Press release
15 May 2013

Alliance Boots
Annual results for the year ended 31 March 2013

"Transformational year with 12.7% increase in underlying profit after tax"

Highlights:

Financial

- Revenue: £22.4 billion - down 2.6% (up 0.6% in constant currency)
- Trading profit: £1,265 million - up 6.1% (up 7.4% in constant currency)
  - Health & Beauty: £865 million - up 6.8% (up 7.0% in constant currency)
    - UK: £813 million - up 8.8%
  - Pharmaceutical Wholesale: £435 million - up 5.1% (up 8.2% in constant currency)
- Underlying profit (after tax): £805 million - up 12.7%
- Statutory profit for the year: £741 million - up 25.0%
- Cash generated from operations: £1,648 million
- Net borrowings reduction: £1,124 million

Strategic

- Strategic partnership with Walgreens
  - to create the first global pharmacy-led, health and wellbeing enterprise
- Recent joint agreement with AmerisourceBergen
- Investment in Nanjing Pharmaceutical announced

Stefano Pessina, Executive Chairman, commented:

"This has been a transformational year for Alliance Boots due to our exciting new strategic partnership with Walgreens, which we are further strengthening by our recent joint agreement to partner with AmerisourceBergen.

"Against the backdrop of this major corporate activity, and the challenging conditions across our markets, we have again delivered a double digit growth in underlying profit after tax. Our people are at the heart of everything we do and it is through clear leadership combined with great teamwork that we have been able to deliver such consistently good results.

"We continue to be confident about our prospects and ability to pursue profitable growth, organically, from our synergy programmes and through international expansion.

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

Reconciliations of trading profit to profit from operations before associates and joint ventures, and underlying profit (after tax) to profit for the year, are set out in the financial review section of this announcement.

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

A glossary of key terms is provided at the end of this announcement.

Further information is contained within the Group's Annual Report 2012/13 which is published on our website (www.allianceboots.com). In addition, the Group's Corporate Social Responsibility Report 2012/13 will be published on our website in September 2013.

A press conference will be held on 15 May 2013 at 11.30 am (BST) which will be webcast simultaneously on www.allianceboots.com and available to view thereafter.

For further information, please contact:

Media Relations:

Yves Romestan/Laura Vergani/Katie Johnson, Alliance Boots: +44 (0)207 980 8585
James Murgatroyd/Katie Lang/Yim Wong, RLM Finsbury: +44 (0)207 251 3801

Investor Relations:

Gerald Gradwell, Alliance Boots: +44 (0)207 980 8527 (UK) / +1 646-688-1336 (US)

Business review

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

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

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

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

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

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

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

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

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

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

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

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

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

Business review (continued)

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

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

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

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

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

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

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

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

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

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

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

Business review (continued)

Performance by Division

For the year ended 31 March 2013

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

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

Revenue, EBITDA and trading profit where including share of associates and joint ventures excludes Galenica (as it ceased to be an associate of the Group in May 2013, while continuing as an associate of the Group's ultimate parent company).

Business review (continued)

Health & Beauty Division

Performance by business
for the year ended 31 March 2013

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

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

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

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

Business review (continued)

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

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

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

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

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

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

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

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

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

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

Business review (continued)

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

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

We continue to develop innovative new products for the Boots Pharmaceuticals brand, an example being the Boots Pharmaceutical Non-Contact Thermometer launched in August 2012. Boots Pharmaceuticals continues to have the widest range of healthcare products of any brand in the UK, including therapeutically proven medicines, natural alternatives, vitamins and first aid products.

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

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

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

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

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

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

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

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

Our own product brands, such as No7, Boots Pharmaceuticals, Soltan, Botanics and SEVENTEEN, together with exclusive ranges such as Soap & Glory and Champneys, enable us to differentiate our retail offering from that of our competitors and are very important drivers of revenue and margin. In addition to the innovative new No7 products and expansion of the Boots Pharmaceuticals range, other new developments during the year included the re-launch of Botanics, our range of natural skincare products developed in collaboration with the Royal Botanical Gardens, Kew, and the re-launch of our Shapers and Delicious food ranges, with new packaging and an extended product offering including the ‘Shapers Food For Later’ range of healthy, calorie controlled evening meals.

Business review (continued)

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

The **Boots Advantage Card** loyalty programme, where customers earn points on purchases for redemption at a later date, continues to be a key element of our offering. During the year, the number of active Boots Advantage Card members (which we define as members who have used their card at least once in the last 12 months) increased to 17.9 million, reflecting its well established position as one of the largest and most valued loyalty schemes in the UK. In May 2012, we further integrated the offer with our multi-channel platform, allowing customers to redeem points when they shop at boots.com. Over 60% of retail transactions continue to be made by Boots Advantage Card members, who now spend on average over 60% more per transaction than non cardholders. As in previous years, around 90% of active members are women, representing nearly two thirds of the adult female population in the UK.

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

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

At the same time, we continue to invest in our store portfolio, making our products more accessible and convenient for customers to buy. During the year, we opened 26 new Boots stores, 11 of which were relocations, closed 16 stores, and refitted over 200 stores almost all in town centres, in line with our commitment to support the regeneration of high streets across the UK.

At the year end, Boots had 2,476 health and beauty stores in the UK, of which 2,386 included a pharmacy. As a result, around 90% of the UK population is estimated to be within a 10 minute drive of a Boots store.

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

Business review (continued)

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

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

Stores by country
at 31 March 2013

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

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

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

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

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

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

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

Business review (continued)

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

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

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

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

Pharmaceutical Wholesale Division

Performance by business
for the year ended 31 March 2013

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

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

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

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

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

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

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

Business review (continued)

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

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

Services we offer to pharmaceutical manufacturers include the following:

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

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

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

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

Almus, our exclusive range of generic medicines, continues to provide marketing and sourcing benefits aimed at offsetting the impact of branded medicine patent expiries. Almus further broadened its product range during the year, now including over 670 products. Almus is distributed in the UK, Spain and France and through our associates in Portugal and in Italy. Total Almus sales increased year on year by around 9% in constant currency.

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

We further differentiate our wholesale offering by continuing to develop the range of services offered to independent pharmacy customers. This includes membership of **Alphega Pharmacy**, which encompasses a comprehensive range of added-value services including branding, professional training and patient care, retail support services and supply benefits together with pharmacy and IT support. Alphega Pharmacy, which operates in six countries, including our associate in Italy, increased its membership year on year by over 7% to more than 4,700 pharmacies. During the year, Alphega Pharmacy continued to work closely with vivesco, our network of around 1,100 German pharmacies, to enhance the range of services offered by both.

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

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

Business review (continued)

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

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

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

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

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

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

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

Business review (continued)

Other activities

Contract Manufacturing & Corporate Costs

BCM, our Contract Manufacturing business, manufactures consumer health and beauty products for internal supply and third party brands, and also produces special prescription medicines for individual use.
Total revenue decreased year on year by 6.7% to £238 million in what was a challenging year for the business, following a fall in external market demand for contract manufacturing and an increase of regulatory compliance requirements. Trading profit also declined by £4 million to a loss of £3 million.

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

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

Associates and joint ventures

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

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

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

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

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

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

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

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

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

Business review (continued)

Financial review

Income statement summary
for the year ended 31 March 2013

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

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

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

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

Exceptional items within profit from operations comprised the following:

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

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

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

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

Business review (continued)

Net finance costs

Net finance costs comprised the following:

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

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

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

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

Tax

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

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

Tax analysis

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

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

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

Business review (continued)

Cash flow
for the year ended 31 March 2013

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

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

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

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

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

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

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

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

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

Business review (continued)

Movement in net borrowings in the year

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

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

Analysis of net borrowings
at 31 March 2013

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

Restricted cash comprises cash which is restricted for specific purposes and so is not available for the use of the Group in its day to day operations and, at 31 March 2013, consisted of deposits restricted under contractual agency agreements, cash pledged as collateral on financial instruments and other obligations and cash restricted by law.

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

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

Movement in shareholders' equity in the year

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

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

Business review (continued)

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

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

Retirement benefit obligations

Movement in net retirement benefit obligations in the year

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

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

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

Cash contributions during the year mainly related to deficit funding payments to the Boots Pension Scheme. £29 million of the contributions were made under the Memorandum of Understanding entered into by the Group during 2007. The main elements were an agreement that conservative investment strategies would be maintained and a commitment to pay additional cash contributions. Up to 31 March 2013, £181 million of additional contributions have been made, with a further £88 million committed in three equal annual instalments from August 2014. The Group has two pension funding partnership structures under which the Group has contributed interests in partnerships worth £273 million, and transferred a number of properties under sale and leaseback arrangements. The partnerships made contributions of £22 million between them in the year, and will make similar annual contributions for a further 14 years, with £10 million per year thereafter for a further five years. In addition, a capital sum will be made in 2031 equal to the lower of £156 million and any funding deficit in the Scheme at that point in time. The remaining payments mainly related to those agreed following the most recent triennial valuation of the Boots Pension Scheme as at 31 March 2010.

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

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

The Scheme has continued with its investment strategy of targeting to hold 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years, and the remainder invested in equity and property assets backing longer term liabilities. Interest rate and inflation rate swaps are also employed to complement the role of fixed and index-linked bond holdings in liability risk management.

Business review (continued)

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

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

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

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

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

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

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

Currency risk management
The Group owns significant businesses and investments that cause a translation exposure on consolidation. The Group partially hedges these translation exposures with borrowings denominated in the same currency, complemented with foreign exchange derivative contracts. At the year end, £1,438 million of the Group's net borrowings were in Euros.

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

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

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

Summarised consolidated financial statements

Basis of preparation

The summarised consolidated financial statements have been extracted from the Group's Annual Report which includes the audited consolidated financial statements for the year ended 31 March 2013, prepared in accordance with International Financial Reporting Standards (IFRSs). The auditor's report on those consolidated financial statements was unqualified.

The accounting policies applied are consistent with those described in the audited consolidated financial statements for the year ended 31 March 2012 except for the early adoption of the revised IAS 19 Employee Benefits standard.

Summarised consolidated financial statements (continued)

Group income statement
for the year ended 31 March 2013

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

Group statement of comprehensive income
for the year ended 31 March 2013

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

Summarised consolidated financial statements (continued)

Group statement of financial position
for the year ended 31 March 2013

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

Summarised consolidated financial statements (continued)

Group statement of changes in equity
for the year ended 31 March 2013

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

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

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

Summarised consolidated financial statements (continued)

Group statement of cash flows
for the year ended 31 March 2013

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

Glossary of terms

Constant currency
Exchange rates applicable for the financial information for the year ended 31 March 2012.

EBITDA
Trading profit before underlying depreciation and amortisation.

Exceptional items
Items classified by Alliance Boots as exceptional in nature. These are not regarded as forming part of the underlying trading activities of the Group and so merit separate presentation to allow stakeholders to understand the elements of financial performance and assess trends in financial performance.

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

Interest cover
Trading profit divided by underlying net finance costs excluding net finance costs relating to retirement benefit obligations.

Like for like revenue
Revenue on a constant currency basis excluding the impact of business acquisitions and disposals, new store openings, closures and major extensions.

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

Net finance costs
Finance costs net of finance income.

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

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

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

Trading margin
Trading profit expressed as a percentage of revenue.

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

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

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

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

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

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