Press release
16 May 2012

Alliance Boots
Preliminary results announcement for the year ended 31 March 2012

"International expansion drives growth"

Highlights:

Group
- Revenue up 18.4% to £23.0 billion – £25.4 billion including share of associates and joint ventures
- EBITDA up 10.2% to £1,443 million – £1,568 million including share of associates and joint ventures
- Trading profit up 12.4% to £1,195 million – £1,300 million including share of associates and joint ventures
- Underlying profit (after tax) up 10.2% to £693 million
- Cash generated from operations up 22.3% to £1,601 million
- Year end net borrowings reduced by £826 million

Health & Beauty Division
- Revenue up 0.6%
- Trading profit up 6.0%
- Boots UK
  - Like for like dispensing volume up 1.9%
  - Like for like retail revenue up 0.8% (incl. VAT)

Pharmaceutical Wholesale Division
- Revenue up 27.9%
  - Like for like revenue up 2.4%
- Trading profit up 24.7%
  - Like for like trading profit up 8.2%

Stefano Pessina, Executive Chairman, commented:

"Alliance Boots has again delivered double digit growth in trading profit while at the same time generating a strong operating cash flow to fund investment in growth and substantially reduce net borrowings. This performance, which reflects the excellent work of our teams, has been achieved through a combination of organic growth and benefits from the previous year's acquisitions, is particularly encouraging given the challenging economic environment.

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

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

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.

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

The Group's Annual Report 2011/12 will be published on our website (www.allianceboots.com) on 18 May 2012. In addition, the Group's Corporate Social Responsibility Report 2011/12 will be published on our website in September 2012.

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Business review

Overview

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

Financial highlights

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

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

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

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

Performance by Division

for the year ended 31 March 2012

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

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

Our development

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

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

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

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

Business review (continued)

Health & Beauty Division

Performance by business
for the year ended 31 March 2012

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

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

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

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

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

Business review (continued)

Boots UK revenue by product category
for the year ended 31 March 2012

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

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

Revenue from **Dispensing & Related Income** decreased by 1.6% in value due to lower average revenue per prescription which more than offset growth in dispensing volumes and fee income. This decrease was due to further government reductions in generic medicine reimbursement prices and the impact of more branded medicines losing patent protection and being substituted with lower priced generic medicines. We anticipate these factors to continue to hold back dispensing revenue growth in our next financial year. Total dispensing volumes increased year on year to 224 million items, up 1.9% on a like for like basis. Our growth was particularly strong in the domiciliary dosage (patient specific packs) category and from prescriptions collected on behalf of patients from doctors' practices. Profitability was adversely impacted by the lower reimbursement prices on generic medicines.

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

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

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

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

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

Business review (continued)

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

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

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

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

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

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

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

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

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

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

Business review (continued)

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

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

Stores by country
at 31 March 2012

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

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

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

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

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

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

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

Business review (continued)

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

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

Pharmaceutical Wholesale Division

Performance by business
for the year ended 31 March 2012

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

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

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

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

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

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

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

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

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

Business review (continued)

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

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

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

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

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

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

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

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

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

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

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

Business review (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Associates and joint ventures

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

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

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

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

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

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

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

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

Business review (continued)

Financial review

Income statement summary
for the year ended 31 March 2012

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

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

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

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

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

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

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

Net finance costs
Net finance costs comprised the following:

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

Business review (continued)

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

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

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

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

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

Tax

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

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

Tax analysis

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

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

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

Discontinued operations

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

Business review (continued)

Cash flow
for the year ended 31 March 2012

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

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

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

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

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

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

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

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

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

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

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

Business review (continued)

Movement in net borrowings in the year

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

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

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

Analysis of net borrowings
at 31 March 2012

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

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

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

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

Movement in shareholders’ equity in the year

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

Business review (continued)

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

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

Retirement benefit obligations

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

Movement in net retirement benefit obligations in the year

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

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

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

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

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

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

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

Liquidity risk management

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

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

The Group's core borrowing is provided through committed bank facilities put in place when Alliance Boots became a privately owned company. These facilities, which are partially drawn in Euros and Swiss Francs, mature between July 2014 and 2017. The Group also has access to a committed revolving credit facility which was put in place at the same time. It is available until July 2014 and provides access to funding in a range of currencies. During the year £75 million of the facility was purchased from the facility providers, bringing the total purchased to date to £193 million. At the year end, borrowings under the facility were £18 million, £118 million was utilised to provide guarantees, mainly in relation to the Boots Pension Scheme, and £491 million was available.

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

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

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

Interest rate risk management

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

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

Currency risk management

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

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

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

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

Business review (continued)

Financial record

Over the last five years we have grown our trading profit including our share from associates and joint ventures by 88%.

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

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

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

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 2012, 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 2011.

The audited consolidated financial statements reflect the Group's disposal on 31 March 2012 of 51% of its interest in its Russia business. As Russia was considered to be a significant separate geography, the results from Russia are shown separately as discontinued operations, with the comparative information in the Group income statement and Group statement of cash flows re-represented accordingly. From the date of disposal, the Group's remaining 49% interest in the Russia business has been accounted for as an associate.

Summarised consolidated financial statements (continued)

Group income statement
for the year ended 31 March 2012

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

Group statement of comprehensive income
for the year ended 31 March 2012

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

Summarised consolidated financial statements (continued)

Group statement of financial position
as at 31 March 2012

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

Summarised consolidated financial statements (continued)

Group statement of changes in equity
for the year ended 31 March 2012

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

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

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

Summarised consolidated financial statements (continued)

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

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

Glossary of terms

Constant currency
Exchange rates applicable for the financial information for the year ended 31 March 2011.

EBITDA
Trading profit before underlying depreciation and amortisation.

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

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

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

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

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

Net finance costs
Finance costs net of finance income.

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

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

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

Trading margin
Trading profit expressed as a percentage of revenue.

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

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

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

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

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

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