.7
Gross Profit	41.7	2.8
Selling, general and administrative expenses	35.4	1.8
Operating Income	39.3	9.0
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	53.8	5.1
Earnings Before Interest and Tax Provision	12.6	5.1
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	30.6	17.6
Adjusted Net Earnings Attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure) ⁽¹⁾	51.1	8.9
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted	13.5	18.7
Adjusted net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (Non-GAAP measure) ⁽¹⁾	32.1	8.3
	Percent to Net Sales	
	Three Months Ended November 30,	
	2015	2014
Gross Margin	25.8	27.1
Selling, general and administrative expenses	20.8	22.8

(1) See “--Non-GAAP Measures” below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP.

TABLE OF CONTENTS

WALGREENS BOOTS ALLIANCE RESULTS OF OPERATIONS

Our results for the three months ended November 30, 2015 as compared to the prior year period are primarily impacted by the Second Step Transaction, which resulted in the full consolidation of Alliance Boots results of operations beginning December 31, 2014. For the three months ended November 30, 2015, the full consolidation of Alliance Boots operations increased our net sales by 44.3%; gross profit by 38.9%; selling, general and administrative expenses by 36.3%; and operating income by 41.8%.

Net earnings attributable to Walgreens Boots Alliance for the quarter ended November 30, 2015 were \$1.1 billion, or \$1.01 per diluted share as compared to \$850 million, or \$0.89 per diluted share in the comparable prior year period. The increase in net earnings per diluted share for the three-month period ended November 30, 2015 was primarily attributable to the full consolidation of Alliance Boots operations; increased sales and lower selling, general and administrative expenses as a percentage of sales in our Retail Pharmacy USA division; and a lower effective income tax rate. This favorability was partially offset by lower Retail Pharmacy USA gross margins, a decrease in the fair value of our warrants to acquire AmerisourceBergen common stock and a higher interest expense.

Other income (expense) for the three-month period ended November 30, 2015 was a loss of \$57 million compared to income of \$199 million for the three-month period ended November 30, 2014. Following the completion of the Second Step Transaction, fair value adjustments related to the AmerisourceBergen warrants held by a subsidiary of Alliance Boots are recorded within other income (expense) rather than equity earnings in Alliance Boots. The change in fair value of our AmerisourceBergen warrants resulted in recording a loss of \$62 million in the current quarter as compared to income of \$290 million in the comparable prior year quarter, primarily attributable to the change in the price of AmerisourceBergen's common stock. In addition, in the three-month periods ended November 30, 2015 and November 30, 2014, we recorded \$5 million of other income relating to the amortization of the deferred credit associated with the initial value of the AmerisourceBergen warrants held by a subsidiary of Walgreens. The three-month period ended November 30, 2014 also included a loss of \$96 million related to foreign currency forward contracts entered into in consideration of the delivery of foreign cash consideration related to the Second Step Transaction.

Interest was a net expense of \$138 million for the three months ended November 30, 2015 compared to \$55 million for the three months ended November 30, 2014. The increase in interest expense year-over-year is primarily due to the notes we issued to fund a portion of the cash consideration payable in connection with the Second Step Transaction and to subsequently refinance substantially all of Alliance Boots outstanding borrowings following completion of the Second Step Transaction.

The effective tax rate for the three months ended November 30, 2015 was 13.1% compared to 26.8% for the three months ended November 30, 2014. The decrease in the effective tax rate year-over-year is primarily attributable to a lower estimated annual tax rate and net additional discrete tax benefits of \$96 million. The lower estimated annual tax rate is a result of our acquisition of the remaining 55% interest in Alliance Boots that we did not previously own, which generated both incremental foreign source income taxed at lower rates and additional favorable permanent book-tax differences. During the three months ended November 30, 2015, we recognized discrete tax benefits of \$178 million related to the deferred tax impact of tax rate changes enacted in the United Kingdom. During the quarter ended November 30, 2014, we reported discrete tax benefits of \$86 million, which related to recognizing previously unrecognized capital loss deferred tax assets due to our generation of capital gain income from sale-leaseback transactions.

Walgreens Boots Alliance Adjusted Net Earnings Per Diluted Share (Non-GAAP measure)

Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. for the quarter ended November 30, 2015 were \$1.1 billion, or \$1.03 per diluted share as compared to \$749 million, or \$0.78 per diluted share in the comparable prior year period. The increase in adjusted net earnings and adjusted net earnings per diluted share for the three-month period ended November 30, 2015 was primarily attributable to the full consolidation of Alliance Boots operations; increased sales and lower selling, general and administrative expenses as a percentage of sales in our Retail Pharmacy USA division; and a lower effective income tax rate. This favorability was partially offset by lower Retail Pharmacy USA gross margins and a higher interest expense. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

[TABLE OF CONTENTS](#)

RESULTS OF OPERATIONS BY SEGMENT

Retail Pharmacy USA

All periods have been recasted for removal of the three-month reporting lag previously applied to reporting equity earnings in Alliance Boots. Additionally, as a result of the completion of the Second Step Transaction, the Company ceased recording equity earnings in Alliance Boots as of December 31, 2014. As such, the three-month period ended November 30, 2014 includes equity earnings in Alliance Boots.

	(in millions, except location and prescription amounts)	
	Three Months Ended November 30,	
	2015	2014
Total Sales	\$ 20,370	\$ 19,554
Gross Profit	5,445	5,296
Selling, general and administrative expenses	4,417	4,456
Operating Income	1,028	1,054
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	1,243	1,118
Number of Prescriptions ⁽²⁾	186	181
30 Day Equivalent Prescriptions ⁽²⁾⁽³⁾	231	222
Number of Locations at period end	8,192	8,330
	Percentage Increases/(Decreases)	
	Three Months Ended November 30,	
	2015	2014
Total Sales	4.2	6.7
Gross Profit	2.8	2.8
Selling, general and administrative expenses	(0.9)	1.8
Operating Income	(2.5)	9.0
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	11.2	5.1
Comparable Store Sales	5.8	5.7
Pharmacy Sales	6.7	9.0
Comparable Pharmacy Sales	9.3	8.1
Retail Sales	(0.9)	2.3
Comparable Retail Sales	(0.6)	1.5
Comparable Number of Prescriptions ⁽²⁾	3.4	2.9
Comparable 30 Day Equivalent Prescriptions ⁽²⁾⁽³⁾	4.7	4.1
	Percent to Net Sales	
	Three Months Ended November 30,	
	2015	2014
Gross Margin	26.7	27.1
Selling, general and administrative expenses	21.7	22.8

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

(2) Includes immunizations.

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

Sales for the Three Months Ended November 30, 2015 and 2014

The Retail Pharmacy USA division's total sales for the quarter ended November 30, 2015 increased by 4.2% year-over-year to \$20.4 billion. Total sales increased primarily due to higher comparable store sales, which were

TABLE OF CONTENTS

up 5.8% year-over-year partially offset by the impact from the sale of our infusion business and store closures during the past year. Comparable stores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or a natural disaster in the past twelve months. Relocated and acquired stores are not included as comparable stores for the first twelve months after the relocation or acquisition. We operated 8,192 locations (8,183 drugstores) as of November 30, 2015, compared to 8,330 locations (8,230 drugstores) as of November 30, 2014 (which included 89 infusion and respiratory services facilities in which we sold a majority interest in fiscal 2015).

Prescription sales increased by 6.7% in the three months ended November 30, 2015 and represented 68.4% of the division's total sales. In the three months ended November 30, 2014, prescription sales were up 9.0% and represented 66.8% of the division's total sales. Comparable prescription sales were up 9.3% in the three months ended November 30, 2015 compared to an increase of 8.1% in the three months ended November 30, 2014. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 2.5% in the current quarter versus a reduction of 1.9% in the same period last year. The effect of generics on division total sales was a reduction of 1.5% in the current quarter compared to a reduction of 1.1% for the prior year quarter. Third party sales, where reimbursement is received from managed care organizations, governmental agencies, employers or private insurers, were 97.2% of prescription sales for the three-month period ended November 30, 2015 compared to 96.6% for the three-month period last year. The total number of prescriptions (including immunizations) filled for the current quarter was approximately 186 million compared to 181 million for the same period last year. Prescriptions (including immunizations) adjusted to 30 day equivalents were 231 million in the current quarter versus 222 million in the prior year quarter.

Retail sales decreased 0.9% for the three months ended November 30, 2015 and were 31.6% of the division's total sales. In comparison, for the three months ended November 30, 2014 retail sales increased 2.3% and comprised 33.2% of the division's total sales. Comparable retail sales decreased 0.6% for the current quarter compared to an increase of 1.5% in the prior period. The decrease in comparable retail sales in the current quarter was composed of a decrease in customer traffic partially offset by increased basket size.

Operating Income for the Three Months Ended November 30, 2015 and 2014

Retail Pharmacy USA division's operating income for the three months ended November 30, 2015 decreased 2.5% year-over-year to \$1.0 billion. The decrease is primarily due to having no equity earnings in Alliance Boots in the current period versus three months in the comparable period and lower gross margins, partially offset by higher sales and lower selling, general and administrative expenses as a percentage of sales.

Gross margin as a percent of sales was 26.7% in the current quarter compared to 27.1% in the comparable quarter last year. Pharmacy margins were negatively impacted in the quarter by lower third-party reimbursements; an increase in Medicare Part D mix, including the strategy to continue driving 90-day prescriptions at retail; and the mix of specialty drugs, which carry a lower margin percentage. The decrease in pharmacy margins was partially offset by additional brand-to-generic drug conversions compared with the prior year period. Retail margins were positively impacted in the current quarter primarily from the over-the-counter drug, personal care and beauty categories partially offset by the electronics category.

Selling, general and administrative expenses as a percentage of sales were 21.7% for the current quarter compared to 22.8% in the same period a year ago. As a percentage of sales, expenses in the current quarter were lower primarily due to increased store labor efficiencies, partially offset by higher costs related to asset impairments and lease termination costs related to the Cost Transformation Program.

Adjusted Operating Income (Non-GAAP measure) for the Three Months Ended November 30, 2015 and 2014

Retail Pharmacy USA division's adjusted operating income for the three months ended November 30, 2015 increased 11.2% year-over-year to \$1.2 billion. The increase is primarily due to higher sales and lower selling, general and administrative expenses as a percentage of sales, partially offset by having no equity earnings in Alliance Boots in the current period versus three months in the comparable prior year period and lower gross margins. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

[TABLE OF CONTENTS](#)

Retail Pharmacy International

	(in millions)	
	Three Months Ended November 30,	
	2015	2014
Total Sales	\$ 3,531	NA
Gross Profit	1,505	NA
Selling, general and administrative expenses	1,203	NA
Operating Income	302	NA
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	315	NA
Number of Locations at period end	4,595	NA
	Percent to Net Sales	
	Three Months Ended November 30,	
	2015	2014
Gross Margin	42.6	NA
Selling, general and administrative expenses	34.1	NA

NA Not applicable

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

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

Pharmaceutical Wholesale

	(in millions)	
	Three Months Ended November 30,	
	2015	2014
Total Sales	\$ 5,796	NA
Gross Profit	557	NA
Selling, general and administrative expenses	414	NA
Operating Income	143	NA
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	166	NA
	Percent to Net Sales	
	Three Months Ended November 30,	
	2015	2014
Gross Margin	9.6	NA
Selling, general and administrative expenses	7.1	NA

NA Not applicable

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

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

[TABLE OF CONTENTS](#)

NON-GAAP MEASURES

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

	(in millions)				
	Three Months Ended November 30, 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 1,028	\$ 302	\$ 143	\$ (5)	\$ 1,468
Cost transformation	85	5	—	—	90
Acquisition-related amortization	50	8	23	—	81
LIFO provision	46	—	—	—	46
Acquisition-related costs	34	—	—	—	34
Adjusted Operating Income (Non-GAAP measure)	<u>\$ 1,243</u>	<u>\$ 315</u>	<u>\$ 166</u>	<u>\$ (5)</u>	<u>\$ 1,719</u>

	(in millions)				
	Three Months Ended November 30, 2014				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 1,054	\$ —	\$ —	\$ —	\$ 1,054
Acquisition-related amortization	89	—	—	—	89
LIFO provision	52	—	—	—	52
Store closures and other optimization costs	28	—	—	—	28
Acquisition-related costs	24	—	—	—	24
Increase in fair market value of warrants	(129)	—	—	—	(129)
Adjusted Operating Income (Non-GAAP measure)	<u>\$ 1,118</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,118</u>

	Three Months Ended November 30,	
	2015	2014
Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP)	\$ 1,110	\$ 850
Cost transformation	64	—
Acquisition-related amortization	58	58
Decrease (increase) in fair market value of warrants	41	(279)
LIFO provision	33	34
Acquisition-related costs	24	16
United Kingdom tax rate change	(178)	—
Adjusted tax rate true-up	(20)	—
Transaction foreign currency hedging loss	—	96
Alliance Boots equity method non-cash tax	—	33
Store closures and other optimization costs	—	18
Prefunded interest expenses	—	9
Release of capital loss valuation allowance	—	(86)
Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure)	<u>\$ 1,132</u>	<u>\$ 749</u>

TABLE OF CONTENTS

	Three Months Ended November 30,	
	2015	2014
Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (GAAP)	\$ 1.01	\$ 0.89
Cost transformation	0.06	—
Acquisition-related amortization	0.05	0.06
Decrease (increase) in fair market value of warrants	0.04	(0.29)
LIFO provision	0.03	0.03
Acquisition-related costs	0.02	0.02
United Kingdom tax rate change	(0.16)	—
Adjusted tax rate true-up	(0.02)	—
Transaction foreign currency hedging loss	—	0.10
Alliance Boots equity method non-cash tax	—	0.03
Store closures and other optimization costs	—	0.02
Prefunded interest expense	—	0.01
Release of capital loss valuation allowance	—	(0.09)
Adjusted net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (Non-GAAP measure)	<u>\$ 1.03</u>	<u>\$ 0.78</u>

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$2.6 billion (including \$1.2 billion in non-U.S. jurisdictions) as of November 30, 2015, compared to \$12.9 billion (including \$0.4 billion in non-U.S. jurisdictions) at November 30, 2014. Short-term investment objectives are primarily to minimize risk and maintain liquidity. To attain these objectives, investment limits are placed on the amount, type and issuer of securities. Investments are principally in U.S. Treasury money market funds and AAA-rated money market funds.

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

Cash provided by operations and the issuance of debt are the principal sources of funds for expansion, investments, acquisitions, remodeling programs, dividends to shareholders and stock repurchases. Net cash provided by operating activities for the three months ended November 30, 2015 was \$0.7 billion, compared to \$1.0 billion for the comparable prior year period. The decrease in cash provided by operating activities was primarily a result of higher working capital partially offset by higher net earnings as a result of the inclusion of Alliance Boots operations on a fully-consolidated basis as compared to the prior year quarter.

Net cash used for investing activities was \$271 million for the three-month period ended November 30, 2015, compared to \$55 million in the comparable prior year period. Business acquisitions in the three-month period ended November 30, 2015 were \$72 million versus \$13 million at November 30, 2014. Business acquisitions in the current period include the acquisition of an international beauty brand and the purchase of prescription files. Business acquisitions in the prior year period were primarily the purchase of prescription files.

For the three months ended November 30, 2015, additions to property, plant and equipment were \$340 million compared to \$335 million in the prior year period. Capital expenditures by reporting segment were as follows:

	Three Months Ended November 30,	
	2015	2014
Retail Pharmacy USA	\$ 199	\$ 335
Retail Pharmacy International ⁽¹⁾	114	—
Pharmaceutical Wholesale ⁽¹⁾	27	—
Total	<u>\$ 340</u>	<u>\$ 335</u>

- ⁽¹⁾ Our Retail Pharmacy International and Pharmaceutical Wholesale segments were acquired as part of the Second Step Transaction in which we acquired the 55% of Alliance Boots that we did not already own on December 31, 2014. As a result of the timing of the acquisition, no capital expenditures have been reported for the three months ended November 30, 2014.

TABLE OF CONTENTS

For the three-month period ended November 30, 2015, our Retail Pharmacy USA segment opened or acquired 21 locations compared to 49 locations for the comparable period last year. Significant Retail Pharmacy International capital expenditures primarily relate to investments in our stores and information technology projects. Pharmaceutical Wholesale capital expenditures primarily relate to information technology projects.

Additionally, investing activities for the three-month period ended November 30, 2015 included proceeds related to sale-leaseback transactions of \$54 million, compared to \$291 million in the comparable prior year period and the sale of a pharmaceutical wholesale operation for \$43 million in the three-month period ended November 30, 2015.

Net cash used by financing activities for the three months ended November 30, 2015 was \$0.9 billion, compared to net cash provided of \$9.2 billion in the comparable prior year period. In the prior year period, we received proceeds from public offerings of \$8.0 billion of U.S. Dollar denominated debt and approximately \$2.0 billion of Euro and Pound Sterling denominated debt (each as described below). We repurchased shares to support the needs of the employee stock plans totaling \$419 million in the three month period ended November 30, 2015, compared to \$500 million in the three-month period ended November 30, 2014. Proceeds related to employee stock plans were \$71 million during the three months ended November 30, 2015, compared to \$112 million for the three-month period ended November 30, 2014. Cash dividends paid were \$393 million during the three-month period ended November 30, 2015, compared to \$322 million for the same period a year ago. We currently intend to continue to maintain a long-term dividend payout ratio target of approximately 30 to 35 percent of adjusted net earnings attributable to Walgreens Boots Alliance.

In August 2014, the Walgreens Board of Directors authorized the 2014 stock repurchase program (the “2014 stock repurchase program”), which authorizes the repurchase of up to \$3.0 billion of Walgreens’ (or, after the Reorganization, Walgreens Boots Alliance’s) common stock prior to the program’s expiration on August 31, 2016. We purchased 1.3 million shares under the 2014 stock repurchase program in the three months ended November 30, 2015 at a total cost of \$110 million. We determine the timing and amount of repurchases based on our assessment of various factors, including prevailing market conditions, alternate uses of capital, liquidity and the economic environment. Because the consideration payable to Rite Aid stockholders will be paid in cash, we suspended activity under the 2014 stock repurchase program (other than share repurchases to offset dilution from our equity incentive plans – see Part II, Item 2 below) following our entry into the Merger Agreement. The timing and amount of purchases under the 2014 stock repurchase program may change at any time and from time to time. We have repurchased, and may from time to time in the future repurchase, shares on the open market through Rule 10b5-1 plans, which enable us to repurchase shares at times when we otherwise might be precluded from doing so under insider trading laws.

We periodically borrow under our commercial paper program and may continue to borrow under it in future periods. There were no commercial paper borrowings outstanding as of November 30, 2015 or 2014. We had no activity under our commercial paper program for the three-month periods ended November 30, 2015 and November 30, 2014.

On November 10, 2014, Walgreens Boots Alliance and Walgreens entered into a term loan credit agreement (the “Term Loan Agreement”), which provides Walgreens Boots Alliance and Walgreens with the ability to borrow up to £1.45 billion on an unsecured basis. Borrowings under the Term Loan Agreement bear interest at a fluctuating rate per annum equal to the reserve adjusted LIBOR plus an applicable margin based on our credit ratings. As of November 30, 2015, we have borrowed £1.45 billion (\$2.2 billion at the November 30, 2015 spot rate of \$1.50 to £1) under the Term Loan Agreement.

On November 10, 2014, Walgreens Boots Alliance and Walgreens entered into a five-year unsecured, multicurrency revolving credit agreement (the “Revolving Credit Agreement”), which replaced prior Walgreens agreements dated July 20, 2011 and July 23, 2012. The new unsecured revolving credit agreement initially totaled \$2.25 billion, of which \$375 million was available for the issuance of letters of credit. On December 29, 2014, upon the affirmative vote of the majority of common shares of Walgreens represented and entitled to vote at the Walgreens special meeting of shareholders to approve the issuance of the shares necessary to complete the Second Step Transaction, the available credit increased to \$3.0 billion, of which \$500 million is available for the issuance of letters of credit. The issuance of letters of credit reduces the aggregate amount otherwise available under the Revolving Credit Agreement for the making of revolving loans. Borrowings under the Revolving Credit Agreement will bear interest at a fluctuating rate per annum equal to, at our option, the alternate base rate or the reserve adjusted LIBOR, in each case, plus an applicable margin calculated based on our credit ratings. As of November 30, 2015, there were no borrowings or letters of credit issued pursuant to the Revolving Credit Agreement.

TABLE OF CONTENTS

Total upfront fees related to the Term Loan Agreement and Revolving Credit Agreement were \$14 million. We pay a facility fee to the financing banks to keep these lines of credit active.

Walgreens guaranteed the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of Walgreens Boots Alliance under the Term Loan Agreement and the Revolving Credit Agreement until August 10, 2015, when such guarantees were unconditionally released and discharged (as described below).

On November 18, 2014, we issued several series of unsecured, unsubordinated notes totaling \$8.0 billion, with maturities ranging from 2016 to 2044. All such notes have fixed interest rates, with the exception of the \$750 million notes due 2016, which have a floating rate based on the three-month LIBOR plus a fixed spread of 45 basis points.

On November 20, 2014, we issued a series of unsecured, unsubordinated notes that included total Pound Sterling denominated debt of £700 million (\$1.1 billion based on the November 20, 2014 exchange rate) with maturities due 2020 and 2025 and Euro denominated debt of €750 million (\$940 million based on the November 20, 2014 exchange rate) due 2026. All notes issued on November 20, 2014 have fixed interest rates. The notes issued on November 18, 2014 and November 20, 2014 are collectively referred to as the “WBA notes”. The WBA notes were, upon initial issuance, fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Walgreens.

On December 19, 2014, Walgreens Boots Alliance and Walgreens entered into a Revolving Credit Agreement (as amended, the “364-Day Credit Agreement”) with the lenders party thereto. The 364-Day Credit Agreement was a \$750 million, 364-day unsecured, multicurrency revolving facility. On July 9, 2015, the 364-Day Credit Agreement was amended to remove Walgreens as a borrower thereunder, eliminate Walgreens’ guarantee of all obligations of Walgreens Boots Alliance thereunder and make certain conforming changes to effectuate those modifications, including modifications and deletions of certain definitions and cross-references. As of November 30, 2015, there were no borrowings against the 364-Day Credit Agreement. On December 17, 2015, the Company terminated the 364-Day Credit Agreement. The 364-Day Credit Agreement remained undrawn as of the date of termination and would have matured on December 30, 2015.

The 364-Day Credit Agreement and the Term Loan Agreement and Revolving Credit Agreement described above each contain or contained (as applicable) a covenant to maintain, as of the last day of each fiscal quarter, a ratio of consolidated debt to total capitalization not to exceed 0.60 to 1.00, as well as other customary restrictive covenants. As of November 30, 2015, we were in compliance with all such covenants.

In addition, on July 9, 2015, pursuant to an indenture, dated as of July 17, 2008, between Walgreens and Wells Fargo Bank, National Association, as trustee, notices of redemption were given to (i) holders of 1.800% unsecured notes due 2017 (the “2017 Notes”) and (ii) holders of 5.25% unsecured notes due 2019 (the “2019 Notes”), in each case issued by Walgreens under the indenture. As a result, on August 10, 2015 (the “redemption date”), the 2017 Notes in the aggregate principal amount of \$1.0 billion were redeemed in full and \$750 million aggregate principal amount of the 2019 Notes were redeemed. The partial redemption of the 2019 Notes resulted in \$250 million aggregate principal amount of 2019 Notes remaining outstanding. The redemption price with respect to the 2017 Notes was equal to 101.677% of the aggregate principal amount of such notes to be redeemed, plus accrued interest thereon to, but excluding, the redemption date. The redemption price with respect to the 2019 Notes was equal to 111.734% of the aggregate principal amount of such notes to be redeemed, plus accrued interest thereon to, but excluding, the redemption date.

On August 10, 2015, upon the completion of the redemptions described above, the Walgreens guarantees of the WBA notes and the Term Loan Agreement and the Revolving Credit Agreement were unconditionally released and discharged in accordance with their terms.

Pending Rite Aid Transaction. The cash consideration payable to Rite Aid stockholders pursuant to the Merger Agreement described under “Introduction” above is expected to be financed with a combination of cash on hand and debt financing. In connection with the Merger Agreement, Walgreens Boots Alliance entered into a bridge facility commitment letter (as amended and restated as of November 19, 2015, the “Commitment Letter”) with UBS Securities LLC and UBS AG, Stamford Branch for a \$12.8 billion senior unsecured bridge facility. Subject

TABLE OF CONTENTS

to certain customary terms and conditions, such facility may be used to fund, in part, the cash consideration payable to Rite Aid stockholders pursuant to the Merger Agreement, to repay the indebtedness of Rite Aid to be repaid in connection with the transaction and to pay related fees and expenses.

On December 18, 2015, Walgreens Boots Alliance entered into a Bridge Term Loan Credit Agreement with the lenders party thereto and UBS AG, Stamford Branch, as administrative agent (the "Bridge Credit Agreement") and a Term Loan Credit Agreement with the lenders party thereto and Bank of America, N.A., as administrative agent (the "Term Loan Credit Agreement" and, together with the Bridge Credit Agreement, the "Credit Agreements"). The Commitment Letter and the commitments contemplated thereby terminated upon Walgreens Boots Alliance entering into the Credit Agreements.

The Bridge Credit Agreement is a 364-day unsecured bridge term loan facility. The aggregate commitments of all lenders under the Bridge Credit Agreement are equal to \$7.8 billion, provided that Walgreens Boots Alliance may increase the commitments under the Bridge Credit Agreement at any time prior to the funding of the loans thereunder by up to \$2.0 billion, subject to obtaining commitments from existing lenders and/or new lenders selected by Walgreens Boots Alliance and reasonably acceptable to the administrative agent. Walgreens Boots Alliance can extend up to \$3.0 billion of the loans under the Bridge Credit Agreement for an additional 90-day period if desired.

The Term Loan Credit Agreement is a two-tranche unsecured term loan facility, with the first tranche maturing three years after the earlier of the funding date and October 27, 2016, and the second tranche maturing five years after the earlier of the funding date and October 27, 2016. The aggregate commitments of all lenders under the Term Loan Credit Agreement are equal to \$5.0 billion, provided that Walgreens Boots Alliance may increase the commitments under the Term Loan Credit Agreement at any time prior to January 15, 2016 by up to \$450 million, subject to obtaining commitments from existing lenders and/or new lenders selected by Walgreens Boots Alliance and reasonably acceptable to the administrative agent.

Walgreens Boots Alliance will be the borrower under each of the Credit Agreements. The ability of Walgreens Boots Alliance to request the making of loans under each Credit Agreement is subject to the satisfaction (or waiver) of certain conditions set forth therein and will terminate upon the occurrence of certain events set forth therein. Borrowings under each Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the reserve adjusted Eurocurrency rate, in each case, plus an applicable margin calculated based on Walgreens Boots Alliance's credit ratings. Upfront fees paid to date in connection with the Credit Agreements totaled \$18 million. A maximum of a further \$17 million in upfront fees is payable prior to, or at funding, subject to certain conditions. In addition, Walgreens Boots Alliance will also pay to the lenders under each Credit Agreement certain customary fees, including a ticking fee based on the aggregate outstanding commitments of the lenders under the applicable Credit Agreement starting at 90 days after signing. Each of the Credit Agreements contains a covenant to maintain, as of the last day of each fiscal quarter, a ratio of consolidated debt to total capitalization not to exceed 0.60 to 1.00, as well as other customary restrictive covenants, which restrictive covenants shall not be in effect until the funding of the loans under the applicable Credit Agreement.

The foregoing description of the Credit Agreements does not purport to be complete and is qualified in its entirety by reference to the full text of the Credit Agreements, which are filed as Exhibit 10.11 and Exhibit 10.12 to this report.

As of January 6, 2016, the credit ratings of Walgreens Boots Alliance were:

<u>Rating Agency</u>	<u>Long-Term Debt Rating</u>	<u>Commercial Paper Rating</u>	<u>Outlook</u>
Moody's	Baa2	P-2	On review for downgrade
Standard & Poor's	BBB	A-2	Negative

In assessing our credit strength, both Moody's and Standard & Poor's consider various factors including our business model, capital structure, financial policies and financial performance. There can be no assurance that any particular rating will be assigned or maintained. Our credit ratings impact our borrowing costs, access to capital markets and operating lease costs. The rating agency ratings are not recommendations to buy, sell or hold our debt securities or commercial paper. Each rating may be subject to revision or withdrawal at any time by the assigning rating agency and should be evaluated independently of any other rating.

TABLE OF CONTENTS

Pursuant to our arrangements with AmerisourceBergen, we have the right, but not the obligation, to purchase a minority equity position in AmerisourceBergen over time through open market purchases and pursuant to warrants to acquire AmerisourceBergen common stock. We hold (a) warrants to purchase up to 22,696,912 shares of AmerisourceBergen common stock at an exercise price of \$51.50 per share exercisable during a six-month period beginning in March 2016, and (b) warrants to purchase up to 22,696,912 shares of AmerisourceBergen common stock at an exercise price of \$52.50 per share exercisable during a six-month period beginning in March 2017. We also can acquire up to 19,859,795 AmerisourceBergen shares in the open market. The amount of permitted open market purchases is subject to increase in certain circumstances. As of November 30, 2015, we had purchased a total of approximately 11.5 million AmerisourceBergen shares in the open market. Share purchases may be made from time to time in open market transactions or pursuant to instruments and plans complying with Rule 10b5-1.

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

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

See Item 3 (Qualitative and Quantitative Disclosures about Market Risk) below for a discussion of certain financing and market risks.

OFF-BALANCE SHEET ARRANGEMENTS

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

As of November 30, 2015, we have issued \$408 million in letters of credit, primarily related to insurance obligations. We also had \$9 million of guarantees to various suppliers outstanding as of November 30, 2015. We remain secondarily liable on 71 leases. The maximum potential undiscounted future payments related to these leases was \$347 million as of November 30, 2015.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Other than our obligations under the Merger Agreement and the transactions contemplated thereby, there have been no material changes, outside of the ordinary course of business, in our outstanding contractual obligations disclosed in the Walgreens Boots Alliance Annual Report on Form 10-K for the year ended August 31, 2015.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with GAAP and include amounts based on management’s prudent judgments and estimates. Actual results may differ from these estimates. Management believes that any reasonable deviation from those judgments and estimates would not have a material impact on our consolidated financial position or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of earnings and corresponding balance sheet accounts would be necessary. These adjustments would be made in future periods. For a discussion of our significant accounting policies, please see the Walgreens Boots Alliance Annual Report on Form 10-K for the fiscal year ended August 31, 2015. Some of the more significant estimates include business combinations, goodwill and other

TABLE OF CONTENTS

intangible asset impairment, allowance for doubtful accounts, vendor allowances, asset impairments, liability for closed locations, cost of sales and inventory, equity method investments, pension and postretirement benefits and income taxes. There have been no significant changes in those accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

A discussion of recent accounting pronouncements is described in Note 20, Recent Accounting Pronouncements in Item 1. Consolidated Condensed Financial Statements (Unaudited) of this Current Report on Form 10-Q and is incorporated herein by reference.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that could cause actual results to vary materially from those indicated, including, but not limited to, those relating to the impact of private and public third-party payers' efforts to reduce prescription drug reimbursements, the impact of generic prescription drug inflation, the timing and magnitude of the impact of branded to generic drug conversions, our ability to realize anticipated synergies and achieve anticipated financial, tax and operating results in the amounts and at the times anticipated, supply arrangements including our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and their possible effects, the risks associated with equity investments in AmerisourceBergen including whether the warrants to invest in AmerisourceBergen will be exercised and the ramifications thereof, the occurrence of any event, change or other circumstance that could give rise to the termination, cross-termination or modification of any of our contractual obligations, the amount of costs, fees, expenses and charges incurred in connection with strategic transactions, whether the actual costs associated with restructuring activities will exceed estimates, our ability to realize expected savings and benefits from cost-savings initiatives, restructuring activities and acquisitions in the amounts and at the times anticipated, the timing and amount of any impairment or other charges, changes in management's assumptions, the risks associated with governance and control matters, the ability to retain key personnel, changes in economic and business conditions generally or in the markets in which we participate, changes in financial markets, interest

TABLE OF CONTENTS

rates and foreign currency exchange rates, the risks associated with international business operations, the risk of unexpected costs, liabilities or delays, changes in vendor, customer and payer relationships and terms, including changes in network participation and reimbursement terms, risks of inflation in the cost of goods, risks associated with the operation and growth of our customer loyalty programs, competition, risks associated with new business areas and activities, risks associated with acquisitions, divestitures, joint ventures and strategic investments, including those relating to our ability to satisfy the closing conditions and consummate the pending acquisition of Rite Aid and related financing matters on a timely basis or at all, the risks associated with the integration of complex businesses, subsequent adjustments to preliminary purchase accounting determinations, outcomes of legal and regulatory matters, including with respect to regulatory review and actions in connection with the pending acquisition of Rite Aid, and changes in legislation, regulations or interpretations thereof. These and other risks, assumptions and uncertainties are described in Item 1A “Risk Factors” in our Form 10-K for the year ended August 31, 2015 and in other documents that we file or furnish with the SEC. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the date the statement is made, whether as a result of new information, future events, changes in assumptions or otherwise.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

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

We also use interest rate caps to protect from rising interest rates on existing floating-rate debt. Information regarding our interest rate swaps, forward starting interest rate swaps, and interest rate caps transactions are set forth in Note 11, Financial Instruments to our unaudited Consolidated Condensed Financial Statements. These financial instruments are sensitive to changes in interest rates. On November 30, 2015, we had approximately \$3 billion in long-term debt obligations that had floating interest rates. A one percentage point increase or decrease in interest rates for the various debt held by us would increase or decrease the annual interest expense we recognize and the cash we pay for interest expense by approximately \$30 million. The amounts exclude the impact of any associated interest rate swaps, forward starting interest rate swaps and interest rate caps.

Foreign Currency Exchange Rate Risk

We are exposed to fluctuations in foreign currency exchange rates, primarily with respect to the British Pound Sterling and Euro, and certain other foreign currencies, including the Mexican Peso, Chilean Peso, Norwegian Krone and Turkish Lira may affect our net investment in foreign subsidiaries and may cause fluctuations in cash flows related to foreign denominated transactions. We are also exposed to the translation of foreign currency earnings to the U.S. dollar. We enter into foreign currency forward contracts to hedge against the effect of exchange rate fluctuations on non-functional currency cash flows of certain entities denominated in foreign currencies. These transactions are almost exclusively less than 12 months in maturity. In addition, we enter into foreign currency forward contracts that are not designated in hedging relationships to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany financing transactions). As circumstances warrant, we also use basis swaps as hedging instruments to hedge portions of our net investments in foreign operations. The foreign currency derivative instruments are sensitive to changes in exchange rates. A 1% increase or decrease in exchange rates would increase or decrease our pre-tax income by approximately \$6 million due to changes in the value of foreign currency instruments. Excluded from the computation were anticipated transactions, foreign currency trade payables and receivables, and net investments in foreign subsidiaries, which the abovementioned instruments are intended to partially hedge.

TABLE OF CONTENTS

Equity Price Risk

Changes in AmerisourceBergen common stock price and equity volatility may have a significant impact on the value of the warrants to acquire AmerisourceBergen common stock described in Note 11, Financial Instruments to our unaudited Consolidated Condensed Financial Statements. As of November 30, 2015, a one dollar change in AmerisourceBergen's common stock would, holding other factors constant, increase or decrease the fair value of our AmerisourceBergen warrants by \$45 million. Additionally, we hold an investment in AmerisourceBergen common stock. As of November 30, 2015, a one dollar change in AmerisourceBergen common stock would increase or decrease the fair value of our investment by \$11 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by the Company's management, including its CEO and CFO, except as noted below, no changes during the quarter ended November 30, 2015 were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. As a result of the closing of the Second Step Transaction, the Company has incorporated internal controls over significant processes specific to the acquisition that it believes to be appropriate and necessary in consideration of the level of related integration. As the post-closing integration continues, the Company will continue to review the internal controls and processes of Alliance Boots and may take further steps to integrate such controls and processes with those of the Company.

Inherent Limitations on Effectiveness of Controls

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

[TABLE OF CONTENTS](#)

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information in response to this item is incorporated herein by reference to Note 13, Commitments and Contingencies of the Consolidated Condensed Financial Statements of this Quarterly Report.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A “Risk Factors” in the Walgreens Boots Alliance Annual Report on Form 10-K for the year ended August 31, 2015, which could materially affect our business, financial condition or future results.

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

- (c) The following table provides information about purchases by the Company during the quarter ended November 30, 2015 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act. Subject to applicable law, share purchases may be made in open market transactions, privately negotiated transactions, or pursuant to instruments and plans complying with Rule 10b5-1.

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Programs ⁽¹⁾	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Program ⁽¹⁾
9/1/15 – 9/30/15	1,271,164	\$ 86.54	1,271,164	\$ 2,163,991,385
10/1/15 – 10/31/15	—	—	—	2,163,991,385
11/1/15 – 11/30/15 ⁽²⁾	5,115,207	81.88	—	2,163,991,385
Total	6,386,371	\$ 82.81	1,271,164	\$ 2,163,991,385

- (1) In August 2014, the Walgreens Board of Directors approved the 2014 share repurchase program which authorizes the purchase of up to \$3.0 billion of Walgreens’ (or, after December 31, 2014 Walgreens Boots Alliance) common stock prior to the program’s expiration on August 31, 2016.

- (2) We purchased 5,115,207 shares of our common stock in open-market transactions for future issuance under our Omnibus Incentive Plan and employee stock purchase plan.

Item 6. Exhibits

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

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

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

TABLE OF CONTENTS

<u>Exhibit No.</u>	<u>Description</u>	<u>SEC Document Reference</u>
2.1**	Agreement and Plan of Merger, dated as of October 27, 2015, by and among Walgreens Boots Alliance, Inc., Victoria Merger Sub, Inc. and Rite Aid Corporation.	Incorporated by reference to Exhibit 2.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on October 29, 2015.
3.1	Amended and Restated Certificate of Incorporation of Walgreens Boots Alliance, Inc.	Incorporated by reference to Exhibit 3.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
3.2	Amended and Restated Bylaws of Walgreens Boots Alliance, Inc.	Incorporated by reference to Exhibit 3.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on October 16, 2015.
4.1	Indenture, dated as of December 17, 2015, between Walgreens Boots Alliance, Inc. and Wells Fargo Bank, National Association, as trustee.	Incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-3 (File No. 333-208587) filed with the SEC on December 17, 2015.
10.1*	Form of Performance Share Award agreement (effective October 2015).	Incorporated by reference to Exhibit 10.5 to Walgreens Boots Alliance, Inc.'s Annual Report on Form 10-K (File No. 001-36759) filed with the SEC on October 28, 2015.
10.2*	Form of Stock Option Award agreement (effective October 2015).	Incorporated by reference to Exhibit 10.6 to Walgreens Boots Alliance, Inc.'s Annual Report on Form 10-K (File No. 001-36759) filed with the SEC on October 28, 2015.
10.3*	UK Sub-Plan under the Walgreens Boots Alliance, Inc. 2013 Omnibus Incentive Plan.	Incorporated by reference to Exhibit 10.16 to Walgreens Boots Alliance, Inc.'s Annual Report on Form 10-K (File No. 001-36759) filed with the SEC on October 28, 2015.
10.4*	Form of Stock Option Award agreement under UK Sub-plan (effective October 2015).	Incorporated by reference to Exhibit 10.17 to Walgreens Boots Alliance, Inc.'s Annual Report on Form 10-K (File No. 001-36759) filed with the SEC on October 28, 2015.
10.5*	Corporate Travel and Expense Support Letter Agreement between Walgreens Boots Alliance, Inc. and George Fairweather, dated October 28, 2015.	Incorporated by reference to Exhibit 10.54 to Walgreens Boots Alliance, Inc.'s Annual Report on Form 10-K (File No. 001-36759) filed with the SEC on October 28, 2015.
10.6*	Corporate Travel and Expense Support Letter Agreement between Walgreens Boots Alliance, Inc. and Marco Pagni, dated October 28, 2015.	Incorporated by reference to Exhibit 10.57 to Walgreens Boots Alliance, Inc.'s Annual Report on Form 10-K (File No. 001-36759) filed with the SEC on October 28, 2015.

TABLE OF CONTENTS

Exhibit No.	Description	SEC Document Reference
10.7*	Separation Agreement, General Release and Waiver dated October 14, 2015 between Walgreens Boots Alliance, Inc., Walgreen Co. and Jeffrey Berkowitz.	Incorporated by reference to Exhibit 10.81 to Walgreens Boots Alliance, Inc.'s Annual Report on Form 10-K (File No. 001-36759) filed with the SEC on October 28, 2015.
10.8*	Consulting Services Agreement between Walgreens Boots Alliance, Inc. and Timothy McLevish dated November 2, 2015.	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on November 5, 2015.
10.9*	Consulting Services Agreement between Walgreens Boots Alliance, Inc. and Timothy Theriault dated December 2, 2015.	Filed herewith.
10.10	Amended and Restated Commitment Letter, dated as of November 19, 2015, by and among Walgreens Boots Alliance, Inc., UBS Securities LLC and UBS AG, Stamford Branch.	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on November 23, 2015.
10.11	Bridge Term Loan Credit Agreement, dated as of December 18, 2015, by and among Walgreens Boots Alliance, Inc., the lenders from time to time party thereto and UBS AG, Stamford Branch, as administrative agent.	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on December 21, 2015.
10.12	Term Loan Credit Agreement, dated as of December 18, 2015, by and among Walgreens Boots Alliance, Inc., the lenders from time to time party thereto and Bank of America, N.A., as administrative agent.	Incorporated by reference to Exhibit 10.2 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on December 21, 2015.
12	Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished herewith.

TABLE OF CONTENTS

Exhibit No.	Description	SEC Document Reference
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished herewith.
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

* Management contract or compensatory plan or arrangement.

** Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and Walgreens Boots Alliance, Inc. agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule and/or exhibit upon request.

[TABLE OF CONTENTS](#)

SIGNATURES

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

Walgreens Boots Alliance, Inc.
(Registrant)

Dated : January 7, 2016

/s/ George R. Fairweather
George R. Fairweather
Executive Vice President and Global Chief Financial Officer

Dated : January 7, 2016

/s/ Kimberly R. Scardino
Kimberly R. Scardino
Senior Vice President, Global Controller and Chief
Accounting Officer
(Principal Accounting Officer)

CONSULTING SERVICES AGREEMENT

This Consulting Services Agreement (this "Agreement") is entered into as of this 2nd day of December, 2015, by and between Walgreens Boots Alliance, Inc., a Delaware corporation, on behalf of itself and its subsidiaries and affiliates (the "Company"), and Timothy J. Theriault ("Consultant").

WHEREAS, Consultant was previously employed by the Company as its Global Chief Information Officer through May 31, 2015 (the "Employment Termination Date"); and most recently served as a consultant to the Company for a five-month term ending October 31, 2015, pursuant to a prior Consulting Services Agreement (the "Prior Agreement");

WHEREAS, the parties desire that Consultant shall continue to perform consulting services; and

WHEREAS, both parties wish to enter into this Agreement to govern the terms and conditions of this arrangement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Consulting Services Effective Date. The "Consulting Services Effective Date" of this Agreement shall be November 1, 2015.

2. Services. During the Term (as defined in Section 4 below), Consultant agrees to make Consultant's personal services (the "Services") available to the Company to provide advice and counsel to the Chief Executive Officer of the Company, the highest ranking IT officer of the Company, and/or one designee of each of them on such matters as they deem appropriate, including providing input for global involvement of architectural/technology choices, including software approach and advising on transformational programs; advising and supporting the cyber-security program; advising on merger and acquisition integration and Global Platform Strategy matters. Consultant agrees to devote sufficient time and attention to the performance of the Services; it being understood that Consultant shall not devote more than an average of two days per week towards the Services, which in any case is expected to be 20% or less of the average level of services performed by Consultant for the Company over the 36-month period ending on the Employment Termination Date. The Company agrees to provide Consultant with access to all information necessary for him to render such Services.

3. Consideration.

(a) **Fees.** As consideration for the Services, the Company shall pay Consultant at the rate of \$40,000 per month, with a pro-rated amount to be paid for any partial month during the Term. The monthly fee for each month of the Term shall be processed during the last week of the month and paid on or before the fifth business day of the following month.

(b) Expenses. Consultant shall be reimbursed all pre-approved, reasonable expenses incurred by Consultant in the performance of the Services, in accordance with the Company's business expense policies and guidelines.

(c) Taxes. Consultant shall be responsible for all income and other taxes due to any taxing authority with respect to the fees provided hereunder. The Company is not required to pay nor will Consultant invoice the Company for sales tax on Services. Each party shall be responsible for the payment of other taxes, if any, imposed upon it in connection with, or as a result of, this Agreement, except as provided in Section 5 of Consultant's May 26, 2015 Separation Agreement.

4. Term Of Agreement. This Agreement will commence on the Consulting Services Effective Date and shall continue through October 31, 2016 (the "Term"); provided that either party may terminate the Term prior to October 31, 2016 upon written notice delivered to the other party at least two months prior to the date of such termination. Following the completion of the Term, this Agreement shall automatically continue in two-month increments (such additional period of time, the "Extended Term"), subject to either party's continuing right to terminate this Agreement at any time during the Extended Term upon two months' written notice delivered to the other party. All references in the remainder of this paragraph and the remainder of this Agreement to the Term shall include any Extended Term. The Term shall expire immediately upon Consultant's death. Fees shall be paid until the Term ends or expires for any reason.

5. Termination. Upon termination of this Agreement, the Company shall pay Consultant for fees and expenses incurred up to and including the end or expiration of the Term. Pursuant to its terms, Section 6 below will survive any expiration or termination of this Agreement.

6. Restrictive Covenants; Confidential Information. During the Term, Consultant shall remain subject to all continuing restrictive covenants and other continuing obligations as a former employee of the Company, including but not limited to all obligations included or referenced in the Non-Competition, Non-Solicitation and Confidentiality Agreements that Consultant agreed to in connection with restricted stock unit awards granted to him (the "Non-Compete Agreements"). It is understood and agreed that the duration of each of Consultant's post-employment obligations under the Non-Compete Agreements shall continue until the later of (i) the end of the restricted period(s) under the Non-Compete Agreements as measured from Consultant's May 31, 2015 Employment Termination Date or (ii) the end or expiration of the Term of this Agreement. Consultant shall also be independently subject under this Agreement to the obligation to maintain the confidentiality of all Confidential Information (as defined in Section 7 below) during the Term and at all times thereafter.

7. **Company Property.** On or before the last day of the Term, Consultant shall , to the extent not previously returned or delivered: (a) return all equipment, records, files, documents, data, programs or other materials and property in Consultant's possession, custody or control which relates or belongs to the Company or any one or more of its affiliates, including, without limitation, all, Confidential Information (defined below), computer equipment, access codes, messaging devices, credit cards, cell phones, keys and access cards; and (b) deliver all original and copies of confidential information, electronic data, notes, materials, records, plans, data or other documents, files or programs (whether stored in paper form, computer form, digital form, electronically or otherwise, on Company equipment or Consultant's personal equipment) that relate or refer in any to (1) the Company or any one or more of its affiliates, its business or its employees, or (2) the Company's Confidential Information or similar information. By signing this Agreement, Consultant represents and warrants that Consultant has not retained and has or shall timely return and deliver all the items described or referenced in subsections (a) or (b) above; and, that should Consultant later discover additional items described or referenced in subsections (a) or (b) above, Consultant shall promptly notify the Company and return/deliver such items to the Company. "Confidential Information" means information (1) disclosed to or known by Consultant as a consequence of or through his employment with the Company or one of its affiliates; and (2) which relates to any aspect of the Company's or an affiliate's business, research, or development, and shall include, but is not limited to, the Company's or an affiliate's trade secrets, proprietary information, business plans, marketing plans, financial information, employee performance, compensation and benefit information, cost and pricing information, identity and information pertaining to customers, suppliers and vendors, and their purchasing history with the Company, any business or technical information, design, process, procedure, formula, improvement, or any portion or phase thereof, that is owned by or has, at the time of termination, been used by the Company, any information related to the development of products and production processes, any information concerning proposed new products and production processes, any information concerning marketing processes, market feasibility studies, cost data, profit plans, capital plans and proposed or existing marketing techniques or plans, financial information, including, without limitation, information set forth in internal records, files and ledgers, or incorporated in profit and loss statements, fiscal reports, business plans or other financial or business reports, and information provided to the Company or an affiliate by a third party under restrictions against disclosure or use by the Company or others. Nothing in this Section shall be construed, however, to require Consultant to return to the Company any publicly available information or other information Consultant obtained by reason of his ownership of Company stock or debt.

8. **Warranties.** Consultant warrants that the Services (a) will be performed in a diligent and professional manner; (b) will conform to the provisions of this Agreement; and (c) will be performed in accordance with applicable laws.

9. **General Provisions.**

(a) **Independent Contractor.** Consultant understands and agrees that Consultant is serving as an independent contractor of the Company during the Term, and that Consultant is not an employee of the Company. Consultant further understands and agrees that the Company will not withhold any income or other taxes from the fees paid hereunder and that Consultant is responsible for paying Consultant's own income, social security, Medicare and other applicable taxes. Consultant further understands and agrees that Consultant will not have any right to the benefits under, or rights and privileges to participate in, the Company's employee benefit plans (all of which are made available only to the Company's employees), except as provided to him (i) as a former employee of the Company pursuant to the applicable plans or (ii) pursuant to the accompanying Separation Agreement. Consultant further agrees that any future reclassification of Consultant from independent contractor to employee status by a taxing authority will not confer upon Consultant eligibility for any retroactive or prospective Company benefits.

(b) Intellectual Property. Consultant agrees that all patentable or copyrightable ideas, writings, drawings, inventions, designs, parts, machines or processes developed solely as a result of, or in the course of, the Services shall be the property of the Company. Consultant herewith assigns all rights in such intellectual property to the Company, and shall supply all assistance reasonably requested in securing for the Company's benefit any patent, copyright, trademark, service mark, license, right or other evidence of ownership of any such intellectual property, and will provide full information regarding any such item and execute all appropriate documentation prepared by the Company in applying or otherwise registering, in the Company's name, all rights to any such item. The Company has the right to grant licenses to make, use, buy or sell any product or service derived from the Services performed under this Agreement to its affiliates and subsidiaries.

(c) Conduct. Consultant will comply with all applicable Company policies during the Term, including, but limited to: (i) no smoking; (ii) drug-free environment; (iii) dress code; (iv) non-harassment; (v) travel/expense guidelines; (vi) all safety and security policies (including a prohibition against weapons), and (vii) computer security and use policies.

(d) Non-Assignment. Consultant may not assign or delegate this Agreement or any of Consultant's rights or obligations under this Agreement without the prior written consent of the Company. Any attempted assignment or delegation without the necessary consent shall be void. Subject to the provisions of this Section, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

(e) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement. The parties shall execute two (2) originals of this Agreement (one for each party), whether or not executed in counterparts.

(f) Entire Agreement. Except as otherwise specified herein, this Agreement supersedes all prior understandings and agreements between the parties with respect to the subject matter hereof and may not be changed or terminated orally, and no change, termination or attempted waiver of any of the provisions hereof shall be binding unless in writing and signed by the party against whom the same is sought to be enforced.

(g) Governing Law. This Agreement shall be interpreted according to the laws of the State of Illinois.

[Signature Page to Follow]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto.

WALGREENS BOOTS ALLIANCE, INC.

By: /s/ Kathleen Wilson-Thompson
Name: Kathleen Wilson-Thompson
Title: EVP and Global Chief Human
Resources Officer
Dated: 12-2-2015

CONSULTANT

/s/ Timothy J. Theriault
Timothy J. Theriault
Dated: 12-2-2015

Walgreens Boots Alliance, Inc.
Computation of Historical Ratios of Earnings to Fixed Charges (a)
(in millions, except ratio data)

	Three Months Ended,		Twelve Months Ended,			
	Nov 30, 2015	2015	2014	2013	2012	2011
Income before income tax provision	\$ 1,273	\$ 5,311	\$ 3,557	\$ 4,047	\$ 3,376	\$ 4,294
Add:						
Minority Interests	—	—	—	5	—	—
Fixed charges	526	2,054	1,376	1,383	1,260	1,212
Amortization of capitalized interest	—	1	6	7	6	5
Less:						
Equity earnings	(7)	(315)	(617)	(496)	—	—
Capitalized interest	—	(1)	(6)	(7)	(9)	(10)
Earnings as defined	<u>\$ 1,792</u>	<u>\$ 7,050</u>	<u>\$ 4,316</u>	<u>\$ 4,939</u>	<u>\$ 4,633</u>	<u>\$ 5,501</u>
Interest expense, net of capitalized interest	\$ 146	\$ 632	\$ 168	\$ 193	\$ 94	\$ 77
Capitalized interest	—	1	6	7	9	10
Portions of rentals representative of the interest factor	380	1,421	1,202	1,183	1,157	1,125
Fixed charges as defined	<u>\$ 526</u>	<u>\$ 2,054</u>	<u>\$ 1,376</u>	<u>\$ 1,383</u>	<u>\$ 1,260</u>	<u>\$ 1,212</u>
Ratio of earnings to fixed charges	3.41	3.43	3.14	3.57	3.68	4.54

(a) For the purpose of computing these ratios, “earnings” consist of earnings before income tax provision and before adjustment for income or loss from equity investees, interest, distributed income of equity-method investees, and the portions of rentals representative of the interest factor. “Fixed charges” consist of interest expense (which includes amortization of capitalized debt issuance costs), capitalized interest and the portions of rentals representative of the interest factor.

Walgreens Boots Alliance, Inc. is the successor of Walgreen Co. See Note 1 of the consolidated financial statements for further information.

CERTIFICATION

I, Stefano Pessina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreens Boots Alliance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stefano Pessina Chief Executive Officer
Stefano Pessina

Date: January 7, 2016

CERTIFICATION

I, George Fairweather, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreens Boots Alliance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ George Fairweather Global Chief Financial Officer

Date: January 7, 2016

George Fairweather

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended November 30, 2015 as filed with the Securities and Exchange Commission (the "Report"), I, Stefano Pessina, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stefano Pessina

Stefano Pessina

Chief Executive Officer

Dated: January 7, 2016

A signed original of this written statement required by Section 906 has been provided to Walgreens Boots Alliance, Inc. and will be retained by Walgreens Boots Alliance, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended November 30, 2015 as filed with the Securities and Exchange Commission (the "Report"), I, George Fairweather, Global Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George Fairweather

George Fairweather

Global Chief Financial Officer

Dated: January 7, 2016

A signed original of this written statement required by Section 906 has been provided to Walgreens Boots Alliance, Inc. and will be retained by Walgreens Boots Alliance, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
