Press release
16 May 2011

Alliance Boots
Preliminary results announcement for the year ended 31 March 2011

"Continued double digit growth and strengthened platform for expansion"

Highlights:

Group

- Revenue up 15.1% to £20.2 billion – £23.3 billion including share of associates and joint ventures
- EBITDA up 10.8% to £1,300 million – £1,442 million including share of associates and joint ventures
- Trading profit up 14.2% to £1,051 million – £1,164 million including share of associates and joint ventures
- Cash generated from operations £1,309 million
- Net borrowings reduced by £546 million
- Step change in international expansion of pharmaceutical wholesaling:
  - Controlling interest in Hedef Alliance acquired in July (Turkey, Egypt)
  - ANZAG majority ownership acquired in December (Germany, Romania, Lithuania)
- Internationalisation of product brands accelerating

Health & Beauty Division

- Revenue up 1.7% in actual and constant currency
- Trading profit up 5.5%
- Boots UK:
  - Like for like dispensing volume up 3.6%
  - Like for like retail revenue up 1.2% (incl. VAT)

Pharmaceutical Wholesale Division

- Revenue up 23.6% – up 26.1% in constant currency
- Trading profit up 36.2%
- Expansion into geographic markets through acquisitions

Stefano Pessina, Executive Chairman, commented:

"Alliance Boots continues to perform strongly, delivering a double digit growth in trading profit through a combination of organic growth and acquisitions, while at the same time reducing net borrowings.

"In 2010/11 we have made great progress across the Group to accelerate our growth plans, including acquiring controlling interests in both Hedef Alliance and ANZAG, our Turkish and German associates. In recent years we have made substantial capital investments, particularly in our Boots stores and supporting infrastructure. As a result, we have a strong platform for continuing growth in our core businesses and on which to build our next phase of growth, focused on international expansion.

"Looking to the year ahead, we are planning for consumer demand to be subdued and expect governments to continue to seek ways to contain growth in healthcare expenditure. In spite of this, we are confident about our future prospects both in the short and longer term. This comes from having a clear strategy, the right values, strong financial disciplines and dedicated teams throughout the Group focused at all times on our customers."

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 2010/11 will be published on our website (www.allianceboots.com) on 19 May 2011. In addition, the Group's Corporate Social Responsibility Report 2010/11 will be published on our website on 30 September 2011.

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Business review

Overview
In 2010/11 the Group performed strongly, delivering double digit growth in EBITDA and trading profit, through a combination of organic growth and acquisitions. This, together with tight management of working capital, produced a strong operating cash flow, which we used to expand the international scope of our pharmaceutical wholesaling activities through acquisitions, while at the same time continuing to invest in our core operations and reducing net borrowings.

Financial highlights
Revenue increased year on year by 15.1% to £20,218 million. Trading profit increased by 14.2% to £1,051 million and EBITDA on the same basis by 10.8% to £1,300 million. On a constant currency basis, revenue increased by 16.6%, an increase of 0.4% on a like for like basis.

Revenue, including our share of revenue of associates and joint ventures (which for Hedef Alliance and ANZAG covers the period up until we acquired majority ownership), increased by 10.3% to £23,344 million. On the same basis, EBITDA increased by 8.3% to £1,442 million and trading profit by 10.6% to £1,164 million.

Cash generated from operations was strong at £1,309 million. During the year we spent £253 million on capital expenditure, largely on our retail stores, logistics and information technology projects. In addition we invested £344 million of cash on acquisitions. Net borrowings at the year end were £7,843 million, a year on year reduction of £546 million, and shareholders' equity was £4,784 million.

Performance by Division
for the year ended 31 March 2011

Continuing operations:	Revenue £million	Trading profit £million	Year on year growth: Revenue	Year on year growth: Trading profit
Health & Beauty	7,626	767	+1.7%	+5.5%
Pharmaceutical Wholesale	13,942	320	+23.6%	+36.2%
Contract Manufacturing & Corporate Costs	253	(36)	+0.4%	
Intra-group	(1,603)			
Group[1]	**20,218**	**1,051**	**+15.1%**	**+14.2%**
Share of revenue & trading profit of associates and joint ventures	3,126	113	-13.0%	-14.4%
	23,344	**1,164**	**+10.3%**	**+10.6%**

[1] Group 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.

In July, we became the majority shareholder in Hedef Alliance, one of the largest pharmaceutical wholesalers in Turkey, having previously had a 50% associate interest for many years. Following the acquisition of a further 10% stake in February 2011, we owned 70% at the year end, and since then we have increased this to 80%. Hedef Alliance also has a controlling 50% stake in United Company of Pharmacists ("UCP"), the leading pharmaceutical wholesaler in Egypt, and an associate interest in Hydra Pharm, the largest pharmaceutical wholesaler in Algeria.

In July, we also transferred ownership of a 51% stake in our Italian businesses to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited. This was done because of the unique structure and financing of the Italian pharmaceutical wholesale market. The cash consideration was in line with both book and fair value. We now account for the remaining 49% stake as an associate.

In December, we and our shareholders completed the acquisition of a majority stake in our associate Andreae-Noris Zahn AG ("ANZAG"). Following the completion of the voluntary tender offer for the remaining shares we now own 81.88% of ANZAG. ANZAG is one of the three largest pharmaceutical wholesalers in Germany, Europe's largest pharmaceutical market. In addition, ANZAG has pharmaceutical wholesale businesses in Lithuania and Romania and an associate in Croatia, which also operates in Bosnia Herzegovina, Serbia and Slovenia.

Business review (continued)

Our strategy to internationalise our product brands continues to move at pace. The Boots Laboratories Serum7 skincare range has now been successfully launched in Italy, in partnership with Procter & Gamble, and in Spain. It is now sold in four European countries. In addition, we have recently launched Boots Laboratories Solei SP, a new suncare brand, which we are selling to independent pharmacies in France, Italy, Portugal and Spain and we are increasing sales of No7 to third party retailers and distributors in countries where we do not have a retail presence.

Business review (continued)

Health & Beauty Division

Performance by business
for the year ended 31 March 2011

Continuing operations:	Total £million	Year on year growth Reported	Constant currency	Like for like
Revenue				
UK:				
Boots UK	6,392	+1.1%	+1.1%	+0.5%
Boots Opticians	329	+2.8%	+2.8%	-2.4%
	6,721	**+1.2%**	**+1.2%**	**+0.4%**
International:				
Norway	386	+3.5%	+0.5%	-0.6%
Republic of Ireland	227	-3.4%	+0.6%	-3.0%
The Netherlands	164	-5.7%	-1.8%	-1.8%
Thailand	76	+11.8%	+0.5%	-1.3%
Other	52			
	905	**+6.1%**	**+5.9%**	**-1.7%**
	7,626	**+1.7%**	**+1.7%**	**+0.1%**
Trading profit				
UK	713	+5.3%	+5.3%	
International	54	+8.0%	+7.8%	
	767	**+5.5%**	**+5.5%**	
Trading margin				
UK	10.6%	+0.4pp	+0.4pp	
International	6.0%	+0.1pp	+0.1pp	
	10.1%	**+0.4pp**	**+0.4pp**	

In our Health & Beauty Division we delivered good growth in trading profit, despite difficult retail markets and regulatory pressures impacting dispensing profitability. We attribute this success to the passion and commitment of our people. This has enabled us to deliver excellent customer care, initiate a three-year programme in the UK to further improve efficiency, continue to invest in our stores and develop and launch exciting new products.

Revenue increased year on year by 1.7% to £7,626 million, trading profit increased by 5.5% to £767 million and trading margin increased by 0.4 percentage points to 10.1%. On a constant currency basis revenue increased by the same amount in total, up 0.1% on a like for like basis, and total trading profit increased by 5.5%.

Health & Beauty Division – UK
In the UK, total revenue increased year on year by 1.2% to £6,721 million, like for like revenue increasing by 0.4%. Trading profit increased by 5.3% to £713 million and trading margin by 0.4 percentage points to 10.6%.

Boots UK performed well throughout the year, including the important Christmas period, growing both revenue and trading margin. Retail revenue increased by 1.2% on a like for like basis (including VAT).

Business review (continued)

Boots UK revenue by product category
for the year ended 31 March 2011

Continuing operations:	£million	Year on year growth[4]
Dispensing & Related Income	**2,408**	**+2.4%**
Retail:		
Retail Health[1]	913	+0.2%
Beauty & Toiletries[2]	2,108	+1.0%
Lifestyle[3]	963	-0.8%
	3,984	**+0.3%**
	6,392	**+1.1%**

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

Dispensing & Related Income increased by 2.4%. This was due to growth in dispensing volumes which was partially offset by lower average revenue per prescription (mainly as a result of lower generic reimbursement prices) and robust growth in Related Income. Total dispensing volumes increased year on year to 220 million items, up 3.6% on a like for like basis, our growth being particularly strong in the domiciliary dosage (patient specific packs) category and from prescriptions collected on behalf of patients from doctors' practices. Profit growth continued to be held back by lower reimbursement prices on generic medicines.

Related Income from pharmacy services, which currently comes primarily from Medicine Check-ups and other locally commissioned pharmacy services, whilst still relatively modest, increased year on year by nearly 6%. Our pharmacists in England and Wales carried out over 735,000 Medicine Check-ups during the year, a year on year increase of around 15%. We have a market leading position in the provision of such services with more than 80% of our pharmacies 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. During the year we opened another two doctors' surgeries operating in Boots stores, bringing the total to 13, and plan to increase the number of such surgeries over the coming years. In addition we opened nurse-led clinics in two stores. Boots Employee Wellbeing Service, our corporate health programme that combines a web-based health assessment with a range of local pharmacy services such as smoking cessation, cholesterol testing and blood pressure monitoring, expanded during the year with a significant number of employees of our launch partner, British Gas, completing a health assessment. BootsWebMD, our consumer health and wellness information portal created in partnership with WebMD, the leading US provider of healthcare services on the web, continued to significantly increase its number of site visitors and is now ranked as one of the top health and medical websites in the UK.

Revenue in the **Retail Health** category, where we are the market leader, increased by 0.2% to £913 million. Sales of positive healthcare products, such as vitamins, increased year on year, which was partially offset by lower sales of flu related non-prescription medicines and anti-viral products. Gross margin increased due to improved product mix. We recently launched a major new healthcare brand, Boots Pharmaceuticals, bringing together 160 years of Boots expertise in developing trusted healthcare products for our customers. 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 1.0% to £2,108 million, sales of fragrances, accessories and toiletries all increasing year on year. Cosmetics sales were slightly lower year on year, reflecting a challenging prior year comparable that included the very successful launch of No7 Protect & Perfect Intense Beauty Serum.

We continued to invest in new product development for No7 with the launch of a number of new products, including No7 Protect & Perfect Intense Day Cream with 5-star rated UVA protection and SPF15.

In the toiletries sub-category, sales growth was mainly in hair and suncare products, the latter starting to benefit from our recent relaunch of our Soltan range.

Business review (continued)

Revenue in the **Lifestyle** category decreased by 0.8% to £963 million, reflecting the continuing decline in the photographic market and lower sales of baby products due to strong competition from supermarkets. This was partially offset by growth in the electrical, nutrition and seasonal sub-categories. In September, in partnership with Mothercare, we successfully launched "mini club", a new clothing and accessories brand for babies and children aged 0-6 years, which is being sold in around 380 Boots stores.

The business performed well during the key Christmas selling period, despite all the disruption from the weather, assisted by a strong customer offer, attractive promotions, record customer care and our highly acclaimed "Here come the girls" advertising campaign which further evolved this year.

Our own product brands, such as No7, Boots Pharmaceuticals, Soltan, Botanics and 17, together with our exclusive ranges, continue to enable us to materially differentiate our retail offering from that of our competitors and are very important drivers of revenue and margin. In addition to the launch of Boots Pharmaceuticals and the new No7 product ranges, other new developments included the recently launched new Champneys range of spa facial and body products which are exclusive to Boots.

Our partnership with Waitrose was extended during the period. At the year end 12 Boots stores were selling a combined Boots and Waitrose lunchtime food offering and a further seven stores incorporated a larger range of lunchtime and convenience food, including the Essential Waitrose range. In addition, Waitrose is selling Boots health and beauty products in 13 of its shops. Initial results from these trials are encouraging. This partnership supports our objective of making Boots products more accessible, while introducing a broader range of food products to give customers even more reasons to shop at Boots.

We have continued to increase the number of Boots stores where customers can collect goods ordered on our boots.com website. "Order-on-line and collect-in-store" is now available in nearly all of our 2,500 Boots stores across the UK, providing customers with convenient access to the extended Boots product range, including the full seasonal gift offering. The proportion of orders collected this way rose substantially to over 40% for the year. We continue to expand what boots.com sells, launching extended health related product ranges such as mobility and daily living aids during the year. In addition, we launched Boots Prescriptions Direct, an online private prescription service for a targeted range of medical conditions.

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 holders (which we define as members who have used their card at least once in the last 12 months) increased to 16.8 million, reflecting its position as one of the largest and most valued loyalty schemes in the UK. In October, we launched 'Treat Street', a new online shopping service which enables Boots Advantage Card customers to collect points when they shop online with around 60 well known retail brands.

We attribute much of the Boots success again this year to our passionate focus on customer service and care, with the customer very much at the heart of our business strategy. We continue each week to analyse over 25,000 customer responses to in-store marketing surveys to better understand customers' evolving needs. We are pleased that our customer care number improved year on year as a result of our ongoing focus on key 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'. As a result, unsolicited customer compliments increased by over two thirds.

During the year we recruited around 1,000 graduate and fully qualified pharmacists in the UK and continued to invest in our people. Over 95% of our store colleagues made use of our e-learning system first introduced into stores in 2008/09.

We continue to invest in our store portfolio and in making our products more accessible and convenient for our customers to buy. In 2010/11 we opened 56 new Boots stores, 37 of which were relocations, and refitted a further 119 stores. At the year end, in the UK we had 2,472 health and beauty stores, of which 2,382 included a pharmacy.

Boots Opticians revenue increased by 2.8% as a result of including a full year of sales from Dollond & Aitchison practices acquired in May 2009 when the two businesses merged. Like for like revenue from owned practices decreased by 2.4% due to a decline in the optical market and the competitive environment, which particularly impacted those practices still trading as Dollond & Aitchison. Trading profit increased as a result of cost synergies from the merger and the subsequent integration of Dollond & Aitchison. Further cost savings are on track to be delivered in the coming year. At the year end we had 656 practices, including 192 franchises. The rebranding programme is now largely complete with nearly 500 practices (including franchises) now trading as Boots Opticians, the balance of those not yet rebranded being mainly franchised practices. During the latter part of the year we rolled out a new customer offer which is proving to be popular with customers.

Business review (continued)

In October we announced a programme 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, which focuses on optimising end-to-end business processes, includes moving to a leaner central support organisation, supported by new systems, a streamlining of manufacturing operations and optimisation of supply chain activities. It does not affect the employee base within UK stores.

Over the next three years, the programme will result in a reduction of around 900 non-store based roles in the UK, the majority of which are in Nottingham. This represents under 10% of the UK non-store workforce of these businesses. Where possible, the reduction will be achieved through staff turnover and by offering redeployment to other areas within the Group. The restructuring programme is targeted to reduce operating costs by around £56 million per annum by 2013/14. Related exceptional charges are expected to total around £67 million, of which £37 million was charged in 2010/11.

Health & Beauty Division – International

Total revenue in countries outside the UK increased year on year by 6.1% to £905 million. Trading profit increased by 8.0% to £54 million, with increased profitability in all countries, apart from Norway and The Netherlands. Trading margins increased by 0.1 percentage points, mainly as a result of improved sales mix, including higher sales of No7. On a constant currency basis, revenue increased by 5.9%, like for like revenue decreased by 1.7%, and trading profit increased by 7.8%. A net 37 stores were added during the year, all of which have pharmacies, bringing the net total to 478.

Stores by country
at 31 March 2011

	Number
Norway	154
Republic of Ireland	58
The Netherlands	72
Thailand	182
Other	27
	493

In **Norway**, revenue increased by 0.5% on a constant currency basis. Like for like revenue decreased by 0.6%, good retail sales growth in rebranded stores being more than offset by lower dispensing sales growth due to lower reimbursement pricing. The conversion to our ”Boots apotek” branded format was completed during the year. The success of this format, with a high proportion of Boots beauty and toiletries products, together with tight cost controls, enabled the business to increase its profitability before one-off reorganisation costs.

In the **Republic of Ireland**, where we trade as Boots, revenue increased by 0.6% on a constant currency basis. Like for like revenue decreased by 3.0%, the fragile state of the Irish economy particularly impacting retail sales. Like for like dispensing item volume growth was strong. Profits increased due to improved margins and lower operating costs despite the opening of three new stores in the year.

In **The Netherlands**, revenue decreased by 1.8% on a constant currency basis, like for like revenue decreasing by 1.8%. Profits were adversely impacted by the expansion of 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.

The ”Boots apotheek” pharmacy concept (which has a much stronger retail offering than is typical in Dutch pharmacies) was extended during the year. We now have 13 stores with further pharmacies scheduled to be rebranded in 2011/12.

In **Thailand**, where Boots is one of the largest health and beauty pharmacy chains, revenue growth increased by 0.5% on a constant currency basis, like for like revenue decreasing by 1.3%. Although the civil unrest between March and May 2010 adversely impacted trading, a combination of store openings, margin growth and underlying store cost efficiencies enabled the business to maintain profit levels. A net 17 stores were added in the year.

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

No7 performed particularly well in the US during the year, benefiting from several No7 products receiving awards from the US publication of Good Housekeeping magazine. In addition we recently launched the No7 skincare range in Ulta, a US beauty chain, while continuing to sell No7 and other Boots products in over 1,700 Target stores. In March we commenced a distribution agreement for the sale of a number of No 7 products in Finland.

Business review (continued)

Sales of the Boots Laboratories Serum7 skincare range in continental Europe increased following the commencement of our distribution partnership in Italy with Procter & Gamble as well as increased distribution through the Pharmaceutical Wholesale Division.

At the year end we operated 22 retail pharmacies in Lithuania (following the acquisition of ANZAG) and five in Russia. In addition, around 50 stores are operated by our franchise partner in the United Arab Emirates, Kuwait, Qatar, Bahrain and the Kingdom of Saudi Arabia. To further support our international expansion, we established a partnership with Farmacevtföretagarna, an organisation formed by the Swedish Pharmaceutical Association, to roll-out Boots branded pharmacies on a franchise basis in Sweden. The first franchised ”Boots apotek” opened in March 2011 with further openings taking place since the year end.

Following the transfer of ownership of 51% of our Italian businesses, the Italian pharmacies are no longer consolidated as part of the Group but are treated as an associate.

Business review (continued)

Pharmaceutical Wholesale Division

Performance by business
for the year ended 31 March 2011

Continuing operations:	Total £million	Year on year growth Reported	Year on year growth Constant currency
Revenue			
France	4,557	-4.7%	-0.6%
UK	2,673	+5.1%	+5.1%
Turkey	1,340	n/a	n/a
Spain	1,284	-5.4%	-1.4%
Germany	1,248	+263.8%	+279.1%
Russia	788	+19.9%	+15.0%
The Netherlands	766	-6.8%	-2.8%
Czech Republic	456	+3.2%	+3.0%
Norway	382	+14.4%	+10.8%
Egypt	374	n/a	n/a
Other	113		
Intra-segment	(39)		
	13,942	**+23.6%**	**+26.1%**
Trading profit	**320**	**+36.2%**	**+38.3%**
Trading margin	**2.3%**	**+0.2pp**	**+0.2pp**

In our Pharmaceutical Wholesale Division, while market conditions continued to be difficult, the Division delivered a double digit growth in trading profit. This was achieved through a combination of organic growth, benefits from the Division-wide business improvement programme and the impact of acquisitions in the year. 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.

Revenue increased year on year by 23.6% to £13,942 million and trading profit increased by 36.2% to £320 million. Overall trading margins increased by 0.2 percentage points. Adjusting for acquisitions and disposals, on a constant currency basis, like for like revenue and trading profit both increased by 1.7%.

Like for like trading profit, excluding Russia, increased year on year by more than 10%, reflecting good profit growth in our largest countries.

During the year, we made notable steps in further expanding our Pharmaceutical Wholesale Division internationally. In July, we became the majority shareholder in Hedef Alliance in Turkey, which also has a strong presence in Egypt and, through its associate, in Algeria. In December, we completed the acquisition of ANZAG in Germany, which has interests in Lithuania, Romania and, through its associate, in Croatia which also trades in Bosnia Herzegovina, Serbia and Slovenia. As a result, our Group is now the number one pharmaceutical wholesaler in Europe and the only wholesaler with large operations in each of the five largest pharmaceutical wholesale markets.

As in the previous year, 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 3%, which was higher than the market growth rate.

We have a continuous focus to anticipate changes in the marketplace, make the most of future opportunities and support businesses in individual countries to implement our new wholesale business model.

During the year the first phase of a Division-wide restructuring programme that commenced at the end of 2008/09 was largely completed. The target of £55 million of annual efficiency gain benefits, from the first phase, was delivered in 2010/11, a year ahead of the original schedule.

Business review (continued)

In October we commenced the second phase of the Division-wide restructuring programme, to further adapt our pharmaceutical wholesale businesses to better fulfil the expectations of customers and payors, as well as securing new opportunities in the marketplace. It affects all businesses in the Division (with the exception of businesses acquired this year) and will result in a 2% reduction in headcount across the Division, which will be partially achieved through staff turnover. The programme is targeted to reduce operating costs by around £24 million per annum by 2013/14 and has resulted in an exceptional charge of £48 million during the year, which is higher than originally announced due to additional asset write offs.

At the beginning of October, we completed the transfer of responsibilities to Alliance Healthcare in the UK for purchasing and distribution of those prescription medicines which Boots previously sourced directly. This decision, which followed a review of the dispensing supply chain, was taken in light of future business growth and will lead to increased efficiencies over time.

Markets, products and services
We estimate that the wholesale markets in which we operated throughout the year grew by around 1% in value on a constant currency basis, this growth being weighted on the basis of our wholesale revenue. This is slower than we have seen in recent years mainly due to government price reduction measures in several markets.

Market growth from the introduction of higher priced new branded pharmaceuticals has continued to be partially offset by increased penetration of lower priced generic medicines and by reductions in generics' prices. Generic penetration rates rose year on year in all our western European markets, with penetration levels still typically being lower in southern Europe.

The overall level of the parallel trade market in Europe has been stable following declines in previous years as manufacturers continue to seek ways to curtail these activities, together with fewer material price differentials between markets.

We have continued 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.

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.

We further differentiate our wholesale offering by continuing to develop the range of services offered to independent pharmacy customers. This includes membership of **Alphega Pharmacy**, which encompasses a comprehensive range of added-value services including branding, professional training and patient care, retail support services and supply benefits together with pharmacy and IT support. Alphega Pharmacy, which operates in six countries, including our associate in Italy, increased its membership year on year by 17% to more than 3,500 pharmacies.

Alphega Pharmacy is starting to work closely with vivesco, ANZAG's network of some 1,100 German pharmacies to enhance the range of services offered by both.

In **France**, revenue decreased by 0.6% on a constant currency and like for like basis. Revenue growth was impacted by increased competition in what continues to be a difficult market. A focus on improving service to key customers together with the benefits from the Division-wide business improvement programme enabled the business to improve profitability in the period. Depolabo, which provides more than 70 manufacturers with pre-wholesale and contract logistics services in France, was rebranded to Alloga during the year.

Business review (continued)

In the **UK**, revenue increased by 5.1%, growth being held back by an increase in the proportion of the volume of sales that are now delivered direct to pharmacies on behalf of manufacturers, which we account for on an agency basis. Revenue growth, together with margin improvements and a full year of benefits from the first phase of the Division-wide business improvement programme enabled the business to increase profits.

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, performed well, increasing revenue by more than 20% year on year, helped by new contract wins. This demonstrates the future potential for specialist homecare services.

In **Turkey**, the results of Hedef Alliance are included from 23 July 2010 following the acquisition of a controlling interest. On a pro forma basis for the full year, revenues decreased by 2.0% to £1,885 million on a constant currency basis, mainly as a result of government measures to reduce prices on pharmaceutical products, which was partially offset by growth in non-pharmaceutical product sales.

In **Spain**, revenue decreased by 1.4% on both a constant currency and like for like basis. New government regulations to reduce public expenditure on pharmaceutical products and strong domestic competition held back revenue and margin growth. Despite these pressures, the business substantially increased profits year on year due to an increase in generics sales, margin management and the benefits of the Division-wide business improvement programme.

In **Germany**, 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 will become fully effective in January 2012, contained an interim reduction in wholesaler margin from January 2011.

ANZAG, our full service pharmaceutical wholesale business acquired in December 2010, continues to be quoted on the Frankfurt Stock Exchange. It reported sales revenue growth of 0.8% in Germany for the six month period to 28 February 2011 compared to the same period a year ago. Profits were lower as a result of the new government measures and competition in the market. Following a change in its year end to 31 March, ANZAG will release a trading update at the end of June for the seven month accounting period to 31 March 2011.

In **Russia**, revenue increased by 15.0% on both a constant currency and like for like basis. Although the market continued to grow, intense competition, particularly in the Moscow region, resulted in lower wholesaling margins across the industry. As a consequence, our Russian business reported a loss for the year as it transitions to a model to enable it to compete effectively in what we continue to expect to be challenging market conditions.

In **The Netherlands**, revenue decreased by 2.8% on both a constant currency and like for like basis, mainly as a result of substantially lower reimbursement prices for generic prescription medicines. This was mainly due to further expansion of the use of tenders for generic medicines by Dutch healthcare insurers, referred to as the “preference policy” and regulatory price reductions on branded ethical products. These changes combined with strong competition in the market, resulted in lower profits.

In the **Czech Republic**, revenue increased by 3.0% on both a constant currency and like for like basis, reflecting strong growth in the hospital channel. This, together with tight operating cost controls, enabled the business to increase profits.

In **Norway**, revenue increased by 10.8% on both a constant currency and like for like basis, mainly due to increased pharmacy channel revenues including intra-group sales. Margin mix and higher costs to support the first year of a significant health authority contract resulted in a small decrease in profits.

In **Egypt**, the results of UCP are included from 23 July 2010 following the acquisition of a controlling interest in Hedef Alliance. On a pro forma basis for the full year, revenues increased by 17.8% to £571 million on a constant currency basis. Revenue growth was in line with the growth of the market.

Other revenue mainly comprises the results of our pharmaceutical wholesaling activities in Romania and Lithuania.

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 reported revenue increased year on year by 0.4% to £253 million, an increase of 1.8% on a constant currency basis. Third party revenue increased year on year by nearly 15% on a constant currency basis, reflecting increased sales to key strategic customers. This growth offset lower intra-group sales following a decision by Boots to increase sourcing of cosmetic gift packs from the Far East. Trading profit increased by £2 million to £5 million as a result of ongoing actions to modernise work practices and improve the business's cost competitiveness.

In February 2011 we announced a long term co-operation agreement in the beauty category with Carrefour. This will result in additional third part revenue to BCM in the coming years.

Corporate Costs decreased year on year by £4 million to £41 million following the completion of a number of key programmes across the Group in 2009/10.

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. During the year, we acquired a controlling interest in two of our largest associates, Hedef Alliance and ANZAG, following which these two businesses are fully consolidated within the Group's results and no longer associates. Following the transfer in July 2010 of ownership of a 51% stake in our Italian businesses to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited, we account for the remaining 49% stake as an associate.

Our share of revenue of associates and joint ventures decreased year on year by 13.0% to £3,126 million as a result of the acquisition of controlling interests in Hedef Alliance and ANZAG. For the same reasons, our share of trading profit decreased year on year by 14.4% to £113 million and our share of underlying post tax earnings decreased by 26.3% to £74 million. On a constant currency basis, adjusting for changes in associate and joint venture interests, our share of like for like revenue increased by 11.4%, our share of like for like trading profit increased by 11.6% and our share of like for like underlying post tax earnings increased by 1.9%.

The acquisition of controlling interests in Hedef Alliance and ANZAG brought the Group two new associates with operations in five countries. **Hydra Pharm** is a leading pharmaceutical wholesale operator in Algeria and **Oktal** undertakes pharmaceutical wholesaling in Croatia and also trades in Bosnia Herzegovina, Serbia and Slovenia.

In China, **Guangzhou Pharmaceuticals Corporation**, our joint venture established in 2008, performed well with good revenue growth, particularly in the Guangzhou province, margin mix management and control over costs enabling the business to significantly improve profitability.

Alliance Healthcare Italia became an associate of the Group at the end of July following the divestment of 51% of our shareholding. Since then, the business has improved profitability versus the comparable period in the prior year mainly as a result of margin mix and the management of discounts.

Alliance Healthcare Portugal profitability continued to be impacted by a particularly challenging market environment including government measures to reduce pricing.

We do not comment specifically on the performance of **Galenica** as it is a quoted company that separately reports its own results on a different year end. Galenica published its 2010 Annual Report in March 2011, reporting net profit (after tax) up 10.8% year on year on and net sales up 6.6%. In addition to developing its international branded pharmaceuticals business and continued investment in its Swiss pharmaceutical wholesale and pharmacy operations, Galenica has established a new nephrology joint venture with Fresenius Medical Care to commercialise innovative and high quality products that improve the life of patients suffering from chronic kidney disease.

Financial review

Financial summary

for the year ended 31 March 2011

	Underlying £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Timing differences within net finance costs £million	Discontinued operations £million	Statutory £million
Trading profit/profit from operations before associates and joint ventures	**1,051**	(114)	7	-	-	**944**
Share of post tax earnings of associates and joint ventures	74	-	(1)	-	-	73
Impairment of investments in associates	-	-	(4)	-	-	(4)
Net gain on acquisitions of controlling interests in associates	-	-	19	-	-	19
Net finance costs	(381)	-	15	(29)	-	(395)
Tax (charge)/credit	(137)	45	75	(8)	-	(25)
Profit for the year from discontinued operations	-	-	-	-	3	3
Underlying profit/profit for the year	**607**	(69)	111	(37)	3	**615**
Year on year increase in underlying profit/profit for the year	**14**					**11**

Exceptional items

Exceptional items comprised the following:

	£million
Pharmaceutical Wholesale Division restructuring programme	(48)
UK Health & Beauty restructuring programme	(37)
Net gain in relation to defined benefit pension schemes	60
Negative goodwill	16
Net gain on disposal of non-current assets	24
Acquisition related costs	(8)
Within profit from operations before associates and joint ventures	7
Within share of post tax earnings of associates and joint ventures	(1)
Impairment of investments in associates	(4)
Net gain on acquisitions of controlling interests in associates	19
Within profit from operations	21
Discounts on repurchase of acquisition borrowings	4
Gain on change of status of available-for-sale investments	2
Reassessment of obligations to non controlling interests	9
Net exceptional items before tax	36
Tax credit on exceptional items	3
Exceptional tax credit	72
	111

The net gain in relation to defined benefit pension schemes arose on projects the Group has undertaken to ensure the long term security of accrued benefits for its defined benefit pension schemes. In the UK, the Group closed all of its defined benefit pension schemes to future accrual, which gave rise to £153 million of curtailment gains and negative past service costs, net of associated costs. These were predominantly non cash. The obligations of the Alliance UniChem UK Group Pension Scheme were subsequently transferred to an insurer which gave rise to a settlement loss, including associated costs, of £96 million, prior to the scheme being fully bought out. This loss was predominantly cash settled. The Group also closed its defined benefit pension schemes to future accrual in the Republic of Ireland and Norway, and subsequently transferred the obligations of the Norwegian schemes to a third party.

Negative goodwill arose on the acquisition of a controlling interest in Andreae-Noris Zahn AG (“ANZAG”).

The net gain on disposal of non-current assets mainly related to properties sold to the insurer of the Alliance UniChem UK Group Pension Scheme.

The net gain on acquisitions of controlling interests in associates related to Hedef Alliance Holding A.S. (“Hedef Alliance”) and ANZAG respectively, where the respective carrying values of the pre-existing interests were remeasured to fair value giving rise to an overall net gain.

Business review (continued)

The discounts on repurchase of acquisition borrowings were for borrowings acquired from holders in the secondary market, including a related party. The nominal value of acquisition borrowings acquired was £83 million at a cost of £79 million. In total £641 million has been repurchased since the programme began in early 2009 at a cost of £403 million. The discounts, net of related prepaid financing fees, have been accounted for as loan redemptions, reducing net borrowings.

The exceptional tax credit related to the net reduction in deferred tax assets and liabilities resulting from the two percentage point reduction in the rate of UK corporation tax applicable from April 2011.

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

IAS 39 timing differences relate to derivative financial instruments 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. The net IAS 39 timing difference in the year was a £3 million gain.

Obligations to non controlling interests relate to commitments to acquire equity stakes, including put options, and their share of future dividends where there are commitments to distribute dividends. The committed dividends are dependent on future profits. The liabilities recognised for these obligations are discounted, and the unwind of discounts in the year was £32 million.

Underlying net finance costs
Underlying net finance costs decreased year on year by 10.4% to £381 million, the Group having benefited during the year from low interest rates. As a result, interest cover increased to 2.8x trading profit.

Underlying net finance costs comprised the following:

	Funding £million	Retirement benefit obligations £million	Total £million
Finance income	100	206	306
Finance costs	(452)	(235)	(687)
	(352)	**(29)**	**(381)**

Underlying net finance costs for retirement benefit obligations comprised the expected return on defined benefit schemes' assets within finance income, and interest on schemes' liabilities within finance costs.

Underlying tax charge
The underlying tax charge of £137 million included a prior year tax credit of £11 million arising from the favourable resolution of prior year tax computations. Tax paid was £59 million, a year on year increase of £45 million.

Cash flow
for the year ended 31 March 2011

	£million
Trading profit	**1,051**
Underlying depreciation and amortisation	249
EBITDA from continuing operations	1,300
EBITDA from discontinued operations	8
Exceptional items	(179)
Net movement in working capital and provisions	207
Movement in net retirement benefit obligations	(27)
Cash generated from operations	**1,309**
Interest	(316)
Tax	(59)
Acquisitions of businesses	(344)
Disposal of businesses	276
Capital expenditure	(253)
Asset disposals	93
Other	(133)
	573

Business review (continued)

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 £1,309 million, cash generated from operations exceeded £1 billion for the fourth consecutive year. Included within this amount was an exceptional payment of £80 million for the transfer of the obligations under the Alliance UniChem UK Group Pension Scheme. The movement in net retirement benefit obligations included a £20 million payment into the principal UK pension fund, in accordance with the agreement entered into in 2007, in addition to regular contributions up until the closure of the schemes to future accrual.

Net interest paid of £316 million was lower than underlying net finance costs in the income statement charge, mainly due to the amortisation of prepaid financing fees of £26 million, £21 million of rolled up interest on subordinated debt which is payable when the debt itself is repaid and £29 million of costs for net retirement benefit obligations.

£344 million of cash was invested in acquiring businesses, net of cash and borrowings acquired, the principal acquisitions being controlling interests in Hedef Alliance, one of the largest pharmaceutical wholesalers in Turkey, and ANZAG, one of the three largest pharmaceutical wholesalers in Germany. This was partially funded by £276 million from disposals relating to the transfer of 51% of our stake in our Italian businesses to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited. The amount was inclusive of the net borrowings of £214 million at disposal.

£253 million of cash was invested on capital expenditure. Over three quarters of this investment was in our Health & Beauty Division, primarily in the UK. Key areas of expenditure in the UK were refits, relocations and retail store openings, investments in the new automated distribution centre in Burton-on-Trent which was purchased in 2009/10, and various information technology projects. Capital expenditure in our Pharmaceutical Wholesale Division was mainly on upgrading our distribution network and on information technology.

Asset disposals mainly related to properties sold to the insurer of the Alliance UniChem Group UK Pension Scheme.

Other net cash outflows included £119 million of investments in profit participating notes issued by related parties.

Financial position
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 £7,843 million, a year on year reduction of £546 million.

Movement in net borrowings in the year

	£million
Total cash inflow	**573**
Discounts on repurchase of acquisition borrowings	4
Amortisation of prepaid financing fees	(26)
Capitalised finance costs	(21)
Currency translation differences	18
Fair value adjustments on financial instruments	(2)
Decrease in net borrowings	**546**
Net borrowings at 1 April 2010	(8,389)
Net borrowings at 31 March 2011	**(7,843)**

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 year, which was partially offset by a weakening of Sterling relative to the Swiss Franc, 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.

Business review (continued)

Analysis of net borrowings
at 31 March 2011

	£million
Cash and cash equivalents	629
Restricted cash – deposits collateralising loan notes	105
– other	180
Net derivative financial instruments	(209)
Borrowings	(8,548)
	(7,843)

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 2011 'restricted cash – other' consisted of deposits restricted under contractual agency agreements, cash pledged as collateral 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 risk was hedged through short dated forward currency derivatives. The legacy swaps are repayable in November 2011 and June 2012.

Shareholders' equity
Shareholders' equity increased during the year by £473 million to £4,784 million at the year end.

Movement in shareholders' equity in the year

	£million
Profit for the year	**595**
Income and expense recognised directly in equity:	
Currency translation differences	(12)
Defined benefit schemes - net actuarial gains net of surplus restriction	145
Movements on available-for-sale reserve including amounts recycled	(9)
Share of other comprehensive income of associates and joint ventures	6
Tax on items recognised directly in equity	(15)
Transactions with owners:	
Transfer to non controlling interests	34
Liability to acquire equity stakes from non controlling interests	(362)
Purchase of non controlling interests	91
Net movement in shareholders' equity	**473**
Shareholders' equity at 1 April 2010	4,311
Shareholders' equity at 31 March 2011	**4,784**

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.

Liability to acquire equity stakes from non controlling interests related to contractual commitments and options over the remaining equity in Hedef Alliance following the increase in the Group's interest from 50% to 60% in July 2010. The purchase of non controlling interests mainly related to the subsequent purchase of an additional 10% interest in Hedef Alliance, being the first of the two further contractual committed purchases.

Retirement benefit obligations
The net reduction in the retirement benefit obligations was mainly due to the curtailment gains on the closure of the UK defined benefit schemes to future accrual and returns on scheme assets partially offset by obligations on the largely unfunded scheme of ANZAG, which was acquired during the year.

Following the introduction of new defined contribution pension plans in the UK in July 2010, the number of active members increased by 17% to around 22,000.

Movement in retirement benefit obligations in the year

	£million
Income statement:	
Net gain within profit from operations	49
Net finance costs	(29)
	20
Net actuarial gains net of surplus restriction recognised in shareholders' equity	145
Cash contributions	125
Acquisitions	(52)
Currency translation differences	1
Net movement in retirement benefit obligations	**239**
Net retirement benefit obligations at 1 April 2010	(462)
Net retirement benefit obligations at 31 March 2011	**(223)**

Cash contributions during the year included a payment of £80 million to an insurer for the transfer of the obligations under the Alliance UniChem UK Group Pension Scheme prior to it being fully bought out (the settlement loss arising on transfer included within profit from operations), and a £20 million deficit funding payment into the Boots Pension Scheme, the Group's principal retirement benefit scheme. The deficit funding payment is part of the Memorandum of Understanding entered into by the Group during 2007/08, the main elements of which were an agreement that conservative investment strategies would be maintained and a commitment to pay additional cash contributions. The additional contributions comprised £52 million in 2007/08 with a further £366 million to be made over 10 years from August 2008. £20 million was paid in each of the last three years, with the same amount committed in 2011/12 and 2012/13. 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.

The Boots Pension Scheme is currently undergoing its triennial actuarial funding valuation, and in March 2011, as part of the funding plan, the Group and the scheme's trustees established a pension funding partnership structure. Under this structure, the Group contributed an interest in the partnership worth £146 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 £10 million to the scheme for 20 years and 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 interest in the partnership reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 accounting basis, as the investment held by the scheme in the partnership does not qualify as an asset for the purposes of the Group's consolidated financial statements and is 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 defined benefit pension schemes. The contributions, both in terms of cash and the interest in the pension funding partnership, have resulted in current year UK tax relief leading to lower UK tax payments for the Group with further relief deferred into future 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, partially drawn in Euros and Swiss Francs. These facilities mature between July 2014 and 2017. The Group also has access to a committed revolving credit facility. During the year, £118 million of the facility was purchased from the facility providers. At the year end £174 million of the facility was utilised to provide guarantees, mainly in relation to the Boots Pension Scheme, and £528 million was available. This facility provides access to funding in a range of currencies and is available until July 2014. Subsequent to the year end, a further £75 million of the facility was purchased.

Over 80% of net borrowings (gross of restricted cash) at 31 March 2011 were covered by facilities which were not repayable within the next four years. All were covered for at least the next three years.

The Group's net borrowings vary throughout the year in a predictable seasonal pattern. Working capital requirements are typically at their highest in the period September to October 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, subject to various adjustments, primarily to exclude companies outside the banking group and to adjust for properties.

Interest rate risk management

The Board's policy is to protect its ability to service its debt obligations by ensuring that floating rate interest payments on not less than 50% of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc are hedged. Exposures are hedged through a combination of interest rate caps and interest rate swaps.

At the year end, 66% of the Group's net borrowings were at fixed or capped interest rates. They included interest rate swaps with a notional principal amount of £509 million and interest rate caps over 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 in continental Europe which 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 £1,828 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 2010/11	As at 31 March 2011	Average 2009/10	As at 31 March 2010
Euro	1.18	1.14	1.13	1.11
Turkish Lira	2.37	2.49	2.42	2.29
Swiss Franc	1.58	1.47	1.70	1.60
Norwegian Krone	9.35	8.97	9.64	8.96
Russian Rouble	47.02	45.38	49.02	44.17

Business review (continued)

Financial record

Over the last four years we have grown our trading profit including our share from associates and joint ventures by 67%.

Financial results

for the years ended 31 March
(comparative revenue and trading profit amounts are re-presented to exclude the operations discontinued during the year)

	Pro forma 2006/07 £million	**Pro forma 2007/08 £million**	**Actual 2008/09 £million**	**Actual 2009/10 £million**	**Actual 2010/11 £million**
Revenue					
Health & Beauty	6,554	6,828	7,124	7,495	7,626
Pharmaceutical Wholesale	8,136	8,674	10,215	11,283	13,942
Contract Manufacturing	86	105	106	252	253
Intra-group	(1,090)	(1,202)	(1,309)	(1,459)	(1,603)
Group	**13,686**	**14,405**	**16,136**	**17,571**	**20,218**
Share of associates and joint ventures	1,953	2,313	3,151	3,593	3,126
	15,639	**16,718**	**19,287**	**21,164**	**23,344**
Trading profit					
Health & Beauty	501	603	671	727	767
Pharmaceutical Wholesale	164	192	201	235	320
Contract Manufacturing & Corporate Costs	(39)	(38)	(47)	(42)	(36)
Group	**626**	**757**	**825**	**920**	**1,051**
Share of associates and joint ventures	69	82	110	132	113
	695	**839**	**935**	**1,052**	**1,164**
Cash generated from operations	**887**	**1,152**	**1,045**	**1,130**	**1,309**

Alliance Boots was created on 31 July 2006 through the merger of Alliance UniChem Plc and Boots Group PLC. Alliance Boots was subsequently acquired by AB Acquisitions Limited 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 years ended 31 March 2007 and 31 March 2008 as if the two former groups had always been combined and the acquisition of Alliance Boots plc by AB Acquisitions Limited in June 2007 had taken place prior to 31 March 2006.

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 2011, 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 2010, apart from those arising from the adoption of new, amended or revised IFRSs, of which the revision to IFRS 3 Business Combinations and the amendment to IAS 27 Consolidated and Separate Financial Statements had an impact. In accordance with the revised IFRS 3, the Group has recognised non controlling interests at fair value and recognised changes to the fair value of contingent consideration in the income statement. In accordance with the amended IAS 27, transactions with non controlling interests have been recorded in equity where there is no change in control.

The audited consolidated financial statements reflect the Group's disposal during the year of 51% of its interest in its Italian businesses. As Italy was considered to be a significant separate geography, the results from Italy are shown separately as discontinued operations up to the date of disposal, 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 Italian businesses has been accounted for as an associate.

Summarised consolidated financial statements (continued)

Group income statement
for the year ended 31 March 2011

	2011 £million	2010 Re-presented £million
Continuing operations:		
Revenue	**20,218**	17,571
Profit from operations before associates and joint ventures	**944**	667
Share of post tax earnings of associates and joint ventures	**73**	98
Impairment of investments in associates	**(4)**	-
Net gain on acquisitions of controlling interests in associates	**19**	-
Profit from operations	**1,032**	765
Finance income	**312**	393
Finance costs	**(707)**	(698)
Profit before tax	**637**	460
Tax	**(25)**	136
Profit for the year from continuing operations	**612**	596
Discontinued operations:		
Profit for the year from discontinued operations	**3**	8
Profit for the year	**615**	604
Attributable to:		
Equity shareholders of the Company	**595**	608
Non controlling interests	**20**	(4)
	615	604

Group statement of comprehensive income
for the year ended 31 March 2011

	2011 £million	2010 £million
Profit for the year	**615**	604
Other comprehensive income for the year		
Net exchange differences on translation of non-Sterling denominated operations	**(27)**	35
Defined benefit schemes - net actuarial gains/(losses) net of surplus restriction	**145**	(694)
Fair value losses on cash flow hedging instruments net of amounts recycled	**-**	(1)
Movements on available-for-sale reserve including amounts recycled	**(9)**	30
Share of post tax other comprehensive income of associates and joint ventures	**6**	(10)
	115	(640)
Tax on other comprehensive income for the year	**(15)**	194
	100	(446)
Total comprehensive income for the year	**715**	158
Attributable to:		
Equity shareholders of the Company	**710**	163
Non controlling interests	**5**	(5)
	715	158

Summarised consolidated financial statements (continued)

Group statement of financial position
as at 31 March 2011

	2011 £million	2010 £million
Assets		
Non-current assets		
Goodwill	**4,815**	4,649
Other intangible assets	**5,630**	5,456
Property, plant and equipment	**2,069**	2,091
Investments in associates and joint ventures	**838**	1,143
Available-for-sale investments	**67**	80
Other receivables	**266**	153
Deferred tax assets	**17**	227
Derivative financial instruments	**36**	10
	13,738	13,809
Current assets		
Inventories	**2,069**	1,623
Trade and other receivables	**3,530**	2,610
Cash and cash equivalents	**629**	343
Restricted cash	**285**	349
Derivative financial instruments	**-**	1
Assets classified as held for sale	**3**	9
	6,516	4,935
Total assets	**20,254**	18,744
Liabilities		
Current liabilities		
Borrowings	**(274)**	(556)
Trade and other payables	**(4,603)**	(3,377)
Current tax liabilities	**(10)**	(49)
Provisions	**(59)**	(37)
Derivative financial instruments	**(66)**	-
	(5,012)	(4,019)
Net current assets	**1,504**	916
Non-current liabilities		
Borrowings	**(8,274)**	(8,322)
Other payables	**(275)**	(92)
Deferred tax liabilities	**(1,109)**	(1,251)
Retirement benefit obligations	**(223)**	(462)
Provisions	**(58)**	(44)
Derivative financial instruments	**(179)**	(214)
	(10,118)	(10,385)
Net assets	**5,124**	4,340
Equity		
Share capital	**1,065**	1,065
Share premium	**2,795**	2,795
Retained earnings	**939**	239
Other reserves	**(15)**	212
Shareholders' equity	**4,784**	4,311
Non controlling interests	**340**	29
Total equity	**5,124**	4,340

Summarised consolidated financial statements (continued)

Group statement of changes in equity
for the year ended 31 March 2011

2011	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million	Non controlling interests £million	Total equity £million
	Shareholders' equity						
At 1 April 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**

2010	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million	Non controlling interests £million	Total equity £million
	Shareholders' equity						
At 1 April 2009	1,065	2,795	131	191	4,182	42	4,224
Profit for the year	-	-	608	-	608	(4)	604
Other comprehensive income for the year:							
Net exchange differences on translation of non-Sterling denominated operations	-	-	-	36	36	(1)	35
Defined benefit schemes - net actuarial losses	-	-	(694)	-	(694)	-	(694)
Fair value losses on cash flow hedging instruments net of amounts recycled	-	-	-	(1)	(1)	-	(1)
Movements on available-for-sale reserve	-	-	-	30	30	-	30
Share of post tax other comprehensive income of associates and joint ventures	-	-	-	(10)	(10)	-	(10)
Tax on other comprehensive income for the year	-	-	194	-	194	-	194
	-	-	(500)	55	(445)	(1)	(446)
Total comprehensive income for the year	-	-	108	55	163	(5)	158
Transactions with owners:							
Non controlling interests in businesses acquired	-	-	-	-	-	32	32
Future dividend obligations to non controlling interests	-	-	-	(30)	(30)	(32)	(62)
Transfer to special reserve	-	-	-	(4)	(4)	4	-
Purchase of non controlling interests	-	-	-	-	-	(15)	(15)
Contribution from non controlling interests	-	-	-	-	-	3	3
	-	-	-	(34)	(34)	(8)	(42)
At 31 March 2010	1,065	2,795	239	212	4,311	29	4,340

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 2011

	2011 £million	2010 Re-presented £million
Operating activities		
Profit from operations:		
Continuing operations	**1,032**	765
Discontinued operations	**7**	20
	1,039	785
Adjustments to reconcile profit from operations to cash generated from operations:		
Share of post tax earnings of associates and joint ventures	**(73)**	(99)
Depreciation and amortisation	**364**	359
Negative goodwill	**(16)**	-
Net gain on disposal of property, plant and equipment	**(24)**	-
Net gain on disposal of assets classified as held for sale	**-**	(2)
Impairment of investments in associates and goodwill	**4**	121
Net gain on acquisitions of controlling interests in associates	**(19)**	-
Increase in inventories	**(48)**	(73)
Increase in receivables	**(6)**	(40)
Increase in payables and provisions	**261**	143
Movement in retirement benefit assets and obligations	**(173)**	(64)
Cash generated from operations	**1,309**	1,130
Tax paid	**(59)**	(14)
Net cash from operating activities	**1,250**	1,116
Investing activities		
Acquisition of businesses	**(222)**	(11)
Cash and cash equivalents of businesses acquired net of overdrafts	**363**	-
Disposal of businesses	**62**	-
Overdrafts of businesses disposed net of cash and cash equivalents	**114**	-
Purchase of property, plant and equipment, and intangible assets	**(253)**	(255)
Purchase of available-for-sale investments	**(1)**	(12)
Purchase of profit participating notes	**(119)**	(36)
Loans advanced net of repayments	**(40)**	(3)
Disposal of property, plant and equipment, and intangible assets	**86**	14
Disposal of available-for-sale investments	**-**	2
Disposal of assets classified as held for sale	**7**	25
Dividends received from associates and joint ventures	**17**	39
Dividends received from available-for-sale investments	**2**	1
Interest received	**77**	49
Net cash from/(used in) investing activities	**93**	(187)
Financing activities		
Interest paid	**(377)**	(393)
Interest element of finance lease obligations	**(1)**	(2)
Proceeds from borrowings	**23**	39
Repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives	**(439)**	(666)
Fees associated with financing activities	**(15)**	(22)
Net cash and cash equivalents transferred from/(to) restricted cash	**63**	(5)
Repayment of capital element of finance lease obligations	**(10)**	(17)
Dividends paid to non controlling interests	**(18)**	-
Purchase of non controlling interests	**(66)**	(10)
Contribution from non controlling interests	**26**	3
Net cash used in financing activities	**(814)**	(1,073)
Net increase/(decrease) in cash and cash equivalents in the year	**529**	(144)
Cash and cash equivalents at 1 April	**72**	210
Currency translation differences	**(7)**	6
Cash and cash equivalents at 31 March	**594**	72

Glossary of key terms

Constant currency
Exchange rates applicable for the financial information for the year ended 31 March 2010.

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.

Like for like revenue
Like for like revenue on a constant currency basis compared to the comparable period in the previous year.

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