Press release
15 May 2014

Alliance Boots
Annual results for the year ended 31 March 2014

"On track to become the world leader in both retail pharmacy and pharmaceutical wholesaling"

Highlights:

Revenue
– reported: up 4.3% to £23.4 billion
– including share of associates and joint ventures: up 4.3% to £25.7 billion

Trading profit
– reported: up 0.4% to £1,270 million
– including share of associates and joint ventures: up 7.7% to £1,382 million

Profit attributable to equity shareholders
– underlying: up 18.5% to £840 million
– statutory: up 32.4% to £936 million

Cash flow and net borrowings
– cash generated from operations: £1,544 million
– net borrowings down £842 million to £5,051 million

Stefano Pessina, Executive Chairman, commented:
"I am pleased to report that Alliance Boots has continued to deliver strong earnings growth, in a year where the markets in which we operate were significantly more challenging than I have experienced for a very long time.

"These results have been achieved during a period when considerable management time and other key resources have been dedicated to our Walgreens partnership. This has covered many areas, including our joint synergy programme, forward planning and preparation for our anticipated full merger, together with the burden of complex reporting requirements.

"Our strategy of creating the first global pharmacy-led health and wellbeing enterprise in partnership with Walgreens is, I believe, widely recognised as being the right way forward. This is evidenced by the realignment of our industry that is starting to quickly take place, as competitors seek to follow our lead.

"Delivering shareholder value year after year requires a strong and dedicated management team, with the leadership skills to execute strategy, while at the same time managing businesses in challenging and changing trading environments. While the composition of our profits can vary year by year, our consistently good performance over a sustained period of time is due to our ability to adapt to meet new challenges in a financially disciplined way, as so clearly demonstrated in the year just ended.

"Being global is increasingly important in many business sectors including our own. The steps taken by the Group over the last two years, most notably our transformational partnership with Walgreens, our joint agreement with AmerisourceBergen, our geographical expansion in Latin America and Asia and all the work we have done to develop our brands are enabling the Group to continue on its path to becoming the clear world leader in both retail pharmacy and pharmaceutical wholesaling.

"Since Alliance Boots was formed eight years ago, we have made huge progress developing our businesses across the globe, while at the same time creating substantial value for first our public and then our private shareholders. As I have said on many occasions, I truly believe that we have the brands, intellectual capital and, most importantly, the vision and management expertise to continue to create value for stakeholders across the world in the coming years."

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

Revenue, EBITDA and trading profit including share of associates and joint ventures and all underlying measures exclude the distributed associate.

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

Further information is contained within the Group's Annual Report 2013/14 which is published on our website (www.allianceboots.com). In addition, the Group's Corporate Social Responsibility Report 2013/14 will be published on our website in September 2014.

A press conference will be held on 15 May 2014 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, 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

Alliance Boots has continued to deliver strong earnings growth, in a year where the markets in which we operate were significantly more challenging than we have experienced for a very long time. In addition to increasing earnings, our strong operating cash flow has enabled us to further deleverage the Group, while at the same time investing in our future.

These results have been achieved during a period when considerable management time and other key resources have been dedicated to our Walgreens partnership. This has covered many areas, including our joint synergy programme, forward planning and preparation for our anticipated full merger, together with the burden of complex reporting requirements.

Our strategy of creating the first global pharmacy-led health and wellbeing enterprise in partnership with Walgreens is, we believe, widely recognised as being the right way forward. This is evidenced by the realignment of our industry that is starting to quickly take place, as competitors seek to follow our lead.

Delivering shareholder value year after year requires a strong and dedicated management team, with the leadership skills to execute strategy, while at the same time managing businesses in challenging and changing trading environments. While the composition of our profits can vary year by year, our consistently good performance over a sustained period of time is due to our ability to adapt to meet new challenges in a financially disciplined way, as so clearly demonstrated in the year just ended.

Financial highlights

Revenue increased year on year by 4.3% to £23,367 million on both a reported and constant currency basis. EBITDA was £1,508 million, up 0.2% on a reported basis and up 0.3% in constant currency. Trading profit increased by 0.4% on a reported basis to £1,270 million, up 0.6% in constant currency.

Revenue, including our share of revenue of associates and joint ventures, increased by 4.3% to £25,685 million. On the same basis, EBITDA increased by 6.3% to £1,628 million and trading profit by 7.7% to £1,382 million.

Underlying profit attributable to equity shareholders increased by 18.5% to £840 million, statutory profit for the year attributable to equity shareholders increasing by 32.4% to £936 million.

Cash generated from operations was strong at £1,544 million. During the year, we spent £253 million on capital expenditure, largely on our retail stores, information technology projects and logistics, and £166 million on acquisition related expenditure. Net borrowings at the year end were £5,051 million, a year on year reduction of £842 million, and total equity increased to £6,223 million.

Synergy programme

Our joint synergy programme with Walgreens is increasingly providing us with significant financial benefits, while enabling us to strengthen our core business areas, accelerate our strategy and achieve our joint vision for the future. While still at an early stage, we are pleased with the overall progress of the programme, total synergies achieved to date tracking ahead of target.

Particularly good progress has been made by Walgreens Boots Alliance Development, the joint venture we established in Switzerland in late 2012 to lead global relationships with pharmaceutical and other key suppliers. The benefits can be seen in the substantial year on year growth in our income from associates and joint ventures.

The joint own brand sourcing programme utilising the Alliance Boots hub in Asia is progressing as planned, as is the initial roll out of select Boots product brands across the Walgreens store network. In addition, Walgreens Boots Alliance Development has begun to generate income from our joint collaboration with AmerisourceBergen on global supply chain opportunities.

Business review (continued)

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 October 2013, we completed the acquisition of minority interests in Hedef Alliance (Turkey) and Farmexpert (Romania) to reach full ownership of these pharmaceutical wholesaling businesses.

During the year, in addition to our ongoing new product development programme, we established a specialised investment fund, B&B Capital Partners, focused on small and medium sized consumer brand businesses within the health, wellness, beauty and personal care sectors. The fund is designed to provide talented entrepreneurs with financial, strategic and specialist commercial support to help them unlock the growth potential of their businesses, while further accelerating the flow of innovative products into the Alliance Boots international retail network. In February 2014, the fund made its first investment, acquiring Aromatherapy Associates, which develops and sells aromatherapy products through premium hotels, spas and retail outlets worldwide.

For similar reasons, we have collaborated with BioCity, the UK's leading bioscience incubation company, to establish MediCity, a new business incubator focused on health, beauty and wellness based on our Nottingham site.

In January 2014, we received Ministry of Commerce People's Republic of China (MOFCOM) approval to acquire a 12% stake in Nanjing Pharmaceutical Company Limited. The investment will be made through a private placement for a total consideration of approximately £56 million (RMB560 million). Nanjing Pharmaceutical Company Limited, which is listed on the Shanghai Stock Exchange, is one of the major pharmaceutical wholesalers in China. Final regulatory approval is expected in the coming months. On completion, Alliance Boots will be its second largest shareholder, with Board and operational management representation.

In addition to China, we continue to prioritise acquisition opportunities in Latin America, where we see scope to add value to existing businesses through utilising the Group's capabilities, resources and scale. For regulatory reasons, opportunities in existing geographical markets are more limited, but we continue to explore these on a selective basis where we can.

Since the year end, we have announced that we are to acquire Farmacias Ahumada, which comprises two major retail pharmacy networks, Farmacias Benavides in Mexico and Farmacias Ahumada in Chile, which together operate over 1,400 stores. This will give us a major presence in the attractive Latin American market, one of our priority areas for investment. We are confident in the high potential for sustainable growth and value generation that will be unlocked by this acquisition, including the opportunity for consumers in Mexico and Chile to access for the first time leading Boots product brands, such as our renowned skincare and cosmetics ranges.

Business review (continued)

Outlook
Looking forward, while we expect the overall trading environment in which we operate to remain challenging, as a result of governments across Europe continuing to seek to contain growth in healthcare expenditure, a relatively slow retail consumer recovery in the UK and competitive pressures, we would expect to see some improvement, particularly in the latter part of the coming year.

In our industry, we are at the point in the cycle where we are reinventing our business models, in order to deliver sustained profit growth. In retail, this translates into accelerating our rapidly evolving health and beauty omni-channel offering in an integrated way, with even more differentiated products and services tailored to meet rapidly evolving customer behaviours and expectations, be it in terms of choice, convenience or service. This means increasing the pipeline of new unique product brands, developed or sourced by ourselves, while at the same time creating market leading innovative services, to be delivered through a combination of new technology and outstanding customer care. In wholesale, the future is about new and expanding international partnerships with global manufacturers, more innovative added value services and much closer integrated links with our independent pharmacy customers, who themselves are having to adapt their own business models, in an increasingly omni-channel marketplace. In parallel, we are striving to deliver further operational efficiency programmes, as our team have done so successfully on many occasions in the past. All this results in our two divisions and brand teams working increasingly closely together, which we see as a fundamental competitive advantage.

Being global is increasingly important in many business sectors including our own. The steps taken by the Group over the last two years, most notably our transformational partnership with Walgreens, our joint agreement with AmerisourceBergen, our geographical expansion in Latin America and Asia, and all the work we have done to develop our brands, are enabling the Group to continue on its path to becoming the clear world leader in both retail pharmacy and pharmaceutical wholesaling.

In February 2015, the six month window when Walgreens can exercise its option to merge with Alliance Boots begins. Since Alliance Boots was formed eight years ago, we have made huge progress developing our businesses across the globe, while at the same time creating substantial value for first our public and then our private shareholders. As we have said on many occasions, we truly believe that we have the brands, intellectual capital and, most importantly, the vision and management expertise to continue to create value for stakeholders across the world in the coming years.

Business review (continued)

Performance by Division
for the year ended 31 March 2014

	Total £million	Year on year growth Reported	Constant currency
Revenue			
Health & Beauty	7,662	+2.4%	+2.5%
Pharmaceutical Wholesale	17,161	+4.8%	+4.8%
Contract Manufacturing	226	-5.0%	-5.0%
Intra-group	(1,682)		
Group	**23,367**	**+4.3%**	**+4.3%**
Share of revenue of associates and joint ventures	2,318	+4.4%	+2.0%
	25,685	**+4.3%**	**+4.1%**
Trading profit			
Health & Beauty	886	+2.4%	+2.4%
Pharmaceutical Wholesale	428	-1.6%	-0.8%
Contract Manufacturing & Corporate Costs	(44)		
Group	**1,270**	**+0.4%**	**+0.6%**
Share of trading profit of associates and joint ventures	112	+522.2%	+523.0%
	1,382	**+7.7%**	**+8.0%**

Revenue and trading profit including share of associates and joint ventures and all underlying measures exclude the distributed associate.

Business review (continued)

Health & Beauty Division

Performance by business
for the year ended 31 March 2014

	Total £million	Year on year growth Reported	Constant currency	Like for like
Revenue				
UK:				
Boots UK	6,348	+2.2%	+2.2%	+1.3%
Boots Opticians	349	+4.2%	+4.2%	+4.3%
	6,697	**+2.3%**	**+2.3%**	**+1.4%**
International:				
Norway	384	-4.2%	-0.3%	-1.1%
Republic of Ireland	252	+8.6%	+4.7%	+1.8%
The Netherlands	133	-1.5%	-5.0%	-5.5%
Thailand	107	+8.1%	+11.1%	+5.2%
Other	89	+30.9%	+33.1%	+35.0%
	965	**+3.2%**	**+3.9%**	**+2.2%**
	7,662	**+2.4%**	**+2.5%**	**+1.5%**
Trading profit				
UK	830	+2.1%	+2.1%	
International	56	+7.7%	+6.4%	
	886	**+2.4%**	**+2.4%**	
Trading margin				
UK	12.4%	0.0pp	0.0pp	
International	5.8%	+0.2pp	+0.1pp	
	11.6%	**0.0pp**	**0.0pp**	

Our Health & Beauty Division delivered good retail revenue growth, during an increasingly competitive and promotion-led trading environment, particularly in the UK where we were nevertheless able to organically grow our already considerable market share. We attribute this success to the ongoing attractiveness of the unique Boots omni-channel retail offer. Reimbursement rates for prescription medicines continued to be under pressure across Europe. This, together with intense price competition in select retail categories, adversely impacted our gross margins, which we compensated through cost efficiencies and synergies from our strategic partnership with Walgreens. As a result, we were able to maintain our healthy trading margin, while growing revenue, which compares very favourably to the performance of many of our UK competitors.

Revenue for the Division totalled £7,662 million, up 2.4% year on year on a reported basis and 2.5% in constant currency. Trading profit totalled £886 million, up 2.4% on both a reported and constant currency basis, trading margin remaining unchanged at 11.6%.

Business review (continued)

Health & Beauty Division – UK
In the UK, revenue increased by 2.3% to £6,697 million, trading profit increasing by 2.1% to £830 million. Trading margin was maintained at a healthy 12.4%.

Boots UK increased trading profits, despite lower dispensing profitability from lower reimbursement prices on generic medicines.

Boots UK revenue by product category
for the year ended 31 March 2014

	£million	Year on year growth
Dispensing & Related Income	**2,209**	**0.0%**
Retail:		
Retail Health[1]	936	+3.5%
Beauty & Toiletries[2]	2,253	+3.4%
Lifestyle[3]	950	+3.1%
	4,139	**+3.4%**
	6,348	**+2.2%**

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

Revenue from **Dispensing & Related Income** was unchanged year on year, as were dispensing volumes on a reported and like for like basis, these totalling 222 million items. Boots walk-in prescription business in its pharmacies in England continued to be impacted by the '100 hour opening' entry exemption (which ended in September 2012), albeit at a lower rate than in the previous year, as competitor openings mature. Like for like dispensing volumes increased year on year in Wales, Scotland and Northern Ireland where the '100 hour opening' entry exemption did not previously apply.

During the year, an increasing number of doctors in England started to use Release 2 of the NHS Electronic Prescription Service, where a patient nominates a pharmacy to which their prescriptions are sent electronically. This service, which is particularly attractive for repeat prescriptions, was a key enabler in improved dispensing performance in our final quarter, accounting for around 9% of Boots dispensing volumes in England by the year end.

Boots continues to extend its range of consultation services focused on the most important health conditions impacting families in the UK, building on the initial January 2013 launch of the Diabetes Risk Awareness Service where over 23,000 consultations have been conducted to date. In April 2013, an asthma support programme was launched, over 4,000 Boots UK pharmacists having received training to better assist those suffering from the condition. To date, the programme has undertaken approximately 5,300 chronic obstructive pulmonary disease tests and over 4,300 asthma control tests. In addition, a new Boots 'Smoke Less Plan' plan was launched in September 2013, which is now available at over 450 Boots pharmacies.

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 omni-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 through our associate, Boots Hearingcare.

Our transactional website, boots.com, and our consumer health and wellness information portal, BootsWebMD.com, continue to be two of the most visited health websites in the UK. The number of site visitors again increased substantially year on year, BootsWebMD.com receiving on average around 3.5 million visitors every month.

We will shortly trial a new automated dispensing hub in the Alliance Healthcare facility in Preston, initially serving around 50 pharmacies. This is designed to free up pharmacists' time to deliver our increasing range of pharmacy services, while improving efficiency in the preparation of repeat prescriptions. The final dispensing of medicines will continue in the individual pharmacies in the normal way.

Business review (continued)

Retail revenue increased by 3.4% to £4,139 million, up 2.0% on a like for like basis, reflecting market share gains in what was an increasingly competitive and promotional trading environment. Revenue growth from boots.com was particularly strong, increasing year on year by 30%. Like for like retail store growth (which excludes boots.com orders collected in store) increased by 1.3%, the highest growth rates being in our flagship and airport stores. Revenue growth was achieved in all geographical regions, growth being more evenly distributed than in the prior year, the highest rate again being in London. The key driver of retail store revenue growth was an increase in average basket size, transaction volumes decreasing by around 0.4%, which we estimate to be less than half the rate of market footfall decline.

Revenue in the highly competitive **Retail Health** category, where Boots have been the market leader for many years, increased by 3.5% to £936 million, mainly due to higher sales in the positive healthcare sub category. We continue to develop innovative new products for the growing Boots Pharmaceuticals brand, an example being the Boots Pharmaceuticals Cold & Flu Defence Nasal Spray, which has a clinically proven antiviral effect and is unique in being suitable for children from one year and for use during pregnancy and breastfeeding. 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.

Following our acquisition in February 2013 of a 49% associate interest in a UK based company of Sonova Group that operates Boots Hearingcare, we have worked in partnership to successfully expand the business. By the year end, its number of locations had increased to 430, almost all of which are within Boots stores or standalone Boots Opticians practices.

Revenue in the **Beauty & Toiletries** category, where we have leading market positions and exclusive product brands, increased by 3.4% to £2,253 million, both beauty and toiletries growing at a similar rate. Gross margin in beauty was however lower due to changes in product mix within skincare and higher promotional discounts for fragrances which were necessary to combat strong competition online and from department stores.

Within beauty, sales increased in all product sub categories. Premium beauty product sales were again particularly strong, which we largely attribute to extending the distribution of premium ranges in Boots stores, the full year impact of brands launched in Boots in the prior year, and the benefits from refitting around 120 in-store beauty halls in the last two years.

Sales of No7, the UK's leading skincare brand, again increased year on year, further demonstrating the strength of the brand. In October 2013, we introduced No7 Restore & Renew Day & Night Serum, which has been specifically formulated for more mature skin, actively targeting five key signs of ageing. Sales of No7 cosmetics increased significantly due to a combination of new product development, most notably for lips, and the full year impact of the brand re-launch in the previous year, which included more contemporary packaging and new in-store display units to better merchandise the evolving product range.

Since the year end, in May 2014, we launched No7 Protect & Perfect ADVANCED Serum and No7 Protect & Perfect Intense ADVANCED Serum, seven years after introducing our ground-breaking No7 Protect & Perfect Serum. In rigorous clinical trials the new formulations, which contain a higher concentration of proven actives together with a next generation peptide, delivered the most impressive anti-ageing results No7 has ever seen.

Fragrances sales returned to growth in the important pre-Christmas selling period, as a result of our 'Lowest prices on the High Street' advertising campaign and new display cabinets in 135 of our largest stores which better merchandise our expanding ranges.

In toiletries, sales growth was particularly strong in suncare, where we benefited from a warmer summer with lower rainfall, and in haircare where we performed well in both the mass and professional haircare segments. Good growth was also achieved in indulgent bathing, with Soap & Glory and Champneys performing well, both of which are exclusive to Boots in the UK.

In the **Lifestyle** category, revenue increased by 3.1% to £950 million reflecting substantial growth in online sales of electrical beauty products, higher sales of food and beverages and additional income from our synergy programme. Our Shapers and Delicious food ranges performed particularly well as a result of the full year impact of their relaunch during the prior year and the introduction of enhanced salad and sushi ranges. Revenue and gross margins were lower in both the highly competitive baby sub category and in photography, where the market continues to decline. In the coming months, we will launch a new photo offer, based on technology used extensively by Walgreens.

Business review (continued)

Boots retail sales performance in the important Christmas selling period was relatively resilient in the face of lower footfall across the market, competition for gifts from within the health and beauty sector and from sectors such as technology, as well as increasingly value conscious consumers. Third quarter like for like sales growth was lower than for the year overall, our strongest quarter being the fourth. We continue to provide a differentiated gifting offer, including products sourced via our Asian sourcing operation based in Hong Kong. Our gift ranges will be further enhanced in the coming year as we introduce appealing new products and gift packs for special occasions.

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 continue to be very important drivers of revenue and margin.

As an omni-channel retailer, we are increasingly integrating boots.com into our core Boots product and service offer, bringing greater levels of accessibility and convenience for our customers, whether accessing our full or mobile websites. As a result, boots.com is growing very fast, revenue increasing year on year by 30%. This growth was driven by increased customer orders and the launch of an enhanced offer that enables customers to 'order by 2pm today, pick up from 2pm tomorrow' from over 2,300 stores across the UK. The convenience service was especially valued by our customers during the important Christmas trading period, particularly those who shop relatively late for presents and those who shop in our smaller stores, store staff increasingly using tablet technology to access over 28,000 products, as well as for advice. As a result, 59% of all online orders during the year were collected in-store, a year on year increase of 14 percentage points. The net contribution of boots.com, after all direct costs including depreciation, again increased substantially year on year.

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. At the year end, 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) totalled 17.8 million, reflecting the programme's well established position as one of the largest and most valued loyalty schemes in the UK. The equivalent Boots Ireland programme now has a further one million active members. Around 60% of Boots retail sales in the UK are made by Boots Advantage Card members, who spend on average over 60% more per transaction than non-cardholders. As in previous years, around 90% of active members are women, representing around 60% of the adult female population in the UK.

Throughout the year, we continued to engage Boots Advantage Card members with personalised loyalty communications and offers. The first digital Boots Health & Beauty magazine was launched in February 2014.

We attribute much of Boots success to our passionate focus on customer service and care. Each week we analyse over 20,000 customer responses to in-store marketing surveys to better understand customers' evolving needs, our internal customer care measures continuing to improve. We recruited almost 500 pre-registration pharmacy graduates and fully qualified pharmacists and further developed our comprehensive staff training programme, including e-learning modules.

We continue to invest in our store portfolio, making our products more accessible and convenient for customers to buy. During the year, we opened 25 new Boots stores, of which nine were relocations and three were hospital pharmacy contract wins, acquired two community pharmacies and closed seven stores. In addition, we fully refitted 115 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 2,487 health and beauty stores in the UK, of which 2,385 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. Since the year end, we acquired Burrows & Close, a chain of 17 pharmacies, based in the East Midlands, which will shortly be converted to the 'your local Boots pharmacy' format.

Boots Opticians revenue increased by 4.2%, like for like revenue from owned practices increasing by 4.3%. This was due to good growth in eye test volumes, a greater proportion of eye test customers going on to buy new spectacles, and increased sales of contact lenses. The programme to introduce a broader range of attractive frames in all practices was completed during the year, improved practice layouts being introduced in a further 17 locations. Trading profit increased significantly as a result of the good revenue growth, costs continuing to be tightly controlled.

In August 2013, Boots Opticians became the first multiple optician in the UK to include digital retinal photography as a standard element of its eye test for customers of all ages. At the year end, Boots Opticians had 600 practices, including 182 which operate on a franchise basis.

Business review (continued)

Health & Beauty Division – International
Good progress was again made in growing sales and profitability in North America and Asia. This, together with a good performance in the Republic of Ireland, more than offset challenges in our continental European markets where our businesses were impacted by pressures on dispensing reimbursement rates and strong competition.

Revenue in countries outside the UK totalled £965 million, up 3.2% on a reported basis and 3.9% in constant currency. Trading profit of £56 million was up 7.7% on a reported basis and 6.4% in constant currency. A net 19 stores were added during the year, most of which were in Thailand, bringing the year end total to 573.

Stores by country
at 31 March 2014

	Number
Norway	153
Republic of Ireland	76
The Netherlands	68
Thailand	249
Lithuania	27
	573

In **Norway,** where our pharmacies are branded 'Boots apotek', revenue on a constant currency basis decreased by 0.3%, like for like revenue decreasing by 1.1%. This was due to dispensing volumes being impacted by competitor openings in the current and prior years, which was partially offset by like for like retail revenue growth. Profitability was adversely impacted by the lower sales and higher operating costs, which were partially mitigated by a better retail sales mix.

In the **Republic of Ireland,** where we trade as Boots, revenue increased by 4.7% on a constant currency basis. This was as a result of new store openings in the current and prior year and a 1.8% overall like for like growth rate, good retail growth being partially offset by lower dispensing reimbursement rates. In June 2013, we launched a new dedicated Irish website, boots.ie, selling over 26,000 products, many of which are not available in our smaller Irish stores. Our store portfolio was further strengthened through four store openings during the year, of which two were relocations, with a further three stores having opened since the year end. Trading profit increased substantially year on year, due to a combination of higher sales and gross margin, and productivity gains.

In **The Netherlands**, revenue decreased by 5.0% on a constant currency basis, decreasing by 5.5% on a like for like basis, reflecting Dutch healthcare insurers' continuing use of tenders to select the lowest price generic medicines, referred to as the 'preference policy'. This was more than offset by improved purchasing and lower costs, resulting in improved profitability. Throughout the year, we had 25 stores trading as 'Boots apotheek', which have a much stronger retail offering than a typical Dutch pharmacy, including a range of Boots branded health and beauty products, including No7 and Boots Pharmaceuticals.

In **Thailand**, where Boots is one of the largest health and beauty pharmacy chains, revenue increased by 11.1% on a constant currency basis. Like for like revenue increased by 5.2%, despite the impact of the political unrest in the second half of the year, growth being strong across all categories. We continue to launch new product ranges formulated specifically for the South East Asian market. A net 24 stores were added in the year, taking the year end total to 249. This, together with like for like revenue growth, enabled the business to deliver good profit growth. The Boots loyalty card programme, which was specifically developed for the Thai market, increased its membership during the year to over one million active members. Over 50% of sales during the year were to cardholders, who spent on average 2.3 times more than non-cardholders.

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

Other revenue increased year on year by over 30% on a constant currency basis. Boots product sales growth was particularly strong in North America and the Middle East. At retail value, sales by our US customers totalled almost $120 million. This reflected excellent retail sales growth in third party customers, part of which was due to our products being sold in an increasing number of locations, together with increasing sales in Walgreens, as we widen distribution.

Business review (continued)

In the US, Boots products continue to be sold in nearly 1,800 Target stores, around 350 of which have a Boots beauty advisor, and online on target.com. In addition, No7 is sold in around 675 ULTA beauty stores across the US, an increase of over 20% in the year, on ulta.com and in around 135 College stores, as well as on our own direct to consumer website, us.boots.com.

In the first half of the year, a select range of Boots products was launched in Walgreens stores across the US and online, including No7 Men, which is now available in over 7,200 stores. In addition, in the autumn, Boots product brands, including No7, Botanics, 'Boots expert', Boots Extracts and our exclusive spa range, Champneys, were launched in 189 Walgreens stores across Arizona. Following encouraging results, this Boots product brand offering is being rolled out to around 180 Walgreens and Duane Reade stores in New York over the coming months, of which 23 were completed by the year end. Thirteen Walgreens flagship stores, as well as the larger stores in Arizona and New York, now sell the full range of No7 products, supported by dedicated Boots beauty advisors and the latest No7 in-store merchandising units. Walgreens.com also has a 'Boots shop' where customers can buy a wide range of around 500 Boots products and Boots products are also sold on drugstore.com™ and Beauty.com®, both owned by Walgreens.

The quality of our Boots products brands is increasingly being recognised by influential beauty commentators in the US. We recently won three Good Housekeeping 'Beauty All-Stars' awards for No7 and Botanics products and a Men's Health Magazine '2014 Grooming Award' for our Boots No7 Men Post Shave Recovery Balm.

In November 2013, we extended our partnership with Dairy Farm, a leading pan-Asian retailer, to sell Boots products, including No7 and Botanics, in their health and beauty stores in Singapore. At the year end, 24 Mannings stores in Hong Kong and nine Guardian stores in Singapore had a Boots product offering, many with a dedicated No7 beauty advisor.

In the Middle East, our franchise partner opened a further six stores, taking the combined number of Boots stores in the United Arab Emirates, Kuwait, the Kingdom of Saudi Arabia, Bahrain and Qatar to 81.

In January 2014, we launched international.boots.com, a new international website enabling delivery of over 24,000 products from the boots.com range to consumers across 19 countries, with encouraging early results. As a result, Boots product brands are now available in over 35 countries.

Business review (continued)

Pharmaceutical Wholesale Division

Performance by business
for the year ended 31 March 2014

	Total £million	Year on year growth Reported	Constant currency
Revenue			
France	3,775	-2.2%	-5.5%
Germany	3,715	+6.4%	+2.8%
UK	3,603	+6.6%	+6.6%
Turkey	1,451	-10.7%	+0.7%
Spain	1,069	+4.8%	+1.2%
The Netherlands	841	+26.5%	+22.2%
Russia	774	+78.3%	+90.6%
Egypt	662	-6.5%	+4.9%
Czech Republic	446	-3.3%	-2.3%
Romania	434	+15.7%	+11.5%
Norway	307	-5.5%	-1.3%
Lithuania	44	-4.3%	-8.2%
Intra-group	40		
	17,161	**+4.8%**	**+4.8%**
Trading profit	**428**	**-1.6%**	**-0.8%**
Trading margin	**2.5%**	**(0.2)pp**	**(0.1)pp**

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 good revenue growth in what were particularly challenging markets. Regulatory and other economic pressures, together with intense competition, significantly impacted profitability in a number of our businesses. This was largely compensated by synergies from our strategic partnership with Walgreens and benefits from our joint agreement with AmerisourceBergen.

Revenue totalled £17,161 million, up 4.8% on a reported and constant currency basis. Adjusting for acquisitions and disposals, like for like revenue on a constant currency basis increased by 1.9%. Trading profit totalled £428 million, down 1.6% on a reported basis and 0.8% in constant currency. Included in trading profit are gains on AmerisourceBergen warrants, these being accreted to our income statement over the period to their expiry date, based on the period end valuations. Overall trading margin was 2.5%, a 0.2 percentage point decrease on the prior year.

As has been the case in previous years, our published like for like revenue growth was held back by branded ethical manufacturers switching to distributing product direct to pharmacies which, under International Financial Reporting Standards, we account for on an agency basis. This means that we do not report these goods going through our wholesale network as revenue, although we are required to include the related receivables and payables on our balance sheet due to timing differences. Adjusting for this accounting treatment, our more comparable underlying like for like sales growth was around 2.5%, which was in line with the market growth rate in terms of value.

We estimate that the wholesale markets in which we operate contracted by around 1% in volume terms, weighted on the basis of our wholesaling volumes. This was mainly due to regulatory actions to restrict growth in demand for prescription medicines and, in the UK, to changes in reimbursement rules which resulted in a shift to pharmacists purchasing a smaller number of larger packs. In value terms we estimate that our markets grew by around 2.5%, growth being in constant currency and weighted on the basis of our wholesale revenues. This growth reflected inflationary pressures in certain markets and the impact of product shortages, which was partially offset by the lower consumption and other government measures across Europe to constrain growth in healthcare costs, through lowering reimbursement prices and increasing penetration of generic medicines.

Business review (continued)

Generic penetration rates again 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 broadly stable, as we have seen for the last few years.

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

Alliance Healthcare continues to respond to the developing needs of branded ethical pharmaceutical manufacturers, who are increasingly adapting and changing their approaches to distribution across this market. This trend has been most pronounced 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 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 and our joint partnership with AmerisourceBergen, 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 provides manufacturers with pre-wholesale and contract logistics services to access wholesalers, pharmacies and hospitals on a pan-European basis. Alloga has owned operations in six countries and a presence in a further four countries through our associates.

Skills in Healthcare, our contract sales offering to manufacturers across Europe, which has a presence in 10 countries.

Alcura, which provides innovative and specialised healthcare services, covering clinical homecare, medicine support, dispensing services, medicine preparation and clinical trial support. First launched in the UK, Alcura now has a presence in five countries, following the rebranding of our offers in France, Spain, The Netherlands and Germany during the 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 700 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 15% in constant currency.

Alvita, our range of patient care products, is sold in six countries, total Alvita sales increasing year on year by around 2% 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. In November 2013, the members of our Kring-apotheek pharmacy network in The Netherlands voted to join the Alphega network, 50 pharmacies being rebranded by the year end, with others planned. As a result, Alphega Pharmacy now operates in seven countries, including our associate in Italy, and has increased its membership to more than 4,800 pharmacies. We expect membership to increase significantly in the coming year following the March 2014 vote by the vivesco pharmacy network in Germany, which has around 950 members, to rebrand as Alphega.

Business review (continued)

In **France**, revenue decreased by 5.5% on a constant currency and like for like basis. This was mainly due to regulatory measures, which reduced overall consumption of prescription medicines while increasing market penetration of generics, and competitors offering higher discounts to gain market share. Profitability was significantly impacted by the lower revenue and reduced gross margins, higher customer discounts being required to enable the business to remain competitive in the market. These factors were partially mitigated through actions taken to reduce our cost base.

In **Germany**, revenue increased by 2.8% on a constant currency and like for like basis, despite intense competition from certain competitors similarly seeking to increase market share by offering higher customer discounts. This action appears to have simply reduced the overall profitability of the sector in Germany. As in France, higher customer discounts were required to maintain our competitive position. This significantly impacted our profitability, which we partly mitigated through lowering our cost base.

In the **UK**, revenue increased by 6.6%, due to a combination of further market share gains and market growth. The increase in market share was mainly due to a strong performance in generics, reflecting the winning of a new multi-year manufacturer contract and Almus sales increasing by more than 15%, and the full year benefit of a contract to supply one the UK's largest pharmacy chains which started in the prior year. Alcura growth was particularly strong, revenue increasing by more than 40%. In addition, Alphega Pharmacy membership in the UK reached 1,000 for the first time, as we continue to develop and expand services for our independent pharmacy customers and pharmaceutical manufacturers. Profits increased year on year due to the expansion of the business and further improvements in productivity.

In **Turkey**, reported revenue was lower year on year due to the significant decline over the course of the year in the value of the Turkish Lira. On a constant currency and like for like basis, revenue increased by 0.7%. Trading profit was significantly impacted by reduced manufacturer rebates, increased customer discounts and, to a lesser extent, by one-off operating costs relating to a rationalisation of the warehouse network, seven satellite warehouses being closed during the year, and to management redundancies. In October 2013, we acquired full ownership of the business, following the exercise of put options held by the Executive Chairman of Hedef Alliance (and other founding family members). This resulted in a number of key management changes which we believe will allow us to further develop the business, enabling it to compete more effectively in this growing market.

In **Spain**, revenue increased by 1.2% on a constant currency and like for like basis, our return to growth reflecting a more stable trading environment from a regulatory perspective, which was partially offset by increased market penetration of generics. Sales of Almus generic medicines grew by more than 30% and Alvita patient care products by over 25%. Profits increased year on year due to improved product mix and margin management across many aspects of the business, Alphega membership in Spain growing by more than 15% to over 650 pharmacies.

In **Egypt**, revenue increased by 4.9% on a constant currency and like for like basis, market growth being constrained by ongoing political instability. Trading profit was unchanged, increased revenues being offset by inflationary costs pressures.

In **The Netherlands**, revenue increased by 22.2% on a constant currency and like for like basis, due to contracts won in the latter part of the prior year to supply certain products for a number of pharmaceutical manufacturers to all Dutch hospitals on an exclusive basis. This was partially offset by lower revenue from traditional pharmaceutical wholesaling, where competition remains intense in what continues to be a particularly difficult market from a regulatory perspective. Profitability was impacted by higher operating costs, which included costs relating to the rebranding of the Kring-apotheek pharmacy network as Alphega apotheek.

In **Russia**, revenue increased by over 90% on a constant currency basis, reflecting a full year of ownership of our former associate which we re-acquired in November 2012. On a like for like basis, revenue decreased by 18.8%, mainly reflecting lower demand partly due to increased levels of co-payments and an unusually mild winter. As a result, the business made a loss for the full year.

Business review (continued)

In our other small markets, revenue in the **Czech Republic** decreased by 2.3% on a constant currency and like for like basis, profits increasing due to improved mix and higher service income from pharmaceutical manufacturers. In **Romania,** where we acquired the minority interests in October 2013, revenue on the same basis increased by 11.5%, mainly through increased market share. This together with productivity gains enabled the business to increase profits. In **Norway,** revenue on the same basis decreased by 1.3%, mainly due to the loss of a government contract to supply multi-dose prescriptions which particularly impacted performance in the final quarter. This together with lower gross margins impacted profit. In February 2014, the business won a significant new exclusive supply contract for hospital pharmacies and in-patient dispensing for a minimum of four years. The contract, worth around £400 million per annum at wholesale values, commences in January 2015.

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 5.0% to £226 million, internal demand being impacted by stock optimisation programmes and the timing of internal business orders. The trading loss increased by £2 million to £5 million, reflecting adverse mix of special prescription medicines together with lower pricing, which was partly offset by reduced losses from contract manufacturing.

The programme announced at the end of last year to improve the efficiency and overall performance of the UK factory, including investment in new product technologies to enable greater flexibility and support the Group's leading beauty and skincare product brands, is progressing in line with expectations.

Corporate Costs increased year on year by £7 million to £39 million, mainly as a result of costs incurred in developing our evolving partnership with Walgreens.

Associates and joint ventures
Associates and joint ventures continue to be an important component of our Group's activities. On 10 May 2013, as previously announced, we distributed our equity interest in **Galenica** to the Group's ultimate parent company, AB Acquisitions Holdings, in accordance with the Walgreens agreement. As a result, we have excluded Galenica's figures from our underlying performance measures. Galenica continues to be an associate of AB Acquisitions Holdings.

Our share of underlying post-tax earnings of associates and joint ventures totalled £79 million, a year on year increase of £85 million.

Our share of post-tax earnings of **Walgreens Boots Alliance Development**, the joint venture we established with Walgreens in Switzerland in late 2012 to lead global relationships with pharmaceutical and other key suppliers, increased year on year by £52 million to £58 million, our share of trading profit increasing to £63 million. This reflects a growing number of global agreements with pharmaceutical manufacturers and other suppliers of goods and services (both for resale and not-for-resale), together with initial income in the final quarter of the year from our strategic long term relationship with AmerisourceBergen.

While still at an early stage, we are pleased with the overall progress of the synergy programme, total synergies achieved to date tracking ahead of target.

Our share of underlying post-tax earnings of our other associates and joint ventures totalled £21 million, compared to a loss of £12 million in the prior year. This turnaround was due to improved performances in all our principal associates and joint ventures, together with a full year's contribution from Boots Hearingcare, our total share of trading profits from these businesses increasing by £38 million to £49 million.

In China, **Guangzhou Pharmaceuticals Corporation**, our joint venture established in 2007, performed very well, delivering good revenue and profit growth. The business, which is one of the major pharmaceutical wholesalers in China, continues to expand its operations through a combination of organic growth and targeted acquisitions.

The performance of **Alliance Healthcare Italia**, while still unsatisfactory, improved significantly in what continues to be a particularly challenging market as a result of management actions taken in the last 18 months. This included reducing the number of low value customer accounts, delivering corresponding improvements in productivity, tightening controls over receivables and avoiding the operational issues experienced in the first half of the prior year.

Business review (continued)

Alliance Healthcare Portugal again significantly increased revenue and market share, due to a successful commercial policy and customer segmentation strategy in what continues to be a challenging pharmacy market. Profitability improved due to the increased revenue and better margins.

Other associates and joint ventures include **Boots Hearingcare**, which has grown sales and profits very successfully since becoming an associate in February 2013, **UDG**, our UK pre-wholesale and contract logistics joint venture, **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.

Business review (continued)

Financial review

Income statement summary
for the year ended 31 March 2014

	Underlying £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Distributed associate £million	Timing differences £million	Statutory £million
Trading profit/profit from operations before associates and joint ventures	**1,270**	**(100)**	**(38)**	**-**	**-**	**1,132**
Share of post-tax earnings of associates and joint ventures	79	-	-	7	-	86
Net gains relating to associates	-	-	109	-	-	109
	1,349	(100)	71	7	-	1,327
Net finance costs	(311)	-	(53)	-	10	(354)
Tax (charge)/credit	(150)	31	120	-	(3)	(2)
Underlying profit/profit for the year	**888**	**(69)**	**138**	**7**	**7**	**971**
Less: non-controlling interests	(48)					(35)
Underlying profit/profit for the year attributable to equity shareholders	**840**					**936**
Year on year increase	**131**					**229**

All underlying measures exclude the distributed associate, Galenica, which ceased to be an associate of the Group in May 2013 following its distribution to the Group's ultimate parent company.

Trading profit increased by 0.4% on a reported basis to £1,270 million (up 0.6% in constant currency), which when including our share of trading profit of associates and joint ventures rises to £1,382 million, a year on year increase of 7.7%.

Underlying profit attributable to equity shareholders increased year on year by 18.5% to £840 million.

On a statutory basis, profit from operations before associates and joint ventures was £1,132 million (2012/13: £1,054 million), profit from operations was £1,327 million (2012/13: £1,101 million) and profit for the year attributable to equity shareholders was £936 million (2012/13: £707 million), a year on year increase of 32.4%.

Exceptional items within profit from operations comprised the following:

	£million
Call option for warrants	(34)
Other	(4)
Within profit from operations before associates and joint ventures	(38)
Gains on disposal and distribution of associates	116
Impairment of investment in associate	(7)
	71

During the prior year, the Group together with Walgreens signed agreements with AmerisourceBergen which included the Group receiving warrants to purchase up to 8% of the equity of AmerisourceBergen at future dates. Simultaneously, the Group issued a call option to Walgreens for Walgreens to purchase these warrants from the Group. As the call option is only exercisable if Walgreens exercises its option to acquire the remaining 55% equity stake of the Group that they do not currently own, the associated cost in relation to the option is not regarded as forming part of the underlying activities of the Group.

The gains on disposal and distribution of associates mainly related to the Group's investment in Galenica. As part of the Purchase and Option Agreement entered into in June 2012 with the Group's ultimate parent company and Walgreens for Walgreens to acquire a 45% equity stake in the Group, a commitment was made to distribute or otherwise transfer the Group's investment in Galenica at fair value to the selling shareholders. Accordingly, Galenica was distributed by the Group on 10 May 2013 which gave rise to a gain.

Business review (continued)

Net finance costs
Net finance costs comprised the following:

	Underlying £million	Exceptional items £million	Timing differences £million	Statutory £million
Finance income	40	(7)	-	33
Finance costs	(351)	(46)	10	(387)
Net finance costs	**(311)**	(53)	10	**(354)**
Year on year decrease/(increase)	**9**			**(90)**

Underlying net finance costs decreased year on year by £9 million to £311 million, mainly as result of lower net borrowings, the benefits of which were partially offset by lower finance income on investments. Interest cover, which we define as the ratio of trading profit to underlying net finance costs, increased to 4.1x trading profit (2012/13: 4.0x).

Exceptional items within finance income mainly comprised prepaid financing fees expensed on repurchase and repayment of acquisition borrowings, partially offset by a fair value gain on the contract to acquire a 12% equity stake in Nanjing Pharmaceutical Company Limited. Acquisition borrowings with a net value of £1,258 million were repurchased and repaid during the year. In total, £3,678 million has been repurchased and repaid since the programme began in early 2009 at a cost of £3,402 million. The discounts on repurchase, 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 increase in the fair value liability for the Group's commitment to distribute or otherwise transfer its investment in Galenica up until the date of distribution.

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 £150 million (2012/13: £179 million), equating to an underlying effective tax rate of 15.6% (2012/13: 18.9%).

The year on year decrease of 3.3 percentage points was mainly due to an increase in non-taxable income, a one percentage point reduction in the rate of UK corporation tax and profit mix.

Tax analysis

	UK £million	Other countries £million	Total £million	Effective tax rate
Underlying tax charge				
Current year	(123)	(56)	(179)	18.7%
Adjustments in respect of prior years	13	16	29	
Total	(110)	(40)	**(150)**	**15.6%**
Year on year (increase)/decrease	(4)	33	**29**	
Net tax paid	(90)	(51)	**(141)**	
Year on year increase	(26)	(1)	**(27)**	

Net tax paid in the UK was lower than the underlying tax charge, mainly due to a tax repayment following the resolution of prior year computations.

On a statutory basis, the accounting tax charge was £2 million (2012/13: £96 million). Exceptional items tax credits of £120 million in the year related primarily to a net reduction in deferred tax assets and liabilities resulting from the three percentage point reduction in the rate of future UK corporation tax enacted during the year. This comprised a two percentage point reduction applicable from April 2014 and the further one percentage point reduction applicable from April 2015 taking the UK rate to 20%. In the prior year, a one percentage point reduction in the rate of future UK corporation tax was enacted.

Business review (continued)

Cash flow
for the year ended 31 March 2014

	£million
Trading profit	**1,270**
Underlying depreciation and amortisation	238
EBITDA	1,508
Exceptional items	(5)
Net loss on disposal of property, plant and equipment	2
Net movement in working capital and provisions	82
Movement in net retirement benefit assets and obligations	(43)
Cash generated from operations	**1,544**
Interest	(254)
Tax	(141)
Acquisition related expenditure	(166)
Capital expenditure	(253)
Dividends	32
Other	58
Total cash flow	**820**

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

Cash inflow from working capital (net of provisions) was £82 million as a result of our ongoing programme to further improve working capital efficiency.

Net interest paid of £254 million was lower than underlying net finance costs in the income statement, mainly due to the amortisation of prepaid financing fees and premia paid on interest rate caps.

£166 million of cash was spent on acquisition related expenditure. This mainly related to the purchase of 20% equity stakes in Hedef Alliance (Turkey) and Farmexpert (Romania) to reach full ownership of these pharmaceutical wholesaling businesses, and Aromatherapy Associates, the first acquisition by the specialised investment fund established by the Group during the year.

£253 million of cash was invested on capital expenditure. Around three quarters of this investment was in our Health & Beauty Division, primarily in the UK where we have increased investment in our retail stores and in information technology projects. Investment in our Pharmaceutical Wholesale Division was mainly on upgrading its distribution network and on information technology.

Dividends mainly related to receipts from Walgreens Boots Alliance Development, the joint venture established in the prior year. Other net cash inflows included repayment of a £57 million loan advanced in the prior year to a fellow subsidiary of the Group's ultimate parent company.

Net borrowings
At the year end, net borrowings were £5,051 million, a year on year reduction of £842 million.

Movement in net borrowings in the year

	£million
Total cash inflow	**820**
Repurchase and repayment of acquisition borrowings	(14)
Amortisation of prepaid financing fees	(19)
Capitalised finance costs	(4)
Finance leases entered into	(5)
Currency translation differences and fair value adjustments on financial instruments	64
Decrease in net borrowings	**842**
Net borrowings at 1 April 2013	(5,893)
Net borrowings at 31 March 2014	**(5,051)**

Business review (continued)

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 2014

	£million
Cash and cash equivalents	501
Restricted cash	156
Derivative financial instruments	37
Borrowings	(5,745)
	(5,051)

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 2014, consisted of deposits restricted under contractual agency agreements, cash pledged as collateral on financial instruments, cash restricted by law and other obligations.

Derivative financial instruments are carried at fair value and mainly relate to a credit instrument and the contract to acquire a 12% equity stake in Nanjing Pharmaceutical Company Limited.

Equity
Total equity increased during the year by £552 million to £6,223 million at the year end, shareholders' equity increasing by £686 million to £6,186 million.

Movement in shareholders' equity in the year

	£million
Profit for the year	**971**
Attributable to non-controlling interests	(35)
Profit for the year attributable to equity shareholders	936
Income and expense recognised in other comprehensive income:	
Defined benefit schemes – net remeasurements	(182)
Currency translation differences	(158)
Recycled on distribution of associate	(78)
Other	12
Tax on items recognised in other comprehensive income	27
Transactions with owners:	
Purchase of non-controlling interests	129
Net movement in shareholders' equity	**686**
Shareholders' equity at 1 April 2013	5,500
Shareholders' equity at 31 March 2014	**6,186**

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 stronger Sterling at the year end compared to the prior year relative to the Turkish Lira and Norwegian Krone.

The amount recycled on distribution of associate related to the distribution of Galenica. The purchase of non-controlling interests related to the respective contractual committed purchases of the remaining interests that the Group did not previously own in Hedef Alliance and Farmexpert.

Business review (continued)

Retirement benefit obligations

Movement in net retirement benefit obligations in the year

	£million
Net cost within profit for the year	(1)
Cash contributions	50
Net remeasurements	(189)
Currency translation differences	2
Net movement in retirement benefit obligations	**(138)**
Net retirement benefit obligations at 1 April 2013	(36)
Net retirement benefit obligations at 31 March 2014	**(174)**

Cash contributions during the year mainly related to deficit funding payments to the Boots Pension Scheme.

Contributions totalling £22 million were made by two pension funding partnership structures under which, in prior years, the Group contributed interests in partnerships worth £273 million and transferred a number of properties under sale and leaseback arrangements. The partnerships will make similar annual contributions for a further 13 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 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.

Other contributions in the year mainly related to those agreed following the triennial actuarial valuation of the Boots Pension Scheme as at 31 March 2010. Prior to year end, the trustees of the Boots Pension Scheme completed the 31 March 2013 triennial actuarial valuation. This has resulted in no additional contributions being required from the Group over and above those agreed at the 2010 valuation. Accordingly, the Group will contribute £53 million in each of the next three years, in addition to the contributions from the pension funding partnership structures. The extent to which the Group may be required to make additional contributions if the assets' returns assumed in the recovery plan are not achieved, will be assessed as part of the 2016 valuation.

The Scheme has continued with its investment strategy of targeting to hold 85% of its assets in a diverse portfolio of high quality bonds with 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.

On an accounting basis, there was a net remeasurements loss of £189 million which comprised a loss of £212 million from scheme assets, partially offset by a £23 million decrease in scheme liabilities. The asset decrease was mainly due to a decrease in corporate and government bond values invested in by the Boots Pension Scheme in the UK, which is consistent with general bond markets.

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 loan facilities originally set up in 2007 when Alliance Boots became a privately owned company. In July 2013, the Group announced that it had completed a programme to repurchase and repay all loans outstanding under its Subordinated Facility Agreement that it had not previously acquired. In addition, in March 2014, the Group completed the extension of certain existing private syndicated loan facilities in accordance with the 'springing maturity' mechanism agreed with senior lenders in December 2012. All committed loan facilities can remain in place post exercise of Walgreens option.

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.

Business review (continued)

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.

A significant proportion of the Group's borrowings are subject to some form of fixed or capped interest rate, the hedges for which mature during 2015.

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, £1,285 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 2013/14	As at 31 March 2014	Average 2012/13	As at 31 March 2013
Euro	1.19	1.21	1.23	1.18
US Dollar	1.59	1.66	1.58	1.51
Turkish Lira	3.20	3.63	2.84	2.74
Swiss Franc	1.46	1.48	1.49	1.44
Norwegian Krone	9.53	9.99	9.13	8.86
Russian Rouble	52.51	59.44	49.20	46.98

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 2014, 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 2013.

Summarised consolidated financial statements (continued)

Group income statement
for the year ended 31 March 2014

	2014 £million	2013 £million
Revenue	**23,367**	22,406
Profit from operations before associates and joint ventures	**1,132**	1,054
Share of post-tax earnings of associates and joint ventures	**86**	39
Net gains relating to associates	**109**	8
Profit from operations	**1,327**	1,101
Finance income	**33**	109
Finance costs	**(387)**	(373)
Profit before tax	**973**	837
Tax	**(2)**	(96)
Profit for the year	**971**	741
Attributable to:		
Equity shareholders of the Company	**936**	707
Non-controlling interests	**35**	34
	971	741

Group statement of comprehensive income
for the year ended 31 March 2014

	2014 £million	2013 £million
Profit for the year	**971**	741
Other comprehensive income for the year		
Items that will not be recycled to the income statement:		
Defined benefit schemes – net remeasurements	**(189)**	(72)
Tax on items that will not be recycled to the income statement	**33**	16
	(156)	(56)
Items that are or may be recycled to the income statement:		
Net exchange differences on translation of non-Sterling denominated operations	**(183)**	28
Fair value movements on cash flow hedging instruments including amounts recycled	**6**	(2)
Movements on available-for-sale investments including amounts recycled	**7**	5
Share of post-tax other comprehensive income of associates and joint ventures	**(1)**	2
Amounts recycled on distribution of associate	**(78)**	–
Tax on items that are or may be recycled to the income statement	**(5)**	(2)
	(254)	31
Total comprehensive income for the year	**561**	716
Attributable to:		
Equity shareholders of the Company	**557**	684
Non-controlling interests	**4**	32
	561	716

Summarised consolidated financial statements (continued)

Group statement of financial position
as at 31 March 2014

	2014 £million	2013 £million
Assets		
Non-current assets		
Goodwill	**4,625**	4,710
Other intangible assets	**5,309**	5,416
Property, plant and equipment	**1,907**	1,918
Investments in associates and joint ventures	**318**	958
Available-for-sale investments	**67**	48
Trade and other receivables	**78**	71
Deferred tax assets	**16**	11
Retirement benefit assets	**–**	62
Current tax assets	**8**	11
Derivative financial instruments	**29**	23
	12,357	13,228
Current assets		
Inventories	**1,892**	2,030
Trade and other receivables	**2,544**	3,103
Cash and cash equivalents	**501**	592
Restricted cash	**156**	167
Current tax assets	**13**	8
Assets classified as held for sale	**3**	5
Derivative financial instruments	**11**	–
	5,120	5,905
Total assets	**17,477**	19,133
Liabilities		
Current liabilities		
Borrowings	**(301)**	(152)
Trade and other payables	**(4,236)**	(5,431)
Current tax liabilities	**(132)**	(105)
Provisions	**(9)**	(24)
Derivative financial instruments	**(3)**	–
	(4,681)	(5,712)
Net current assets	**439**	193
Non-current liabilities		
Borrowings	**(5,444)**	(6,519)
Other payables	**(158)**	(128)
Deferred tax liabilities	**(781)**	(976)
Retirement benefit obligations	**(174)**	(98)
Provisions	**(16)**	(25)
Derivative financial instruments	**–**	(4)
	(6,573)	(7,750)
Net assets	**6,223**	5,671
Equity		
Share capital	**1,079**	1,079
Share premium	**2,184**	2,879
Retained earnings	**2,894**	1,460
Other reserves	**29**	82
Shareholders' equity	**6,186**	5,500
Non-controlling interests	**37**	171
Total equity	**6,223**	5,671

Summarised consolidated financial statements (continued)

Group statement of changes in equity
for the year ended 31 March 2014

2014	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Shareholders' equity Total £million	Non-controlling interests £million	Total equity £million
At 1 April 2013	**1,079**	**2,879**	**1,460**	**82**	**5,500**	**171**	**5,671**
Profit for the year	**–**	**–**	**936**	**–**	**936**	**35**	**971**
Other comprehensive income for the year							
Defined benefit schemes – net remeasurements	**–**	**–**	**(182)**	**–**	**(182)**	**(7)**	**(189)**
Net exchange differences on translation of non-Sterling denominated operations	**–**	**–**	**–**	**(158)**	**(158)**	**(25)**	**(183)**
Fair value movements on cash flow hedging instruments including amounts recycled	**–**	**–**	**–**	**6**	**6**	**–**	**6**
Movements on available-for-sale investments including amounts recycled	**–**	**–**	**–**	**7**	**7**	**–**	**7**
Share of post-tax other comprehensive income of associates and joint ventures	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
Amounts recycled on distribution of associate	**–**	**–**	**–**	**(78)**	**(78)**	**–**	**(78)**
Tax on other comprehensive income for the year	**–**	**–**	**32**	**(5)**	**27**	**1**	**28**
	–	**–**	**(150)**	**(229)**	**(379)**	**(31)**	**(410)**
Total comprehensive income for the year	**–**	**–**	**786**	**(229)**	**557**	**4**	**561**
Transactions with owners							
Settlement of distribution obligation	**–**	**(695)**	**695**	**–**	**–**	**–**	**–**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Purchase of non-controlling interests	**–**	**–**	**(47)**	**176**	**129**	**(131)**	**(2)**
	–	**(695)**	**648**	**176**	**129**	**(138)**	**(9)**
At 31 March 2014	**1,079**	**2,184**	**2,894**	**29**	**6,186**	**37**	**6,223**

2013	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Shareholders' equity Total £million	Non-controlling interests £million	Total equity £million
At 1 April 2012	1,065	2,795	1,561	47	5,468	233	5,701
Profit for the year	–	–	707	–	707	34	741
Other comprehensive income for the year:							
Defined benefit schemes – net remeasurements	–	–	(72)	–	(72)	–	(72)
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	30	30	(2)	28
Fair value movements on cash flow hedging instruments including amounts recycled	–	–	–	(2)	(2)	–	(2)
Movements on available-for-sale investments 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

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 2014

	2014 £million	2013 £million
Operating activities		
Profit from operations	**1,327**	1,101
Adjustments to reconcile profit from operations to cash generated from operations:		
Share of post-tax earnings of associates and joint ventures	**(86)**	(39)
Depreciation and amortisation	**338**	345
Negative goodwill	**–**	(4)
Net losses on disposal of property, plant and equipment	**1**	11
Impairment of goodwill and other intangible assets	**–**	62
Net gains relating to associates	**(109)**	(8)
Decrease/(increase) in inventories	**16**	(66)
Decrease in receivables	**230**	168
(Decrease)/increase in payables and provisions	**(130)**	167
Movement in retirement benefit assets and obligations	**(43)**	(89)
Cash generated from operations	**1,544**	1,648
Net tax paid	**(141)**	(114)
Net cash from operating activities	**1,403**	1,534
Investing activities		
Acquisitions of businesses (net of cash and bank overdrafts), associates and joint ventures	**(19)**	(10)
Disposals of businesses and investment in associates	**1**	4
Purchase of property, plant and equipment, and intangible assets	**(253)**	(200)
Purchase of available-for-sale investments	**(16)**	(6)
Redemption of profit participating notes	**–**	193
Loan repayments net of amounts advanced	**57**	(55)
Disposal of other assets and investments	**17**	17
Dividends received from associates and joint ventures	**49**	18
Interest received	**35**	59
Net cash (used in)/from investing activities	**(129)**	20
Financing activities		
Interest paid	**(270)**	(318)
Interest element of finance lease obligations	**(1)**	(1)
Proceeds from borrowings	**770**	86
Repayment and repurchase of borrowings and settlement of derivatives	**(1,658)**	(1,353)
Fees associated with financing activities	**(19)**	(48)
Movement in restricted cash	**9**	88
Repayment of capital element of finance lease obligations	**(6)**	(8)
Issue of ordinary share capital	**–**	2
Dividends paid to non-controlling interests	**(17)**	(29)
Purchase of non-controlling interests	**(143)**	(65)
Net cash used in financing activities	**(1,335)**	(1,646)
Net decrease in cash and cash equivalents in the year	**(61)**	(92)
Cash and cash equivalents at 1 April	**579**	668
Currency translation differences	**(18)**	3
Cash and cash equivalents at 31 March	**500**	579

Glossary of key terms

Constant currency
Exchange rates applicable for the financial information for the year ended 31 March 2013.

EBITDA
Trading profit before underlying depreciation and amortisation.

EBITDA including share of associates and joint ventures
EBITDA including share of associates and joint ventures (excluding share of EBITDA of distributed associate).

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.

Revenue including share of associates and joint ventures
Revenue including share of associates and joint ventures (excluding share of revenue of distributed associate).

Share of underlying post-tax earnings of associates and joint ventures
Share of post-tax earnings of associates and joint ventures (excluding distributed associate) 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.

Trading profit including share of associates and joint ventures
Trading profit including share of associates and joint ventures (excluding share of trading profit of distributed associate).

Glossary of key terms (continued)

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 (excluding share of post-tax earnings of distributed associate) before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Underlying profit attributable to equity shareholders
Underlying profit excluding amounts attributable to non-controlling interests.

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.