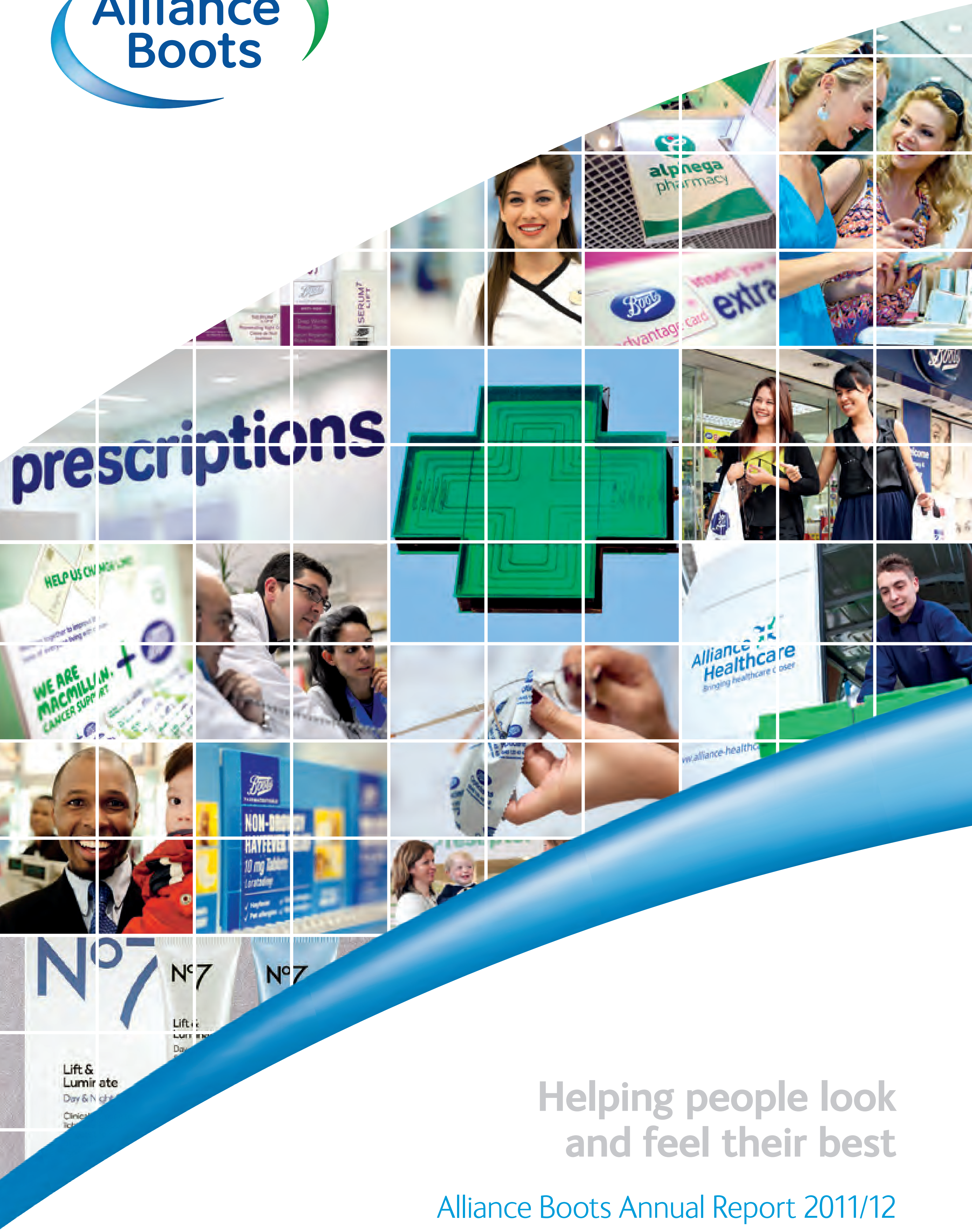

Helping people look and feel their best

Alliance Boots Annual Report 2011/12

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

What's inside

Overview

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Additional information

Our financial performance in 2011/12

(for the year ended 31 March 2012)

Revenue

+18.4%

£23.0bn

£25.4 billion including share of associates and joint ventures

EBITDA

+10.2%

£1,443m

£1,568 million including share of associates and joint ventures

Trading profit

+12.4%

£1,195m

£1,300 million including share of associates and joint ventures

- **Underlying profit – up 10.2% to £693 million**
- **Cash generated from operations – up 22.3% to £1,601 million**
- **Year end net borrowings – reduced by £826 million**

	£million
Revenue	**23,009**
EBITDA	**1,443**
Underlying depreciation and amortisation	(248)
Trading profit	**1,195**
Associates and joint ventures – share of underlying post tax earnings	60
Underlying net finance costs	(415)
Underlying tax charge	(147)
Underlying profit	**693**

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

	£million
Underlying profit	**693**
Amortisation of customer relationships and brands	(115)
Net exceptional items before tax	(33)
Timing differences within net finance costs	(32)
Tax credit on items not in underlying profit	41
Exceptional tax credit	75
Profit from continuing operations	**629**
Loss from discontinued operations	(57)
Profit for the year	**572**

Revenue, EBITDA and trading profit for the prior year have been re-presented to exclude operations discontinued during the year.

A glossary of key terms, including definitions of non-GAAP measures, is included on page 117.

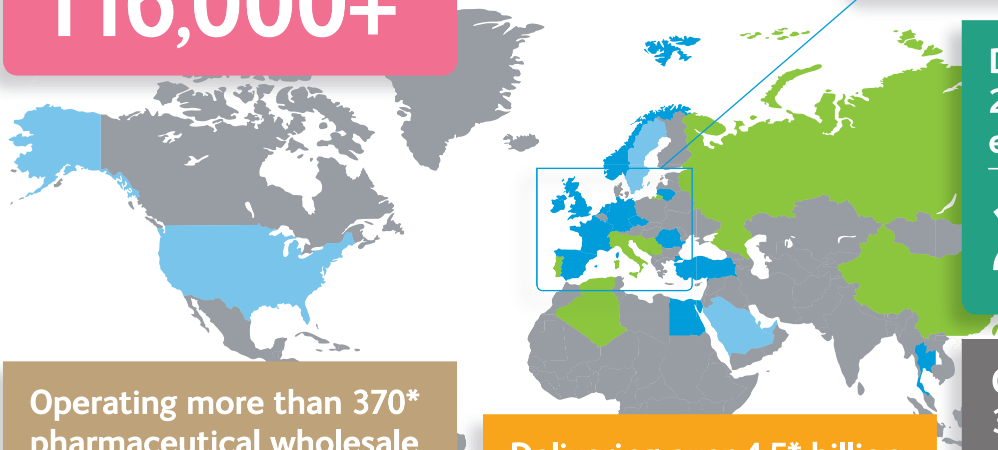
Our Group at a glance

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

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

Our focus is on growing our two core business activities:

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



Presence in more than 25* countries

25+

Over 116,000* employees

116,000+

Dispensing over 260 million* items each year

260m+

Operating more than 370* pharmaceutical wholesale distribution centres

370+

Delivering over 4.5* billion units each year – to more than 170,000* pharmacies, doctors, health centres and hospitals

170,000+

Operating more than 3,330* health & beauty retail stores, of which just over 3,200* have a pharmacy

3,330+

* Figures are approximations as at 31 March 2012 and include associates and joint ventures.

In addition, we have around 625* optical practices, of which around 185* operate on a franchised basis.

Our mission, purpose and values

Our mission

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

Our purpose

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

Our values

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

Partnership

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

Trust

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

Service

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

Entrepreneurship

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

Simplicity

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

Our business activities

Pharmacy-led health and beauty retailing

Alliance Boots, including our associates and joint ventures, has pharmacy-led health and beauty retail businesses in 11 countries, each focused on helping people look and feel their best.

Together with our associates and joint ventures, we operate more than 3,330 health and beauty retail stores, of which just over 3,200 have a pharmacy. In Europe, we are the clear market leader in pharmacy with stores in the UK, Norway, the Republic of Ireland, The Netherlands and Lithuania. We also have pharmacies in Thailand and our associates and joint ventures operate pharmacies in Switzerland, China, Italy, Russia and Croatia. In addition, around 65 Boots branded stores operate in the Middle East and Sweden on a franchised basis.

Our stores are located in convenient locations and put the pharmacist at the heart of healthcare. Our pharmacists are well placed to provide a significant role in the provision of healthcare services, working closely with other primary healthcare providers in the communities we serve.

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

In addition, Boots Opticians is one of the leaders in the UK optical market with around 625 practices, of which around 185 operate on a franchised basis.

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

Our product brands

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

We are continuing to internationalise our key product brands, selling them to independent pharmacies, retail partners and distributors, and on owned internet shopping sites in countries where we do not have a retail presence. In the US, we are significantly growing the No7 brand and in Europe our Boots Laboratories range is now sold by independent pharmacies in five countries following its recent launch in Germany in collaboration with Procter & Gamble.

* Figures in "our business activities" are approximations as at 31 March 2012 and include associates and joint ventures.

Pharmaceutical wholesaling and distribution

Our pharmaceutical wholesale businesses, together with our associates and joint ventures, supply medicines, other healthcare products and related services to more than 170,000 pharmacies, doctors, health centres and hospitals from over 370 distribution centres in 21 countries.

Our businesses provide high core service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability at competitive prices. We also offer our customers innovative added-value services which help pharmacists develop their own businesses. This includes membership of Alphega Pharmacy, our network for independent pharmacies, which has a membership of over 4,400 pharmacies in six countries.

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

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

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

In addition, we have long term partnerships with a select number of third party brand owners to sell their products in Boots stores on an exclusive basis, sharing in the future brand equity. We also continue to manufacture a significant proportion of our most popular own brand and exclusive products.

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

Executive Chairman's statement

Stefano Pessina
Executive Chairman

> **Alliance Boots is well placed to play a major role in the global development of our industry over the coming years.**

Introduction

I am pleased to report that Alliance Boots continues to perform very well. In 2011/12 Alliance Boots has again delivered double digit growth in trading profit while at the same time generating a strong operating cash flow to fund investment in growth and substantially reduce net borrowings. This performance, which has been achieved through a combination of organic growth and benefits from the previous year's acquisitions, is particularly encouraging given the challenging economic environment.

Our impressive financial record since Alliance Boots was formed in 2006 stems from our clear vision, divisional and business teams with strong operational know-how who put customers at the heart of all we do, combined with a corporate team skilled in acquiring and integrating businesses and in managing our finances. In all cases, we have well defined performance measures and strong financial disciplines.

We remain focused on becoming the world's leading pharmacy-led health and beauty group. In recent years, we have significantly expanded our international presence and now operate, together with our associates and joint ventures, in more than 25 countries. At the same time, we have made substantial capital investments, particularly in our Boots stores and supporting infrastructure. As a result, we have a strong platform for continuing growth in our core businesses and on which to build our next phase of development, focused on further international expansion.

Health & Beauty Division

The Health & Beauty Division delivered a good overall performance in the context of regulatory pressures, which particularly impacted dispensing profitability in the UK, and difficult retail markets. The results outside the UK were particularly notable, achieved through opening new stores and expanding product sales in key markets such as the US. This success is due to the hard work and commitment of our people under the leadership of Alex Gourlay and his management team. Together they have ensured that customers are at the heart of our businesses, while further developing our customer offer with a focus on product innovation and value, as well as executing a comprehensive business efficiency programme and introducing new pharmacy services.

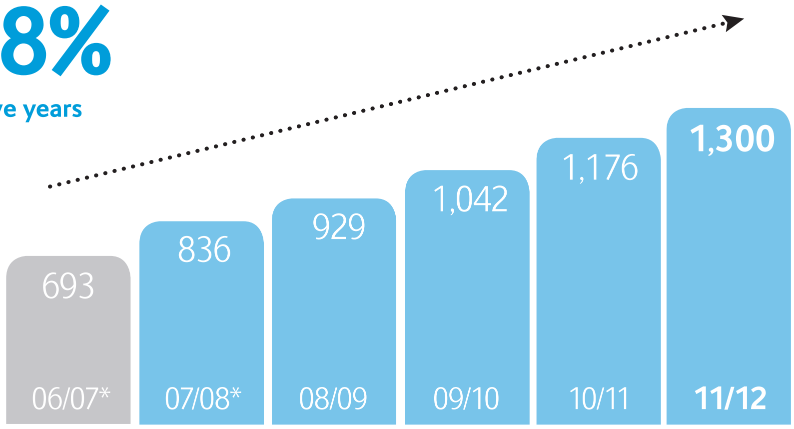
Pharmaceutical Wholesale Division

The Pharmaceutical Wholesale Division has continued to grow rapidly, achieving strong year on year revenue and profit growth despite challenging market conditions in many countries. This continued delivery demonstrates the strength and ability of Ornella Barra and her management team to successfully complete the integration of acquisitions made during the previous year, while at the same time maintaining a continued focus on customer service, exploiting evolving market opportunities and delivering further cost savings.

Trading profit

(including share of trading profit of associates and joint ventures)
£million

+88%
in last five years



* Pro forma.

The executive team

From left to right:

George Fairweather
Group Finance Director

Alex Gourlay
Chief Executive,
Health & Beauty Division

Stefano Pessina
Executive Chairman

Ornella Barra
Chief Executive,
Pharmaceutical Wholesale Division

Marco Pagni
Group Legal Counsel &
Chief Administrative Officer

Expanding our presence in emerging markets

While integrating the sizeable businesses acquired in 2010/11, we have further increased our direct ownership of Hedef Alliance, based in Turkey, from 70% to 80% and ANZAG, our German business, purchased a further 20% of the equity of Farmexpert in Romania bringing its ownership to 80%. In addition, Guangzhou Pharmaceuticals Corporation, our joint venture in China, made several acquisitions during the year to strengthen its position in key regional provinces.

Internationalising our product brands

We continue to make good progress to internationalise our product brands, creating a third dimension to our long term growth plans. We are rapidly increasing sales of key brands, such as No7, in countries where we do not have a retail presence. In addition, we have extended our collaboration with Procter & Gamble to sell the Boots Laboratories beauty range to independent pharmacies. This range is now available across five European countries, including Germany, the largest market in Europe. All of this expansion is being achieved through excellent cross-divisional teamwork.

Corporate social responsibility

We remain as committed as ever to maintaining our long tradition of excellence in corporate social responsibility, both in terms of performance and reporting. Our activities, which are in line with our core values, support our objective of building a sustainable world-leading group and making healthcare even more accessible to the communities we serve.

The new pan-European partnership which we have established with the EORTC Charitable Trust, to raise funds for a Biobank for colorectal cancer, is a further step in our commitment to support people affected by cancer and complements our ongoing collaboration with Macmillan Cancer Support in the UK. As in previous years, we will publish our detailed Corporate Social Responsibility Report in September, which, as last year, will include an independent assurance report issued by KPMG.

Our people

On behalf of the Board, I would like to thank our people across the Group for their dedication and excellent work throughout the year. Some of our colleagues demonstrated remarkable commitment in the face of extreme adversity, for example in overcoming the floods in Thailand and the earthquake in Turkey. Their efforts, along with those of our colleagues elsewhere in the world, have enabled us to achieve a strong financial performance while at the same time delivering consistently high levels of customer and patient services.

Outlook

In the coming year, we expect the economic environment to remain difficult with continuing pressure on both consumer and governmental expenditure. This will generate both challenges and new opportunities for us.

We are confident about our future prospects and ability to pursue profitable growth, both organically and through further international expansion. This will be supported by our strong operating cash flow and secure funding arrangements, which will enable us to continue to invest while at the same time reducing net borrowings. The development of new and existing partnerships will be a key component of our future growth.

Our mission is to become the world's leading pharmacy-led health and beauty group. In a world where globalisation is increasing at pace across many business sectors, I believe that we have the brands, intellectual capital and management expertise to play a major role in the global development of our industry in the coming years.

Stefano Pessina
Executive Chairman
11 May 2012

EORTC European Organisation for Research and Treatment of Cancer

Alliance Boots

working together in the research and treatment of cancer

“We are working towards funding a breakthrough in cancer research.”

In June 2011, we announced a new pan-European partnership with the EORTC Charitable Trust.

Alliance Boots is committed to raising €5 million over five years for the Trust to support the creation and funding of:

- a Biobank for colorectal cancer, and later
- a platform for blood sampling to enable genetic profiling…

…with the support of our employees and key suppliers.

Group strategy and objectives

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

Our strategy includes:

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

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

Pharmacy-led health and beauty retailing

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

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

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

Increasingly differentiating our product offering

We are continuing to develop and launch innovative new health and beauty product brands, while at the same time enhancing our long established product brands, primarily through new product development in key areas such as anti-ageing technology. In addition, we are working with new and existing brand partners to develop other differentiated product ranges that are exclusive to Boots.

Continuing to provide customers with excellent value

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

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

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

Making Boots more convenient and accessible for our customers

We are opening new Boots stores on a selective basis and are continuing our programme of relocating and refitting stores and optical practices to make Boots more convenient and easier for our customers to shop and get their prescription medicines.

Creating a compelling multi-channel health and wellbeing consumer offering

We are continuing to develop boots.com to make it easier for our customers to use at home and with mobile technology. This is supported by investment in logistics to fulfil online orders more quickly for collection in store or deliveries to customers' homes. In addition, we are further developing BootsWebMD.com, our consumer health and wellness information portal.

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

Opening new stores in markets where Boots is already well established
We are continuing to open new stores in the Republic of Ireland and in Thailand.

Developing country specific Boots branded trading formats to meet local needs
These include the 'Boots apotek' concept in Norway, the 'Boots apotheek' concept currently being rolled out in The Netherlands, and Boots in Thailand where our offer includes a high proportion of locally sourced products tailored for the local market. In addition, we will, over time, consider establishing Boots stores in new countries where legislation permits and it makes economic sense to do so.

Franchising the Boots format on a selective basis
We are continuing to support our existing franchise partners in opening new stores and are evaluating franchise opportunities in other countries on a selective basis.

Increasing sales of Boots product brands to third parties
We are internationalising our key product brands, including No7, through selling products to independent pharmacies, retail partners and distributors, and on internet shopping sites in countries where we do not have a retail presence. In addition, we employ our own beauty consultants in partners' stores on a selective basis.

Increasingly, we are collaborating with carefully chosen partners to accelerate this key element of our international expansion and are working towards establishing more new partnerships in the coming years.

Pharmaceutical wholesaling and distribution

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

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

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

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

Evolving our business model to meet changing demands from manufacturer and pharmacy customers for new services
We are doing this through achieving preferred status for selective wholesaler contracts, winning direct-to-pharmacy distribution contracts, expanding Alloga which provides pre-wholesale and contract logistics services, developing our contract sales forces under the new 'Skills in healthcare' brand, and developing innovative added-value services such as the Alphega Pharmacy concept. We are also continuing to develop other new solutions to meet customers' evolving needs.

Increasing efficiency and driving down costs
This is being achieved by growing market share where it is desirable to do so, completing our Division-wide business improvement programme and acquiring businesses to increase scale.

Further differentiating our product offering
We are doing this through a series of initiatives. These include increasing the number of countries where our Boots Laboratories beauty products and Alvita patient care products are sold to independent pharmacies and further developing Almus, our exclusive range of generic medicines.

Extending our capabilities into high growth specialty medicine/homecare markets and entering new geographical markets
We are seeking to enter new geographical markets where stable regulatory environments, large populations, growing healthcare expenditure, scope for wholesaler consolidation and the right management can be found.


No7
New Lift &
uminate Day
& Night Serum
CLINICALLY PROVEN
No7
No7
No7
No7

"No7 has done it again."

New No7 Lift & Luminate Day & Night Serum – proven to tackle the three key signs of ageing for 45+ skin:

- reduces the appearance of wrinkles
- makes skin feel firmer
- evens skin tone and lightens and fades age spots...

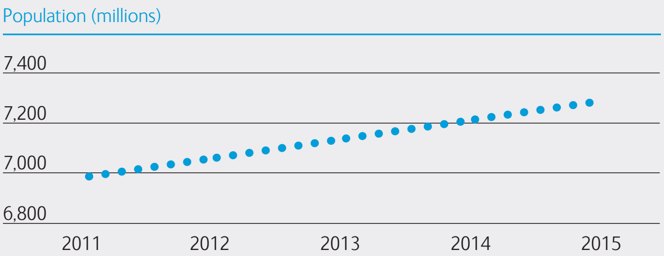
...helping women look younger.

Our markets and business environment

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

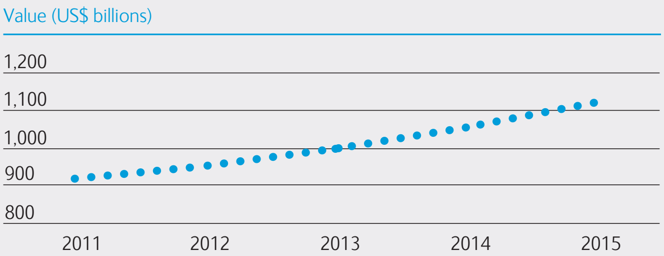
We expect increasing life expectancy and product innovation to continue to drive demand for prescription medicines and related healthcare services. At the same time, we believe that a growing customer focus on personal wellbeing will drive demand for health and beauty consumer products and related services.

World population forecasts*



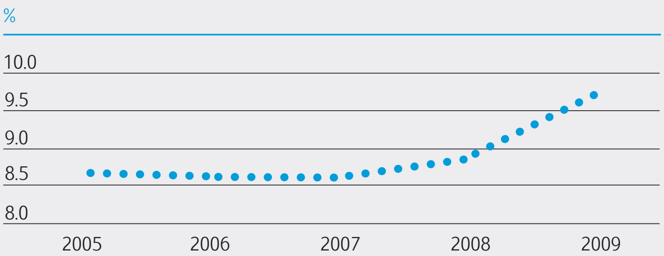
* Medium fertility variant.
Source: United Nations, World Population Prospects: The 2010 Revision (June 2011).

World pharmaceutical market forecasts*



* Constant exchange rates based on average rates for quarter 4 2010 as recorded by IMS Health.
Source: IMS Market Prognosis Global 2011-2015.

Healthcare expenditure as a percentage of GDP



Source: OECD Health Data 2011.

Key trends and market developments

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

New and innovative prescription medicines will continue to be developed

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

An increasing number of medicines to be available for retail purchase

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

Latent consumer demand for beauty products with proven pharmaceutical benefits

The huge success of No7 Protect & Perfect Intense Beauty Serum highlights the latent consumer demand for beauty products which are validated by scientific evidence. We, along with certain other leading manufacturers of beauty products, continue to focus our product development activities in this select area of the beauty marketplace.

Continuing price cuts on established branded prescription medicines

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

More healthcare services to be provided in the community

Governments are seeking to provide more healthcare services in the community in a cost-effective way. Pharmacy is well placed to provide many services, such as Medicine Check-ups, weight management programmes, smoking cessation advice and flu vaccinations. In addition, we also expect the market for homecare services to grow rapidly.

Branded pharmaceutical manufacturers to seek further control over their distribution channels

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

An increasing proportion of prescriptions to be lower cost generic medicines

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

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

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

Further consolidation of the pharmaceutical wholesaling and distribution sector

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

Our five year financial record

> **Every year Alliance Boots has delivered a double digit growth in trading profit.**

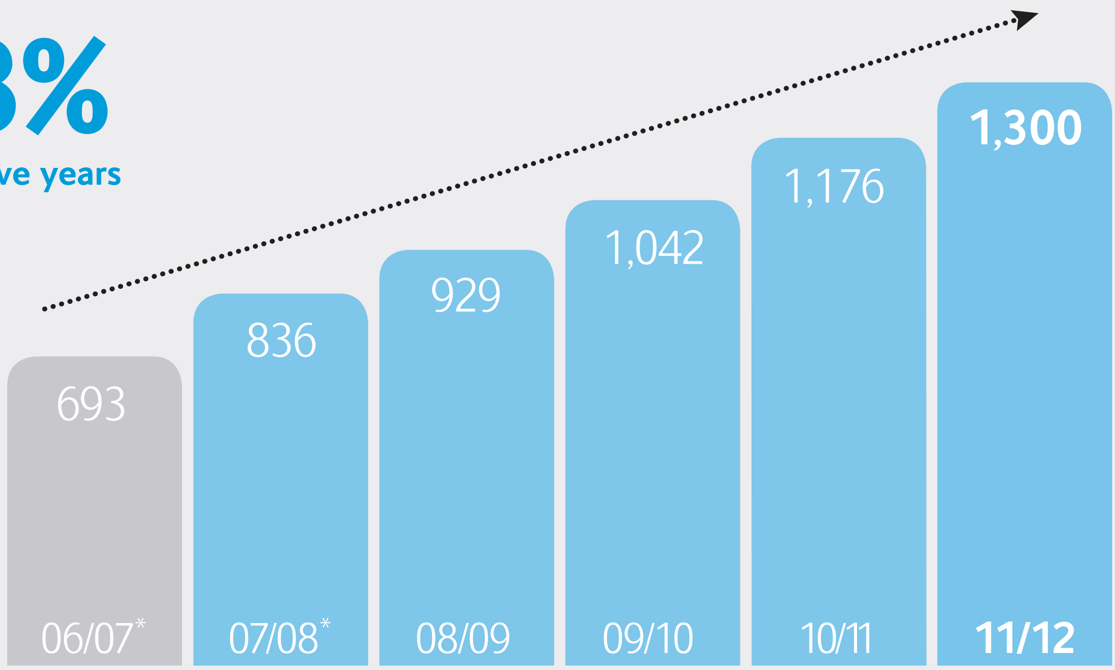
Trading profit

(including share of trading profit of associates and joint ventures)

£million

+88%

in the last five years



* Pro forma.

Financial results

for the years ended 31 March
(comparative revenue, EBITDA and trading profit amounts are re-presented to exclude operations discontinued prior to 31 March 2012)

	Pro forma 2007/08 £million	Actual 2008/09 £million	Actual 2009/10 £million	Actual 2010/11 £million	Actual 2011/12 £million
Revenue					
Health & Beauty	6,826	7,120	7,492	7,624	7,671
Pharmaceutical Wholesale	8,393	9,746	10,626	13,154	16,828
Contract Manufacturing	105	106	252	253	255
Intra-group	(1,202)	(1,309)	(1,459)	(1,603)	(1,745)
Group	**14,122**	**15,663**	**16,911**	**19,428**	**23,009**
Share of associates and joint ventures	2,313	3,151	3,593	3,126	2,374
	16,435	**18,814**	**20,504**	**22,554**	**25,383**
EBITDA					
Group	**1,003**	**1,067**	**1,162**	**1,310**	**1,443**
Share of associates and joint ventures	82	110	133	142	125
	1,085	**1,177**	**1,295**	**1,452**	**1,568**
Trading profit					
Health & Beauty	604	671	727	767	813
Pharmaceutical Wholesale	188	195	225	332	414
Contract Manufacturing & Corporate Costs	(38)	(47)	(42)	(36)	(32)
Group	**754**	**819**	**910**	**1,063**	**1,195**
Share of associates and joint ventures	82	110	132	113	105
	836	**929**	**1,042**	**1,176**	**1,300**
Cash generated from operations	**1,152**	**1,045**	**1,130**	**1,309**	**1,601**
Total cash flow		**188**	**504**	**573**	**782**
(Increase)/decrease in net borrowings		**(288)**	**645**	**546**	**826**
Net borrowings – year end	**8,746**	**9,034**	**8,389**	**7,843**	**7,017**
Total equity – year end	**4,048**	**4,224**	**4,340**	**5,124**	**5,701**

Alliance Boots plc was acquired on 26 June 2007. To assist in understanding the performance of the Group, pro forma financial information is set out above to show the results from continuing operations of the Group for the year ended 31 March 2008 as if the acquisition of Alliance Boots plc in June 2007 had taken place prior to 31 March 2007. Alliance Boots plc was created on 31 July 2006 through the merger of Alliance UniChem Plc and Boots Group PLC. The percentage increase in trading profits over the last five years is calculated using pro forma financial information for 2006/07 as if the two former groups had always been combined.

Business review: Overview

In 2011/12 we delivered a double digit growth in trading profit through a combination of organic growth and the benefits from the previous year's acquisitions.

Revenue	EBITDA	Trading profit
+18.4%	+10.2%	+12.4%

Performance by Division
for the year ended 31 March 2012

			Year on year growth	
Continuing operations	Revenue £million	Trading profit £million	Revenue	Trading profit
Health & Beauty	7,671	813	+0.6%	+6.0%
Pharmaceutical Wholesale	16,828	414	+27.9%	+24.7%
Contract Manufacturing & Corporate Costs	255	(32)	+0.8%	
Intra-group	(1,745)			
Group[1]	**23,009**	**1,195**	**+18.4%**	**+12.4%**
Share of revenue and trading profit of associates and joint ventures	2,374	105	-24.1%	-7.1%
	25,383	**1,300**	**+12.5%**	**+10.5%**

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

Throughout the business review, revenue, EBITDA and trading profit for the prior year have been re presented to exclude operations discontinued during the year (in accordance with IFRS).

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

A list of principal businesses, associates and joint ventures and a glossary of key terms are included on pages 114 to 117.

In 2011/12 the Group performed very well, delivering double digit growth in trading profit while at the same time generating a strong operating cash flow to fund investment in growth and substantially reduce net borrowings. This performance, which has been achieved through a combination of organic growth and benefits from the previous year's acquisitions, is particularly encouraging given the challenging economic environment.

Financial highlights

Revenue increased year on year by 18.4% to £23,009 million. Trading profit increased by 12.4% to £1,195 million and EBITDA on the same basis by 10.2% to £1,443 million. On a constant currency basis, revenue increased by 19.0%, an increase of 0.6% on a like for like basis.

Revenue, including our share of revenue of associates and joint ventures, increased by 12.5% to £25,383 million. On the same basis, EBITDA increased by 8.0% to £1,568 million and trading profit by 10.5% to £1,300 million.

Underlying profit increased year on year by 10.2% to £693 million.

Cash generated from operations was strong at £1,601 million. During the year, we spent £262 million on capital expenditure, largely on our retail stores, information technology projects and logistics. Net borrowings at the year end were £7,017 million, a year on year reduction of £826 million, and total equity was £5,701 million.

Our development

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

While integrating the sizeable businesses acquired in 2010/11, in May 2011, we further increased our direct ownership of Hedef Alliance, based in Turkey, from 70% to 80% and in February 2012, ANZAG, our German business, purchased a further 20% of the equity of Farmexpert in Romania bringing its ownership to 80%. In addition, Guangzhou Pharmaceuticals Corporation, our joint venture in China, made several acquisitions during the year to strengthen its position in key regional provinces.

At the end of March 2012, we transferred ownership of a 51% stake in the UK holding company of our loss making Alliance Healthcare Russia business to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited. The Russian pharmaceutical market continues to be particularly difficult with intense competition impacting performance. We will in future years account for the remaining 49% stake as an associate.

Our strategy to internationalise our product brands continues to move at pace. During the year we substantially increased sales of key brands such as No7 in countries where we do not have a retail presence. This programme included extending our collaboration with Procter & Gamble to sell the Boots Laboratories beauty range to independent pharmacies in more European countries.

Health & Beauty Division

Alex Gourlay
Chief Executive,
Health & Beauty Division

“Boots delivered a good overall performance in the context of regulatory pressures and difficult retail markets, the International results being particularly notable.

Revenue

+0.6%

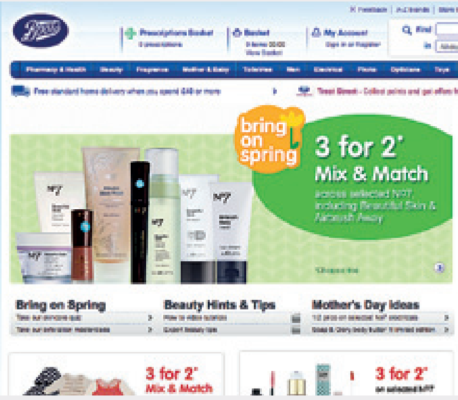
Trading profit

+6.0%

Performance by business

for the year ended 31 March 2012

Continuing operations	Total £million	Year on year growth Reported	Constant currency	Like for like
Revenue				
UK:				
Boots UK	6,374	-0.3%	-0.3%	-1.1%
Boots Opticians	332	+0.9%	+0.9%	+1.6%
	6,706	**-0.2%**	**-0.2%**	**-1.0%**
International:				
Norway	412	+6.7%	+2.3%	+1.3%
Republic of Ireland	238	+4.8%	+3.2%	-4.5%
The Netherlands	162	-1.2%	-2.5%	-3.3%
Thailand	87	+14.5%	+16.1%	+10.0%
Other	66			
	965	**+6.9%**	**+4.3%**	**+0.8%**
	7,671	**+0.6%**	**+0.3%**	**-0.8%**
Trading profit				
UK	750	+5.2%	+5.2%	
International	63	+16.7%	+14.5%	
	813	**+6.0%**	**+5.8%**	
Trading margin				
UK	11.2%	+0.6pp	+0.6pp	
International	6.5%	+0.5pp	+0.6pp	
	10.6%	**+0.5pp**	**+0.6pp**	



Our Health & Beauty Division delivered a good overall performance in the context of regulatory pressures, which particularly impacted dispensing profitability in the UK, and difficult retail markets. The results outside the UK were particularly notable, achieved through new store openings and expanding product sales in key markets such as the US. We attribute this success to the hard work and commitment of our people. They have enabled us to deliver excellent customer care, including the introduction of new pharmacy services, progress our three-year programme in the UK to further improve efficiency, and develop and launch exciting new innovative products.

Revenue increased year on year by 0.6% to £7,671 million, trading profit increased by 6.0% to £813 million and trading margin increased by 0.5 percentage points to 10.6%.

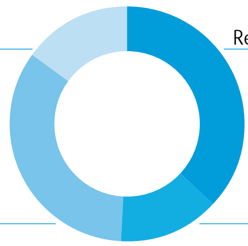
Health & Beauty Division – UK

In the UK, trading profit increased by 5.2% to £750 million, trading margin increasing by 0.6 percentage points to 11.2%. Revenue was 0.2% lower at £6,706 million due to lower dispensing reimbursement rates.

Boots UK performed relatively well throughout the year, including the important Christmas period, growing both retail revenue and overall trading margin. Retail revenue increased by 0.8% on a like for like basis (including VAT).

Boots UK revenue by product category

for the year ended 31 March 2012



Continuing operations	£million	Year on year growth
Dispensing & Related Income	**2,370**	**-1.6%**
Retail:		
Retail Health[1]	891	-2.4%
Beauty & Toiletries[2]	2,151	+2.0%
Lifestyle[3]	962	-0.1%
	4,004	**+0.5%**
	6,374	**-0.3%**

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

Revenue from Dispensing & Related Income decreased by 1.6% in value due to lower average revenue per prescription which more than offset growth in dispensing volumes and fee income. This decrease was due to further government reductions in generic medicine reimbursement prices and the impact of more branded medicines losing patent protection and being substituted with lower priced generic medicines. We anticipate these factors to continue to hold back dispensing revenue growth in our next financial year.

Total dispensing volumes increased year on year to 224 million items, up 1.9% on a like for like basis. Our growth was particularly strong in the domiciliary dosage (patient specific packs) category and from prescriptions collected on behalf of patients from doctors' practices. Profitability was adversely impacted by the lower reimbursement prices on generic medicines.

Related Income from pharmacy services, which during the year came primarily from Medicine Check-ups and other locally commissioned pharmacy services, while still relatively modest, increased year on year by around 3.5%. Our pharmacists in England and Wales carried out over 760,000 Medicine Check-ups during the year and played an important role in the October 2011 launch of the NHS 'New Medicine Service' in England. This has been introduced to improve medicines adherence in people with long term conditions who are newly prescribed a medicine, and is initially focused on particular patient groups and conditions. Boots has a market leading position in the provision of such services, with just under 95% of our pharmacies now incorporating private consultation facilities.

As the leading operator of retail pharmacies in the UK, we remain committed to making high quality healthcare more available and accessible. We now have 14 doctors' surgeries operating in Boots stores. In September, we launched a new travel health service in 11 Boots stores in the London region, which is proving popular with our customers. BootsWebMD.com, our consumer health and wellness information portal, which is one of the top ranking health and medical websites in the UK, significantly increased its site visitor numbers year on year.

Health & Beauty Division continued



Revenue in the Retail Health category, where we are the market leader, decreased by 2.4% to £891 million. Sales were impacted by strong competition and lower volumes of cough and cold related non-prescription medicines following a significantly lower incidence of such ailments this winter. Gross margin increased due to improved product mix and promotion management. We continue to develop innovative new product ranges, such as the Boots Pharmaceuticals Re:Balance range launched in August 2011, which is designed to help with lack of sleep, low energy levels and everyday stress. Boots Pharmaceuticals has the widest range of healthcare products of any brand in the UK, including therapeutically proven medicines, natural alternatives, vitamins and first aid products.

Revenue in the Beauty & Toiletries category, where we have leading market positions and exclusive product brands, increased by 2.0% to £2,151 million. Within beauty, sales of cosmetics, fragrances and accessories all grew year on year. In the toiletries sub-category, we strengthened our value proposition, sales similarly increasing. Growth was particularly strong in indulgent bathing, which was largely due to the April 2011 launch of the new Champneys range which is exclusive to Boots, with haircare and personal care sales also up year on year.

We continue to invest in new product development for No7. A number of new products were launched during the year, including the No7 Beautiful Skin range in January 2012, which includes the innovative No7 Beautiful Skin BB Cream with a unique 3-in-1 formula to even and enhance skin tones and disguise imperfections.

Since the year end, in mid April 2012 we launched No7 Lift & Luminate Day & Night Serum. This new anti-ageing serum is clinically proven to tackle the three key signs of ageing of skin in women aged 45 and above. It reduces the appearance of wrinkles, makes skin feel firmer, and evens skin tone and lightens and fades age spots.

In the Lifestyle category, revenue decreased by 0.1% to £962 million, reflecting the continuing decline in the photographic market and lower electrical beauty sales due to strong competition. The baby sub-category performed well, sales increasing year on year despite strong competition.

Boots retail performance was particularly good in the important Christmas selling period. We had a strong customer offer, attractive promotions, record levels of customer care and our highly acclaimed 'Here come the girls' advertising campaign which continued to resonate strongly with our target customers.

Our own product brands, such as No7, Boots Pharmaceuticals, Soltan, Botanics and 17, together with exclusive ranges such as Soap & Glory and Champneys, enable us to differentiate our retail offering from that of our competitors and are very important drivers of revenue and margin. In addition to the innovative new No7 products and expansion of the Boots Pharmaceuticals range, other new developments during the year included the launch of the Shapers 'around the world' food range in January 2012. We are further developing our own extended food offer, as the trials with Waitrose to sell products in each other's stores did not meet expectations. We continue to operate 13 Boots pharmacies in Waitrose stores.

Online sales through our boots.com website grew strongly during the year with a significant increase in the number of visitors to the site. In August 2011, a new mobile specific site was successfully launched. "Order-on-line and collect-in-store", which is available in nearly all our stores across the UK, is increasing in popularity, comprising over 45% of online orders in the year. We continue to expand both the range of products available on boots.com and its related online health and beauty advice. In January 2012, we commenced deliveries from our new boots.com automated logistics facility within the Burton-on-Trent distribution centre, which will support the continuing growth of online sales.

The Boots Advantage Card loyalty scheme, where customers earn points on purchases for redemption at a later date, continues to be a key element of our offering. During the year, the number of active Boots Advantage Card members (which we define as members who have used their card at least once in the last 12 months) increased by 6% to 17.8 million, reflecting its position as one of the largest and most valued loyalty schemes in the UK. We recently upgraded our technology to personalise customer offers and make the Boots Advantage Card easier to use online.

We attribute much of Boots success to our passionate focus on customer service and care. Each week we analyse over 25,000 customer responses to in-store marketing surveys to better understand customers' evolving needs. Our internal customer care measure further improved year on year as a result of our ongoing focus on areas that we know are important to our customers, including 'value for money', 'quick and easy to pay', 'staff available and approachable', and 'time taken to get my prescription'.

During the year, we recruited in total around 1,000 pre-registration pharmacy graduates and fully qualified pharmacists and continued to invest in our people. An example of this is our e-learning system, which is extensively used by store colleagues throughout the UK. To further enhance the quality of leadership, a new Leadership and Senior Leadership Development Programme was launched in January 2012.

We continue to invest in our store portfolio, making our products more accessible and convenient for customers to buy. In 2011/12, we opened 40 new Boots stores, 24 of which were relocations, and refitted a further 68 stores. This included a major store in the new Westfield Stratford City shopping centre in East London, a prime position given this summer's London Olympic and Paralympic Games. At the year end, we had 2,477 health and beauty stores in the UK, of which 2,390 included a pharmacy.

Boots Opticians revenue increased by 0.9%. Like for like revenue from owned practices increased by 1.6% in what was a highly competitive market, due to good growth in eye test, spectacle and contact lens volumes. This followed the introduction of the new attractively priced customer offer in the latter part of 2010/11. Overall revenue growth was held back by the portfolio rationalisation programme where practices in overlapping locations were combined. Trading profit increased, largely as a result of better buying, supply chain savings and overhead efficiencies. At the year end, Boots Opticians had 624 practices, including 184 franchises.

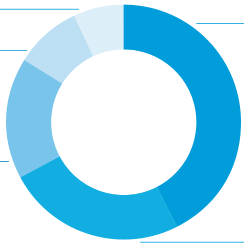
In October 2010, a three year programme was announced within the UK part of our Health & Beauty Division and related contract manufacturing activities to provide best in class support for stores and drive future growth. The programme is targeted to reduce operating costs by around £56 million per annum by 2013/14. Savings to date were a key component of UK profit growth in 2011/12.

Health & Beauty Division – International

Total revenue in countries outside the UK increased year on year by 6.9% to £965 million. Trading profit increased by 16.7% to £63 million, with increased profitability in Norway, the Republic of Ireland and Thailand. Trading margin increased by 0.5 percentage points, mainly as a result of faster growth rates in the more profitable countries. On a constant currency basis, revenue increased by 4.3%, like for like revenue increased by 0.8% and trading profit increased by 14.5%. A net 40 stores were added during the year, all with pharmacies, bringing the year end total to 528.

Revenue by country

for the year ended 31 March 2012
£million



Stores by country

at 31 March 2012

Continuing operations	Number
Norway	154
Republic of Ireland	71
The Netherlands	72
Thailand	203
Lithuania	28
	528

In Norway, where our pharmacies are branded 'Boots apotek', revenue increased by 2.3% on a constant currency basis. Like for like revenue increased by 1.3%, mainly as a result of good retail sales growth, increased dispensing volume being largely offset by lower reimbursement rates. Profitability increased due to higher retail sales and improved product mix, our extensive range of Boots beauty and toiletries products, including No7, becoming increasingly popular with Norwegian consumers.

In the Republic of Ireland, where we trade as Boots, revenue increased by 3.2% on a constant currency basis as a result of new store openings. Like for like revenue decreased by 4.5%, the fragile state of the Irish economy continuing to impact retail sales. Like for like dispensing item volume growth was strong, which was more than offset by lower reimbursement rates. Profits increased as a result of our ongoing store opening programme and improved margins. Thirteen new stores were opened during the year.

In The Netherlands, revenue decreased by 2.5% on a constant currency basis, like for like revenue decreasing by 3.3%. Profits were adversely impacted by the Dutch healthcare insurers' use of tenders to select the lowest price generic medicines, referred to as the "preference policy", and a reduction in the government determined dispensing fee per item. Good progress was made in reducing the cost base of the business.

During the year, we commenced the roll-out of the 'Boots apotheek' pharmacy concept, which has a much stronger retail offering than is typical in Dutch pharmacies, including a range of Boots branded health and beauty products. By the year end, we had 25 stores trading as 'Boots apotheek'.

In Thailand, where Boots is one of the largest health and beauty pharmacy chains, revenue growth increased by 16.1% on a constant currency basis, like for like revenue increasing by 10.0% despite the considerable disruption caused by the floods in Bangkok and the surrounding region. A net 21 stores were added in the year which, together with good margin growth and scale economies, enabled the business to increase profits.

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

Product sales in the US increased year on year by more than 25%, helped by No7 again winning a number of accolades. Boots beauty brands, including No7, are sold in over 1,750 Target stores, 330 of which have a Boots beauty advisor, and online on target.com, drugstore.com™, Beauty.com® and on our own direct to consumer website ShopBootsUSA.com. In addition, No7 is now sold in just under 450 Ulta beauty stores across the US and on ulta.com.

At the year end, we also operated 28 retail pharmacies in Lithuania. In addition, 58 Boots stores in total were operated by our franchise partner in the United Arab Emirates, Kuwait, Qatar, Bahrain and the Kingdom of Saudi Arabia and there were seven individually franchised Boots stores in Sweden.


Services in this store
Mobility and daily living aids catalogue
new
Kids' health
Pharmacy team

"The people at Boots really care about their customers."

Customer care is at the heart of our business and a key driver of success.

Boots is committed to providing customers with exactly what they want...

...ensuring they look and feel their best.

Pharmaceutical Wholesale Division

Ornella Barra
Chief Executive,
Pharmaceutical Wholesale Division

"Alliance Healthcare has continued to grow rapidly, achieving strong year on year revenue and profit growth despite challenging market conditions.

Revenue

+27.9%

Trading profit

+24.7%

Performance by business

for the year ended 31 March 2012

Continuing operations:	Total £million	Year on year growth Reported	Year on year growth Constant currency
Revenue			
France	4,484	-1.5%	-3.0%
Germany*	3,736	+199.4%	+194.8%
UK	3,087	+15.5%	+15.5%
Turkey*	1,653	+23.4%	+43.9%
Spain	1,212	-5.6%	-7.0%
The Netherlands	764	-0.3%	-1.8%
Egypt*	598	+59.9%	+71.4%
Czech Republic	492	+7.9%	+5.4%
Norway	387	+1.3%	-2.8%
Romania*	379	+290.7%	+286.5%
Lithuania*	55	+243.8%	+237.8%
Intra-segment	(19)		
	16,828	**+27.9%**	**+28.9%**
Trading profit	**414**	**+24.7%**	**+28.5%**
Trading margin	**2.5%**	**–**	**–**

* Year on year growth includes impact of prior year acquisition.

The Pharmaceutical Wholesale Division has continued to grow rapidly, achieving strong year on year revenue and profit growth despite challenging market conditions in many countries. This was achieved through a combination of organic growth, benefits from the Division-wide business improvement programme and the impact of prior year acquisitions. Alliance Healthcare continues to be at the forefront of adapting its business model to better meet the needs of governments, pharmaceutical manufacturers and pharmacy customers.

Following the acquisitions made in the prior financial year, our Group is now the number one pharmaceutical wholesaler in Europe and the only wholesaler with significant operations in each of the five largest wholesale markets.

Revenue increased year on year by 27.9% to £16,828 million and trading profit increased by 24.7% to £414 million. Overall trading margin at 2.5% was in line with last year. Adjusting for acquisitions and disposals, on a constant currency basis, like for like revenue increased by 2.4% and trading profit increased by 8.2%, profits increasing year on year in all countries where we owned businesses throughout the comparative financial year.

We have an ongoing focus on anticipating changes in the marketplace, making the most of future opportunities and supporting businesses in individual countries to implement our new wholesale business model.

The second phase of the Division-wide restructuring programme, which started in October 2010 with a target of achieving around £24 million of annual operating cost savings by 2013/14, is progressing well. During the year the scope was expanded to include businesses acquired in the prior financial year. As a result, a further exceptional charge of £11 million was taken.

We estimate that the wholesale markets in which we operate grew by around 1% in value on a constant currency basis, this growth being weighted on the basis of our wholesale revenue. This is a similar growth rate as in the previous year, growth being held back by government price reductions and the loss of patent protection for certain branded medicines which leads to substitution with lower price generic medicines.

Generic penetration rates continued to increase in all our western European markets, with penetration levels still typically lower in southern Europe. The overall level of the parallel trade market in Europe has been stable for the last few years.

We continue to respond to the developing needs of branded ethical pharmaceutical manufacturers, who are increasingly adapting and changing their approaches to distribution across this market. This trend is growing in the UK and several companies have already made the switch from selling via all pharmaceutical wholesalers to either selling direct to pharmacies using relatively few wholesalers as distributors, or selling only through a small number of selected wholesalers.

We have long established and strong relationships with many of these manufacturers. In addition, our responsiveness in meeting their changing requirements as well as our highly efficient and reliable logistics network have rapidly established Alliance Healthcare as the UK market leader and the partner of choice for pharmaceutical manufacturers.

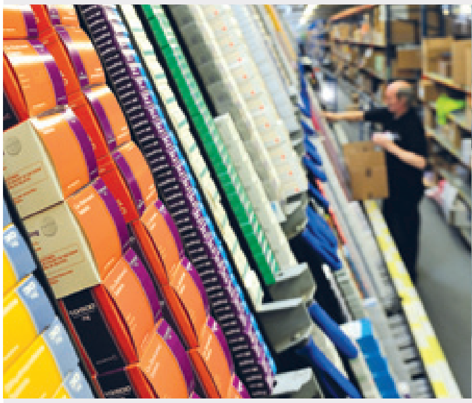
Alloga, which has owned operations in five countries, and a presence in a further five countries through our associates, works with manufacturers providing them with pre-wholesale and contract logistics services to access wholesalers, pharmacies and hospitals on a pan-European basis.

In October 2011, we commenced the rebranding of our contract sales offering to manufacturers across Europe as Skills in healthcare. By the year end, the rebranding had been rolled out to five countries including two associates.

Almus, our exclusive range of generic medicines, continues to provide marketing and sourcing benefits aimed at offsetting the impact of patent expiries. Almus further broadened its product availability during the year and increased penetration in the UK and Spain. Almus is also distributed in France and through our associates in Portugal and in Italy. Total Almus sales increased year on year by over 30%.

Alvita, our range of patient care products, is now sold in six countries following its launch in Germany in March 2012.

Pharmaceutical Wholesale Division continued



We further differentiate our wholesale offering by continuing to develop the range of services offered to independent pharmacy customers. This includes membership of Alphega Pharmacy, which encompasses a comprehensive range of added-value services including branding, professional training and patient care, retail support services and supply benefits together with pharmacy and IT support. Alphega Pharmacy, which operates in six countries, including our associates in Italy and Russia, increased its membership year on year by 24% to more than 4,400 pharmacies. Alphega Pharmacy works increasingly closely with vivesco, ANZAG's network of around 1,050 German pharmacies to enhance the range of services offered by both.

In France, revenue decreased by 3.0% on a constant currency and like for like basis. Revenue growth was impacted by government measures to contain consumption and constrain price increases together with competitive pressures. A focus on operational improvements enabled the business to improve profitability. This included reorganising the commercial and operations management, closing three distribution centres, their activities being consolidated into other sites, and completing the roll-out of new IT systems to all distribution centres.

In Germany, revenue increased due to a full year of ANZAG's results being consolidated for the first time, ANZAG having been acquired in December 2010. The pharmaceutical wholesale market was impacted by new government measures, referred to as "AMNOG" (German Act relating to the Restructuring of the Medicines Market), to reduce expenditure on pharmaceuticals. These measures, which became fully effective in January 2012, included an interim reduction in wholesaler margin that was effective from January 2011.

ANZAG continues to be quoted on the Frankfurt Stock Exchange. In its interim report for the nine months to 31 December 2011, ANZAG reported on a slowing rate of growth in the German market at 1.6% with growth in the wholesale channel of 0.8%. ANZAG maintained market share over the period but experienced a decline in gross profit margin as a result of the new regulatory measures. ANZAG will release a trading update at the end of June for the 12 months to 31 March 2012.

During the year, ANZAG started to distribute a range of Alvita medical devices and also rebranded its contract sales activities to the Division-wide 'Skills in healthcare' brand.

In the UK, revenue increased by 15.5%, growth largely coming from a number of significant new multi-year contracts which commenced during the year. Revenue growth, together with productivity improvements and cost savings from the Division-wide business improvement programme, were key factors which enabled the business to increase profits. Sales of our Almus generic medicines increased by more than 25%, part of which was due to the range being extended to include more higher value products. Alvita sales also increased year on year. We continue to develop and expand services for our independent pharmacy customers and pharmaceutical manufacturers. Alphega Pharmacy membership increased by more than 40% and 'Skills in healthcare' performed well in its first full year of operation.

Central Homecare, which provides home healthcare services to patients who require management of complex drug therapies, while still a relatively small part of our UK wholesale business, again delivered good profit growth, revenue increasing by more than 50% year on year mainly due to winning new contracts. Central Homecare now serves approximately 12,500 patients.

In Turkey, revenue increased due to a full year's results being consolidated for the first time, Hedef Alliance having been acquired in July 2010. Like for like revenue (for the same period in 2011/12 as the post-acquisition period in 2010/11) increased by 0.2%, growth of pharmaceutical product sales being held back by the impact of government price reductions which was partially offset by higher sales of toiletries. Margin mix and initial benefits from the second phase of the Division-wide restructuring programme enabled the business to increase profits.

In Spain, revenue decreased by 7.0% on a constant currency basis, a like for like reduction of 7.1%. This was mainly due to government action to reduce the Spanish budget deficit through cutting healthcare expenditure, and, to a lesser extent, increased penetration of lower value generics. Despite this, profitability increased year on year due to improved product mix and a strong performance in related services. Sales of our Almus generic medicines were up by more than 70%, partly due to the launch of additional products. Alphega Pharmacy membership increased over the course of the year by more than 40%, to over 450 independent pharmacies.

In December 2011 we increased our presence in the Spanish pre-wholesale and contract logistics sector through the acquisition of T2Picking, a family owned business based in Madrid, which is being integrated into Alloga.

In The Netherlands, revenue decreased by 1.8% on a constant currency and like for like basis, mainly as a result of intense competition across the sector. Despite this, profitability improved due to productivity improvements and cost savings arising from the Division-wide business improvement programme.

In Egypt, revenue increased due to a full year's results being consolidated for the first time, the business having been acquired in July 2010 as part of the acquisition of Hedef Alliance. Like for like revenue (for the same period in 2011/12 as the post-acquisition period in 2010/11) increased by 20.4%, reflecting market growth and market share gains. This resulted in good profit growth.

In the Czech Republic, revenue increased by 5.4% on a constant currency and like for like basis, mainly as a result of continuing market share gains in the hospital channel. This, together with tight cost controls, enabled the business to increase profits.

In Norway, revenue decreased by 2.8% on a constant currency and like for like basis, mainly due to the loss of a low margin health authority contract which was not renewed at the end of 2011. Profitability increased due to improved mix and a strong performance in contract logistics services and related healthcare activities.

In Romania and Lithuania, revenue increased due to full year results of each business being consolidated for the first time, the businesses being acquired in December 2010 as part of the acquisition of ANZAG in Germany. Both businesses performed ahead of our expectations.


alphega
pharmacie
RVEZ VOUS
Les allergies
Les allergies
alphega
pharmacie

“Alphega helps my pharmacy to offer my customers a fantastic service.”

Alphega Pharmacy is focused on building a leading network of independent pharmacies:
- across Europe
- under a shared brand.

Our aim is to improve the quality of health in local communities...

...through providing members with consistently high levels of service and support.

Other activities

Contract Manufacturing & Corporate Costs

BCM, our Contract Manufacturing business, manufactures consumer health and beauty products for internal supply and third party brands, and also produces special prescription medicines for individual use.

Total revenue increased year on year by 0.8% to £255 million, revenue being level on a constant currency basis. Third party revenue increased year on year by around 5%, which offset lower intra-group sales. Trading profit decreased by £4 million to £1 million, due to an adverse product mix that impacted gross margin, and higher overheads. A programme is underway to improve the profitability of the business, the benefits of which we expect to see in the coming financial year.

Corporate Costs decreased year on year by £8 million to £33 million mainly as a result of lower unrealised profit in stock adjustments and cost efficiencies.

Associates and joint ventures

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

Our share of associates and joint ventures results were impacted by the prior year acquisition of controlling interests in Hedef Alliance and ANZAG, both of which were previously accounted for as associates. As a result, our share of revenue of associates and joint ventures decreased year on year by 24.1% to £2,374 million, our share of trading profit decreased year on year by 7.1% to £105 million and our share of underlying post tax earnings decreased by 18.9% to £60 million. On a constant currency basis, adjusting for changes in associate and joint venture interests, our share of like for like revenue increased by 5.2%, our share of like for like trading profit increased by 11.7% and our share of like for like underlying post tax earnings attributable to equity shareholders increased by 6.2%.

Following the transfer at the end of March 2012 of a 51% stake in the UK holding company of Alliance Healthcare Russia to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited, we will in future years account for our remaining 49% stake as an associate.

In China, Guangzhou Pharmaceuticals Corporation, our joint venture established in 2008, performed well with good revenue growth, margin management and control over costs enabling the business to significantly improve profitability. The business continues to expand its operations outside of the Guangzhou province through organic growth and targeted acquisitions.

Alliance Healthcare Italia, which became an associate of the Group at the end of July 2010, maintained revenues and increased profits in what was a challenging market, through margin management and the implementation of new services.

Alliance Healthcare Portugal profitability was impacted by a particularly challenging pharmacy market, which resulted in increased provisioning for overdue customer debts.

We do not comment specifically on the performance of Galenica, our Swiss based associate, as it is a quoted company that separately reports its own results on a different year end. Galenica published its Annual Report 2011 in March 2012, reporting consolidated net profit (before minority interests) up 10.9% year on year. Over the last 16 years, Galenica has steadily transformed itself from a Swiss wholesaler into an international healthcare group.

Other associates include Hydra Pharm, a leading pharmaceutical wholesale operator in Algeria, and Oktal, a pharmaceutical wholesaler in Croatia, which also trades in Bosnia Herzegovina, Serbia and Slovenia.

Alliance Healthcare
Здоровье в каждый дом

廣州醫藥有限公司
GUANGZHOU PHARMACEUTICALS CORPORATION

Alliance Healthcare
La salute è più vicina

Alliance Healthcare
Tornamos a saúde mais próxima

GALENICA

Distributeur en produits pharmaceutiques

OKTAL PHARMA

Financial review

"Cash generated from operations exceeded £1 billion for the fifth consecutive year.

Cash generated from operations	Total cash flow	Net borrowings reduction
£1,601m	£782m	£826m

Cash flow

for the year ended 31 March 2012

	£million
Trading profit	**1,195**
Underlying depreciation and amortisation	248
EBITDA from continuing operations	1,443
EBITDA from discontinued operations	(22)
Exceptional items	(38)
Net movement in working capital and provisions	302
Movement in net retirement benefit obligations	(84)
Cash generated from operations	**1,601**
Interest	(343)
Tax	(83)
Acquisitions	(150)
Disposals	33
Capital expenditure	(262)
Other	(14)
Total cash flow	**782**

Income statement summary

for the year ended 31 March 2012

	Underlying £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Timing differences £million	Discontinued operations £million	Statutory £million
Trading profit/profit from operations before associates and joint ventures	**1,195**	**(115)**	**(44)**	–	–	**1,036**
Share of post tax earnings of associates and joint ventures	60	–	(2)	–	–	58
Net finance costs	(415)	–	13	(32)	–	(434)
Tax (charge)/credit	(147)	43	77	(4)	–	(31)
Loss for the year from discontinued operations	–	–	–	–	(57)	(57)
Underlying profit/profit for the year	**693**	**(72)**	**44**	**(36)**	**(57)**	**572**

Trading profit, which we define as profit from operations before amortisation of customer relationships and brands, exceptional items and share of post tax earnings of associates and joint ventures, increased year on year by 12.4% to £1,195 million.

Profit from operations before associates and joint ventures was £1,036 million (2010/11 re-presented: £977 million).

Exceptional items within profit from operations before associates and joint ventures comprised the following:

	£million
UK Health & Beauty restructuring programme	(30)
Pharmaceutical Wholesale Division restructuring programme	(11)
Other	(3)
	(44)

The restructuring programme within the UK part of our Health & Beauty Division and related contract manufacturing activities, announced in October 2010, focuses on optimising end-to-end business processes, includes moving to a leaner central support organisation, supported by new systems, a streamlining of manufacturing operations and optimisation of supply chain activities. The programme, which will result in a reduction of around 900 non-store based roles in the UK over three years, is targeted to reduce operating costs by around £56 million per annum by 2013/14. Related exceptional charges in the year were £30 million bringing the cumulative charge to £67 million as previously announced.

The second phase of the Pharmaceutical Wholesale Division-wide restructuring programme, which further adapts our pharmaceutical wholesale businesses to better fulfil the expectations of customers and payors, as well as securing new opportunities in the marketplace, commenced in October 2010. This has been extended to include businesses acquired in 2010/11, resulting in additional exceptional charges of £11 million in the year.

Net finance costs

Net finance costs comprised the following:

	Finance income £million	Finance costs £million	Net finance costs £million
Funding	86	(458)	(372)
Retirement benefit obligations	196	(239)	(43)
Underlying	282	(697)	**(415)**
Exceptional items	25	(12)	13
Timing differences	–	(32)	(32)
Statutory	307	(741)	**(434)**

Underlying net finance costs, which we define as net finance costs before exceptional items and timing differences, increased year on year by £40 million to £415 million. Within this, net finance costs for funding, which includes interest on loans and cash deposits and related derivative financial instruments, increased by £26 million to £372 million, mainly as a result of higher Euro interest rates and business acquisitions made during the previous year. Interest cover, which we define as the ratio of trading profit to underlying net finance costs for funding, increased to 3.2x trading profit.

Net finance costs for retirement benefit obligations comprised expected returns on defined benefit scheme assets and the unwind of discount interest on scheme liabilities.

Exceptional items within finance income mainly related to discounts on repurchase of acquisition borrowings from holders in the secondary market. The nominal value of acquisition borrowings acquired during the year was £655 million at a cost of £631 million. In total, £1,296 million has been repurchased since the programme began in early 2009 at a cost of £1,034 million. The discounts, net of related prepaid financing fees, have been accounted for as loan redemptions, reducing net borrowings.

Exceptional items within finance costs mainly related to the impairment of the Group's investment in Cegedim to reflect the market value of its quoted shares during the year, net of the gain on the reassessment of obligations to non controlling interests. These obligations are for the acquisition of equity stakes, including put options, and future dividend obligations. These are dependent on future profits and so are reassessed as part of the annual forecast process.

Timing differences within net finance costs comprise the unwind of discounts on obligations to non controlling interests and IAS 39 timing differences which relate to derivative financial instruments used to hedge interest rate and currency exposures.

Financial review continued

Tax

The underlying tax charge was £147 million (2010/11 re-presented: £133 million) equating to an underlying effective tax rate (which we define as the underlying tax charge as a percentage of trading profit less underlying net finance costs) of 18.8% (2010/11 re-presented: 19.3%).

The year on year decrease of 0.5 percentage points was due to a 2 percentage point reduction in the UK tax rate at the beginning of 2011/12, which was partially offset by higher tax resulting from a different profit mix.

Tax analysis

	UK £million	Other countries £million	Total £million	Effective tax rate
Underlying tax charge				
Current year	87	69	156	20.0%
Adjustments in respect of prior years	(7)	(2)	(9)	
	80	67	**147**	18.8%
Year on year (decrease)/ increase	(2)	16	14	-0.5pp
Tax paid	26	57	**83**	
Year on year increase	16	8	24	

Tax paid in the UK was lower than the underlying tax charge in the income statement, mainly due to £46 million of UK tax relief on contributions to pension funding partnership structures, with the balance due to timing differences relating to capital allowances and the utilisation of prior year losses. These partnerships were established by the Group and the trustees of the Boots Pension Scheme as part of our ongoing programme to ensure long term security of accrued benefits for our defined benefit pension schemes.

Exceptional items within the tax charge mainly comprised an exceptional tax credit relating to the net reduction in deferred tax assets and liabilities resulting from the two percentage point reduction in the rate of UK corporation tax applicable from April 2012.

Discontinued operations

The loss for the year from discontinued operations relates to the disposal of a 51% stake in the UK holding company of Alliance Healthcare Russia to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited. The loss included exceptional items of £11 million, relating to goodwill and other intangible assets impairments, and a loss on disposal of £15 million.

Cash flow

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

At £1,601 million, cash generated from operations exceeded £1 billion for the fifth consecutive year.

Cash inflow from working capital (net of provisions) was £302 million with inventory, receivables and payables all improving year on year as a result of our ongoing programme to further improve working capital efficiency.

Net interest paid of £343 million was lower than net finance costs for funding in the income statement, mainly due to the amortisation of prepaid financing fees of £27 million and £22 million of rolled up interest on subordinated debt which is payable when the debt itself is repaid.

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

£150 million of cash was spent on acquisitions of businesses, mainly relating to the purchase of additional equity in businesses where controlling interests were acquired in the previous year. These comprised the final contractually committed 10% equity stake in Hedef Alliance, increasing our direct ownership to 80%, and an additional 20% equity stake in Farmexpert, our Romanian wholesaling business, of which half the cash consideration was paid after the year end. The Farmexpert purchase was through ANZAG, our German business, and increased its direct ownership to 80%.

Disposal proceeds of £33 million arose mainly from the transfer of a 51% stake in the UK holding company of Alliance Healthcare Russia to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited.

£262 million of cash was invested on capital expenditure. Around three quarters of this investment was in our Health & Beauty Division, primarily in the UK. Key areas of expenditure in the UK were retail stores, information technology and the boots.com automation in the Burton-on-Trent distribution centre. Capital expenditure in our Pharmaceutical Wholesale Division was mainly on upgrading its distribution network and on information technology.

Other net cash outflows included £43 million of dividends paid to non controlling interests and £16 million of dividends received from associates.

Net borrowings

At the year end, net borrowings (defined as cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of amortised prepaid financing fees) were £7,017 million, a year on year reduction of £826 million.

Movement in net borrowings in the year

	£million
Total cash inflow	**782**
Discounts on repurchase of acquisition borrowings	24
Amortisation of prepaid financing fees	(27)
Capitalised finance costs	(22)
New finance leases	(7)
Currency translation differences and fair value adjustments on financial instruments	76
Decrease in net borrowings	**826**
Net borrowings at 1 April 2011	(7,843)
Net borrowings at 31 March 2012	**(7,017)**

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

Currency translation differences predominantly relate to the retranslation of elements of the acquisition borrowings drawn down in Euros and Swiss Francs. The strengthening of Sterling relative to the Euro over the course of the year gave rise to a decrease in net borrowings. In accordance with our currency risk treasury policy, borrowings were drawn in these currencies to partially hedge the translation exposures on the net assets of our significant businesses and investments denominated in Euros and Swiss Francs.

Analysis of net borrowings
at 31 March 2012

	£million
Cash and cash equivalents	670
Restricted cash	
– deposits collateralising loan notes	76
– other	178
Net derivative financial instruments	(147)
Borrowings	(7,794)
	(7,017)

Restricted cash comprises cash which is restricted for specific purposes and so is not available for the use of the Group in its day to day operations. At 31 March 2012, 'restricted cash – other' consisted of deposits restricted under contractual agency agreements, cash pledged as collateral on financial instruments and cash restricted by law.

Net derivative financial instruments are carried at fair value and mainly relate to legacy cross currency interest rate swaps taken out to hedge borrowings. These borrowings were repaid in 2007, and the residual foreign currency exchange has been hedged since then using short dated forward currency derivatives. A portion of these legacy swaps matured and were settled in November 2011, with the remainder due to mature in June 2012.

Equity
Total equity increased during the year by £577 million to £5,701 million at the year end, shareholders' equity increasing by £684 million to £5,468 million.

Movement in shareholders' equity in the year

	£million
Profit for the year attributable to equity shareholders	**550**
Income and expense recognised directly in equity:	
Currency translation differences	(23)
Defined benefit schemes – net actuarial gains	128
Movements on available-for-sale reserve including amounts recycled	(9)
Share of other comprehensive income of associates and joint ventures	(1)
Tax on items recognised directly in equity	(31)
Transactions with owners:	
Liability to acquire equity stakes from non controlling interests	(2)
Purchase of non controlling interests	72
Net movement in shareholders' equity	**684**
Shareholders' equity at 1 April 2011	4,784
Shareholders' equity at 31 March 2012	**5,468**

Currency translation differences arose on the retranslation of the net assets of our non-Sterling denominated businesses and investments, net of currency borrowings drawn to partially hedge these translation exposures. These differences were mainly as a result of the strengthening of Sterling during the year relative to all of the currencies significant to the Group, with the exception of the Swiss Franc.

The purchase of non controlling interests related to the increased equity stakes in Hedef Alliance and Farmexpert as detailed in the cash flow section above.

Financial review continued

"We work in partnership with the Boots Pension Scheme Trustees to ensure long term security for its defined benefit members' pensions.

Retirement benefit obligations

The net reduction in retirement benefit obligations was mainly as a result of increases in the asset values of the Boots Pension Scheme, the Group's principal retirement benefit scheme, partially offset by a 0.4% reduction in UK corporate bond yields (used to discount the scheme's obligations).

Movement in net retirement benefit obligations in the year

	£million
Income statement:	
Net income within profit from operations	29
Net finance costs	(43)
	(14)
Net actuarial gains	128
Cash contributions	56
Currency translation differences	4
Net movement in retirement benefit obligations	**174**
Net retirement benefit obligations at 1 April 2011	(223)
Net retirement benefit obligations at 31 March 2012	**(49)**

Net income within profit from operations mainly related to a negative past service cost in respect of the Boots Pension Scheme. This arose following UK legislation which set the Consumer Prices Index (CPI) as the statutory measure for applying increases to pensions in payment and for revaluing preserved pensions for occupational pension schemes. Previously the Retail Prices Index (RPI) was used. A small number of scheme members were affected by this change and, as CPI is projected to continue to increase at a lower rate than RPI, this change has given rise to a negative past service cost of £24 million.

Cash contributions during the year included £40 million of deficit funding payments to the Boots Pension Scheme as part of the Memorandum of Understanding entered into by the Group during 2007/08. The main elements were an agreement that conservative investment strategies would be maintained and a commitment to pay additional cash contributions. Up to 31 March 2012, £152 million of additional contributions have been made, with a further £117 million committed in four equal annual instalments from August 2013. The final payment of £149 million originally due in August 2017 has been replaced by cash flows that arise on a pension funding partnership structure established by the Group and the scheme's trustees in March 2012. This is the second such structure (following that established in March 2011) and under this structure the Group contributed an interest in a partnership worth £127 million to the scheme, and transferred a number of properties to the partnership under a sale and leaseback arrangement. The partnership will make annual distributions of around £12 million to the scheme for 15 years.

The first pension funding partnership structure was set up in March 2011 as part of the funding plan agreed with the trustees on finalisation of the triennial actuarial funding valuation of the Boots Pension Scheme. Under the first structure, the Group contributed an interest in a partnership worth £146 million to the scheme, and transferred a number of properties to the partnership under a sale and leaseback arrangement. This partnership makes annual distributions of around £10 million to the scheme for 20 years. In addition, it will make a capital sum in 2031 equal to the lower of £156 million and any funding deficit in the scheme at that point in time.

The scheme's interests in the partnerships reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 accounting basis, as the investments held by the scheme in the partnerships do not qualify as assets for the purposes of the Group's consolidated financial statements and are therefore not included within the fair value of plan assets.

These funding initiatives are part of the Group's ongoing plans to ensure long term security of accrued benefits for its UK defined benefit pension schemes.

The scheme has continued with its investment strategy of planning to hold 15% of its assets in equity and property to back long term liabilities, and 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years.

Capital structure

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

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

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

Treasury policies

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

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

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

Liquidity risk management

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

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

The Group's core borrowing is provided through committed bank facilities put in place when Alliance Boots became a privately owned company. These facilities, which are partially drawn in Euros and Swiss Francs, mature between July 2014 and 2017.

The Group also has access to a committed revolving credit facility which was put in place at the same time. It is available until July 2014 and provides access to funding in a range of currencies. During the year £75 million of the facility was purchased from the facility providers, bringing the total purchased to date to £193 million. At the year end, borrowings under the facility were £18 million, £118 million was utilised to provide guarantees, mainly in relation to the Boots Pension Scheme, and £491 million was available.

93% of net borrowings (gross of restricted cash other than cash pledged as loan note collateral) at the year end were covered by facilities not repayable within the next three years. All were covered for at least the next two years.

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

The Group's committed bank borrowing facilities require compliance with certain financial and non financial undertakings and covenants. The principal covenant is a net borrowings: EBITDA ratio, subject to various adjustments, primarily to exclude companies outside the banking group and to adjust for properties.

Interest rate risk management

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

At the year end, 76% of the Group's net borrowings were at fixed or capped interest rates. They included interest rate swaps with a notional principal amount of £500 million to January 2013, and interest rate caps with notional principal amounts of £3,500 million at 6.20% and €1,600 million at 4.80%. These caps end in July 2012. From that date up until July 2015, the Group has caps with notional principal amounts of £1,500 million at rates up to 6.00% and €2,000 million at rates up to 4.25%.

Currency risk management

The Group owns significant businesses and investments that cause a translation exposure on consolidation of their income statements and balance sheets. The Group partially hedges these translation exposures with borrowings denominated in the same currency. At the year end, £1,604 million of the Group's net borrowings were in Euros and £420 million in Swiss Francs.

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

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

	Average 2011/12	As at 31 March 2012	Average 2010/11	As at 31 March 2011
Euro	1.16	1.19	1.18	1.14
Turkish Lira	2.77	2.83	2.37	2.49
Swiss Franc	1.41	1.44	1.58	1.47
Norwegian Krone	8.97	9.12	9.35	8.97

Credit risk management

The Group protects itself against the risk of financial loss arising from failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties or their groups, as well as by setting sovereign limits. Limits are set by reference to ratings issued by major rating agencies.

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

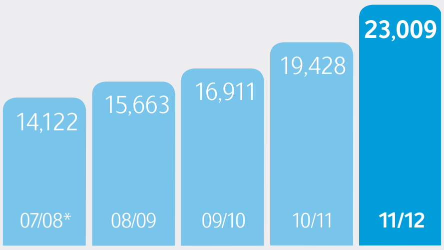
At the year end there were no significant concentrations of credit risk. The maximum exposure to credit risk at the balance sheet date is represented by the carrying amount of each financial asset, including derivative financial instruments.

Performance measures

Group

How fast we are growing

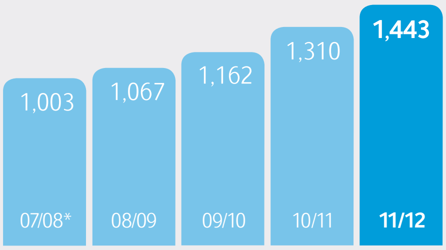
Revenue
+18.4%
versus last year



£ million

Our profit performance

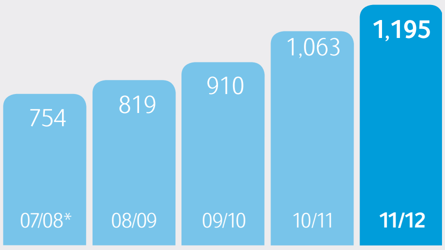
EBITDA
+10.2%
versus last year



£ million

Our profit performance

Trading profit
+12.4%
versus last year



£ million

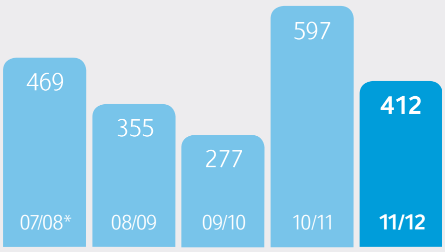
The cash we are producing

Cash generated from operations
£1,601m

£ million

The cash we are investing in our future

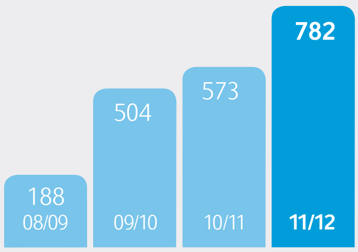
Cash investment
£412m



£ million

Our total cash flow

Total cash flow
£782m



£ million

How fast we are reducing our debt

Net borrowings reduction

£826m

Health & safety

Work related 'greater than three day lost time accidents'

Total versus last year **up 27**

Like for like versus last year **up 15**

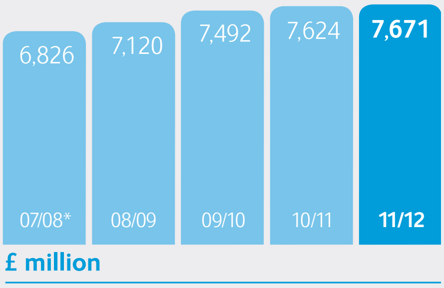
*Pro forma.

A glossary of key terms is included on page 117.

Health & Beauty Division

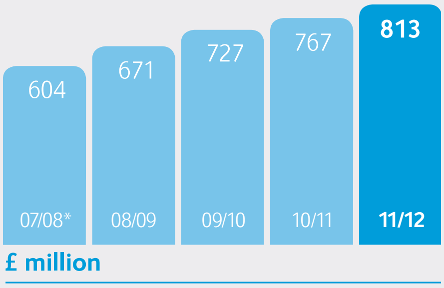
How fast we are growing

Revenue
+0.6%
versus last year



Our profit performance

Trading profit
+6.0%
versus last year



Our prescription growth per pharmacy

Boots UK dispensing like for like volume
+1.9%
versus last year

Our retail growth per store

Boots UK like for like retail revenue (incl. VAT)
+0.8%
versus last year

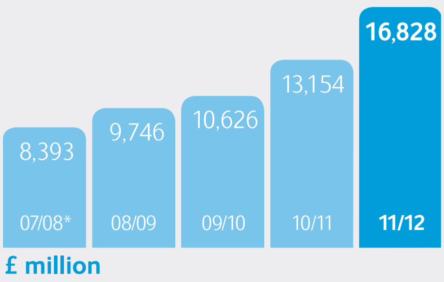
Pharmaceutical Wholesale Division

How fast our markets are growing

Market value
+c.1%
versus last year

How fast we are growing

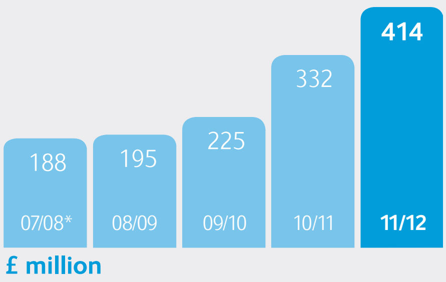
Revenue – total
+27.9%
versus last year



Revenue – like for like
+2.4%
versus last year

Our profit performance

Trading profit – total
+24.7%
versus last year



Trading profit – like for like
+8.2%
versus last year

Our people

Alliance Boots is a major employer in the UK and many other countries. At the year end, the Group, including our associates and joint ventures, employed over 116,000 people in more than 25 countries.

We understand the importance of attracting, developing and retaining talent if we are to achieve our mission to become the world's leading pharmacy-led health and beauty group.

We aim to create a culture throughout the Group that is reflective of our key values: partnership, trust, service, entrepreneurship and simplicity. This is to ensure that our people feel motivated to do their best for customers and patients at all times.

This year, some of our people overcame major challenges in the form of an earthquake in Turkey and floods in Thailand. In difficult and testing circumstances, they worked tirelessly to ensure that customers and patients continued to receive the high level of service they have come to expect.

Diversity, culture and equal opportunities

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

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

Recruitment and development

We aim to attract, develop and retain the best talent. For example, in the UK we recruited in total around 1,000 pre-registration pharmacy graduates and fully qualified pharmacists during the year.

We support and encourage our people to learn and develop additional skills. This can take many forms, including ongoing professional development for our pharmacists and participation in our Group-wide assessment and development programme on a selective basis.

Communication and engagement

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

We communicate with our people through a wide variety of channels, reflecting the diversity and geographical spread of our businesses. Approaches used to fulfil these aims include regular face-to-face team briefings, networking events, conference calls, videoconferences, magazines, newsletters and intranet sites.

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

Feedback is regularly sought on the effectiveness of our communications. Following an internal publications survey, our internal Group monthly newsletter was re-launched during the year with a greater focus on our people and increased use of photography.


AB Crescendo
Alliance Boots
Alliance Boots Internal Newsletter
Issue 03 | March 2012
SPECIAL EDITION
Inside this edition
I want to express my personal thanks for your commitment to the great cause of cancer research
HRH Princess Astrid at the EORTC 50th Anniversary Conference
Celebrating 50 years of progress against cancer
Our partnership with the EORTC: Stepping up the fight against cancer
Following the successful completion of a preliminary phase and the enthusiasm shown by its teams and businesses, Alliance Boots will commence the roll-out of its international partnership with the European Organisation for Research and Treatment of Cancer (EORTC) Charitable Trust

The Great Place to Work employee survey, which measures the level of engagement employees have within the workplace, was developed by Boots UK and continues as an important element of its annual human resource programme. Since the survey started in 2005, we have seen significant increases in scores, with engagement levels currently at record levels.

Recognition and reward

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

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

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

Our businesses continue to achieve success in independent reviews which rate us as an employer of choice. In the UK, both Boots UK and Boots Opticians were ranked in the "Sunday Times 25 Best Big Companies to Work For" 2012 awards for the third consecutive year. Boots Ireland achieved eighth place, for the second year running, in the Great Place to Work Institute's "Best Large Workplaces in Ireland 2012".

Corporate social responsibility

“Corporate social responsibility is embedded in our daily lives.

Ornella Barra
Chairman of the social responsibilities committee

At Alliance Boots, corporate social responsibility remains an integral part of our commercial philosophy because we understand the vital link between good corporate social responsibility and good business. Our approach ensures that our business practices are socially, environmentally and economically sustainable across the Group.

The social responsibilities committee, which I chair, keeps under review and advises the Board on the Group's policies and practices in the area of corporate social responsibility, including issues related to the environment, health and safety, diversity and equal opportunities, race relations, employment of people with disabilities, charitable giving and ethical matters, and the Group's values and standards.

Our business activities are focused on improving the health and wellbeing of the local communities we serve. Corporate social responsibility forms a natural part of the Group's business culture and we are proud of our high standards and achievements in this area.

We monitor our activities and progress through a corporate social responsibility scorecard, which is segmented into four areas: community; environment; marketplace; and workplace. In each of these areas, our businesses have key objectives and priorities which are embedded into the daily activities of our people, who understand the importance of the corporate social responsibility agenda.

Long term partnerships play a pivotal role in our corporate social responsibility agenda. In June 2011, we announced a new pan-European partnership with the EORTC Charitable Trust based in Belgium. Alliance Boots has committed to raising €5 million by 2016 to support the creation and funding of a Biobank for colorectal cancer and later a platform for blood sampling to enable genetic profiling. Employees are increasingly engaged in various fundraising activities, which include working with manufacturers and other suppliers, to enable us to achieve this goal. This new partnership is part of our wider commitment to support people affected by cancer and complements our ongoing collaboration with Macmillan Cancer Support in the UK.

The Group has no affiliation to any political party or group in any country and makes no political donations. During the year, the Group made charitable donations totalling £2.6 million, a year on year increase of £1.1 million.

We will publish our detailed Corporate Social Responsibility Report for 2011/12 on our website in September 2012. Similarly to last year, the report will provide a comprehensive overview of the Group's corporate social responsibility activities, it will again be written following Global Reporting Initiative guidelines and criteria, and will again include an independent assurance report issued by KPMG.

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

In our Corporate Social Responsibility Report 2010/11, we set ourselves a series of objectives and priorities for 2011/12. A summary of our achievements against these is set out below.

Community


Objective: To establish meaningful multi-year partnerships with charitable organisations and other stakeholders that share our values of making a difference and our commitment to improving health and wellbeing in the local communities that we serve. Our priorities for 2011/12 were:

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

Since the partnership was announced in June 2011, Alliance Boots and the EORTC Charitable Trust have completed the operational, legal and financial set-up, and awareness has been raised amongst employees and key stakeholders. Teams across the Group are now actively engaged in efforts to meet the fundraising targets through national and local initiatives. Businesses have also launched plans for larger events, some of which involve manufacturers and other suppliers. €0.3 million was raised in the period to 31 March 2012 when the project was still in the process of being established. Examples of fundraising activities include Alliance Healthcare España's collaboration with a department store to raise money by selling products to our employees via an intranet site, and Boots Opticians which in the three months to February 2012 donated £1 for every pair of frames sold from the Police and Givenchy ranges.

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

By the year end, local targets were in place in 12 businesses across the Group, seven of which put targets in place for the first time in 2011/12. Examples of supporting activities undertaken include the collaboration between Boots Norge and ScreenCancer, where customers visiting one of our 42 participating pharmacies have suspicious moles photographed by pharmacists which are then forwarded to dermatologists at ScreenCancer for analysis. This service has proved successful in detecting cases of malignant melanoma. Elsewhere in the Group, ANZAG worked with pharmacists in Germany to help local children through supporting 13 non-profit projects as part of its campaign 'Children's Dreams 2011'. In the UK, Boots entered its eighth year of supporting the BBC Children in Need charity, raising £0.6 million in the year, bringing the cumulative total to £4.8 million.

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

We continue to work with selected organisations to help support health related issues. On World Diabetes Day, 'Boots apotek' stores in Norway offered their customers free glucose testing and through our associate business, Alphega Pharmacy in Italy ran a diabetes awareness and prevention campaign with Bayer Diabetes Care and Artsana Group.

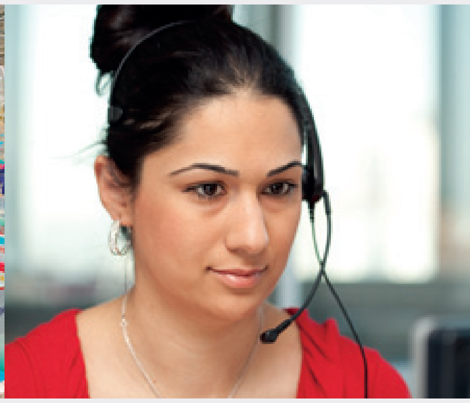
Objective: To support our employees who wish to volunteer their time to make a difference in the communities that we serve. Our priority for 2011/12 was:

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

BCM in the UK has an employee volunteering programme in place, while the majority of other businesses across the Group encourage volunteering on an ad hoc basis. Examples of specific employee volunteering initiatives during the year include the Group finance team, which refurbished a shelter for the homeless, and our associate business, Alliance Healthcare Portugal, which provided volunteers for an annual charity fundraising event in aid of Novo Futuro, a children's charity.

Corporate social responsibility continued

Environment



Objective: To reduce the Group's like for like CO_2 emissions. Our priorities for 2011/12 were:

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

Progress against this priority will be published in our Corporate Social Responsibility Report 2011/12 when the relevant data has been collated and checked. Many initiatives have been introduced across the Group to amend working practices so that our businesses use less carbon and become more sustainable. Examples include Alliance Healthcare France where delivery drivers are provided with eco driving training and Boots UK which used a necessary rebuild opportunity, following fire damage to a store in Eastbourne, to trial new lower carbon initiatives. Opened in April 2011, the store incorporates a range of around 20 different measures to help reduce carbon emissions.

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

During the year, we upgraded and expanded our videoconferencing facilities across the Group and encouraged our staff to make much greater use of these, together with webcasting and teleconferencing. In addition, we continue to challenge non-essential business travel. A greater number of key meetings involving people across the Group are now taking place by videoconferencing, reducing our carbon footprint while at the same time improving efficiency and lowering costs.

Objective: To reduce the Group's like for like total waste levels and increase the proportion of waste that is recycled. Our priority for 2011/12 was:

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

Progress against this priority will be published in our Corporate Social Responsibility Report 2011/12 when the relevant data has been collated and checked. Across the Group, our businesses have undertaken numerous recycling initiatives to seek to achieve this target. Examples include replacing desk bins within office environments with waste and recycling hubs for plastic bottles, aluminium cans and general waste.

Objective: To incorporate acquired businesses into our CSR framework and reporting processes on a timely basis, recognising that the collection of robust environmental data in many countries is challenging. Our priority for 2011/12 was:

To appoint local CSR 'champions' and implement the Group scorecard approach within the Hedef Alliance and ANZAG businesses and to incorporate these businesses into our CSR data performance reporting.

Full CSR data performance reporting was introduced in all five of the Hedef Alliance and ANZAG businesses with effect from the beginning of 2011/12 and CSR 'champions' were appointed in each business. In addition, ANZAG in Germany and Hedef Alliance in Turkey implemented the Group's scorecard approach. Plans are in place for the other three businesses to implement scorecards in the coming year.

Marketplace

Objective: To evaluate and work with the Group's major suppliers to establish that they have suitable processes in place to comply with the standards set out in our Code of Conduct and Business Ethics. Our priority for 2011/12 was:

To extend Boots UK's supplier verification programme to other major suppliers to the Group.	In 2010/11, the programme was expanded to include suppliers to Boots Opticians and the Pharmaceutical Wholesale Division's Almus and Alvita product brands. During 2011/12 plans were developed to extend the programme to certain other major suppliers of the Group in the coming year.

Objective: To ensure that an awareness of, and focus on, sustainability is embedded within our activities across the Group. Our priority for 2011/12 was:

To facilitate a third party evaluation of the Boots UK developed product sustainability methodology and to share the insight and best practices identified.	Following the review carried out in 2010 by Forum for the Future, a non-profit organisation which works globally with businesses and governments to create a sustainable future, we have updated our work with them and continued to develop our product sustainability methodology and share insight and best practices.

Workplace

Objective: To reinforce that a robust health and safety regime exists in all parts of the Group supported with appropriate training, education and incident management practices. Our priority for 2011/12 was:

To reduce the number of 'greater than three day lost time accidents' within each principal business.	During 2011/12 across the Group there were four employee fatalities, all traffic accidents when delivering pharmaceuticals in Egypt. In addition, there were 693* employee work related 'greater than three day lost time accidents', a year on year increase of 27*. The vast majority of these were fractures resulting from trips or falls. On a like for like basis, excluding accidents in businesses acquired during the last two years, employee work related 'greater than three day lost time accidents' increased by 15 year on year. Four of our businesses reduced the number of 'greater than three day lost time accidents' year on year. Significant focus is being placed at all levels within the Group to improve safety, under the leadership of Marco Pagni, the Director responsible for the leadership of health and safety, who chairs the Group's health and safety committee. This included further enhancing the reporting of accidents across the Group, building on work carried out in 2010/11, to provide greater insight into the root cause of accidents and better determine additional action to be taken to seek to prevent similar occurrences in the future.

Objective: To engage with our employees through regular feedback sessions and through local forms of employee appraisal and development plans. Our priority for 2011/12 was:

To introduce employee feedback programmes, such as surveys, across the major parts of the Group and ensure that the results are reviewed by senior management and appropriate responses developed.	By the year end, eight of the Group's businesses had employee feedback programmes in place, the results of which were reviewed by senior management within each business. During the year BCM introduced a new staff engagement survey which enabled employees to comment on a wide range of topics.

* Excludes operations discontinued during the year.

Board of Directors

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

The principal Board committees are:
- audit and risk committee
- remuneration committee
- social responsibilities committee

Stefano Pessina
Executive Chairman • •
Stefano Pessina was appointed Executive Chairman of Alliance Boots in July 2007, having previously been its Executive Deputy Chairman. Prior to the merger of Alliance UniChem and Boots Group, he was Executive Deputy Chairman of Alliance UniChem, previously having been its Chief Executive for three years up until December 2004. Stefano was appointed to the Alliance UniChem Board in 1997 when UniChem merged with Alliance Santé, the Franco-Italian pharmaceutical wholesale group which he established in Italy in 1977. He is an engineer by profession.

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

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

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

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

Marco Pagni

Group Legal Counsel & Chief Administrative Officer •

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

Ornella Barra

Chief Executive, Pharmaceutical Wholesale Division •

Ornella Barra was appointed Chief Executive of the Pharmaceutical Wholesale Division in January 2009, having previously been Wholesale & Commercial Affairs Director. She is Chairman of the social responsibilities committee. Prior to the merger of Alliance UniChem and Boots Group she was executive Director of Alliance UniChem with wholesale and commercial affairs responsibilities, having been appointed to its Board in 1997 when Alliance Santé merged with Alliance UniChem. Before that she was a Director of Alliance Santé and General Manager of Alleanza Salute Italia. She is a pharmacist and an honorary professor at the University of Nottingham's School of Pharmacy.

Alex Gourlay

Chief Executive, Health & Beauty Division

Alex Gourlay was appointed to the Board of Alliance Boots in January 2009, when he became Chief Executive of the Health & Beauty Division. He was previously Managing Director of Boots UK and a member of the Group operating committee following the acquisition of Alliance Boots plc by AB Acquisitions Limited in 2007. Prior to this, he was Healthcare Director of Boots the Chemists, having held senior management positions in store operations and human resources. He is a pharmacist and a member of the Royal Pharmaceutical Society of Great Britain.

Nick Land

Non-executive Director • •

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

Chris Britton

Non-executive Director •

Chris Britton was appointed as a non-executive Director in June 2008 and is a member of the social responsibilities committee. Chris is Chief Executive Officer of Findus Group, a major European food business. Previously he was an Executive Board Member and President – Baby Food Division of Royal Numico, a Netherlands based publicly listed multinational infant and clinical nutrition group. He has also worked for Diageo in various marketing and general management positions, latterly as Global Marketing Director.

Tony De Nunzio CBE

Non-executive Director • •

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

Etienne Jornod

Non-executive Director

Etienne Jornod was appointed as a non-executive Director in March 2008. Etienne is Executive Chairman of Galenica, an associate company, and was a non-executive Director of Alliance UniChem for six years until its merger with Boots Group.

Board report on corporate governance

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

The Board

Throughout the year the Board comprised the Executive Chairman, four other executive Directors, three Directors representing KKR and four non-executive Directors. During the year the Board reviewed the composition of the Board and the balance of skills, knowledge and experience its members bring, and concluded that the Board has the appropriate balance for the Company.

Details of the executive Directors' service contracts are given on page 53 of the Board report on remuneration.

Biographies and other details of Board members are shown on pages 48 and 49.

During the year the Board formally evaluated its own performance and that of the Board committees. Issues arising from the performance evaluation were presented to the Board by the Executive Chairman with an action plan to ensure continuous improvement in the operation of the Board and its committees and between the non-executive Directors and management.

Non-executive Directors are appointed for an initial term of three years which is then renewed and extended for not more than two further three-year terms. Nick Land, Tony De Nunzio, Chris Britton and Etienne Jornod were all first appointed to the Board in 2008 and reappointed for further three-year terms in 2011.

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

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

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

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

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

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

Board committees

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

Remuneration committee

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

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

The role of the committee and details of how it carried out its duties are set out in the Board report on remuneration on pages 52 to 54.

Audit and risk committee

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

- Nick Land (Chairman)
- Tony De Nunzio
- Stefano Pessina
- Mattia Caprioli

The role of the committee and details of how it carried out its duties are set out in the audit and risk committee report on page 55.

Social responsibilities committee

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

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

The role of the committee and how it carried out its duties is summarised in the corporate social responsibility section of this report on pages 44 to 47. A more detailed description of the role of the committee is included in the Corporate Social Responsibility Report which will be published in September 2012 on the Company's website at www.allianceboots.com. In addition, the Group's environment, health and safety, charity, product testing, customer safety and diversity statements are all published on the Company's website in the corporate governance section under the social responsibilities committee.

A Code of Conduct and Business Ethics, approved by the social responsibilities committee and the Board, sets out the ethics, principles and standards which are required to be consistently upheld by each Division, business and corporate function within the Group. During the year, the Board also approved an Anti-corruption and Bribery Policy, following the introduction of new anti-bribery legislation in the UK in June 2011. Both documents are published on the Company's website at www.allianceboots.com in the corporate governance section.

Internal control

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

The Board considers an efficient risk management and control framework with an actively managed balance of risk and reward to be fundamental to the Company achieving its corporate objectives. The effectiveness of the ongoing process to identify, evaluate and manage significant risks is reviewed annually by the audit and risk committee on behalf of the Board. The committee also has responsibility for overseeing management action needed to remedy any shortcomings or weaknesses identified. Further details of our significant risks, together with the steps we take where necessary to mitigate them, are set out in the risk management section of this report on pages 56 and 57.

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

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

Social, environmental and ethical matters

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

Going concern

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

Further information on the Group's activities, together with the factors likely to affect our future performance, are set out in the "our business activities", "Group strategy and objectives", "our markets and business environment", and "business review" sections of this report on pages 4 and 5, 10 and 11, 14 and 15, and 18 to 33 respectively.

Ownership of the Company

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

KKR is one of the world's longest established and most experienced private equity firms. During the last three decades, KKR has managed and sponsored 14 private equity funds that have received capital commitments of more than $59 billion. During that time KKR has completed more than 170 transactions with an aggregate value of more than $425 billion, including significant investments in the healthcare and retail sectors. Dominic Murphy, Mattia Caprioli and Sergio D'Angelo are the KKR executives who, together with the other members of the Board, have responsibility for oversight of the Company.

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

Frank Standish
Company Secretary
11 May 2012

Board report on remuneration

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

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

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

Policy overview

The philosophy of the committee is to:

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

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

Executive remuneration comprises the following key elements:

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

Each of these elements is described in this report.

Basic salary

Basic salaries paid to executive Directors for the year ended 31 March 2012 are detailed in the emoluments section on page 54.

Executive Directors' salaries are reviewed shortly after the end of each financial year and are set taking into account individual performance, market rates and the size and complexity of the Group. These reviews, conducted with the assistance of remuneration consultants, assess the competitiveness of the executive Directors' remuneration against the UK FTSE 100 (excluding financial services and oil companies). Basic salaries following the latest review, which will be effective from June 2012, are as follows:

Director	£
S. Pessina	600,000
O. Barra	525,000
G. Fairweather	580,000
A. Gourlay	525,000
M. Pagni	495,000

Short term bonus scheme

Stefano Pessina does not participate in the short term bonus scheme for executive Directors. The short term bonus scheme for other executive Directors in 2011/12 provided a maximum bonus potential of 125% of annual basic salary. 60% of the bonus was dependent on Group trading profit and 40% on personal performance. For the element of bonus linked to trading profit the bonus begins to accrue for achieving 92% of the target trading profit and maximum vesting would be delivered for achieving 102% of target trading profit.

Short term bonus amounts earned by each executive Director for the year ended 31 March 2012 are detailed in the emoluments section on page 54.

Pension benefits

Stefano Pessina has no pension arrangement from the Group. During the year, Ornella Barra, George Fairweather and Marco Pagni each received payments equal to 40% of their basic salaries in lieu of active participation in any pension scheme of the Group. Alex Gourlay received a payment equal to 15% of his basic salary up until the end of June 2011 and thereafter at 40%.

Ornella Barra is a deferred member of a tax approved pension scheme into which defined contributions were made by the Group until the plan was closed to future accrual in 2010. Since the year end, Ornella Barra has agreed to the wind-up of the scheme. As a result, a payment of £1,552,000 is to be made to meet the unfunded past service liabilities of the scheme as at 31 March 2012.

Alex Gourlay is a deferred member of both the Boots Pension Scheme and the Boots Supplementary Pension Plan which are defined benefit schemes which were closed to future accrual for all members in 2010. His total accrued deferred pension at 31 March 2012 was £191,000, an increase relative to the previous year of £8,000. Net of inflation at 3.7% the increase was £2,000. The transfer value of his accrued benefits at 31 March 2012 was £3,468,000 compared to £3,732,000 at 31 March 2011. The transfer value less his contributions and net of inflation decreased by £200,000 to £3,344,000 at 31 March 2012.

Other benefits

Executive Directors are entitled to a company car or car allowance and other benefits comparable to those provided by other major companies. Stefano Pessina and Ornella Barra are reimbursed the cost of travel to and from work, accommodation and subsistence while working for the Group. Alex Gourlay receives a mortgage equalisation allowance as part of a relocation package obtained in 2006 prior to his appointment as a Director. The provision of these benefits reflects market practice and does not relate to performance. The value of these benefits for each Director serving during the year, including expenses chargeable to income tax, are detailed in the emoluments section on page 54. Where a Director is entitled to a benefit but chooses not to take that benefit, a cash supplement is paid in lieu of that benefit.

Service contracts

Each of the executive Directors has a service contract. Details of the contracts of executive Directors in office at 31 March 2012 are as follows:

Director	Date of contract	Notice period by Alliance Boots	Notice period by Director
S. Pessina	22 December 2009	1 year	6 months
O. Barra	31 July 2006	1 year	6 months
G. Fairweather	31 July 2006	1 year	1 year
A. Gourlay	29 January 2009	1 year	1 year
M. Pagni	8 May 2012	1 year	6 months

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

Directors representing KKR

With effect from June 2011, the fee paid to each Director representing KKR increased from £20,000 per annum to £65,000 per annum.

Non-executive Directors

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

Director	Initial appointment date	Reappointment date
C. Britton	4 June 2008	12 May 2011
A. De Nunzio	4 June 2008	12 May 2011
E. Jornod	31 March 2008	12 May 2011
N. Land	31 March 2008	12 May 2011

The basic fee paid to each non-executive Director for the year ended 31 March 2012 was £65,000 per annum. In addition, Nick Land receives a fee of £20,000 per annum for chairing the audit and risk committee. Non-executive Directors do not participate in any pension scheme or bonus arrangements but are reimbursed travel, subsistence and accommodation costs.

Board report on remuneration continued

Emoluments

An analysis of executive Directors' emoluments relating to salaries and fees, short term bonuses, pension supplements and other benefits for the year ended 31 March 2012 are shown in the table below:

Director	Salaries and fees £'000	Short term bonuses £'000	Pension supplements £'000	Other benefits £'000	Total emoluments excluding pension related payments 2012 £'000	Total emoluments excluding pension related payments 2011 £'000
S. Pessina	600	–	–	101	701	693
O. Barra	482	424	193	94	1,193	1,230
G. Fairweather	537	473	215	23	1,248	1,300
A. Gourlay	482	424	163	20	1,089	1,069
M. Pagni	452	398	224	23	1,097	1,116
	2,553	**1,719**	**795**	**261**	**5,328**	5,408

Tony De Nunzio
Chairman of the remuneration committee
11 May 2012

Audit and risk committee report

The audit and risk committee consists of four Directors, of which at least half, including the committee Chairman, must be non-executive Directors. The committee members are Nick Land (committee Chairman), Tony De Nunzio, Stefano Pessina and Mattia Caprioli. The Group Finance Director, the Group Financial Controller, the Director of Internal Audit & Risk Management and representatives from the external auditors are normally invited to attend meetings as appropriate. In addition, Dominic Murphy and Marco Pagni attended meetings during the year. The committee is scheduled to meet four times each year.

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

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

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

Terms of reference

The terms of reference for the committee, which are reviewed at least annually by the committee, are published on the Company's website at www.allianceboots.com in the corporate governance section. Following a review of the committee's terms of reference during 2011/12, it was decided to expand the scope of the committee to increase the focus on key risks across the Group. Accordingly the name of the committee was changed to the audit and risk committee to reflect this wider role.

Operation of the audit and risk committee

In addition to its regular work programme, particular issues the committee reviewed during the year included:

- the control environment for the implementation of new finance systems in Boots UK;
- financial controls in Pharmaceutical Wholesale businesses in emerging markets;
- treasury policies and related controls;
- tax management and compliance;
- related party transactions; and
- internal audit resource.

Policy on non-audit services

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

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

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

Policy on employment of former employees of the external auditor

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

Whistleblowing

During the year the committee carried out a review of the effectiveness of the Group's whistleblowing arrangements. An external organisation, InTouch, operated 24 hour confidential reporting services in the UK and the Republic of Ireland on behalf of the Group throughout the year. In the first quarter of 2012 a confidential Group internet based reporting system was introduced across the other businesses. This system, like the confidential reporting service operated by InTouch, gives employees an opportunity to report any concerns or suspicions they may have about possible wrongdoing in financial reporting or other matters. Confidential reports from these services are provided to designated senior executives, including the Company Secretary, who in turn reports significant cases to the audit and risk committee. The committee monitors these cases until resolution is complete.

Nick Land
Chairman of the audit and risk committee
11 May 2012

Risk management

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

Our risk management process

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

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

The risks we face

Macro-economic and political environment

Risk

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

Mitigation

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

Impact of regulation

Risk

Alliance Boots operates in regulated markets and could be adversely affected by changes to existing regulation, new regulation and/or failure to comply with regulation.

Businesses in our Health & Beauty Division could be adversely affected by changes to licensing regimes for pharmacies, prescription processing regimes or reimbursement arrangements. Businesses in our Pharmaceutical Wholesale Division are subject to a range of regulations relating to such things as product margins, product traceability and the conditions under which products must be stored.

Mitigation

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

Changes and trends in consumer behaviour

Risk

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

Mitigation

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

Competition

Risk

Changes in market dynamics or actions of competitors or manufacturers could adversely impact Alliance Boots.

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

Mitigation

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

Health, safety and environmental risks

Risk

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

Mitigation

We set standards throughout the Group which are closely monitored and regularly audited. Health, safety and environmental incidents are logged and analysed in order to learn the necessary lessons. Any major incident is promptly reported to and investigated by the Group's executive Directors. Marco Pagni, Group Legal Counsel & Chief Administrative Officer, is the Director responsible for the leadership of health and safety across the Group.

Product/services risk

Risk

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

Mitigation

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

Major operational business failures

Risk

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

Mitigation

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

Increased costs

Risk

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

Mitigation

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

Change management

Risk

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

Mitigation

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

Acquisitions

Risk

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

Mitigation

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

Currency exchange

Risk

Alliance Boots has transaction currency exposures relating to the import and export of goods in currencies other than businesses' functional currencies. We also have translation currency exposures relating to profits and net assets denominated in currencies other than Sterling.

Mitigation

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

Funding and interest rate risks

Risk

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

Mitigation

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

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

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

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

Pension contributions

Risk

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

Mitigation

We retain independent actuaries to review investment performance, provide periodic investment advice and advise on appropriate actuarial assumptions and sensitivities. All UK defined benefit schemes are closed to future accrual.

Data protection

Risk

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

Mitigation

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

Directors' responsibilities statement

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

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

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

Statutory auditor's report

to the general members meeting of Alliance Boots GmbH

Report on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Alliance Boots GmbH, which comprise the Group income statement, Group statement of comprehensive income, Group statement of financial position, Group statement of changes in equity, Group statement of cash flows and related notes (pages 60 to 113) for the year ended 31 March 2012.

Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 March 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRSs) and comply with Swiss law.

Report on other legal requirements

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

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

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

We read the other information contained in pages 1 to 58 and are not aware of any material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

KPMG AG

Richard Pinckard
Licensed Audit Expert
Auditor in Charge

Thomas Affolter
Licensed Audit Expert

Zug, Switzerland
11 May 2012

Group income statement

for the year ended 31 March 2012

	Notes	2012 £million	2011 Re-presented £million
Continuing operations:			
Revenue	4	**23,009**	19,428
Profit from operations before associates and joint ventures	4,5	**1,036**	977
Share of post tax earnings of associates and joint ventures	17	**58**	73
Impairment of investments in associates	17	–	(4)
Net gain on acquisitions of controlling interests in associates	17	–	19
Profit from operations	4,7	**1,094**	1,065
Finance income	9	**307**	311
Finance costs	10	**(741)**	(700)
Profit before tax		**660**	676
Tax	11	**(31)**	(21)
Profit for the year from continuing operations		**629**	655
Discontinued operations:			
Loss for the year from discontinued operations	12	**(57)**	(40)
Profit for the year		**572**	615
Attributable to:			
Equity shareholders of the Company		**550**	595
Non controlling interests		**22**	20
		572	615

Group statement of comprehensive income

for the year ended 31 March 2012

	Notes	2012 £million	2011 £million
Profit for the year		**572**	615
Other comprehensive income for the year			
Net exchange differences on translation of non-Sterling denominated operations		**(52)**	(27)
Defined benefit schemes – net actuarial gains net of surplus restriction	36	**128**	145
Movements on available-for-sale reserve including amounts recycled		**(9)**	(9)
Share of post tax other comprehensive income of associates and joint ventures		**(1)**	6
		66	115
Tax on other comprehensive income for the year	11	**(31)**	(15)
		35	100
Total comprehensive income for the year		**607**	715
Attributable to:			
Equity shareholders of the Company		**614**	710
Non controlling interests		**(7)**	5
		607	715

Group statement of financial position

as at 31 March 2012

	Notes	2012 £million	2011 £million
Assets			
Non-current assets			
Goodwill	13	**4,751**	4,815
Other intangible assets	14	**5,508**	5,630
Property, plant and equipment	16	**1,992**	2,069
Investments in associates and joint ventures	17	**911**	838
Available-for-sale investments	18	**41**	67
Other receivables	20	**290**	266
Deferred tax assets	24	**32**	17
Retirement benefit assets	36	**30**	–
Derivative financial instruments	26	**8**	36
		13,563	13,738
Current assets			
Inventories	19	**1,782**	2,069
Trade and other receivables	20	**3,078**	3,530
Cash and cash equivalents	21	**670**	629
Restricted cash	22	**254**	285
Assets classified as held for sale	23	**5**	3
		5,789	6,516
Total assets		**19,352**	20,254
Liabilities			
Current liabilities			
Borrowings	26	**(153)**	(274)
Trade and other payables	25	**(4,172)**	(4,603)
Current tax liabilities		**(32)**	(10)
Provisions	30	**(50)**	(59)
Derivative financial instruments	26	**(154)**	(66)
		(4,561)	(5,012)
Net current assets		**1,228**	1,504
Non-current liabilities			
Borrowings	26	**(7,641)**	(8,274)
Other payables	25	**(251)**	(275)
Deferred tax liabilities	24	**(1,085)**	(1,109)
Retirement benefit obligations	36	**(79)**	(223)
Provisions	30	**(33)**	(58)
Derivative financial instruments	26	**(1)**	(179)
		(9,090)	(10,118)
Net assets		**5,701**	5,124
Equity			
Share capital	31	**1,065**	1,065
Share premium		**2,795**	2,795
Retained earnings		**1,561**	939
Other reserves	32	**47**	(15)
Shareholders' equity		**5,468**	4,784
Non controlling interests		**233**	340
Total equity		**5,701**	5,124

Group statement of changes in equity

for the year ended 31 March 2012

2012	Shareholders' equity: Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million	Non controlling interests £million	Total equity £million
At 1 April 2011	**1,065**	**2,795**	**939**	**(15)**	**4,784**	**340**	**5,124**
Profit for the year	–	–	**550**	–	**550**	**22**	**572**
Other comprehensive income for the year							
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	**(23)**	**(23)**	**(29)**	**(52)**
Defined benefit schemes – net actuarial gains	–	–	**128**	–	**128**	–	**128**
Movements on available-for-sale reserve including amounts recycled	–	–	–	**(9)**	**(9)**	–	**(9)**
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	**(1)**	**(1)**	–	**(1)**
Tax on other comprehensive income for the year	–	–	**(33)**	**2**	**(31)**	–	**(31)**
	–	–	**95**	**(31)**	**64**	**(29)**	**35**
Total comprehensive income for the year	–	–	**645**	**(31)**	**614**	**(7)**	**607**
Transactions with owners							
Liability to acquire equity stakes from non controlling interests	–	–	–	**(2)**	**(2)**	–	**(2)**
Dividends paid to non controlling interests	–	–	–	–	–	**(27)**	**(27)**
Purchase of non controlling interests	–	–	**(23)**	**95**	**72**	**(72)**	–
Non controlling interests in businesses disposed	–	–	–	–	–	**(2)**	**(2)**
Contribution from non controlling interests	–	–	–	–	–	**1**	**1**
	–	–	**(23)**	**93**	**70**	**(100)**	**(30)**
At 31 March 2012	**1,065**	**2,795**	**1,561**	**47**	**5,468**	**233**	**5,701**

2011	Shareholders' equity: Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million	Non controlling interests £million	Total equity £million
At 1 April 2010	1,065	2,795	239	212	4,311	29	4,340
Profit for the year	–	–	595	–	595	20	615
Other comprehensive income for the year:							
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	(12)	(12)	(15)	(27)
Defined benefit schemes – net actuarial gains net of surplus restriction	–	–	145	–	145	–	145
Movements on available-for-sale reserve including amounts recycled	–	–	–	(9)	(9)	–	(9)
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	6	6	–	6
Tax on other comprehensive income for the year	–	–	(40)	25	(15)	–	(15)
	–	–	105	10	115	(15)	100
Total comprehensive income for the year	–	–	700	10	710	5	715
Transactions with owners:							
Transfer from special reserve	–	–	–	34	34	(34)	–
Non controlling interests in businesses acquired	–	–	–	–	–	464	464
Liability to acquire equity stakes from non controlling interests	–	–	–	(362)	(362)	–	(362)
Future dividend obligations to non controlling interests	–	–	–	–	–	(28)	(28)
Dividends paid to non controlling interests	–	–	–	–	–	(18)	(18)
Purchase of non controlling interests	–	–	–	91	91	(92)	(1)
Non controlling interests in businesses disposed	–	–	–	–	–	(12)	(12)
Contribution from non controlling interests	–	–	–	–	–	26	26
	–	–	–	(237)	(237)	306	69
At 31 March 2011	1,065	2,795	939	(15)	4,784	340	5,124

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

Group statement of cash flows
for the year ended 31 March 2012

	Note	2012 £million	2011 Re-presented £million
Operating activities			
Profit/(loss) from operations:			
Continuing operations		**1,094**	1,065
Discontinued operations		**(35)**	(26)
		1,059	1,039
Adjustments to reconcile profit from operations to cash generated from operations:			
Share of post tax earnings of associates and joint ventures		**(58)**	(73)
Depreciation and amortisation		**372**	364
Negative goodwill		**–**	(16)
Net gain on disposal of property, plant and equipment		**(1)**	(24)
Impairment of goodwill, other intangibles and investments in associates		**11**	4
Net gain on acquisitions of controlling interests in associates		**–**	(19)
Decrease/(increase) in inventories		**73**	(48)
Decrease/(increase) in receivables		**142**	(6)
Increase in payables and provisions		**87**	261
Movement in retirement benefit assets and obligations		**(84)**	(173)
Cash generated from operations		**1,601**	1,309
Tax paid		**(83)**	(59)
Net cash from operating activities		**1,518**	1,250
Investing activities			
Acquisitions of businesses		**(10)**	(222)
Cash and cash equivalents of businesses acquired net of overdrafts		**2**	363
Disposals of businesses		**5**	62
Cash and cash equivalents of businesses disposed net of overdrafts		**(13)**	114
Purchase of property, plant and equipment, and intangible assets		**(262)**	(253)
Investments in associates and joint ventures		**(20)**	–
Purchase of available-for-sale investments		**(1)**	(1)
Purchase of profit participating notes		**–**	(119)
Loans advanced net of repayments		**–**	(40)
Disposal of property, plant and equipment, and intangible assets		**11**	86
Disposal of assets classified as held for sale		**1**	7
Dividends received from associates and joint ventures		**16**	17
Dividends received from available-for-sale investments		**1**	2
Interest received		**60**	77
Net cash (used in)/from investing activities		**(210)**	93
Financing activities			
Interest paid		**(379)**	(377)
Interest element of finance lease obligations		**(1)**	(1)
Proceeds from borrowings		**207**	23
Repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives		**(878)**	(439)
Fees associated with financing activities		**(23)**	(15)
Net cash and cash equivalents transferred from restricted cash		**27**	63
Repayment of capital element of finance lease obligations		**(7)**	(10)
Dividends paid to non controlling interests		**(43)**	(18)
Purchase of non controlling interests		**(122)**	(66)
Contribution from non controlling interests		**1**	26
Net cash used in financing activities		**(1,218)**	(814)
Net increase in cash and cash equivalents in the year		**90**	529
Cash and cash equivalents at 1 April		**594**	72
Currency translation differences		**(16)**	(7)
Cash and cash equivalents at 31 March	21	**668**	594

Notes to the consolidated financial statements

for the year ended 31 March 2012

1 General information

Alliance Boots GmbH is a private company incorporated in Switzerland. The address of its registered office is Alliance Boots GmbH, Baarerstrasse 94, CH-6300 Zug, Switzerland. The principal activities of the Group are pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution in many major international markets.

2 Accounting policies

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

Basis of accounting

The consolidated financial statements have been prepared in Sterling reflecting the denomination of the currency of the most significant proportion of the trade and cash flows of Alliance Boots GmbH (the "Company") and its subsidiaries and their interests in associates and joint ventures (together referred to as "the Group") and have been rounded to the nearest £1 million. The consolidated financial statements have been prepared in accordance with the requirements of Swiss law and International Financial Reporting Standards (IFRSs), as they apply to the consolidated financial statements for the year ended 31 March 2012. Had the consolidated financial statements been prepared under IFRSs as adopted by the European Union, there would be no material changes to the information presented in these consolidated financial statements.

The consolidated financial statements have been prepared principally on the historical cost basis. Other applicable measurement bases applied in the preparation of the consolidated financial statements are identified in the accounting policies below.

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the consolidated financial statements. The areas involving a higher degree of judgement, or areas where assumptions or estimates were significant to the consolidated financial statements are disclosed in note 38.

The comparative income statement has been re-presented as if an operation discontinued in the current year had been discontinued from the start of the comparative year.

Going concern

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

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

There were no amendments or revisions to IFRSs effective for the first time in the year ended 31 March 2012 which had an impact on the consolidated financial statements:

The following amendments and revisions to IFRSs, IFRICs and amendments to IFRICs which were effective for the first time in the year ended 31 March 2012 did not have any material impact on the consolidated financial statements:

Amendments and revisions to IFRSs	
IAS 24	Related Party Disclosures
New IFRICs	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IFRICs	
IFRIC 14	Prepayments of a Minimum Funding Requirement

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

New IFRSs		Effective for periods beginning on or after
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
Amendments and revisions to IFRSs		
IFRS 7	Financial Instruments: Disclosures	1 July 2011
IAS 1	Presentation of Financial Statements	1 July 2012
IAS 12	Income Taxes	1 January 2012
IAS 19	Employee Benefits	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Financial Instruments: Presentation	1 January 2014
various	Improvements to IFRSs – minor amendments	various
New IFRICs		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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

Consolidation

The consolidated financial statements as at and for the year ended 31 March 2012 comprise the Company and its subsidiaries and their interests in associates and joint ventures.

Subsidiaries

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

Non controlling interests

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

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

Associates and joint ventures

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but without control, or joint control, of the financial and operating policies of the entity. A joint venture is an entity over which the Group, either directly or indirectly, is in a position to jointly control the financial and operating policies of the entity. Associates and joint ventures are accounted for using the equity method. Unrealised profits and losses recognised by the Group on transactions with associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture concerned. Financial statements of some associates and joint ventures are prepared for different reporting years from that of the Group. Adjustments are made for the effects of transactions and events that occur between the reporting date of an associate or joint venture and the reporting date of the consolidated financial statements.

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

Currency

Currency transactions

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

Non-Sterling denominated entities

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

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

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

Segmental reporting

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

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

2 Accounting policies continued

Revenue

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

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

Health & Beauty Division

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

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

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

Pharmaceutical Wholesale Division

Wholesale revenue is recognised upon despatch of goods.

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

Other segments

Revenue is recognised upon despatch of goods.

Supplier rebates

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

Exceptional items

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

Finance income

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

Finance costs

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

Current/non-current classification

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

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

Business combinations and goodwill

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

The acquired net assets are initially recognised at fair value which is deemed cost in the consolidated financial statements. Where the Group does not acquire 100% ownership of the acquired company, non controlling interests are recorded either at fair value or at their proportion of the fair value of the acquired net assets. Prior to 1 April 2010, non controlling interests were recorded at their proportion of the fair value of the acquired net assets.

For acquisitions after 1 April 2010, goodwill comprises the fair value of the consideration plus the recognised amount of any non controlling interests in the acquiree, plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less the fair value of the identifiable net assets acquired. Any difference between the carrying value and fair value of pre-existing equity interest in the acquiree is recognised in the income statement. For acquisitions prior to 1 April 2010, goodwill comprises the excess of the fair value of the consideration plus directly attributable costs over the fair value of the identifiable net assets acquired. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired business and are recorded in the local currency of that business. Where the fair value of the identifiable net assets exceeds the fair value of the consideration, the excess is recognised as negative goodwill and recognised in the income statement immediately.

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

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

2 Accounting policies continued

Intangible assets

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

Pharmacy licences

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

Brands

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

Customer relationships

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

Other intangible assets

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

Software

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

Amortisation

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

- Brands – 10 to 20 years;
- Customer relationships – 4 to 20 years;
- Product licences – 5 to 15 years; and
- Software – 3 to 8 years.

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

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

Property, plant and equipment

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

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

- Freehold land and assets in the course of construction – not depreciated;
- Freehold and long leasehold buildings – not more than 50 years;
- Short leasehold land and buildings – remaining period of lease;
- Plant and machinery – 3 to 10 years; and
- Fixtures, fittings, tools and equipment – 3 to 20 years.

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

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

Impairment of assets

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

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

Assets held for sale and discontinued operations

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

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

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

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

Available-for-sale investments

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

Trade receivables and other receivables

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

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

Inventories

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

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

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

Cash and cash equivalents

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

Restricted cash

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

2 Accounting policies continued

Derivative financial instruments

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

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

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

Hedges

Cash flow hedges

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

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

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

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

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

Hedge of monetary assets and liabilities

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

Hedge of net investment in non-Sterling denominated entities

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

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

Trade payables

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

Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Liabilities to non controlling interests

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

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

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

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

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

Current and past service costs are recognised in profit from operations, interest on defined benefit scheme liabilities is included in finance costs and the expected return on defined benefit scheme assets is included in finance income. Past service costs are recognised immediately to the extent that the benefits are already vested, otherwise they are amortised on a straight-line basis over the average period until the benefits become vested. All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of other comprehensive income.

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

2 Accounting policies continued

Tax

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

Current tax

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

Deferred tax

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

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

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

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

Provisions

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

Equity instruments

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

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

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

Use of non-GAAP measures

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

EBITDA
Trading profit before underlying depreciation and amortisation.

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

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

Net finance costs
Finance costs net of finance income.

Share of underlying post tax earnings of associates and joint ventures
Share of post tax earnings of associates and joint ventures before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Timing differences within net finance costs
IAS 39 timing differences and the unwinding of the discount on obligations to non controlling interests.

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

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

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

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

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

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

3 Exchange rates

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

	Average		Closing rate	
	2012	2011	**At 31 March 2012**	At 31 March 2011
Euro	**1.159**	1.177	**1.193**	1.135
Turkish Lira	**2.766**	2.371	**2.831**	2.494
Swiss Franc	**1.407**	1.575	**1.438**	1.473
Norwegian Krone	**8.969**	9.348	**9.121**	8.970

4 Segmental information

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

The Group comprises the following operating segments:

Health & Beauty Division

Comprises all of the pharmacy-led health and beauty retail businesses across the Group. These businesses are located in the UK, Norway, the Republic of Ireland, The Netherlands and Thailand. There was also an operation in Russia which was discontinued during the year.

Pharmaceutical Wholesale Division

Comprises all of the pharmaceutical wholesaling and distribution businesses across the Group. These businesses are located in France, Germany, the UK, Turkey, Spain, The Netherlands, Egypt, Czech Republic, Norway, Romania and Lithuania. There was also an operation in Russia which was discontinued during the year.

All other segments comprise the activities of Contract Manufacturing and Corporate. These did not meet the quantitative thresholds for determining reportable operating segments in 2012 or 2011.

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

Definitions of the non-GAAP profit measures set out in the tables below are provided in the accounting policies.

2012	**Health & Beauty Division £million**	**Pharmaceutical Wholesale Division £million**	**All other segments £million**	**Eliminations £million**	**Total £million**
External revenue	**7,666**	**15,217**	**126**	**–**	**23,009**
Intra-group revenue	**5**	**1,611**	**129**	**(1,745)**	**–**
Total revenue	**7,671**	**16,828**	**255**	**(1,745)**	**23,009**
EBITDA	**1,001**	**467**	**(25)**	**–**	**1,443**
Underlying depreciation and amortisation	**(188)**	**(53)**	**(7)**	**–**	**(248)**
Trading profit/(loss)	**813**	**414**	**(32)**	**–**	**1,195**
Share of underlying post tax earnings of associates and joint ventures					**60**
Underlying net finance costs					**(415)**
Underlying tax charge (note 11)					**(147)**
Underlying profit					**693**

2011 Re-presented	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Eliminations £million	Total £million
External revenue	7,619	11,690	119	–	19,428
Intra-group revenue	5	1,464	134	(1,603)	–
Total revenue	7,624	13,154	253	(1,603)	19,428
EBITDA	962	374	(26)	–	1,310
Underlying depreciation and amortisation	(195)	(42)	(10)	–	(247)
Trading profit/(loss)	767	332	(36)	–	1,063
Share of underlying post tax earnings of associates and joint ventures					74
Underlying net finance costs					(375)
Underlying tax charge (note 11)					(133)
Underlying profit					629

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

	2012 £million	2011 Re-presented £million
Trading profit	**1,195**	1,063
Amortisation of customer relationships and brands	**(115)**	(112)
Exceptional items	**(44)**	26
Profit from operations before associates and joint ventures	**1,036**	977
Share of post tax earnings of associates and joint ventures	**58**	73
Impairment of investments in associates	**–**	(4)
Net gain on acquisitions of controlling interests in associates	**–**	19
Profit from operations	**1,094**	1,065
Net finance costs	**(434)**	(389)
Profit before tax	**660**	676

The share of post tax earnings of associates and joint ventures of £58 million (2011: £73 million) is stated after the Group's share of exceptional items of associates and joint ventures of £2 million (2011: £1 million).

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

	2012 £million	2011 Re-presented £million
Underlying profit	**693**	629
Amortisation of customer relationships and brands	**(115)**	(112)
Net exceptional items before tax	**(33)**	55
Timing differences within net finance costs	**(32)**	(29)
Tax credit on items not in underlying profit	**41**	40
Exceptional tax credit	**75**	72
Profit for the year from continuing operations	**629**	655
Loss for the year from discontinued operations	**(57)**	(40)
Profit for the year	**572**	615

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

			2012			2011
	Assets £million	**Liabilities £million**	**Net £million**	Assets £million	Liabilities £million	Net £million
Health & Beauty Division	**10,610**	**(1,337)**	**9,273**	10,864	(1,374)	9,490
Pharmaceutical Wholesale Division	**6,754**	**(3,343)**	**3,411**	7,506	(3,794)	3,712
All other segments	**306**	**(95)**	**211**	290	(108)	182
Eliminations	**(269)**	**269**	**–**	(281)	281	–
Allocated segment assets/(liabilities)	**17,401**	**(4,506)**	**12,895**	18,379	(4,995)	13,384
Unallocated:						
Investments in associates and joint ventures	**911**	**–**	**911**	838	–	838
Available-for-sale investments	**41**	**–**	**41**	67	–	67
Retirement benefit assets/(obligations)	**30**	**(79)**	**(49)**	–	(223)	(223)
Assets classified as held for sale	**5**	**–**	**5**	3	–	3
Net current and deferred tax	**32**	**(1,117)**	**(1,085)**	17	(1,119)	(1,102)
Net cash/(borrowings)	**932**	**(7,949)**	**(7,017)**	950	(8,793)	(7,843)
	19,352	**(13,651)**	**5,701**	20,254	(15,130)	5,124

Allocated segment assets at the year end comprised goodwill of £4,751 million (2011: £4,815 million), other intangible assets of £5,508 million (2011: £5,630 million), property, plant and equipment of £1,992 million (2011: £2,069 million), non-current other receivables of £290 million (2011: £266 million), inventories of £1,782 million (2011: £2,069 million), and trade and other receivables of £3,078 million (2011: £3,530 million).

Allocated segment liabilities at the year end comprised trade and other payables of £4,172 million (2011: £4,603 million), current provisions of £50 million (2011: £59 million), non-current other payables of £251 million (2011: £275 million) and non-current provisions of £33 million (2011: £58 million).

Eliminations included inter-segmental trading accounts between subsidiary undertakings.

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

4 Segmental information continued

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

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

2011	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Total £million
Amortisation of other intangible assets	75	85	–	160
Depreciation of property, plant and equipment	160	34	10	204
Additions to non-current assets:				
– goodwill	–	217	–	217
– other intangible assets	72	13	–	85
– property, plant and equipment	138	33	2	173

Segmental revenue based on the geographical location of customers was:

	2012 £million	2011 Re-presented £million
UK	**8,674**	8,202
France	**4,536**	4,550
Germany	**3,782**	1,293
Other	**6,103**	5,477
Intra-group	**(86)**	(94)
	23,009	19,428

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

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

	2012 £million	2011 £million
UK	**10,145**	10,043
France	**575**	635
Germany	**253**	249
Switzerland	**632**	585
Other	**1,557**	1,840
	13,162	13,352

Segment non-current, non-financial assets at the year end comprised goodwill of £4,751 million (2011: £4,815 million), other intangible assets of £5,508 million (2011: £5,630 million), property, plant and equipment of £1,992 million (2011: £2,069 million) and investments in associates and joint ventures of £911 million (2011: £838 million).

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

	2012 £million	2011 Re-presented £million
Health & Beauty Division		
Dispensing and Related Income	**2,802**	2,829
Retail	**4,475**	4,418
Optical	**332**	329
Other	**62**	48
	7,671	7,624
Pharmaceutical Wholesale Division		
Wholesale and Related Services	**16,828**	13,154
	16,828	13,154
All other segments and eliminations	**(1,490)**	(1,350)
	23,009	19,428

5 Profit from operations before associates and joint ventures

2012	**Before amortisation of customer relationships and brands, and exceptional items £million**	**Amortisation of customer relationships and brands £million**	**Exceptional items £million**	**Total £million**
Revenue	**23,009**	–	–	**23,009**
Cost of sales	**(18,192)**	–	–	**(18,192)**
Gross profit	**4,817**	–	–	**4,817**
Selling, distribution and store costs	**(3,088)**	**(115)**	**(39)**	**(3,242)**
Administrative costs	**(534)**	–	**(6)**	**(540)**
Net gain on disposal of non-current assets	–	–	**1**	**1**
Profit from operations before associates and joint ventures	**1,195**	**(115)**	**(44)**	**1,036**

2011 Re-presented	Before amortisation of customer relationships and brands, and exceptional items £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Total £million
Revenue	19,428	–	–	19,428
Cost of sales	(14,905)	–	–	(14,905)
Gross profit	4,523	–	–	4,523
Selling, distribution and store costs	(2,980)	(112)	(3)	(3,095)
Administrative costs	(480)	–	(11)	(491)
Negative goodwill	–	–	16	16
Net gain on disposal of non-current assets	–	–	24	24
Profit from operations before associates and joint ventures	1,063	(112)	26	977

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

6 Exceptional items

	2012 £million	2011 Re-presented £million
Within profit from operations		
UK Health & Beauty restructuring programme[1]	**(30)**	(37)
Pharmaceutical Wholesale Division restructuring programme[2]	**(11)**	(29)
Net gain in relation to defined benefit pension schemes[3]	**–**	60
Negative goodwill[4]	**–**	16
Other[5]	**(3)**	16
Within profit from operations before associates and joint ventures	**(44)**	26
Within share of post tax earnings of associates and joint ventures	**(2)**	(1)
Impairment of investments in associates[6]	**–**	(4)
Net gain on acquisitions of controlling interests in associates[7]	**–**	19
	(46)	40
Within finance income		
Discounts on repurchase of acquisition borrowings[8]	**24**	4
Gain on disposal of available-for-sale investments	**1**	–
Gains on change of status from available-for-sale investments to subsidiary	**–**	2
	25	6
Within finance costs		
Impairment of available-for-sale investment[9]	**(16)**	–
Impairment of investment loan asset	**(2)**	–
Reassessment of obligations to non controlling interests	**6**	9
	(12)	9
Within tax		
Tax credit on exceptional items	**2**	3
Exceptional tax credit[10]	**75**	72
	77	75
	44	130

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

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

3 In the prior year, the Group undertook a number of projects designed to ensure the long term security of accrued benefits for its defined benefit pension schemes. In the UK, the Group closed all its defined benefit pension schemes to future accrual, which gave rise to £153 million of curtailment gains and negative past service costs, net of associated costs. The obligations of the Alliance UniChem UK Group Pension Scheme were subsequently transferred to an insurer which gave rise to a settlement loss, including associated costs, of £96 million, prior to the scheme being fully bought out. The Group also closed its defined benefit pension schemes to future accrual in the Republic of Ireland and Norway, and subsequently transferred the obligations of the Norwegian schemes to a third party.

4 In the prior year, negative goodwill arose on the acquisition of a controlling interest in Andreae-Noris Zahn AG.

5 Other relates to net gain/losses on disposal of non-current assets, acquisition related costs and residual costs in relation to other previously announced exceptional projects. In the prior year, the net gain on disposal of non-current assets was £24 million and mainly related to properties sold to the insurer of the Alliance UniChem UK Group Pension Scheme.

6 In the prior year, the Group recorded impairments on certain of its associate investments in The Netherlands based on a comparison of carrying values and estimated recoverable amount.

7 In the prior year, the Group acquired controlling interests in two associates, Hedef Alliance Holding A.S. and Andreae-Noris Zahn AG. On the respective acquisitions, the carrying value of pre-existing interests were remeasured to fair value giving rise to an overall net gain.

8 During the year, the Group repurchased acquisition borrowings from holders in the secondary market, which included a related party. The nominal value of acquisition borrowings repurchased was £655 million (2011: £83 million) and the total discount, net of related prepaid financing fees, was accounted for as a redemption of bank loans, reducing the Group's net borrowings.

9 During the year, the Group recorded an impairment of its investment in Cegedim, a listed group, to reflect the market value of its shares.

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

7 Profit from operations

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

	2012 £million	2011 Re-presented £million
Amortisation of other intangible assets	**163**	158
Depreciation of property, plant and equipment	**206**	202
Operating lease rentals	**384**	375
Employee costs	**1,975**	1,860

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

	2012 £million	2011 Re-presented £million
Audit:		
– consolidated financial statements	**0.1**	0.1
– subsidiary financial statements	**1.2**	1.2
	1.3	1.3
Other services:		
– corporate finance transactions	**0.3**	0.5
– taxation	**0.2**	0.2
– other	**0.3**	0.3
	0.8	1.0
	2.1	2.3

Total remuneration paid to the Group's principal auditor in respect of discontinued operations was £146,000 (2011 re-presented: £174,000).

8 Employee costs

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

	2012		2011 Re-presented	
	Number of heads	Full-time equivalents	Number of heads	Full-time equivalents
Health & Beauty Division	**74,851**	**49,808**	76,698	49,697
Pharmaceutical Wholesale Division	**24,954**	**22,555**	18,944	17,407
Contract Manufacturing & Corporate	**2,093**	**2,047**	1,948	1,904
	101,898	**74,410**	97,590	69,008

Costs incurred in respect of these employees were:

	2012 £million	2011 Re-presented £million
Wages and salaries	**1,661**	1,567
Social security costs	**225**	205
Retirement benefit costs:		
– defined benefit schemes (current service costs)	**4**	23
– defined contribution schemes	**85**	65
	1,975	1,860

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

9 Finance income

	2012 £million	2011 Re-presented £million
Bank deposit and other interest income	**51**	61
Expected return on defined benefit scheme assets	**196**	206
Other finance income	**35**	38
	282	305
Exceptional items:		
– discounts on repurchase of acquisition borrowings	**24**	4
– gains on derecognition of available-for-sale investments	**1**	2
	25	6
	307	311

10 Finance costs

	2012 £million	2011 Re-presented £million
Interest on bank loans and overdrafts	**387**	384
Interest on defined benefit scheme liabilities	**239**	235
Financing fees	**55**	52
Net fair value movements on non-designated derivative financial instruments	**12**	–
Unwind of the discount on obligations to non controlling interests	**24**	32
Other finance costs	**12**	6
	729	709
Exceptional items:		
– impairment of available-for-sale investments	**16**	–
– impairment of investment loan asset	**2**	–
– reassessment of obligations to non controlling interests	**(6)**	(9)
	12	(9)
	741	700

Interest on bank loans and overdrafts includes £22 million (2011: £21 million) of rolled up interest on mezzanine debt which is payable when the debt itself is settled. The total interest expense for financial liabilities not at fair value through profit and loss was £371 million (2011: £364 million). Financing fees include £27 million (2011: £26 million) of amortised fees which are being expensed over the term of the financing being provided.

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

The net loss on financial assets/liabilities at fair value through profit and loss was £38 million (2011: £23 million).

11 Tax

An analysis of the tax charge in the year was:

	2012 £million	2011 Re-presented £million
Current tax		
Current tax charge for the year	**101**	60
Adjustments in respect of prior years	**(11)**	(27)
	90	33
Deferred tax		
Impact of change in tax rates	**(75)**	(72)
Deferred tax relating to the origination and reversal of temporary differences	**13**	65
	(62)	(7)
	28	26
Arising from:		
– continuing operations	**31**	21
– discontinued operations	**(3)**	5
	28	26

The Group's principal operations are geographically dispersed and therefore the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit before tax. The reconciliation of the expected total tax charge was based on this weighted average standard tax rate of 26.9% (2011: 28.5%).

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

	2012 £million	2011 Re-presented £million
Profit/(loss) before tax		
Continuing operations	**660**	676
Discontinued operations	**(60)**	(35)
	600	641
Less: share of post tax earnings of associates and joint ventures	**(58)**	(73)
	542	568
Expected tax charge at weighted average standard tax rate	**146**	162
Factors affecting charge for the year:		
– non-taxable items and tax credits[1]	**(39)**	(39)
– impairment of available-for- sale investment	**6**	–
– unrelieved tax losses arising in the year	**12**	7
– recognition of brought forward tax losses	**(10)**	–
– current tax adjustments in respect of prior years	**(11)**	(27)
– deferred tax adjustments in respect of prior years	**(3)**	7
– other differences	**2**	(12)
– exceptional tax[2]	**(75)**	(72)
	28	26

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

2 Exceptional tax relates to the net reduction in deferred tax assets and liabilities resulting from the two percentage point reduction in the rate of UK corporation tax applicable from April 2012. Furthermore, the UK Government announced that the rate of UK corporation tax will reduce by one percentage point in each of the next two years respectively, bringing the applicable rate to 22%. When each of these rate changes are substantively enacted it is estimated that this will result in an additional exceptional deferred tax credit of approximately £35 million in each year. The exceptional tax in the prior year similarly related to a two percentage point reduction in the rate of UK corporation tax.

The effective tax rate, which is defined as the tax charge expressed as a percentage of profit from operations (continuing and discontinued) excluding share of post tax earnings of associates and joint ventures, net of finance income and finance costs was 5.2% (2011: 4.6%).

Notes to the consolidated financial statements continued

for the year ended 31 March 2012

11 Tax continued

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

	2012 £million	2011 Re-presented £million
Underlying tax charge	**147**	133
Tax on:		
– amortisation of customer relationships and brands	**(43)**	(45)
– exceptional items	**(2)**	(3)
– timing differences within net finance costs	**4**	8
Exceptional tax	**(75)**	(72)
Tax charge arising from continuing operations	**31**	21
Tax (credit)/charge arising on discontinued operations	**(3)**	5
	28	26

The underlying effective tax rate, calculated as the underlying tax charge as a percentage of trading profit less underlying net finance costs, was 18.8% (2011 re-presented: 19.3%).

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

	2012			2011		
	Before tax £million	Tax £million	After tax £million	Before tax £million	Tax £million	After tax £million
Other comprehensive income						
Net exchange differences on translation of non-Sterling denominated operations	**(52)**	**2**	**(50)**	(27)	25	(2)
Defined benefit schemes – net actuarial gains net of surplus restriction	**128**	**(33)**	**95**	145	(40)	105
Movements on available-for-sale reserve including amounts recycled	**(9)**	**–**	**(9)**	(9)	–	(9)
Share of post tax other comprehensive income of associates and joint ventures	**(1)**	**–**	**(1)**	6	–	6
	66	**(31)**	**35**	115	(15)	100

12 Discontinued operations

On 31 March 2012, the Group sold 51% of its interest in Alliance Boots Investments 1 Limited, the UK parent company of its Russia business, to a fellow wholly owned subsidiary of AB Acquisitions Holdings Limited, the Group's parent and ultimate controlling entity. From that date the Group no longer had the ability to control the businesses operated and owned by Alliance Boots Investments 1 Limited, and since Russia was considered to be a significant separate geography, the results from Russia are shown separately as discontinued operations. The comparative income statement has been re-presented to show this discontinued operation, together with the operations discontinued in the prior year, separately from continuing operations.

From the date of disposal, the Group's remaining 49% interest in Alliance Boots Investments 1 Limited has been accounted for as an associate.

In the prior year, the Group sold 51% of its interest in its Italian subsidiary Alliance Healthcare Italia S.p.a. to a fellow wholly owned subsidiary of AB Acquisitions Holdings Limited, the Group's parent and ultimate controlling entity. From that date the Group no longer had the ability to control the businesses operated and owned by Alliance Healthcare Italia S.p.a., and since Italy was considered to be a significant separate geography, the results from Italy were shown separately as discontinued operations.

From the date of disposal, the Group's remaining 49% interest in Alliance Healthcare Italia S.p.a. has been accounted for as an associate.

The cash flow from discontinued operations was as follows:

	2012 £million	2011 Re-presented £million
Net cash outflow from operating activities	**(37)**	(46)
Net cash generated from investing activities	**6**	64
Net cash from/(used in) financing activities	**34**	(56)
Net increase/(decrease) in cash and cash equivalents	**3**	(38)

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

The consideration received on the sale of the Group's 51% interest in Alliance Healthcare Italia S.p.a. in the prior year was £62 million, and net borrowings at disposal were £214 million, which included £120 million of bank overdrafts and £6 million of cash and cash equivalents.

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

	2012 £million	2011 £million
Intangible assets	**1**	34
Property, plant and equipment	**3**	75
Investments in associates and joint ventures	–	22
Non-current receivables	–	43
Inventories	**141**	156
Trade and other receivables	**166**	240
Cash and cash equivalents	**13**	6
Assets classified as held for sale	–	1
Borrowings	**(40)**	(220)
Trade and other payables, and provisions	**(263)**	(229)
Derivative financial instruments	**(1)**	–
Net deferred tax assets/(liabilities)	**1**	(3)
Net assets	**21**	125

Up to the dates of disposal, the average number of employees in the discontinued operations was 1,647 (2011 re-presented: 2,802).

The loss for the year from discontinued operations was:

	2012 £million	2011 Re-presented £million
Revenue	**796**	1,151
Cost of sales	**(760)**	(1,070)
Gross profit	**36**	81
Selling, distribution and store costs	**(55)**	(78)
Administrative costs	**(16)**	(29)
Loss from operations	**(35)**	(26)
Finance income	–	1
Finance costs	**(10)**	(10)
Loss before tax	**(45)**	(35)
Tax	**3**	(5)
Loss on disposal of discontinued operation	**(15)**	–
Loss for the year	**(57)**	(40)

Loss from operations includes £1 million (2011 re-presented: £2 million) of amortisation of customer relationships and brands and £11 million (2011 re-presented: £19 million) of exceptional items. The exceptional items in the current year comprised £3 million of goodwill impairment and £8 million of customer relationship impairment.

13 Goodwill

	2012 £million	2011 £million
Net book value		
At 1 April	**4,815**	4,649
Acquisitions of businesses	**5**	217
Impairment	**(3)**	–
Disposal of businesses	–	(20)
Currency translation differences	**(66)**	(31)
At 31 March	**4,751**	4,815

The impairment of goodwill during the year of £3 million related to the Russia business which was subsequently sold on 31 March 2012 (see note 12). Following this disposal, the cumulative impairment in the carrying value of goodwill at 31 March 2012 was £146 million (2011: £146 million).

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14 Other intangible assets

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

2011	Pharmacy licences £million	Brands £million	Customer relationships £million	Software £million	Other intangible assets £million	Total £million
Cost:						
At 1 April 2010	1,283	2,990	1,267	268	8	5,816
Acquisitions of businesses	10	–	271	3	–	284
Additions	–	–	–	82	3	85
Disposals of businesses	(9)	–	–	(3)	(4)	(16)
Disposals	–	–	–	(8)	–	(8)
Currency translation differences	–	–	(19)	–	–	(19)
At 31 March 2011	1,284	2,990	1,519	342	7	6,142
Amortisation:						
At 1 April 2010	–	13	225	121	1	360
Charge	–	10	104	45	1	160
Disposals of businesses	–	–	–	(1)	(1)	(2)
Disposals	–	–	–	(8)	–	(8)
Currency translation differences	–	–	2	–	–	2
At 31 March 2011	–	23	331	157	1	512
Net book value	1,284	2,967	1,188	185	6	5,630

Amortisation charges include continuing and discontinued operations.

Amortisation charges in respect of continuing operations were £163 million (2011 re-presented: £158 million), of which £131 million (2011 re-presented: £124 million) was recognised in selling, distribution and store costs, and £32 million (2011 re-presented: £34 million) was recognised in administrative costs.

Impairment of customer relationships totalling £8 million was recognised during the year in respect of the Russia business which was subsequently disposed of on 31 March 2012.

Included within the carrying value of brands is the Boots brand which has a carrying value of £2,162 million (2011: £2,162 million).

15 Impairment testing of goodwill and other intangible fixed assets

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

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

				2012				2011
	Goodwill £million	**Pharmacy licences £million**	**Brands £million**	**Customer relationships £million**	Goodwill £million	Pharmacy licences £million	Brands £million	Customer relationships £million
Health & Beauty Division – Boots UK	**2,491**	**1,281**	**2,912**	**477**	2,491	1,284	2,915	508
Pharmaceutical Wholesale – UK	**1,044**	**–**	**–**	**100**	1,044	–	–	112
Other	**1,216**	**–**	**51**	**457**	1,280	–	52	568
	4,751	**1,281**	**2,963**	**1,034**	4,815	1,284	2,967	1,188

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

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

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

The CGUs with significant amounts of intangible assets are Boots UK and the Pharmaceutical Wholesale business in the UK. For these UK CGUs, the pre tax discount rate was 12.0% (2011: 13.0%), and the long term growth rates were 2.3% and 4.2% respectively (2011: 2.1% and 3.6% respectively). For other CGUs pre tax discount rates ranged from 11.5% to 18.5% (2011: 12.5% to 15.0%), and the long term growth rates used ranged from 0.9% to 14.7% (2011: 1.1% to 10.9%). Given the current economic climate, a sensitivity analysis has been performed in assessing the recoverable amounts of goodwill.

16 Property, plant and equipment

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

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16 Property, plant and equipment continued

2011	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Total £million
Cost:				
At 1 April 2010	1,153	180	1,326	2,659
Acquisitions of businesses	130	1	30	161
Additions	29	13	131	173
Disposals of businesses	(61)	–	(34)	(95)
Disposals	(61)	(5)	(29)	(95)
Reclassified to assets held for sale	(4)	–	–	(4)
Currency translation differences	(11)	(1)	(9)	(21)
At 31 March 2011	1,175	188	1,415	2,778
Depreciation:				
At 1 April 2010	44	55	469	568
Charge	15	17	172	204
Disposals of businesses	(5)	–	(15)	(20)
Disposals	(3)	(3)	(27)	(33)
Reclassified to assets held for sale	(1)	–	–	(1)
Currency translation differences	(2)	(1)	(6)	(9)
At 31 March 2011	48	68	593	709
Net book value	1,127	120	822	2,069

Depreciation charges include continuing and discontinued operations.

Depreciation charges in respect of continuing operations were £206 million (2011 re-presented: £202 million), of which £6 million (2011: £6 million) was recognised in cost of sales, £166 million (2011 re-presented: £165 million) was recognised in selling, distribution and store costs, and £34 million (2011: £31 million) was recognised in administrative costs.

Included within the net book values were amounts in respect of assets held under finance leases of £2 million (2011: £4 million) in land and buildings, £4 million (2011: £9 million) in plant and machinery and £11 million (2011: £6 million) in fixtures, fittings, tools and equipment. Property, plant and equipment with a carrying amount of £23 million (2011: £28 million) have been pledged as security for certain of the Group's borrowing facilities.

Included within the net book values were assets in the course of construction of £2 million (2011: £3 million) in land and buildings, £5 million (2011: £5 million) in plant and machinery and £17 million (2011: £33 million) in fixtures, fittings, tools and equipment.

17 Investments in associates and joint ventures

	2012 £million	2011 £million
At 1 April	**838**	1,143
Acquisitions of businesses	**25**	83
Net gain on acquisitions of controlling interests in associates	–	19
Derecognised on acquisitions of controlling interests in associates	–	(471)
Disposals of businesses	–	(22)
Share of post tax earnings	**58**	73
Share of other comprehensive income	**(1)**	6
Dividends	**(16)**	(17)
Impairment	–	(4)
Currency translation differences	**7**	28
At 31 March	**911**	838

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

Acquisitions of businesses in the prior year mainly related to Alliance Healthcare Italia S.p.a., where the Group disposed of 51% of its interest in this formerly wholly owned subsidiary to a fellow wholly owned subsidiary of the Group's parent and ultimate controlling entity (note 12).

Amounts derecognised on acquisitions of controlling interests in associates in the prior year related to Hedef Alliance Holding A.S. and Andreae-Noris Zahn AG, both of which became subsidiaries in the prior year as a result of the acquisition of controlling interests (note 33). Associate interests of these companies at the date of acquisition of the respective controlling interests were included within acquisitions of businesses.

Included within the total carrying value of investments in associates and joint ventures was £634 million (2011: £585 million) in respect of Galenica Ltd., a company listed in Switzerland. The market value of the Group's share of Galenica Ltd., based on the closing share price at 31 March 2012, was £680 million (2011: £637 million).

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

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

	2012 £million	2011 £million
Total assets	**4,094**	3,895
Total liabilities	**(2,770)**	(2,877)
Net assets	**1,324**	1,018
Group's share	**446**	348

The Group's share of contingent liabilities of associates and joint ventures was £43 million (2011: £39 million).

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

	2012 £million	2011 £million
Total revenue	**6,038**	8,631
Group's share	**2,374**	3,126

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

	2012 £million	2011 £million
Total post tax earnings	**198**	229
Group's share	**58**	73

18 Available-for-sale investments

	2012 £million	2011 £million
At 1 April	**67**	80
Additions	**1**	1
Disposals	**(1)**	–
Movements in fair value	**(24)**	(7)
Reclassified	**–**	(6)
Currency translation differences	**(2)**	(1)
At 31 March	**41**	67

Available-for-sale investments comprised:

	2012 £million	2011 £million
Listed securities – equity	**25**	52
Listed securities – non-equity (pledged as collateral for an unfunded defined benefit pension scheme)	**16**	15
	41	67

19 Inventories

	2012 £million	2011 £million
Raw materials	**27**	25
Work in progress	**10**	7
Finished goods	**1,745**	2,037
	1,782	2,069

Included in the aggregate carrying value presented above was £86 million (2011: £123 million) of inventories held at net realisable value.

The net reversal in the year of write-downs that were previously recognised as a reduction in the carrying value of inventories to net realisable value was £5 million (2011: £8 million). The cost of inventories expensed in both years presented was not materially different to the cost of sales recorded (note 5). Inventories with a carrying amount of £28 million (2011: £90 million) have been pledged as security for certain of the Group's borrowing facilities.

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for the year ended 31 March 2012

20 Trade and other receivables

	2012 £million	2011 £million
Non-current		
Loans to customers and extended terms	**9**	17
Short leasehold premiums	**31**	30
Profit participating notes	**172**	163
Loan assets	**58**	43
Other receivables	**20**	13
	290	266
Current		
Trade receivables	**2,676**	3,125
Provision for impairment of trade receivables	**(38)**	(33)
	2,638	3,092
Loans to customers and extended terms	**54**	52
Prepayments and accrued income	**201**	187
Loan assets	**8**	8
Other receivables	**177**	191
	3,078	3,530

Loans to customers and extended terms included receivables of £42 million (2011: £63 million) where contractual terms have been renegotiated to extend the credit period offered.

Where trade receivables are estimated to be less than their carrying values, provisions have been made to write these down to their estimated recoverable amounts. The aggregate carrying value of trade receivables which were either partially or fully impaired was £179 million (2011: £263 million) and the associated aggregate impairment was £38 million (2011: £33 million). Trade receivables with a carrying amount of £30 million (2011: £41 million) have been pledged as security for certain of the Group's borrowing facilities.

Included within the aggregate unimpaired trade receivables were £107 million (2011: £151 million) which were past due. These balances have been assessed for recoverability and the Group believes that their credit quality remains intact. An ageing analysis of these unimpaired past due trade receivables was:

	Less than 1 month past due £million	1-2 months past due £million	2-3 months past due £million	More than 3 months past due £million	Total past due £million
Carrying value at 31 March 2012	**63**	**18**	**8**	**18**	**107**
Carrying value at 31 March 2011	96	30	12	13	151

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

	2012 £million	2011 £million
At 1 April	**(33)**	(47)
Disposals of businesses	**1**	9
Provision for impairment	**(25)**	(12)
Amounts written off	**6**	8
Reversal of provision for impairment	**12**	7
Currency translation differences	**1**	2
At 31 March	**(38)**	(33)

21 Cash and cash equivalents

	2012 £million	2011 £million
Bank balances	**214**	293
Short term deposits	**456**	336
Cash and cash equivalents	**670**	629
Bank overdrafts	**(2)**	(35)
Cash and cash equivalents in the statement of cash flows	**668**	594

22 Restricted cash

Restricted cash at 31 March 2012 of £254 million (2011: £285 million) consisted of deposits restricted under contractual agency agreements of £93 million (2011: £87 million), cash pledged as collateral on financial instruments and other obligations of £82 million (2011: £90 million), cash pledged as collateral for loan notes of £76 million (2011: £105 million), and cash restricted by law of £3 million (2011: £3 million).

23 Assets classified as held for sale

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

	2012 £million	2011 £million
Property, plant and equipment	**5**	3

During the year and the prior year, the Group disposed of property, plant and equipment, which had previously been reclassified as assets held for sale. The proceeds and gain on disposal of these assets was £1 million (2011: £7 million) and £nil (2011: £nil) respectively.

24 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

	2012 Net £million	2011 Re-presented Net £million
Unrelieved tax losses	**71**	90
Accelerated capital allowances	**(125)**	(110)
Retirement benefit obligations	**(62)**	9
Intangible assets	**(934)**	(1,047)
Rolled over gains	**(26)**	(29)
Other temporary differences	**23**	(5)
Net deferred tax liabilities	**(1,053)**	(1,092)

The prior year deferred tax assets and liabilities in the table above have been re-presented in order to better align the categories of deferred tax to the statement of financial position.

The movement in the net deferred tax liability balance was:

	2012 £million	2011 £million
At 1 April	**(1,092)**	(1,024)
Acquisitions of businesses	**(1)**	(68)
Disposals of businesses	**(1)**	3
Income statement credit	**62**	7
Charged to equity	**(33)**	(15)
Currency translation differences	**12**	5
At 31 March	**(1,053)**	(1,092)

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24 Deferred tax assets and liabilities continued

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

2012	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets/ obligations £million	Intangible assets £million	Rolled over gains £million	Other temporary differences £million	Total £million
Deferred tax assets							
At 1 April 2011	**14**	–	**3**	–	–	–	**17**
Income statement (charge)/credit	**(2)**	**1**	**1**	**2**	–	**1**	**3**
Credited to equity	–	–	**3**	–	–	–	**3**
Reclassified from liabilities	–	–	–	–	–	**9**	**9**
Currency translation differences	**(1)**	–	–	–	–	**1**	–
At 31 March 2012	**11**	**1**	**7**	**2**	–	**11**	**32**
Deferred tax liabilities							
At 1 April 2011	**76**	**(110)**	**6**	**(1,047)**	**(29)**	**(5)**	**(1,109)**
Acquisitions of businesses	–	–	–	**(1)**	–	–	**(1)**
Disposals of businesses	**(3)**	–	–	–	–	**2**	**(1)**
Income statement (charge)/credit	**(12)**	**(18)**	**(39)**	**109**	**3**	**16**	**59**
Charged to equity	–	–	**(36)**	–	–	–	**(36)**
Reclassified to assets	–	–	–	–	–	**(9)**	**(9)**
Currency translation differences	**(1)**	**2**	–	**3**	–	**8**	**12**
At 31 March 2012	**60**	**(126)**	**(69)**	**(936)**	**(26)**	**12**	**(1,085)**
Net deferred tax assets/(liabilities)	**71**	**(125)**	**(62)**	**(934)**	**(26)**	**23**	**(1,053)**

2011 Re-presented[1]	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets/ obligations £million	Intangible assets £million	Rolled over gains £million	Other temporary differences £million	Total £million
Deferred tax assets:							
At 1 April 2010	97	–	130	–	–	–	227
Acquisitions of businesses	–	–	1	–	–	–	1
Income statement (charge)/credit	(9)	–	(83)	–	–	1	(91)
Charged to equity	–	–	(40)	–	–	–	(40)
Reclassified from liabilities	(74)	–	(4)	–	–	–	(78)
Currency translation differences	–	–	(1)	–	–	(1)	(2)
At 31 March 2011	14	–	3	–	–	–	17
Deferred tax liabilities:							
At 1 April 2010	–	(120)	–	(1,121)	(30)	20	(1,251)
Acquisitions of businesses	2	(12)	2	(57)	–	(4)	(69)
Disposals of businesses	–	–	–	–	–	3	3
Income statement credit/(charge)	–	21	–	126	1	(50)	98
Credited to equity	–	–	–	–	–	25	25
Reclassified to assets	74	–	4	–	–	–	78
Currency translation differences	–	1	–	5	–	1	7
At 31 March 2011	76	(110)	6	(1,047)	(29)	(5)	(1,109)
Net deferred tax assets/(liabilities)	90	(110)	9	(1,047)	(29)	(5)	(1,092)

1 The analysis of deferred tax assets and liabilities has been re-presented in order to better align the categories of deferred tax to the statement of financial position. The deferred tax balances have been correspondingly re-analysed.

Unrecognised deferred tax assets and liabilities

Deferred tax assets have only been recognised on deductible temporary differences, unused tax losses or tax credits to the extent that future taxable profits will be available against which the asset can be utilised, or where these can be utilised against other taxable temporary differences. The assets are recorded after reviewing the financial forecasts of the Group's position, depreciation and potential capital expenditure for capital allowances. Where it is not considered probable that a taxable profit will arise against which the temporary difference can be utilised, no asset has been recognised. Unprovided deferred tax on losses was £15 million (2011: £21 million) and on other timing differences was £nil (2011: £5 million). The losses had no expiration date and could be carried forward indefinitely (2011: £7 million expired in 10 years).

Deferred tax liabilities of £18 million (2011: £10 million) have not been recognised for the tax that would be payable on the unremitted earnings of certain subsidiary undertakings since the Group has discretion over the manner and timing of any distributions, if any, to be made in the future. Unremitted earnings of these subsidiary undertakings totalled £121 million (2011: £115 million).

25 Trade and other payables

	2012 £million	2011 £million
Current		
Trade payables	**3,185**	3,410
Other taxation and social security	**160**	165
Accruals and deferred income	**485**	571
Liability to acquire equity stakes from non controlling interests	**33**	129
Future dividend obligations to non controlling interests	**12**	18
Other payables	**297**	310
	4,172	4,603
Non-current		
Liability to acquire equity stakes from non controlling interests	**132**	154
Future dividend obligations to non controlling interests	**70**	77
Other payables	**49**	44
	251	275

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

26 Financial assets and liabilities

The carrying amounts of financial assets and liabilities were:

	2012 £million	2011 £million
Current borrowings		
Loans – senior facilities agreement	**(18)**	–
Other loans – committed	**(48)**	(120)
Loan notes	**(76)**	(105)
Overdrafts	**(2)**	(35)
Other loans – uncommitted	**(2)**	(7)
Finance lease liabilities	**(7)**	(7)
	(153)	(274)
Non-current borrowings		
Loans – senior facilities agreement	**(6,759)**	(7,472)
Loans – subordinated facility agreement	**(628)**	(606)
Other loans – committed	**(240)**	(182)
Finance lease liabilities	**(14)**	(14)
	(7,641)	(8,274)
Total borrowings	**(7,794)**	(8,548)
Cash and cash equivalents	**670**	629
Total borrowings net of cash and cash equivalents	**(7,124)**	(7,919)
Restricted cash	**254**	285
Derivative financial instruments – interest rate and credit instrument assets	**8**	36
Derivative financial instruments – currency and interest rate instrument liabilities	**(155)**	(245)
Net borrowings	**(7,017)**	(7,843)
Available-for-sale investments	**41**	67
Loans to customers and extended terms	**63**	69
Profit participating notes	**172**	163
Loan assets	**66**	51
Trade receivables net of provision for impairment	**2,638**	3,092
Trade payables	**(3,185)**	(3,410)
Liability to acquire equity stakes from non controlling interests	**(165)**	(283)
Future dividend obligations to non controlling interests	**(82)**	(95)
Net financial liabilities	**(7,469)**	(8,189)

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26 Financial assets and liabilities continued

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

- Committed facilities – £7,769 million in total
  - Loans – senior and subordinated facilities: these variable rate loans, which are denominated in Sterling, Euros and Swiss Francs, are fully drawn and their aggregate carrying value at 31 March 2012 was £7,405 million (2011: £8,078 million) including the impact of currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2014 and 2017.
  - Other loans – committed: totalling £288 million (2011: £302 million), these loans represent a mix of fixed and variable rate borrowings denominated in Sterling and Euros with major maturities concentrated between 2014 and 2016.
  - Loan notes: totalling £76 million (2011: £105 million), these notes are classified within current borrowings as they can be redeemed by the holders giving notice prior to the semi-annual interest payment dates. If no such notice is given the notes will fall due on their contractual maturity date in December 2012. The Group holds a floating rate interest bearing deposit of £76 million (2011: £105 million) shown within restricted cash (note 22) as collateral against loan notes with the same principal amount. This deposit is only available to the Group for the purpose of redeeming the associated loan notes.
- Uncommitted facilities – £4 million in total
  - Bank overdrafts and local bank loans repayable on demand.
- Finance leases – £21 million in total

Maturity profile of financial liabilities

The table below shows the contractual maturities of financial liabilities on an undiscounted basis. Interest payments are calculated based on liabilities held at 31 March 2012 without taking account of any future debt issuance. Floating rate interest was estimated using prevailing interest conditions at 31 March 2012. Cash flows in non-Sterling currencies were translated using prevailing exchange rates at 31 March 2012. All floating rate borrowings re-price within six months of the year end.

	Contractual cash flows						
2012	1 year or less £million	1-2 years £million	2-5 years £million	>5 years £million	Total £million	Future interest payments and fee amortisation £million	Carrying value £million
Fixed							
Other loans – committed	(20)	(37)	(11)	–	(68)	5	(63)
Finance lease liabilities	(8)	(5)	(8)	(18)	(39)	18	(21)
Floating							
Loans – senior facilities agreement	(342)	(249)	(7,230)	–	(7,821)	1,044	(6,777)
Loans – subordinated facility agreement	(31)	(24)	(104)	(778)	(937)	309	(628)
Other loans – committed	(46)	(4)	(191)	–	(241)	16	(225)
Loan notes	(76)	–	–	–	(76)	–	(76)
Overdrafts	(2)	–	–	–	(2)	–	(2)
Other loans – uncommitted	(2)	–	–	–	(2)	–	(2)
Total borrowings	(527)	(319)	(7,544)	(796)	(9,186)	1,392	(7,794)
Trade payables	(3,185)	–	–	–	(3,185)	–	(3,185)
Liability to acquire equity stakes from non controlling interests	(33)	(152)	–	–	(185)	20	(165)
Total non-derivative financial liabilities	(3,745)	(471)	(7,544)	(796)	(12,556)	1,412	(11,144)
Interest rate derivatives:							
– outflows	(39)	(1)	–	–	(40)		
– inflows	8	–	–	–	8		
	(31)	(1)	–	–	(32)	11	(21)
Currency swaps:							
– outflows	(555)	–	–	–	(555)		
– inflows	416	–	–	–	416		
	(139)	–	–	–	(139)	5	(134)
Total derivative financial liabilities	(170)	(1)	–	–	(171)	16	(155)
Total financial liabilities	(3,915)	(472)	(7,544)	(796)	(12,727)	1,428	(11,299)

In addition to the contractual maturities of financial liabilities presented above, the Group has an ongoing future dividend obligation in relation to the non controlling interest arising on the acquisitions of Hedef Alliance Holding A.S. and Dollond & Aitchison in previous years. The contractual undiscounted cash flows are £12 million (2011: £16 million) within one year, £11 million (2011: £13 million) between 1 and 2 years and £18 million (2011: £27 million) between 2 and 5 years.

2011	Contractual cash flows: 1 year or less £million	1-2 years £million	2-5 years £million	>5 years £million	Total £million	Future interest payments and fee amortisation £million	Carrying value £million
Fixed:							
Other loans – committed	(113)	(132)	(44)	(14)	(303)	26	(277)
Finance lease liabilities	(8)	(6)	(6)	(19)	(39)	18	(21)
Floating:							
Loans – senior facilities agreement	(342)	(379)	(7,544)	(994)	(9,259)	1,787	(7,472)
Loans – subordinated facility agreement	(27)	(31)	(117)	(827)	(1,002)	396	(606)
Other loans – committed	(25)	–	–	–	(25)	–	(25)
Loan notes	(105)	–	–	–	(105)	–	(105)
Overdrafts	(35)	–	–	–	(35)	–	(35)
Other loans – uncommitted	(7)	–	–	–	(7)	–	(7)
Total borrowings	(662)	(548)	(7,711)	(1,854)	(10,775)	2,227	(8,548)
Trade payables	(3,410)	–	–	–	(3,410)	–	(3,410)
Liability to acquire equity stakes from non controlling interests	(136)	–	(200)	–	(336)	53	(283)
Total non-derivative financial liabilities	(4,208)	(548)	(7,911)	(1,854)	(14,521)	2,280	(12,241)
Interest rate derivatives:							
– outflows	(39)	(39)	–	–	(78)		
– inflows	7	10	–	–	17		
	(32)	(29)	–	–	(61)	12	(49)
Currency swaps:							
– outflows	(315)	(561)	–	–	(876)		
– inflows	247	421	–	–	668		
	(68)	(140)	–	–	(208)	12	(196)
Total derivative financial liabilities	(100)	(169)	–	–	(269)	24	(245)
Total financial liabilities	(4,308)	(717)	(7,911)	(1,854)	(14,790)	2,304	(12,486)

Finance lease liabilities

	2012			2011		
	Minimum lease payments £million	**Interest £million**	**Present value of minimum lease payments £million**	Minimum lease payments £million	Interest £million	Present value of minimum lease payments £million
Less than one year	**8**	**(1)**	**7**	8	(1)	7
Between one year and five years	**13**	**(4)**	**9**	12	(3)	9
More than five years	**18**	**(13)**	**5**	19	(14)	5
	39	**(18)**	**21**	39	(18)	21

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

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26 Financial assets and liabilities continued

Carrying value and fair value

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

	2012		2011	
	Carrying value £million	**Fair value £million**	Carrying value £million	Fair value £million
Liabilities held at amortised cost				
Loans – senior facilities agreement	**(6,777)**	**(6,842)**	(7,472)	(7,566)
Loans – subordinated facility agreement	**(628)**	**(640)**	(606)	(620)
Other loans – committed	**(288)**	**(288)**	(302)	(302)
Loan notes	**(76)**	**(76)**	(105)	(105)
Overdrafts	**(2)**	**(2)**	(35)	(35)
Other loans – uncommitted	**(2)**	**(2)**	(7)	(7)
Finance lease liabilities	**(21)**	**(36)**	(21)	(34)
Liability to acquire equity stakes from non controlling interests	**(165)**	**(165)**	(283)	(283)
Future dividend obligations to non controlling interests	**(82)**	**(82)**	(95)	(95)
Trade payables	**(3,185)**	**(3,185)**	(3,410)	(3,410)
	(11,226)	**(11,318)**	(12,336)	(12,457)
Liabilities held at fair value				
Derivative instruments – interest rate	**(21)**	**(21)**	(49)	(49)
Derivative instruments – currency	**(134)**	**(134)**	(196)	(196)
	(155)	**(155)**	(245)	(245)
Loans and receivables financial assets				
Trade receivables net of provision for impairment	**2,638**	**2,638**	3,092	3,092
Loans to customers and extended terms	**63**	**63**	69	69
Profit participating notes	**172**	**172**	163	163
Loan assets	**66**	**66**	51	51
	2,939	**2,939**	3,375	3,375
Financial assets held at fair value				
Derivative instruments – interest and credit	**8**	**8**	36	36
Available-for-sale investments	**41**	**41**	67	67
	49	**49**	103	103
Cash and cash equivalents	**670**	**670**	629	629
Restricted cash	**254**	**254**	285	285
Net financial liabilities	**(7,469)**	**(7,561)**	(8,189)	(8,310)

The fair values of overdrafts, other loans, trade receivables and loans to customers approximate to their carrying values due to either their short term nature or being re-priced at variable interest rates. The carrying values of the senior facilities and subordinated facility loans, which are variable rate, were lower than the fair values of the instruments due mainly to the impact of unamortised fees included in the carrying value.

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

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

2011	Level 1 £million	Level 2 £million	Total £million
Financial liabilities:			
Forward currency exchange derivatives	–	(2)	(2)
Interest rate derivatives	–	(49)	(49)
Cross currency swap derivatives	–	(194)	(194)
	–	(245)	(245)
Financial assets:			
Derivative instruments – interest and credit	–	36	36
Available-for-sale investments	67	–	67
	67	36	103

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

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

Derivative financial instruments

The derivative financial instruments that the Group holds are not traded in an active market. Accordingly, their fair values are determined by using suitable valuation techniques that do not make use of entity-specific estimates or by using movements in observable prices for underlying financial instruments attributable to the hedged risks. The fair value of interest rate swaps is calculated by discounting the estimated cash flows received and paid based on the applicable observable yield curves using the risk-free interest rate. The fair value of interest rate caps is calculated using an options pricing methodology. The fair value of cross currency contracts and forward currency contracts is estimated by discounting the difference between the contractual forward price and the current available forward price for the residual maturity of the contract using the risk-free interest rate. The fair value of credit derivatives is calculated by discounting anticipated cash flows using the applicable observable yield curve plus a margin derived from the current trading value of the underlying security. All computed fair values for derivative financial instruments include an appropriate adjustment for own and counterparty credit risk as appropriate.

Available-for-sale investments

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

27 Financial risk management

Capital risk management

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

The Group defines its capital employed of £12,718 million (2011: £12,967 million) as total equity of £5,701 million (2011: £5,124 million) and net borrowings of £7,017 million (2011: £7,843 million).

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

Financial risk management – overview

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

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27 Financial risk management continued

Liquidity risk management

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

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

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

The Group's core borrowings are provided through committed term loans. The carrying value of these loans, which are denominated in Sterling, Euros and Swiss Francs, at 31 March 2012 was £7,387 million (2011: £8,078 million) including the impact of repurchases, currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2014 and 2017. The Group also has access to a committed £627 million (2011: £702 million) revolving credit facility, £18 million (2011: £nil) of which was drawn down at 31 March 2012, £118 million (2011: £176 million) of which was utilised in providing guarantees and letters of credit principally to the Boots Pension Scheme and £491 million (2011: £526 million) of which was available as at 31 March 2012. This facility provides access to funding in a range of currencies and is available until 2014.

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

The Group monitors its net borrowing position on a daily basis against both budget and a rolling two month cash forecast. The maturity profile of the Group's financial liabilities at 31 March 2012 is shown in note 26.

Credit risk

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

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

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

The Group considers the possibility of significant loss in the event of non-performance by a financial or commercial counterparty to be unlikely.

At 31 March 2012 there were no significant concentrations of credit risk in respect of trade receivables and customer loans. The largest credit exposure of the Group at 31 March 2012 was to the National Health Service in the UK.

The maximum exposure to credit risk for trade receivables, including loans to customers and extended terms, net of provision for impairment, other loans and the profit participating notes at 31 March by geographic region was:

	2012 £million	2011 £million
UK	**1,060**	908
Other European countries	**1,728**	1,757
Other countries	**151**	710
	2,939	3,375

Exposures to financial counterparties arise from other non trade receivables, the use of derivative financial instruments, cash balances and short term deposits. The Group protects itself against the risk of financial loss arising from the failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties or their groups. Limits are set by reference to ratings issued by the major rating agencies, Standard and Poor's and Moody's Investors Service Limited.

At 31 March 2012 total exposures of the Group to financial counterparties was £932 million (2011: £950 million) of which £8 million (2011: £36 million) related to derivative financial instruments, £670 million (2011: £629 million) was in respect of cash and cash equivalents and £254 million (2011: £285 million) was in respect of restricted cash.

£534 million (2011: £564 million) of derivative financial assets, cash and cash equivalents and restricted cash relate to balances managed centrally by Group treasury spread across a number of high quality counterparties, all of whom have a credit rating of A- or better. The remaining £398 million (2011: £386 million) of cash and cash equivalents represents short term deposits, restricted cash, cash-in-transit and cash held in operational bank accounts across the Group.

Profit participating notes and other loans totalled £238 million (2011: £214 million). The profit participating notes are issued by, and other loans are invested in, or lent to, unrated entities (see note 37).

Market risk

Market risk is the risk that changes in market prices, such as currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risks within acceptable parameters. The Group transacts in financial instruments including derivatives in order to manage these risks in accordance with the Group treasury policies approved by the Board.

Currency risk

The Group is party to a variety of currency derivatives in the management of exchange rate exposures, including cross currency swaps and forward currency exchange contracts. Movements in the fair value of all forward currency exchange contracts other than those that are designated and effective as cash flow hedges or net investment hedges are reported directly in the income statement.

The Group utilises forward currency exchange derivatives to hedge significant committed and highly probable future transactions and cash flows denominated in currencies other than the functional currency of a Group entity.

At 31 March 2012, the Group had no outstanding forward currency exchange contracts (2011: £nil) that were designated and effective as cash flow hedges of committed forecast transactions.

A gain of £1 million was recycled from the cash flow hedge reserve to cost of sales in respect of contracts designated as cash flow hedges of the attributable currency risk on highly probable forecast transactions (2011: loss of £1 million). During the year there were no gains or losses recycled from the cash flow hedge reserve to non-current non-financial assets in respect of contracts designated as cash flow hedges of the attributable currency risk on capital expenditure projects (2011: £nil).

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

At 31 March 2012 £952 million (2011: £979 million) of non-Sterling currency borrowings were designated as net investment hedges.

The Group has a number of cross currency swap contracts in place. At 31 March 2012, the fair value of the Group's cross currency swaps was a liability of £134 million (2011: £194 million). £49 million (2011: £46 million) of the liability related to cross currency swaps designated as net investment hedges of non-Sterling denominated currency net investments and the associated movements in fair value have been deferred in equity. The remaining liability of £85 million (2011: £148 million) related to cross currency swaps designated as held for trading. The currency exchange risk associated with these swaps was hedged through the use of short dated forward currency exchange contracts designated as held for trading.

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

	Net borrowings 2012			Net borrowings 2011		
	Before hedging £million	**Derivative instruments – currency £million**	**Total £million**	Before hedging £million	Derivative instruments – currency £million	Total £million
Sterling	**(5,192)**	**156**	**(5,036)**	(5,623)	(298)	(5,921)
Euro	**(1,500)**	**(104)**	**(1,604)**	(1,838)	10	(1,828)
Swiss Franc	**(277)**	**(143)**	**(420)**	(270)	(93)	(363)
Other	**86**	**(43)**	**43**	84	185	269
	(6,883)	**(134)**	**(7,017)**	(7,647)	(196)	(7,843)

At 31 March 2012 the total notional amount of outstanding forward currency exchange contracts that the Group has committed was £358 million (2011: £487 million).

At 31 March 2012 the statement of financial position carrying value of the Group's outstanding forward currency exchange contracts was £nil (2011: £2 million liability).

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27 Financial risk management continued

Currency risk – sensitivity analysis

The table below shows the Group's sensitivity to non-Sterling exchange rates on its non-Sterling financial instruments, excluding trade payables and trade receivables, which do not represent a significant exposure to exchange rates.

A 10% (2011: 10%) strengthening of Sterling against the following currencies would have increased/(decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant and that instruments designated as net investment hedges remain highly effective. In this table financial instruments are only considered sensitive for exchange rates where they are not in the functional currency of the entity that holds them.

	2012 Impact on equity £million	**2012 Impact on profit £million**	2011 Impact on equity £million	2011 Impact on profit £million
Euro	**61**	–	71	(1)
Turkish Lira	–	**(9)**	–	(11)
Swiss Franc	**36**	–	35	–
Other	**2**	**(2)**	2	–

A 10% (2011: 10%) weakening of Sterling against these currencies at 31 March 2012 would have had the equal and opposite effect to that shown above on the basis that all other variables remain constant.

The movements in equity relate to non-Sterling borrowings and cross currency swaps used to hedge Group assets denominated in those currencies. An appreciation in the value of the borrowing or cross currency swap would be matched by a corresponding depreciation in the value of the related Group asset, which would also be recorded in equity. Exchange rate sensitivities on Group assets other than financial instruments have not been shown in the table above.

Cash flow interest rate risk

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

The Group has a mixture of fixed and floating rate borrowings. Before the impact of derivative financial instruments, £84 million or 1.1% (2011: £298 million or 3.5%) of total borrowings were at fixed interest rates. The re-pricing risk of the fixed borrowings coincides with their maturity. The floating rate borrowings re-price within six months of the reporting date, based on short term borrowing rates for the relevant currency.

The Group has interest rate swaps with notional principal amounts of £500 million (2011: £500 million) and €10 million (2011: €10 million) to swap outstanding borrowings from floating to fixed rates. The Group has interest rate caps with notional principal amounts of £3,500 million (2011: £3,500 million) and €1,600 million (2011: €1,623 million) to protect the Group from rising interest rates on the corresponding amounts of borrowings until July 2012. The Group also has interest rate caps effective between July 2012 and July 2015 with notional principal amounts of £1,500 million and €2,000 million respectively.

After taking into account the impact of derivative financial instruments, £5,357 million or 69% (2011: £5,610 million or 66%) of the Group's total borrowings were at fixed or capped interest rates. All other borrowings re-price within six months of the year end.

At 31 March 2012, £5,341 million or 72% (2011: £5,410 million or 66%) of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc was hedged.

The impact of a 1% increase and a 1% decrease in interest rates on 31 March 2012 on pre tax profit are shown in the table below. This analysis assumes that all other variables are held constant. On this basis there would have been no significant amounts recognised directly in equity.

	2012 1% increase in interest rates £million	**2012 1% decrease in interest rates £million**	2011 1% increase in interest rates £million	2011 1% decrease in interest rates £million
Gain/(loss) – derivative financial instruments	–	**1**	44	(28)
(Loss)/gain – variable rate financial instruments	**(65)**	**65**	(76)	76

Equity price risk

The Group is exposed to equity price risk through its long term holdings of listed and unlisted securities, which are classified as available-for-sale investments and held at fair value. The associated measurement volatility on these investments is recorded directly in equity, unless an equity instrument has suffered a significant or prolonged decline, in which case an impairment loss is recorded in profit or loss.

Equity price risk – sensitivity analysis

The potential impact on the Group's equity resulting from the application of +/- 5% movement in the fair value of its available-for-sale investments would have been a gain/(loss) recorded in the available-for-sale reserve of £2 million (2011: £3 million).

28 Analysis of movement in net borrowings

Set out below is a reconciliation of the net increase in cash and cash equivalents to the decrease in net borrowings at 31 March 2012:

	2012 £million	2011 £million
Net increase in cash and cash equivalents	**90**	529
Net decrease in restricted cash	**(27)**	(63)
Cash and cash equivalents outflow from decrease in debt and debt financing	**678**	426
Movement in net borrowings resulting from cash flows	**741**	892
Discounts on repurchase of acquisition borrowings	**24**	4
Borrowings acquired with businesses	**–**	(419)
Borrowings derecognised on disposal of businesses	**41**	100
Finance leases entered into	**(7)**	–
Amortisation of prepaid financing fees	**(27)**	(26)
Capitalised finance costs	**(22)**	(21)
Currency translation differences and fair value adjustments on financial instruments	**76**	16
Movement in net borrowings in the year	**826**	546
Net borrowings at 1 April	**(7,843)**	(8,389)
Net borrowings at 31 March	**(7,017)**	(7,843)

Cash and cash equivalents outflow from decrease in debt and debt financing comprised of proceeds from borrowings of £207 million (2011: £23 million), less repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives of £878 million (2011: £439 million) and repayment of capital element of finance lease obligations of £7 million (2011: £10 million).

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

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

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28 Analysis of movement in net borrowings continued

2011	Cash and cash equivalents £million	Restricted cash £million	Borrowings within current liabilities £million	Borrowings within non-current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 1 April 2010	343	349	(556)	(8,322)	(203)	(8,389)
Net increase in cash and cash equivalents	294	–	235	–	–	529
Net decrease in restricted cash	–	(63)	–	–	–	(63)
Cash and cash equivalents outflow from decrease in debt and debt financing	–	–	211	219	(4)	426
Discounts on repurchase of acquisition borrowings	–	–	–	4	–	4
Borrowings acquired with businesses	–	–	(222)	(197)	–	(419)
Borrowings derecognised on disposal of businesses	–	–	57	43	–	100
Amortisation of prepaid financing fees	–	–	–	(26)	–	(26)
Capitalised finance costs	–	–	–	(21)	–	(21)
Non-cash movements	–	–	(7)	7	–	–
Currency translation differences and fair value adjustments on financial instruments	(8)	(1)	8	19	(2)	16
At 31 March 2011	629	285	(274)	(8,274)	(209)	(7,843)

In the Group statement of cash flows, cash and cash equivalents included bank overdrafts classified as borrowings within current liabilities in the statement of financial position, which amounted to £2 million (2011: £35 million).

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

	2012 £million	2011 £million
Acquisitions of businesses	**(10)**	(222)
Net cash/(borrowings) of businesses acquired:		
– cash and cash equivalents net of overdrafts	**2**	363
– borrowings	**–**	(419)
Disposals of businesses	**5**	62
Net borrowings of businesses disposed:		
– cash and cash equivalents net of overdrafts	**(13)**	114
– borrowings	**41**	100
Investments in associates and joint ventures	**(20)**	–
Purchase of non controlling interests	**(122)**	(66)
	(117)	(68)

30 Provisions

2012	Restructuring and reorganisation £million	Vacant property £million	Other £million	Total £million
At 1 April 2011	**62**	**30**	**25**	**117**
Provisions created during the year	**17**	**2**	**6**	**25**
Provisions utilised during the year	**(37)**	**(9)**	**(7)**	**(53)**
Provisions released during the year	–	**(1)**	**(2)**	**(3)**
Currency translation differences	**(5)**	–	**2**	**(3)**
At 31 March 2012	**37**	**22**	**24**	**83**
Current	**27**	**15**	**8**	**50**
Non-current	**10**	**7**	**16**	**33**
	37	**22**	**24**	**83**

Restructuring and reorganisation
The restructuring and reorganisation provision relates primarily to the restructuring programmes announced in the Pharmaceutical Wholesale Division and in the UK part of the Health & Beauty Division and related contract manufacturing activities respectively.

Vacant property
The vacant property provisions represent recognition of the present value of the expected net costs arising from vacant properties and sub-let properties. The exact timing of utilisation of these provisions will vary according to the individual properties concerned.

Other
The other provision relates mainly to long service award entitlements accrued on a probability-weighted basis.

31 Share capital

	2012 Number of units	2012 £million	2011 Number of units	2011 £million
Units of capital of CHF1,000:				
Issued and fully paid	**2,098,000**	**1,065**	2,098,000	1,065

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32 Other reserves

Other reserves movements within equity were:

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

2011	Available-for-sale reserve £million	Translation reserve £million	Cash flow hedge reserve £million	Special reserve £million	Associates' and joint ventures' other comprehensive income £million	Total £million
At 1 April 2010	27	229	–	(34)	(10)	212
Transfer to non controlling interests	–	–	–	34	–	34
Net exchange differences on translation of non-Sterling denominated operations	–	(12)	–	–	–	(12)
Net fair value movements on cash flow hedging instruments	–	–	(1)	–	–	(1)
Cumulative net fair value movements on cash flow hedging instruments recycled to the income statement and to non-current non-financial assets	–	–	1	–	–	1
Net fair value losses on available-for-sale investments deferred in equity	(7)	–	–	–	–	(7)
Gains on change of status from available-for-sale investments to subsidiary	(2)	–	–	–	–	(2)
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	–	6	6
Liability to acquire equity stakes from non controlling interests	–	–	–	(362)	–	(362)
Purchase of non controlling interests	–	–	–	91	–	91
Tax	–	25	–	–	–	25
At 31 March 2011	18	242	–	(271)	(4)	(15)

The nature and purpose of each reserve in equity is:

Retained earnings
The Group's retained earnings reserve, which is presented in the Group's statement of changes in equity, comprises the Group's retained earnings, net of distributions made to equity holders, movements related to non controlling interests purchased, together with actuarial gains and losses on defined benefit schemes and related tax movements.

Available-for-sale reserve
The available-for-sale reserve comprises the cumulative net change in the fair value of the Group's available-for-sale investments. Net fair value movements are recycled to the income statement if an underlying available-for-sale investment is either derecognised or impaired.

Translation reserve
The translation reserve comprises all currency exchange differences arising from the translation of the financial statements of non-Sterling denominated operations into the presentation currency of the Group, as well as from the translation of financial liabilities that hedge the Company's net investment in non-Sterling denominated subsidiaries.

Cash flow hedge reserve
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to the hedged risks on highly probable forecast transactions that have not yet occurred. When a forecast transaction occurs and the hedged risk is realised, an appropriate amount is recycled from the cash flow hedge reserve either to the income statement or to the carrying value of a non-current non-financial asset, according to where the underlying cash flow is recorded.

Special reserve
The special reserve comprises amounts recorded on the recognition of commitments to acquire equity stakes from non controlling interests. When the commitments are derecognised, the amounts initially recorded are reversed.

Associates' and joint ventures' other comprehensive income
The associates' and joint ventures' other comprehensive income reserve records the Group's share of post tax other comprehensive income of associates and joint ventures.

33 Acquisitions and disposals of businesses

Acquisitions during the year ended 31 March 2012
The Group acquired further equity stakes in two businesses where controlling interests were acquired in the prior year. These were a further 10% stake in Hedef Alliance Holding A.S. ("Hedef Alliance") on 6 May 2011 for consideration of £82 million and a further 20% stake in our existing subsidiary Farmexpert DCI S.A. on 15 February 2012 for consideration of £30 million, of which £13 million was deferred and paid on 2 April 2012.

The Group acquired a number of businesses in the year for cash consideration totalling £10 million. Net assets identified included the fair value of customer relationships of £3 million. Goodwill on these acquisitions was £5 million.

Acquisition related costs
The Group incurred acquisition related costs of £1 million (2011: £8 million) in respect of the acquisitions described above and other acquisition related projects. These costs have been included within administrative costs in the Group's consolidated income statement and classified as exceptional items.

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33 Acquisitions and disposals of businesses continued

Acquisitions during the year ended 31 March 2011

The Group's two major acquisitions during the year ended 31 March 2011 were the acquisitions of a controlling interest in Hedef Alliance in July 2010 and of a controlling interest in Andreae-Noris Zahn AG ("ANZAG") in December 2010. Both were previously associates of the Group.

Hedef Alliance

The Group increased its shareholding in Hedef Alliance to 70% in two stages in the year, having previously held a 50% associate interest. Hedef Alliance is one of the largest pharmaceutical wholesalers in Turkey, and has a controlling 50% interest in United Company of Pharmacists S.A.E. ("UCP"), the leading pharmaceutical wholesaler in Egypt, and a 30% associate interest in Hydra Pharm SPA, the largest wholesaler in Algeria.

The Group obtained control of Hedef Alliance on 23 July 2010 by acquiring an additional 10% stake for consideration of £94 million which was settled in cash. A further 10% stake was acquired on 18 February 2011 for consideration of £86 million, of which £23 million was deferred and paid on 6 May 2011.

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

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	–	237	237
Property, plant and equipment	34	23	57
Investments in associates and joint ventures	10	4	14
Inventories	284	–	284
Trade and other receivables	758	–	758
Cash and cash equivalents net of borrowings	102	–	102
Trade and other payables, and provisions	(741)	–	(741)
Deferred tax liabilities	(5)	(52)	(57)
Total identifiable net assets	442	212	654
Goodwill arising on acquisition			215
Non controlling interests			(375)
Fair value of existing interest			(400)
			94
Satisfied by:			
– cash			94

The goodwill of £215 million represented the intangible assets which could not be individually separated and reliably measured due to their nature. This included the growth opportunities presented through investment in international businesses in large and growing markets. The non controlling interests were measured at fair value. The remeasurement to fair value of the Group's existing 50% associate interest in Hedef Alliance resulted in a gain of £22 million (fair value of £400 million less £378 million carrying value of equity accounted associate at acquisition date), which was recognised in the income statement within profit from operations.

ANZAG

Through Alliance Healthcare Deutschland Holdings 1 GmbH, a company owned 80% by the Group and 20% by a fellow subsidiary owned by the Group's parent and ultimate controlling entity, the Group acquired a controlling shareholding in ANZAG. Alliance Healthcare Deutschland Holdings 1 GmbH initially acquired the Group's pre-existing 29.99% interest, subsequently increased this by 51.89% to 81.88% in two stages. ANZAG is one of the largest pharmaceutical wholesalers in Germany and has a controlling interest in a pharmaceutical wholesale business and health & beauty business in Lithuania, a pharmaceutical wholesale business in Romania and an associate interest in a pharmaceutical wholesale business in Croatia which also trades in Bosnia Herzegovina, Serbia and Slovenia.

The Group obtained control of ANZAG on 16 December 2010 by Alliance Healthcare Deutschland Holdings 1 GmbH acquiring an additional 51.65% stake for consideration of £121 million which was all settled in cash. Following a tender offer for the remaining shares, a further 0.24% stake was acquired on 1 February 2011 for consideration of £1 million.

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

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	3	34	37
Property, plant and equipment	104	–	104
Investments in associates and joint ventures	16	–	16
Inventories	303	–	303
Trade and other receivables	403	–	403
Net borrowings	(158)	–	(158)
Trade and other payables, and provisions	(391)	–	(391)
Retirement benefit obligations	(52)	–	(52)
Deferred tax liabilities	(2)	(9)	(11)
Total identifiable net assets	226	25	251
Transfer to special reserve			45
Negative goodwill arising on acquisition			(16)
Non controlling interests			(87)
Fair value of existing interest			(71)
			122
Satisfied by:			
– cash			122

The negative goodwill reflected the value of net assets employed relative to ANZAG's enterprise value, and in accordance with IFRS 3 Business Combinations was included in the income statement within profit from operations. The non controlling interests were measured at fair value. The remeasurement to fair value of the Group's existing 29.99% interest in ANZAG resulted in a loss of £3 million (fair value of £71 million less £74 million carrying value of equity accounted associate at acquisition date), which was recognised in the income statement within profit from operations.

The consolidated income statement for the prior year included revenue of £1,714 million and profit of £68 million in respect of Hedef Alliance, and revenue of £1,047 million and profit of £7 million in respect of ANZAG since their respective acquisition dates. If Hedef Alliance and ANZAG had both been subsidiaries of the Group from the beginning of the prior year, taking into account their respective results prior to acquisition, revenue and profit for the combined Group on a pro forma basis would have been £23,738 million and £639 million respectively.

Other acquisitions

In addition, the Group acquired a number of businesses in the year for cash consideration totalling £6 million. Net assets identified included the fair value of pharmacy licences of £5 million. Goodwill on these acquisitions was £2 million and non controlling interests recognised was £2 million.

Disposals during the year ended 31 March 2012

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

Disposals during the year ended 31 March 2011

On 31 July 2010 the Group sold 51% of its interest in its Italian subsidiary Alliance Healthcare Italia S.p.a. to a fellow wholly owned subsidiary of AB Acquisitions Holdings Limited, the Group's parent and ultimate controlling entity (note 12).

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34 Operating leases

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

	2012 £million	2010 £million
Less than one year	**327**	321
Between one and five years	**957**	988
More than five years	**1,093**	1,151
	2,377	2,460

The Group leases a number of its properties under operating leases. The leases run predominantly for periods from 1 to 25 years, with options to break the leases during the period and renew the leases at the end of the period. Lease rentals are increased at regular intervals to reflect market rentals. None of the leases include material contingent rentals. Rental income from sub-let properties was £22 million (2011: £24 million). Total future minimum sub-let income at the end of the year was £53 million (2011: £65 million).

35 Commitments and contingent liabilities

Commitments

Capital expenditure contracted for at the year end but not yet incurred was £32 million (2011: £37 million) in respect of property, plant and equipment and software.

Contingent liabilities

The Group had aggregate contingent liabilities of £78 million (2011: £87 million), including £15 million (2011: £25 million) for letters of guarantee provided to certain suppliers, a £17 million (2011: £17 million) guarantee provided by Andreae-Noris Zahn AG for certain of its customers and a financial guarantee issued to a third party to underwrite £10 million (2011: £10 million) of loan finance on asset disposals that occurred in a prior year.

36 Retirement benefit assets/obligations

The Group operates a number of retirement benefit schemes in the UK and other countries including both defined benefit and defined contribution schemes.

Defined benefit schemes

UK scheme

Following the buy out of the Alliance UniChem UK Group Pension Scheme in the prior year, the Group's principal UK defined benefit scheme is the Boots Pension Scheme, which was closed to future accrual when the Group implemented a new defined contribution scheme in the UK on 1 July 2010.

The Boots Pension Scheme entered into Memorandum of Understanding during 2007/08 with the Group, the main elements of which were an agreement that conservative investment strategies would be maintained (the Boots Pension Scheme has continued with its investment strategy of planning to hold 15% of its assets in equity and property to back long term liabilities, and 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years), and a commitment to pay additional contributions. Cash contributions of £40 million were made during the year under the Memorandum of Understanding and up to 31 March 2012, £152 million of additional contributions have been made, with a further £117 million committed in four equal annual instalments from August 2013. The final payment of £149 million originally due in August 2017 has been replaced by cash flows that arise on a pension funding partnership structure established by the Group and the scheme's trustees in March 2012. This is the second such structure (following that established in March 2011) and under this structure the Group contributed an interest in a partnership worth £127 million to the scheme, and transferred a number of properties to the partnership under a sale and leaseback arrangement. The partnership will make annual distributions of around £12 million to the scheme for 15 years.

The first pension funding partnership structure was set up in March 2011 as part of the funding plan agreed with the trustees on finalisation of the triennial actuarial funding valuation of the Boots Pension Scheme. Under the first structure, the Group contributed an interest in a partnership worth £146 million to the scheme, and transferred a number of properties to the partnership under a sale and leaseback arrangement. This partnership makes annual distributions of around £10 million to the scheme for 20 years. In addition, it will make a capital sum in 2031 equal to the lower of £156 million and any funding deficit in the scheme at that point in time.

The scheme's interests in the partnerships reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 accounting basis, as the investments held by the scheme in the partnerships do not qualify as assets for the purposes of the Group's consolidated financial statements and are therefore not included within the fair value of plan assets.

UK legislation has changed to set the Consumer Prices Index (CPI) as the statutory measure for applying increases to pensions in payment and for revaluing preserved pensions for occupational pension schemes. Previously the Retail Prices Index (RPI) was used. A small number of scheme members were affected by this change and, as CPI is projected to continue to increase at a lower rate than RPI, this change resulted in a reduction in the defined benefit scheme liabilities of £24 million which has been recognised within profit from operations as a negative past service cost.

Non-UK schemes

During the year, the Group closed its defined benefit pension scheme in The Netherlands to future accrual and subsequently transferred the obligations to a third party.

In the prior year, the Group closed its defined benefit schemes in the Republic of Ireland and Norway. The obligations of the Norwegian scheme were subsequently transferred to a third party.

The net amount recognised in respect of defined benefit schemes was:

	2012 £million	2011 £million
Present value of defined benefit scheme liabilities	**(4,588)**	(4,363)
Less fair value of defined benefit scheme assets:		
– bonds	**3,883**	3,488
– equities	**504**	510
– other plan assets	**152**	151
	4,539	4,149
Surplus restriction	**–**	(9)
	(49)	(223)
Analysed as		
– schemes in surplus	**30**	–
– schemes in deficit	**(79)**	(223)
	(49)	(223)

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

	2012 £million	2011 £million
At 1 April	**4,363**	4,684
Acquisitions of businesses	**–**	56
Current service costs	**4**	23
Negative past service costs	**(30)**	(66)
Curtailment gains	**(8)**	(96)
Settlements	**(59)**	(237)
Interest on defined benefit scheme liabilities	**239**	235
Net actuarial losses/(gains)	**235**	(73)
Employee contributions	**1**	1
Benefits paid	**(155)**	(163)
Currency translation differences	**(2)**	(1)
At 31 March	**4,588**	4,363

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

	2012 £million	2011 £million
At 1 April	**4,149**	4,222
Acquisitions of businesses	**–**	4
Expected returns on defined benefit scheme assets	**196**	206
Settlements	**(64)**	(327)
Experience adjustments	**354**	81
Employer contributions	**56**	125
Employee contributions	**1**	1
Benefits paid	**(155)**	(163)
Currency translation differences	**2**	–
At 31 March	**4,539**	4,149

The Group expects to contribute approximately £22 million to its defined benefit schemes in the year ended 31 March 2013.

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for the year ended 31 March 2012

36 Retirement benefit assets/obligations continued

The net (expense)/credit recognised in the income statement comprised:

	2012 £million	2011 £million
Current service costs	**(4)**	(23)
Negative past service costs	**30**	66
Curtailment gains	**8**	96
Settlement losses	**(5)**	(90)
	29	49
Expected returns on defined benefit scheme assets	**196**	206
Interest on defined benefit scheme liabilities	**(239)**	(235)
	(14)	20

The curtailment gains relate to the closure of a number of the schemes to future accrual and the settlement loss in the prior year relates to the transfer of the obligations of the Alliance UniChem UK Group Pension Scheme to an insurer.

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

	2012 £million	2011 £million
Selling, distribution and store costs	**22**	38
Administrative costs	**7**	11
Finance income	**196**	206
Finance costs	**(239)**	(235)
	(14)	20

The amounts recognised in the statement of other comprehensive income were:

	2012 £million	2011 £million
Experience losses on defined benefit scheme liabilities	**(69)**	(67)
Changes in assumptions underlying the present value of defined benefit scheme liabilities	**(166)**	140
Experience gains on defined benefit scheme assets	**354**	81
Surplus restriction reversed/(recognised)	**9**	(9)
	128	145

The cumulative amount of actuarial gains and losses recognised in the statement of other comprehensive income at 31 March 2012 was a net loss of £383 million (2011: £511 million loss).

The amounts recognised for the fair value of scheme assets, the present value of scheme liabilities and experience gains/(losses) on scheme assets and liabilities for the past five years ended 31 March, were:

	2012 £million	2011 £million	2010 £million	2009 £million	2008 £million
Present value of scheme liabilities	**(4,588)**	(4,363)	(4,684)	(3,354)	(3,584)
Fair value of scheme assets	**4,539**	4,149	4,222	3,542	3,881
Surplus restriction	**–**	(9)	–	–	–
Retirement benefit (deficit)/surplus	**(49)**	(223)	(462)	188	297
Experience (losses)/gains on scheme liabilities	**(69)**	(67)	48	(21)	3
Experience gains/(losses) on scheme assets	**354**	81	530	(560)	(47)

The principal actuarial assumptions at the year end were:

	2012		2011	
	UK	**Non-UK**	UK	Non-UK
Discount rate for defined benefit scheme liabilities	**5.2%**	**4.5% to 5.2%**	5.6%	5.0% to 6.2%
Inflation	**3.2%**	**1.8% to 3.2%**	3.5%	1.8% to 3.5%
Rate of general long term increase in salaries	**n/a**	**2.5% to 2.8%**	n/a	2.0% to 2.8%
Rate of increase to pensions in payment	**3.1%**	**1.8% to 3.1%**	3.3%	1.8% to 3.3%

The expected returns on defined benefit scheme assets for the following financial year are:

	2012 UK	2011 UK
Bonds	**3.6%**	4.4%
Equities	**6.9%**	7.9%
Property	**6.7%**	7.4%
Other	**2.4%**	3.7%

The expected return on non-UK defined benefit scheme assets ranged from 2.4% to 6.8% (2011: 3.7% to 7.7%). The expected rate of return on defined benefit scheme assets has been determined with reference to historic and projected market returns. The actual return on defined benefit scheme assets was a £550 million gain (2011: £287 million gain).

The mortality assumptions adopted as at 31 March 2012 have been set to reflect the Company's best estimate view of life expectancies of members for each individual pension arrangement. These mortality assumptions vary by arrangement, each assumption reflecting the characteristics of the membership of that arrangement. In terms of the Boots Pension Scheme, which is the Group's largest defined benefit pension scheme, a detailed analysis of the current mortality rates experienced in the scheme was carried out during the prior year as part of the triennial funding valuation. These mortality rates were adopted for the 31 March 2012 IAS 19 Employee Benefits accounting valuation of this scheme.

The projected life expectancy from the age of 60 years was:

	2012 Currently aged 45	**2012 Currently aged 60**	2011 Currently aged 45	2011 Currently aged 60
Male	**27.7**	**27.4**	27.6	26.5
Female	**29.6**	**28.1**	29.3	28.2

A sensitivity analysis on the principal assumptions used to measure the scheme liabilities at the year end is:

	Change in assumption	**Impact on scheme liabilities**
Discount rate	**Increase by 0.25%**	**Decrease by £195 million**
Rate of inflation	**Increase by 0.25%**	**Increase by £185 million**
Assumed life expectancy at age 60 (rate of mortality)	**Increase by 1 year**	**Increase by £128 million**

Defined contribution schemes

The Group operates a number of defined contribution schemes. During the year, in respect of continuing operations, the cost recorded in the income statement was £85 million (2011: £65 million).

Notes to the consolidated financial statements continued

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37 Related parties

Parent and ultimate controlling party

At 31 March 2012, AB Acquisitions Holdings Limited was the immediate and ultimate parent company of Alliance Boots GmbH.

AB Acquisitions Holdings Limited is incorporated in Gibraltar, and its registered office is 57/63 Line Wall Road, Gibraltar. AB Acquisitions Holdings Limited is jointly controlled by Alliance Santé Participations S.A., and by certain funds advised by Kohlberg Kravis Roberts & Co. L.P.. S. Pessina and O. Barra, who are Directors of Alliance Boots GmbH, are also directors of Alliance Santé Participations S.A., which is ultimately owned by a family trust.

Key management personnel

Key management personnel comprise the Directors of Alliance Boots GmbH and, in addition, W. Zettel through his directorship of AB Acquisitions Holdings Limited. The Directors of Alliance Boots GmbH were:

S. Pessina* (Executive Chairman)
G.R. Fairweather*
M. Pagni*
O. Barra*
A. Gourlay*
D. Murphy
M. Caprioli
S. D'Angelo
N.C.E. Land
C. Britton
A. De Nunzio
E. Jornod

* Executive Directors

There was no change in Directors since 31 March 2012.

Key management personnel remuneration

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

	2012 £million	2011 £million
Short term employee benefits	**5**	6
Post-employment benefits	**1**	1

Other transactions with key management personnel

Together with other senior managers, executive Directors participate in a management equity plan which is designed to enable them, as investors, to share in the future financial success of the Group through an investment of personal capital. To assist participation, the Group provides loans under commercial terms, and at 31 March 2012 the loan amounts outstanding in respect of key management personnel were £0.3 million (2011: £0.3 million). The loans are repayable by June 2012.

At 31 March 2012, A Gourlay, together with family members, held 18,846 (2011: 36,846) loan notes with a nominal value of £1 each issued by the Group, having redeemed 18,000 (2011: nil) during the year.

During the year, S. Pessina received 264 shares (2011: 237 shares) in Galenica Ltd., an associate investment of the Group, in lieu of fees for his services as a director. At 31 March 2012, S. Pessina owned 1,315 shares (2011: 1,051 shares) in Galenica Ltd.. On 1 January 2012, E. Jornod received 40,000 shares in Galenica Ltd. in lieu of director's fees for the period 1 January 2012 to 31 January 2016, and at 31 March 2012 he owned 48,823 shares (2011: 9,361 shares) in total in Galenica Ltd.. In addition, he has a conditional right to acquire 8,750 shares in 2012.

Key management personnel may purchase goods for personal and family use from the Health & Beauty Division businesses in the UK on the same terms and conditions as those available to all other UK employees of the Group.

Transactions with fellow subsidiaries of AB Acquisitions Holdings Limited

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

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

During the year, £13.0 million was advanced to a fellow subsidiary which was subsequently repaid in full.

In the prior year, the Group sold 51% of its interest in its Italian subsidiary, Alliance Healthcare Italia S.p.a., to a fellow subsidiary for £62 million.

In the prior year, £25.0 million was advanced to a fellow subsidiary under a committed loan facility. Finance income recorded in the income statement in relation to the loan in the current year was £1.6 million (2011: £0.4 million) and the cumulative amount of interest receivable at 31 March 2012 was £2.0 million (2011: £0.4 million). The loan receivable by the Group at 31 March 2012 was £25.0 million (2011: £25.0 million) and is repayable in 2015.

In the prior year, £25.0 million was advanced to a fellow subsidiary under an on demand, committed loan facility and repaid in full during the prior year.

In 2009/10, a £75.0 million five year, fixed rate loan was drawn down under a facility provided by a fellow subsidiary. In the prior year £66.4 million was repaid. Finance costs recorded in the income statement in the current year were £0.7 million (2011: £2.7 million) and the cumulative amount of interest payable at 31 March 2012 was £6.3 million (2011: £8.6 million). The loan payable by the Group at 31 March 2012 was £8.6 million (2011: £8.6 million) and is repayable in 2014.

In the prior year, loans advanced under revolving credit facilities to AB Acquisitions Holdings Limited and a fellow subsidiary were repaid in full. The loan amounts outstanding at the beginning of the prior year under these facilities were £1.4 million and £0.9 million respectively, and prior to being repaid in full, a further £4.0 million was advanced to the fellow subsidiary.

During the year £0.9 million was received on behalf of a fellow subsidiary, £0.9 million was still held at the year end.

Trading transactions with associates which are also fellow subsidiaries of AB Acquisitions Holdings Limited are included within the table set out on page 113.

Transactions with other related parties

As disclosed in the shareholder circular sent to the shareholders of Alliance Boots plc on 26 May 2007, Kohlberg Kravis Roberts & Co. L.P. and Alliance Participations Limited or their respective designees are each entitled to receive an annual monitoring fee. S. Pessina and O. Barra are directors of Alliance Participations Limited which is owned by a family trust. During the year, each party received £3.2 million (2011: £2.9 million), of which £0.8 million was outstanding to each at 31 March 2012 (2011: £0.8 million outstanding to each).

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

During the year, the Group paid £0.3 million (2011: £0.2 million) for accounting services to an entity which is considered to be a related party by virtue of it being jointly controlled by a director of AB Acquisitions Holdings Limited. The transaction was on an arm's length basis.

At 31 March 2012, Walvis Limited and Walvis 2 Limited owned £84.7 million (2011: £84.7 million) and £142.2 million (2011: £140.2 million) respectively of the principal of the Group's senior and subordinated facilities loans, Walvis 2 Limited having acquired £106.2 million (2011: £189.5 million) during the year. Walvis Limited and Walvis 2 Limited are both companies controlled by Dascoli Finance S.A.. S. Pessina is a director of Dascoli Finance S.A..

At 31 March 2012, the Group's cumulative investment in profit participating notes issued by Walvis Limited and Walvis 2 Limited was £55.0 million (2011: £55.0 million) and £99.9 million (2011: £99.9 million) respectively. During the year, £15.4 million (2011: £8.8 million) of finance income was recorded in the income statement in relation to these notes, and the amount receivable at 31 March 2012 was £11.1 million (2011: £4.8 million). The carrying value of the profit participating notes at 31 March 2012 was £171.6 million (2011: £163.7 million).

During the year, the Group acquired £104.4 million (2011: £20.6 million) of the principal of the Group's senior facilities loans from Walvis 2 Limited.

At 31 March 2012, AF Lux Finance S.A. owned £30.0 million (2011: £30.0 million) of the principal of the Group's senior facilities bank loans. S. Pessina is a director of AF Lux Finance S.A.. During the year, £1.1 million (2011: £1.1 million) of finance costs were recorded in the income statement as payable to AF Lux Finance S.A., of which £nil (2011: £nil) was outstanding at 31 March 2012.

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

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37 Related parties continued

Subsidiary undertakings

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

	Percentage held by subsidiary undertakings	Percentage attributable to equity shareholders of the Company	Country of operation	Country of incorporation	Main activity
Health & Beauty Division					
Boots UK Limited	100	100	UK	England and Wales	Pharmacy-led health and beauty retailing
Boots Opticians Professional Services Limited	58.0	58.0	UK	England and Wales	Optical practices
Boots Norge A.S.	100	100	Norway	Norway	Pharmacy-led health and beauty retailing
Boots Retail (Ireland) Limited	100	100	Republic of Ireland	Republic of Ireland	Pharmacy-led health and beauty retailing
Alliance Apotheek B.V.	100	100	The Netherlands	The Netherlands	Retail pharmacy operator
Boots Retail (Thailand) Limited	100	100	Thailand	Thailand	Pharmacy-led health and beauty retailing
Pharmaceutical Wholesale Division					
Alliance Healthcare France S.A.	99.8	99.8	France	France	Pharmaceutical wholesaling and distribution
Andreae-Noris Zahn AG	81.9	65.5	Germany	Germany	Pharmaceutical wholesaling and distribution
Alliance Healthcare (Distribution) Limited	100	100	UK	England and Wales	Pharmaceutical wholesaling and distribution
Hedef Ecza Deposu Ticaret A.S.	80.0	80.0	Turkey	Turkey	Pharmaceutical wholesaling and distribution
Alliance Healthcare España S.A.	99.2	99.2	Spain	Spain	Pharmaceutical wholesaling and distribution
Alliance Healthcare B.V.	100	100	The Netherlands	The Netherlands	Pharmaceutical wholesaling and distribution
United Company of Pharmacists S.A.E.	50.0	40.0	Egypt	Egypt	Pharmaceutical wholesaling and distribution
Alliance Healthcare s.r.o.	97.1	97.1	Czech Republic	Czech Republic	Pharmaceutical wholesaling and distribution
Alliance Healthcare Norge A.S.	100	100	Norway	Norway	Pharmaceutical wholesaling and distribution
Farmexpert DCI S.A.	80.0	52.4	Romania	Romania	Pharmaceutical wholesaling and distribution
Armila UAB	100	65.5	Lithuania	Lithuania	Pharmaceutical wholesaling and distribution
Contract Manufacturing					
BCM Limited	100	100	UK	England and Wales	Contract manufacturing

Associates and joint venture

The Group's principal associates and joint venture were:

	Percentage held by subsidiary undertakings	Percentage attributable to equity shareholders of the Company	Country of operation	Country of incorporation	Main activity
Associates					
Galenica Ltd.[1]	25.5	25.5	Switzerland	Switzerland	Pharmaceutical manufacturing, pharmaceutical wholesaling and distribution and retail pharmacy operator
Alliance Healthcare Italia S.p.a.	49.0	49.0	Italy	Italy	Pharmaceutical wholesaling and distribution and retail pharmacy operator
OOO Alliance Healthcare Rus	49.0	49.0	Russia	Russia	Pharmaceutical wholesaling and distribution
Alliance Healthcare S.A.	49.0	49.0	Portugal	Portugal	Pharmaceutical wholesaling and distribution
Hydra Pharm SPA	30.0	18.0	Algeria	Algeria	Pharmaceutical wholesaling and distribution
Oktal Pharma d.o.o.	49.0	32.0	Croatia	Croatia	Pharmaceutical wholesaling and distribution
Joint venture					
Guangzhou Pharmaceuticals Corporation	50.0	50.0	China	China	Pharmaceutical wholesaling and distribution

1 All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

The accounting reference dates of the principal associates and joint venture are 31 December with the exception of Alliance Healthcare Italia S.p.a. whose accounting reference date is 31 March.

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

	2012 £million	2011 £million
Revenue in year	**24**	17
Purchases in year	**(23)**	(13)
Amounts due from	**3**	1
Amounts due to	**(2)**	(2)

38 Accounting estimates and judgements

In preparing the consolidated financial statements, the management of Alliance Boots GmbH is required to make estimates and judgements. The matters described below are considered to be the most important in understanding the judgements that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows. The Group accounting policies are described in note 2.

Fair value measurement on a business combination

The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification and valuation of intangible assets which require the estimation of future cash flows and the selection of a suitable discount rate.

Impairment of intangible assets, including goodwill, and tangible assets

Following the acquisition of Alliance Boots plc in 2007/08, the Group has significant carrying values of goodwill and intangible assets, such as pharmacy licences, brands and customer relationships. Goodwill and other indefinite life intangibles, such as pharmacy licences and certain brands are held at cost and tested annually for impairment. Amortised intangible and tangible assets are tested for impairment where there are indications of impairment. The impairment tests involve estimation of future cash flows and the selection of suitable discount rates. These require an estimation of the value-in-use of the cash generating units to which the intangible assets are allocated (note 15).

Measurement of defined benefit scheme liabilities

The Group recognises and measures costs relating to defined benefit schemes in accordance with IAS 19, Employee Benefits. In applying IAS 19, the costs are assessed in accordance with the advice of independent qualified actuaries. This requires the exercise of significant judgements in relation to the estimation of future changes in salaries and inflation, as well as mortality rates, and the selection of suitable discount rates. Further detail is provided in note 36.

Revenue

In the Health & Beauty Division, reimbursement of dispensing revenue is initially estimated because the actual reimbursement is often not known until after the month of sale.

In respect of loyalty schemes, principally the Boots Advantage Card, liabilities are recorded to estimate the proportion of the points issued which will be redeemed by customers.

Supplier rebates

The recognition of supplier rebates may require estimation when the reporting year end is not coterminous with the end of the predetermined period over which the rebate is earned.

Provisions

Provisions are recognised in the year when it becomes probable that there will be a future outflow of funds resulting from past operations or events which can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, and therefore the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

39 Risk assessment

The Group's executive Directors play the leading role in internal controls, monitoring the overall risk profile and regularly reporting to the Board through the audit and risk committee. In addition, the Board through the executive Directors is responsible for determining clear policies as to what the Group considers to be acceptable levels of risk. These policies seek to enable people throughout the Group to use their expertise to identify risks that could undermine performance and to devise ways of bringing them within acceptable levels. Where risks are identified that are not acceptable, action plans are developed to mitigate them with clear allocation of responsibilities and timescales for completion, which ensures that progress towards implementing these plans is monitored and reported upon.

Further detail on the risks faced by the Group and the internal control process are set out on pages 56 and 57.

Principal businesses, associates and joint ventures

Health & Beauty Division

Boots UK
1 Thane Road West
Nottingham
NG2 3AA
United Kingdom
Tel: +44 (0)115 950 6111
Web: www.boots-uk.com

Boots Opticians
1 Thane Road West
Nottingham
NG2 3AA
United Kingdom
Tel: +44 (0)115 950 6111
Web: www.bootsopticians.com

Boots Norge
Hoffsveien 70c
PO Box 413 Skøyen
0213 Oslo
Norway
Tel: +47 23 25 07 00
Web: www.bootsapotek.no

Boots Ireland
Unit 2F, Block 71A
Parkwest Business Park
Nangor Road
Dublin 12
Republic of Ireland
Tel: +353 (0)1 778 0000
Web: www.boots.ie

Alliance Apotheek
Pomphoekweg 1
5222 BE 's-Hertogenbosch
PO Box 210
5201 AL 's-Hertogenbosch
The Netherlands
Tel: +31 (0)88 104 0211
Web: www.alliance-apotheek.nl

Boots Thailand
9 Pakin Building, 8th Floor
Ratchadapisek Road
Dindang, BKK 10400
Thailand
Tel: +66 (0)2 694 5999
Web: www.th.boots.com

In addition, Boots has a sales office in the US and a franchise office in Sweden, and Armila has a small number of pharmacies in Lithuania.

Pharmaceutical Wholesale Division

Alliance Healthcare France
222 rue des Caboeufs
92622 Gennevilliers Cedex
France
Tel: +33 (0)1 40 80 51 00
Web: www.alliance-healthcare.fr

Andreae-Noris Zahn (ANZAG)
Solmsstraße 25
60486 Frankfurt am Main
Germany
Tel: +49 (0)69 7920 3-0
Web: www.anzag.de

Alliance Healthcare (Distribution)
43 Cox Lane
Chessington
Surrey KT9 1SN
United Kingdom
Tel: +44 (0)20 8391 2323
Web: www.alliance-healthcare.co.uk

Hedef Alliance
Basin Ekspres Yolu
Kavak Sokak Ser Plaza
No:3 A Blok Kat 3
34530 Yenibosna
Istanbul
Turkey
Tel: +90 212 452 72 00
Web: www.hedefalliance.com.tr

Alliance Healthcare España
Av. Verge de Montserrat 6
Pol. Ind. Estruch
08820 El Prat de Llobregat
Barcelona
Spain
Tel: +34 93 739 72 00
Web: www.alliance-healthcare.es

Alliance Healthcare Netherlands
Pomphoekweg 1
5222 BE 's-Hertogenbosch
PO Box 210
5201 AL 's-Hertogenbosch
The Netherlands
Tel: +31 (0)88 104 0211
Web: www.alliance-healthcare.nl

UCP
5 Samir Sayed Ahmed Street
El Manial
Cairo
Egypt
Tel: +202 2364 40 52

Alliance Healthcare Czech Republic
Podle Trati 624/7
108 00 Praha 10 – Malešice
Czech Republic
Tel: +420 296 567 111
Web: www.alliance-healthcare.cz

Alliance Healthcare Norge
Snipetjernvegen 10
PO Box 3554
1402 Ski
Norway
Tel: +47 64 85 03 00
Web: www.alliance-healthcare.no

Farmexpert
7 Amilcar C.Sandulescu Street
District 6
Bucharest
Romania
Tel: +40 21 407 77 11
Web: www.farmexpert.ro

Armila UAB
Ateities str. 10
LT – 08303
Vilnius
Lithuania
Tel: +370 5 2777 596
Web: www.armila.com

Principal businesses, associates and joint ventures continued

Contract Manufacturing

BCM
D10 Building
Thane Road
Nottingham
NG90 2PR
United Kingdom
Tel: +44 (0)115 968 6648
Web: www.bcm-manufacturing.com

BCM has three manufacturing facilities in the UK, France and Germany.

Associates and joint ventures

Galenica
Untermattweg 8
CH-3027 Bern
Switzerland
Tel: +41 58 852 81 11
Web: www.galenica.com

Guangzhou Pharmaceuticals Corporation
No. 97-103 Datong Road
Liwan District
Guangzhou 510410
Guangdong Province
People's Republic of China
Tel: +86 20 8181 4966
Web: www.gzmpc.com

Alliance Healthcare Italia
Via Moggia 75/a
16033 Lavagna (GE)
Italy
Tel: +39 (0)185 315 71
Web: www.alliance-healthcare.it

Alliance Healthcare Russia
Peschanij karier
3. Building 1-1B.
109383 Moscow
Russia
Tel: +7495 787 9029
Web: www.alliance-healthcare.ru

Alliance Healthcare Portugal
Rua Eng. Ferreira Dias
728, 3º Piso Sul
4149-014 Porto
Portugal
Tel: +351 22 532 24 00
Web: www.alliance-healthcare.pt

Hydra Pharm
10, Ibrahim Hadjres
Beni Messous-Algiers
Algeria
Tel: +213 21 93 35 79
Web: www.groupehydrapharm.com

Oktal Pharma
Utinjska 40
10020 Zagreb
Croatia
Tel: +385 1 6595 753
Web: www.oktal-pharma.hr

Oktal Pharma also trades in Bosnia Herzegovina, Serbia and Slovenia.

In addition, Alliance Boots has a buying office in Hong Kong.

Glossary of key terms

Constant currency
Exchange rates applicable for the financial information for the year ended 31 March 2011.

EBITDA
Trading profit before underlying depreciation and amortisation.

Exceptional items
Items classified by Alliance Boots as exceptional in nature. These are not regarded as forming part of the underlying trading activities of the Group and so merit separate presentation to allow stakeholders to understand the elements of financial performance and assess trends in financial performance.

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

Interest cover
Trading profit divided by underlying net finance costs excluding net finance costs relating to retirement benefit obligations.

Like for like revenue
Revenue on a constant currency basis excluding the impact of business acquisitions and disposals, new store openings, closures and major extensions.

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

Net finance costs
Finance costs net of finance income.

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

Share of underlying post tax earnings of associates and joint ventures
Share of post tax earnings of associates and joint ventures before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Timing differences within net finance costs
IAS 39 timing differences and the unwind of the discount on obligations to non controlling interests.

Trading margin
Trading profit expressed as a percentage of revenue.

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

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

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

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

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

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

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