

Helping people look and feel their best



2007/08 Annual Review
for the period ended 31 March 2008



Our mission

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

- Performance-driven, we aim to set high standards that are recognised as the benchmark by all our stakeholders, including employees, manufacturers, pharmacists, consumers and payors.
- We intend that our brand portfolio will lead the industry and we aim to demonstrate unparalleled expertise in formulating, marketing, selling and distributing our own brands.
- We seek to create a strong shared culture and sense of identity and belonging for our team throughout the Group.

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Highlights

- Excellent financial performance
- Health & Beauty Division
 - good revenue growth with substantial increase in trading margin
 - biggest expansion of Boots pharmacy brand underway
 - UK integration programme accelerated
- Pharmaceutical Wholesale Division
 - performed well in particularly difficult market conditions
 - continuing to win logistics service contracts from pharmaceutical manufacturers
 - service offering expanded through acquisition of Central Homecare just after year end
- Completed entry into China through wholesale joint venture
- Strong cash generation from operations

To assist in understanding the performance of the Group, pro forma financial information has been prepared to show the results from continuing operations of the Group as if the two former groups (Alliance UniChem and Boots Group) had always been combined and the acquisition of Alliance Boots plc by AB Acquisitions Limited had taken place prior to 31 March 2006. The pro forma revenue and profit statement for continuing operations has been prepared on an adjusted basis, which means before exceptional items and amortisation of customer relationships and brands.

Detailed pro forma financial information, including the basis of preparation, is set out in the "Additional pro forma financial information for continuing operations" section on pages 34 to 36.

Group financial highlights – pro forma

Group

Revenue	up 4.8% to £15,304 million
Revenue including share of revenue of associates and joint ventures	up 6.3% to £17,788 million
EBITDA ¹	up 17.9% to £1,027 million
EBITDA including share of EBITDA of associates and joint ventures	up 17.8% to £1,119 million
Trading profit ²	up 20.3% to £771 million
Trading profit including share of trading profit of associates and joint ventures	up 20.1% to £854 million
Cash generated from operations ³	up 29.9% to £1,152 million

Health & Beauty Division

Revenue	up 4.2% to £6,848 million
Trading margin ⁴	up 1.2pp
Trading profit ²	up 20.1% to £603 million

Pharmaceutical Wholesale Division

Revenue	up 5.8% to £9,562 million
Trading margin ⁴	up 0.2pp
Trading profit ²	up 15.7% to £206 million

Associates and joint ventures

Share of post tax earnings before exceptional items ⁵	up 22.4% to £60 million
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¹ EBITDA comprises trading profit before depreciation and amortisation.

² Trading profit comprises profit from operations before exceptional items, amortisation of customer relationships and brands, and share of post tax earnings of associates and joint ventures.

³ Cash generated from operations excludes cash outflows relating to the merger of the two former groups and the acquisition of Alliance Boots plc by AB Acquisitions Limited.

⁴ Trading margin is trading profit expressed as a percentage of revenue.

⁵ In 2007/08 there were no exceptional items within share of post tax earnings of associates and joint ventures.

The statutory financial results for the period ended 31 March 2008 include the consolidated results of Alliance Boots plc from the time it was acquired by AB Acquisitions Limited on 26 June 2007 on an acquisition accounting basis.

Group financial highlights – statutory

Revenue	£11,865 million
Profit from operations	£535 million
Profit for the period attributable to equity shareholders	£10 million

A glossary of key terms and principal businesses, associates and joint ventures are included on pages 61 to 64. The 2007/08 Consolidated Financial Statements are published on our website www.allianceboots.com.

Our Group

Our purpose

Delivering products that help people look and feel their best.

Our values

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

- **Partnership** – includes respect, understanding and working together. We create and build value through partnerships and alliances, inside and outside the business. Together we can achieve more.
- **Trust** – the essence of the way we do business. We are trusted because we deliver on our promises.
- **Service** – we hold ourselves to high standards of care and service, for our customers and our people.
- **Entrepreneurship** – we are innovators, seeking new challenges and having a winning spirit.
- **Simplicity** – we are proud of being lean and efficient, uncomplicated and easy to do business with.

Pharmacy-led health and beauty retailing

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

We, together with our associates and joint ventures, operate more than 3,200 health and beauty retail outlets of which over 2,900 have a pharmacy. In Europe we are the clear market leader in pharmacy with outlets in the UK, Norway, Republic of Ireland, The Netherlands, Italy and Russia and we also have pharmacies in Thailand. Our associates and joint ventures operate pharmacies in Switzerland, China and Italy. In addition a further 26 Boots outlets operate on a franchised basis in the Gulf.

Our principal retail brand in the Health & Beauty Division is Boots, which we trade under in the UK, the Republic of Ireland and Thailand and which we are currently trialling in Norway. The Boots offering is differentiated from that of our competitors due to the well established product brands which we own

and our “only at Boots” exclusive products, together with our long established reputation for trust and customer care.

We recognise the special status of Boots as a trusted UK brand and institution and are seeking to enhance our position as a leading provider of healthcare, beauty advice and services in local communities, by increasing investment in existing stores and by expanding our store portfolio.

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



Products

Both our Divisions are increasingly seeking to enhance their customer offering through accelerating the development of differentiated products.

In our Health & Beauty Division we have highly regarded and long established product brands such as Boots, No7, Soltan and Botanics. We see our product development, packaging and product marketing capabilities as very important but often unrecognised strengths of the Group and we continue to manufacture a significant proportion of the own product brands that we sell.



110,000+

over 110,000* employees

20+

with a presence in over 20* countries

370+

operating over 370* pharmaceutical wholesale warehouses

135,000+

delivering over 135,000* pharmacies, doctors, health centres and hospitals

3,200+

operating more than 3,200* health and beauty retail outlets of which over 2,900* have a pharmacy

210 million+

dispensing more than 210 million* items each year

* Figures stated are as at 31 March 2008, are approximate and include associates and joint ventures.

Pharmaceutical wholesaling

Our pharmaceutical wholesale businesses, together with our associates and joint ventures, supply medicines, other healthcare products and related services to over 135,000 pharmacies, doctors, health centres and hospitals from over 370 warehouses in 15 countries. In addition, our associates themselves have associates in a further two countries.

Our businesses, the majority of which now trade as Alliance Healthcare, provide high core service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability at competitive prices. We also offer our customers innovative added-value services which help pharmacists develop their own businesses. We consistently deliver high standards of efficiency and effectiveness.

In addition to the wholesale of medicines and other healthcare products, we provide services to pharmaceutical manufacturers who are increasingly seeking to gain greater control over their product distribution while at the

same time outsourcing non-core activities. These services include prewholesale and contract logistics, direct deliveries to pharmacies and specialised medicine delivery including related home healthcare.

Scale is very important in pharmaceutical wholesaling. Alliance Boots ranks as one of the top three pharmaceutical wholesalers/distributors in almost all Western European markets in which we operate and in the last few years we have entered the fast growing Russian and Chinese markets. We continually seek to grow our wholesale and related distribution activities organically and through acquisitions, including investments in associates and joint ventures. These acquisitions are either in current or complementary business areas in countries in which we already operate or in new geographical markets which are typically large, fast growing and where we see the potential for market consolidation.

Almus, our exclusive range of generic medicines, is now sold by our Pharmaceutical Wholesale Division in four countries in addition to being available on prescription from our own pharmacies in the UK.

The Pharmaceutical Wholesale Division is also developing its range of Alvia healthcare products and selling Boots brands directly to third party retailers in the US and other countries.



Executive Chairman's statement



Welcome to the first Annual Review of Alliance Boots as a private healthcare company. We have simultaneously published full Consolidated Financial Statements for the Group and will publish a separate 2007/08 Corporate Social Responsibility Report in September 2008. This reporting demonstrates our desire and commitment to be at the forefront of best practice corporate governance reporting and is beyond the minimum standards set out in the “Guidelines for Disclosure and Transparency in Private Equity” issued in November 2007 (commonly referred to as the “Walker Report”).

At the time of our last results announcement as a UK quoted public company, our then Chairman, Sir Nigel Rudd, spoke both of the success of the merger between Alliance UniChem and Boots completed at the end of July 2006 and of the potential for the Group going forward. In this, my first report to you as Chairman, I find myself a year later with a similar message to deliver. Before I do, on behalf of everyone at Alliance Boots I would like to take this opportunity to thank Sir Nigel Rudd together with Richard Baker and Scott Wheway, who both decided to leave the Group when it was taken private, for their significant contributions to Boots Group and to Alliance Boots during their time with us.

Alliance Boots has produced an excellent set of financial results in what is our first full financial year since the merger, which includes nine months of trading as a private company.

It is a testament to the strength of the Group formed by the merger that, despite another significant change from being a publicly owned listed company to being privately owned, we have continued to provide ever improving service to our customers. The benefits from the change of ownership, in terms of the opportunity to reallocate and refocus management time on key areas of the Group, have allowed us to significantly accelerate many areas of the integration programme, to step up the rate of product development and to instigate efficiencies in areas that would have been very difficult for us as a listed company. These have been key factors in the significant improvement in our financial performance.

Now, almost two years after the merger, we are increasingly seeing the real potential for the Group being realised, but we are still at an early stage and have a great deal to do and a great deal of potential to unlock.

Refocusing on our businesses

As a listed company, the higher up the organisation the greater percentage of management time that is needed to be spent in ever increasing reporting and information demands, not just from actual investors but market regulators and market commentators.

Since the Group transferred to private ownership in June 2007, a primary task for us has been to restructure our senior management team to place a much closer top level focus on the operations of our two Divisions. I became Executive Chairman of the Group with the executive members of a newly established Group operating committee all reporting directly to me. In our Health & Beauty Division we appointed Steve Duncan as Executive Chairman and Alex Gourlay as UK Managing Director to lead the accelerated integration of our two UK pharmacy-led health and beauty businesses. Ornella Barra, Wholesale & Commercial Affairs Director has continued to lead our Pharmaceutical Wholesale Division. George Fairweather has continued as Group Finance Director and Marco Pagni, our Group Legal Counsel, also became Chief Administrative Officer. The other executives on our Group operating committee are Stephen Lehane, who is responsible for human resources and corporate affairs, and Ken Murphy, who heads up our business transformation programme. This team, together with Dominic Murphy and Mattia Caprioli from Kohlberg Kravis Roberts (KKR), forms our Group operating committee.

Delivering accelerated performance

After the merger was completed we took pride in the fact that we managed such a major transition while maintaining our focus on delivering great service to our customers. I am pleased to report that this excellent start to life for Alliance Boots has continued through the first stages of our restructuring under private ownership, with our success in enhancing our operational performance being reflected in a strong financial performance by the Group.

The roots of this strong performance can be seen in the performance of both our Divisions. Our Health & Beauty Division has delivered good revenue growth while at the same time substantially increasing its trading margin. Our Pharmaceutical Wholesale Division has also performed well in what were particularly difficult market conditions in many countries. Once again this demonstrates the value of having a wide geographical spread of businesses.

As ever, a common feature of the year has been regulatory changes in a number of our markets as governments try and contain rising healthcare

expenditure. It is a testament to the skills of our people and the strength of our business model that we continue each year to be able to cope with these demands and deliver good profit growth.

In addition to this strong operating performance, our new ownership has allowed us to spend more time on the future expansion of our Group. We have expanded and broadened the scope of our corporate development activities as we see many opportunities opening to us in this area. I am confident that private ownership will afford us the ability to accelerate our activities in the future.

Corporate governance

Our Annual Review and Consolidated Financial Statements have been published by Alliance Boots GmbH, a new Group holding company which we recently established in Switzerland. We have chosen to locate the overall stewardship and governance of the Group in Switzerland as we believe it enhances the position of Alliance Boots as a leading international pharmacy-led health and beauty group alongside a number of the world's leading pharmaceutical manufacturers.

In addition to myself, the Board now comprises four executive Directors (Ornella Barra, Steve Duncan, George Fairweather and Marco Pagni), three KKR Directors (Dominic Murphy, Mattia Caprioli and Sergio D'Angelo) and four recently appointed non-executive Directors (Chris Britton, Tony De Nunzio, Etienne Jornod and Nick Land). The principal Board committees are the audit committee, remuneration committee and social responsibilities committee.

Corporate social responsibility

We are committed to maintaining our tradition of excellence in corporate social responsibility, both in terms of performance and reporting. In addition to the section in this review we will publish a separate 2007/08 Corporate Social Responsibility Report in September 2008. This report will be significantly more comprehensive in terms of reported measures than we were able to collate and publish in the first year following our merger.

Our people

We understand the many challenges that lie ahead and have the people and skills in our organisation to meet these challenges.

Over 100 senior managers across the Group were invited to participate in a management equity plan which is designed to enable them, as investors, to share in the future financial success of the Group through an investment of personal capital. In total, they invested £9 million of capital.

All our people have worked hard this year and delivered far more than many commentators and observers thought possible. On behalf of the Board I would like to take this opportunity to thank them for their excellent work and commitment.

Foundation for future success

Since our year end, the Group has continued to perform well, reflecting the underlying strength of our two core business activities and the markets in which we operate. We remain confident about our prospects for the year ahead, despite the weaker outlook for overall consumer spending in the UK, as the benefits of refocusing our management efforts continue to enhance the performance of our businesses.

Looking further ahead, the pressures on Alliance Boots will not change. We must continue to focus on meeting our customers' and payors' rising expectations while at the same time increasing efficiency.

The new ownership structure of Alliance Boots gives us greater flexibility and agility to accelerate business improvement programmes and capitalise on new opportunities.

This is a great Group, with great brands and market leading positions in attractive markets. We are committed to the development and growth of Alliance Boots and believe that we are on an evolution that will truly create the world's leading pharmacy-led health and beauty group with the strength, ability and drive to deliver for our customers, our people, and the communities in which we operate – whoever and wherever they may be.

Stefano Pessina
Executive Chairman
4 June 2008

Market and business environment

Alliance Boots operates in highly attractive markets with potential for significant long term growth. Major demographic and social trends continue to drive increases in demand for pharmaceutical products and related healthcare services. In parallel with this is a growing focus on personal well-being in developed and developing countries coupled with increased personal wealth. This is resulting in an increased awareness of personal care which is driving growth in health and beauty products and services.



An ageing population: a prescription for growth

The most important factor determining market growth for prescription medicines is increasing life expectancy. As populations age, demand for medicines and healthcare services rapidly increases. On average, around 75% of all pharmaceuticals used in an individual's lifetime are required after the age of 65. As well as living longer, people have increasingly higher expectations in terms of quality of life. Across Europe and beyond, consumers want products and services that help them to feel and look good. We expect these demographic and social trends to drive growth in our healthcare markets for at least the next 20 years.

Governments' need to control costs

As demand for medicines and healthcare services increases, governments seek to curtail increases in healthcare expenditure, remain within budgets and limit the burden on tax payers. As a result, every part of the supply chain – from manufacturers to wholesalers, from doctors to pharmacists – comes under increasing pressure each year to be more efficient. In time we believe that this is likely to lead to deregulation of pharmacy ownership in more European markets although the timing of this remains highly uncertain.

The rise of generics and medicines available for retail purchase

As demand for pharmaceuticals grows, governments are exerting increasing pressure on doctors to prescribe cheaper generic medicines. Throughout the supply chain, although the effect is to reduce revenues, major pharmaceutical wholesalers like us can deploy scale and international sourcing capabilities to secure lower prices and better margins on generics in a way which legislation typically does not permit for branded products. We expect that prescription volumes will continue to grow though value will increase less rapidly as a result of increasing generic penetration.

Similarly governments are increasing the number of medicines available for retail purchase – such as treatments for hay-fever and high cholesterol levels – which has important implications for our market. Our healthcare expertise means that we are strongly placed to secure large market shares of these new areas, in part through developing better value own brand product ranges which customers trust as substitutes for leading brands.

Pharmacy: a new focal point for healthcare provision

The role of the pharmacist is changing in a way that presents us with exciting growth opportunities. In continental Europe pharmacists have traditionally been regarded as trusted healthcare advisers but in some markets, such as the UK, these highly qualified professionals have been an under-valued resource. We believe that it is important that pharmacists seize the opportunity to deliver healthcare services so that the value of their role as providers of personal healthcare advice continues to increase rapidly.

Competition from alternative distribution channels, such as supermarkets and internet retailers, means that pharmacy-led retailers must differentiate themselves through quality of advice and expertise and through stocking specialist product ranges which customers trust.

Pharmaceutical wholesaling: opportunity in consolidation

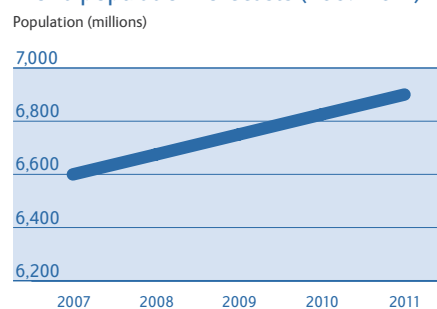
In our core European pharmaceutical wholesaling markets consolidation amongst wholesalers is continuing as regulatory and market changes put increasing pressure on small regional wholesalers. We believe that this consolidation is likely to accelerate.

Growing demand for direct distribution to pharmacies

A key trend is an increase in the number of branded ethical pharmaceutical manufacturers switching from selling via pharmaceutical wholesalers to selling direct to pharmacies using relatively few third party distributors to deliver the product, invoice customers and collect payments.

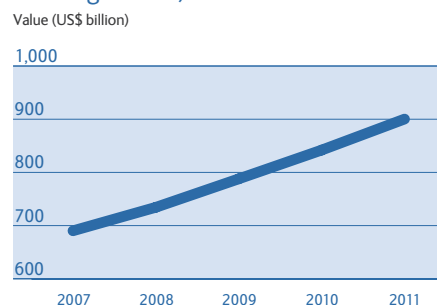
Key factors

World population forecasts (2007-2011)



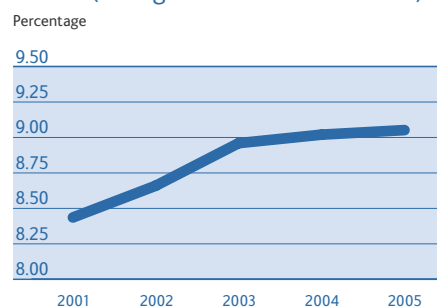
Source: IMS Global Prognosis Report 2007-2011

World pharmaceutical market forecasts (at ex-manufacturer prices using constant exchange rates*)



Source: IMS Global Prognosis Report 2007-2011
* Constant exchange rates based on average rates for quarter 4 2006 as recorded by IMS Health

Healthcare expenditure as a percentage of GDP (average across OECD countries)



Source: OECD Health Data 2007 / World Health Organisation (World Health Statistics 2008)

Group strategy and objectives

The strategy for the Group is to continue to grow and develop our core businesses of pharmaceutical health and beauty retailing and pharmaceutical wholesaling in existing geographical markets, to pursue growth opportunities in new markets and to continue to deliver our merger cost savings. We believe that doing this will enable us to achieve sustained growth and turn our vision for Alliance Boots into reality.

Grow our core businesses in existing geographical markets

In existing geographical markets our strategy is to grow our two core business activities, including related healthcare services, both organically and through acquisitions. We believe that we have the capabilities to achieve this, including the customer insight, brands, scale, financial strength, organisation and people.

Pursue international growth opportunities in new markets

As a result of the merger and subsequent move to private ownership, we see Alliance Boots as having the skills, resources and financial strength to execute our strategy of moving profitably into large and fast growing new international markets in pharmacy-led health and beauty retailing and pharmaceutical wholesaling through acquisitions and partnerships, including investments in associates and joint ventures. We also plan to capitalise further on the strength and international appeal of Boots branded products.

Continue to deliver the cost savings announced at the time of our merger

At the time our merger was announced we committed to delivering cost savings of at least £100 million per annum by the fourth full year following completion of the merger. This started with harmonising buying prices and reducing corporate costs and we are on track with our longer term project to streamline our combined distribution network in the UK. Since becoming a private company we have been able to focus on accelerating the programme.

Pharmacy-led health and beauty

Our strategy for our Health & Beauty Division is to capitalise on the largest pharmacy chain in Europe while in parallel maximising the value of the Boots brands in new and established markets.

Rolling out the Boots brand

Since our merger, we have combined Boots and Alliance Pharmacy in the UK into one business and developed a multi-format strategy for our customers in order to provide the best product offer and service for each segment of the market.

We have embarked on a major expansion of the Boots brand with its strong association with expertise and trust which will further strengthen our position in the UK market. Our community pharmacies are in the process of being re-branded as “your local Boots pharmacy”, focusing on healthcare and dispensing. Our larger Boots health and beauty stores will continue to offer “destination shopping” with a far wider range of products including all Boots leading brands, the larger stores also having beauty halls with beauty consultants and premium cosmetics. Our Boots airport concessions are increasingly having more targeted ranges to meet the needs of travellers.

We also intend to adapt and develop the Boots branded pharmacy format for greater use outside the UK and are currently trialling this in Norway, the initial results of which are very encouraging.

Increasing and optimising our UK store portfolio

Despite the size of our current UK store portfolio, we believe that there is still considerable potential for us to grow our presence in this market through refurbishing, opening and relocating stores, acquiring pharmacies and better integrating these with an upgraded Boots.com internet offering.

Over 25% of the UK population still does not have easy access to one of our pharmacies. To address this need, we continue to open new stores, particularly in edge of town locations and new shopping centres, and continue to acquire community pharmacies.

We believe that we can further increase sales by optimising our property portfolio. This is based on a review we conducted of our combined store portfolio which enabled us to identify many local markets in which we could better serve the needs of our retail and prescription customers through rationalisation or relocation. As a result, the relocation programme is now well underway.

Building on our product brand expertise

Our brand expertise, coupled with strong product development and sourcing capabilities, is an asset we will continue to build on. Boots own brand products hold market leading positions in the UK and provide a springboard for further profitable brand development.

Developing the role of our pharmacists

Our pharmacists are the embodiment of the trusted expertise in healthcare that is at the heart of the Boots brand. The continued recognition of the pharmacists’ expertise and training has formed a significant element of the evolution of the trend towards self-medication, preventative healthcare and advances in personal well-being, both in the UK and other countries. Our brand and positioning is intrinsically linked to this and the relationship that our pharmacists have with their patients is central to the public’s trust in Boots, its products and its services.

Potential for European growth

In continental Europe, we expect over time to see deregulation of pharmacy ownership in a number of countries. In the meantime we continue to increase our presence in Norway and the Republic of Ireland, mainly through new store openings. Since the year end we completed our first pharmacy acquisition in the Republic of Ireland for many years.



Pharmaceutical wholesaling

Our Pharmaceutical Wholesale Division, Alliance Healthcare, aims to provide our pharmacy and manufacturer customers with high service levels at competitive prices.

Our wholesale and related prewholesale and contract logistics businesses combine these high customer service levels with volume-led efficiencies. Scale delivers crucial benefits in terms of minimising costs and maximising effectiveness.

Continued expansion is a priority and we recognise that, as our established markets mature, we must invest to establish Alliance Healthcare in new geographical markets with major growth potential. Organic growth, through continued improvements in core service levels, product differentiation and providing a value added service offering, will be supported by growth through acquisitions.

Achieving organic growth

To increase our competitiveness and ensure profitable growth in our established European markets, we are continually seeking to add value to our offering to all parts of our customer base including pharmacists, payors and manufacturers.

In particular, we are responding innovatively to a changing business environment in which some major pharmaceutical manufacturers are looking to bypass traditional wholesalers and do business directly with pharmacists. By adjusting our business model, we have turned this development into an opportunity by providing a new contract delivery service tailored to manufacturers' needs. For Alliance Healthcare, an added benefit of this new service offering is that manufacturers retain ownership of the product, freeing up working capital that we can reinvest in other areas of the business.

In addition to continued improvements in core service levels, we seek to differentiate our offering to pharmacists through the provision of value added services, including membership of Alphega Pharmacy, through Almus, our exclusive range of generic drugs, and through our Alvita branded healthcare products.

We see demand for more pharmacy focused high quality product brands at attractive prices and so are at the early stages of developing new product ranges to be sold through our wholesale network to our independent pharmacy customers. These will enable our customers to further differentiate their retail offering and maximise the value of their front of pharmacy operation.

Increasing efficiency, driving down costs

Since our merger, interaction between our Health & Beauty and Pharmaceutical Wholesale Divisions has delivered significant business benefits, particularly in the UK. Our position as a major pharmacy-led health and beauty group enables us to increase the efficiency of our pharmaceutical wholesaling operation through combined buying, the potential for predictive ordering and the implementation of joint development of ordering and sourcing.

In addition, our expertise in margin management and the scale of our operation will continue to enable Alliance Healthcare to obtain productivity savings and remain price competitive.

Moving into new markets

In assessing the attractiveness of new markets, we take into account three main factors:

- Regulatory environment: is the healthcare framework in place to ensure stability and reimbursement?
- Population size: is it big enough to fuel significant growth and justify the cost of market entry?
- Opportunity: can we see a way of achieving scale within the market relatively quickly?

In most cases we want to make our move into a new market when it is at an early stage of consolidation, with national pharmaceutical wholesalers beginning to emerge, so that we can see which management teams have the strength and skills to drive the consolidation and which are likely to be left behind in that process.



Your local Boots pharmacy

Following the successful trial of our new “your local Boots pharmacy” branded format in which we saw substantial increases in both retail sales and dispensing volumes, we decided to roll-out this new format over a two year period to the majority of our community pharmacies.



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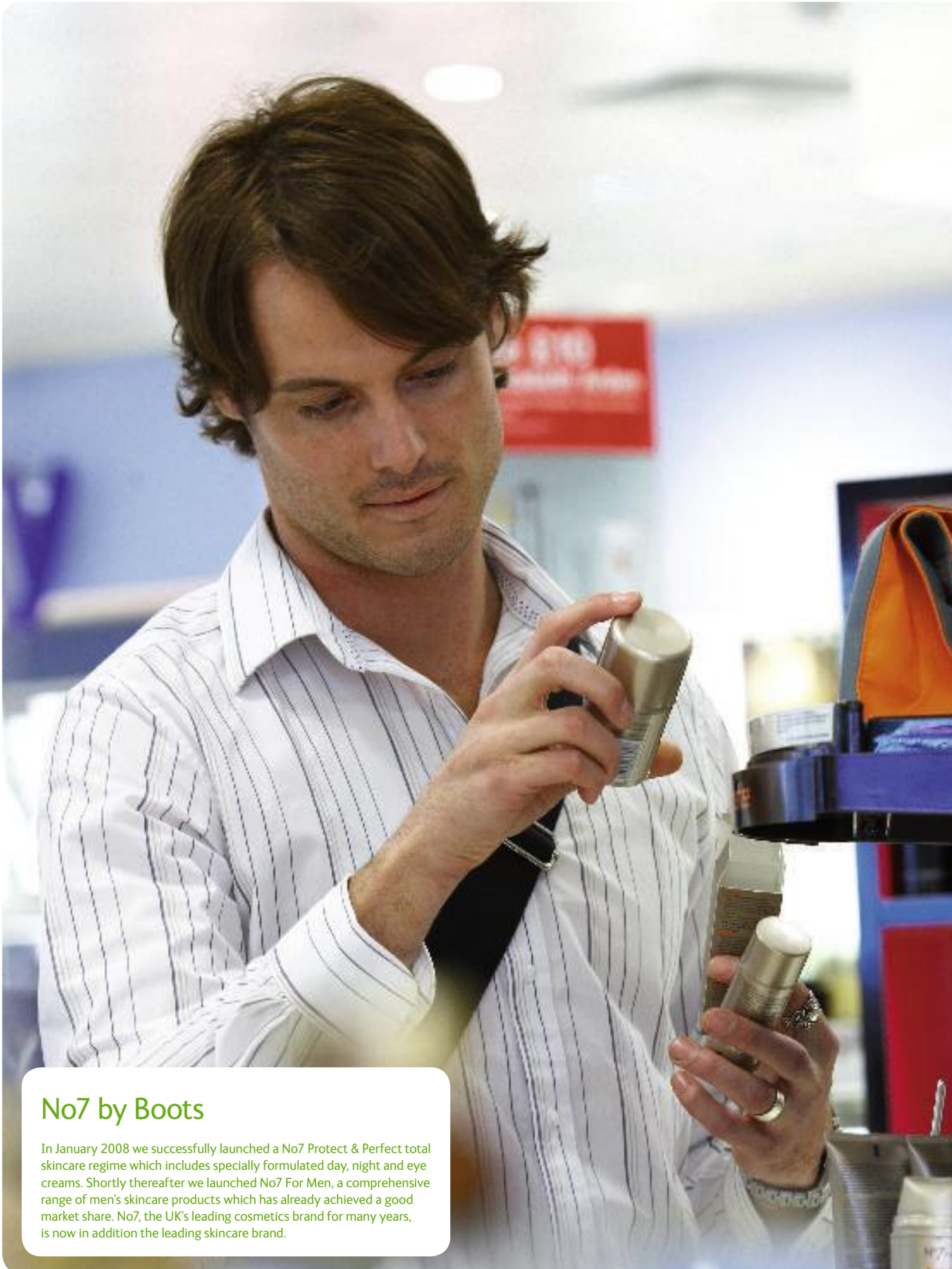
Rolling out the Boots brand

The formation of Alliance Boots presented us with multiple opportunities to roll out the Boots brand and capitalise on and enhance its strength as one of the UK's most trusted brands.

A detailed survey was conducted across our Boots and Alliance Pharmacy outlets in the UK, under the title "Best of Both", to identify areas of excellence and best practice. The findings were used to develop a range of customer focused trading formats, using the experience and best practice from both former businesses, that will enable us to improve our pharmacy and retail proposition, including bringing together our pharmacies in the UK under the Boots brand.

We are in the process of re-branding our community pharmacies as "your local Boots pharmacy", continuing their traditional focus on healthcare and dispensing but adding a selection of the Boots healthcare related offerings and remerchandising the retail areas of the pharmacy to offer a carefully selected Boots own brand product range.

In parallel with this, we have begun to look at how we can best capitalise on the Boots brand outside the UK and are trialling its use as a pharmacy brand in Norway, where initial results are very encouraging.



No7 by Boots

In January 2008 we successfully launched a No7 Protect & Perfect total skincare regime which includes specially formulated day, night and eye creams. Shortly thereafter we launched No7 For Men, a comprehensive range of men's skincare products which has already achieved a good market share. No7, the UK's leading cosmetics brand for many years, is now in addition the leading skincare brand.



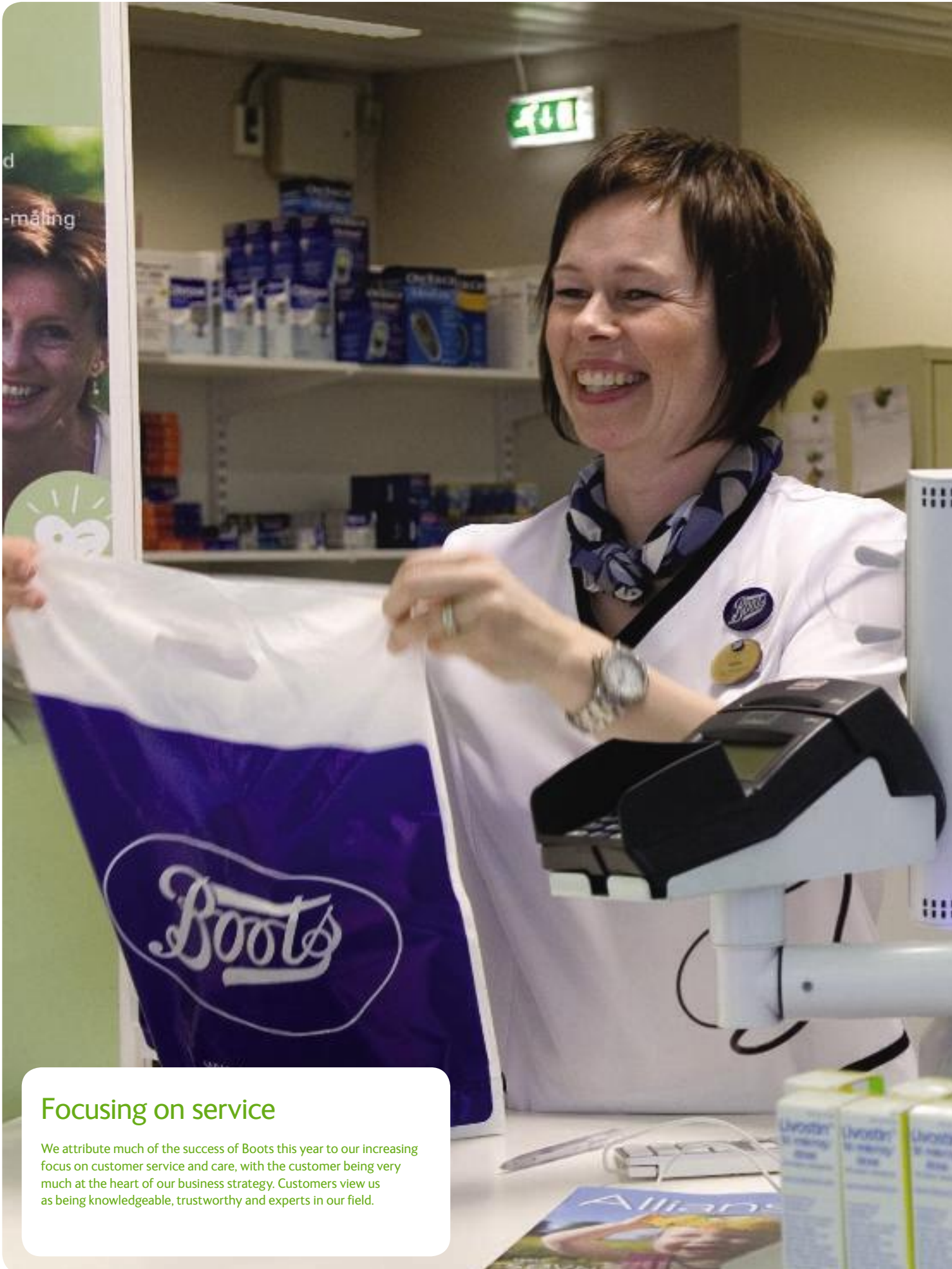
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Building on our product brand expertise

At the core of the Boots brand are two fundamental elements. The first is the Boots health and beauty store, with its long-standing reputation based on trust. The second, and perhaps better recognised of the two outside the UK, is the portfolio of high quality products we develop and produce.

Many of our product brands, such as No7 skincare and cosmetics and Soltan suncare products, hold market leading positions in the UK.

Almost all of our own brand retail products are developed in our own product development, testing and customer evaluation facilities. These facilities provide us with a significant skill base and resource on which to evolve and grow our product portfolio to address opportunities in the UK and other countries.



Focusing on service

We attribute much of the success of Boots this year to our increasing focus on customer service and care, with the customer being very much at the heart of our business strategy. Customers view us as being knowledgeable, trustworthy and experts in our field.



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Developing the role of our pharmacists

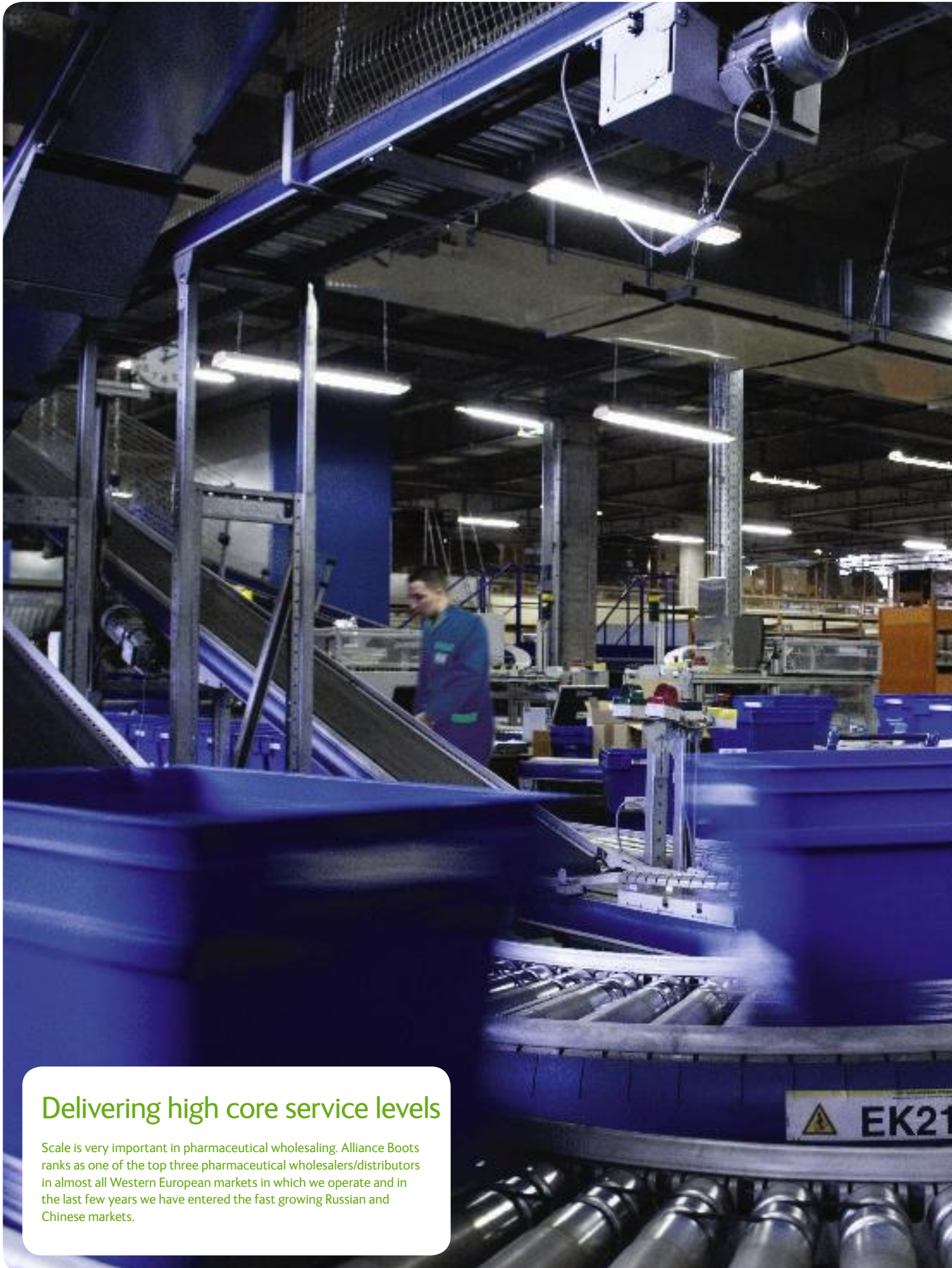
Alliance Boots has a strong track record of championing the role of the retail pharmacist in all the markets in which we operate.

Both Alliance UniChem and Boots were recognised in the profession as being leading exponents of the development of pharmacy services and for ongoing training for pharmacists and their healthcare teams. We offer pharmacists opportunities for career development unrepresented in the profession, with pharmacists present in every level of our management structure right the way up to the Board.

Our pharmacies offer a variety of patient monitoring and advice services based on in-house developed training programmes. These programmes are of such a high standard that many of them form the basis of the training operated by the independent professional bodies for pharmacists and are made available to independent pharmacists both through those bodies and via the suites of value added services that our wholesale businesses offer their pharmacist customers.

We strongly believe that a high quality professional pharmacy body offers the highest level of service to the patient and the best value for money for healthcare payors. This is based as much on each pharmacist's ability to monitor and advise their patients in their local communities as on their recognised expertise in dispensary disciplines, working alongside doctors and other care providers as part of the local community healthcare team.

The quality of our people and of the service that we offer through them is core to our brand and our businesses. We remain totally committed to the development of excellence in pharmacy service, both within our own pharmacies and in the pharmacies we support.



Delivering high core service levels

Scale is very important in pharmaceutical wholesaling. Alliance Boots ranks as one of the top three pharmaceutical wholesalers/distributors in almost all Western European markets in which we operate and in the last few years we have entered the fast growing Russian and Chinese markets.



4

Improving pharmaceutical wholesaling efficiency and service

Efficiency, accuracy and high levels of service have always been core disciplines for our pharmaceutical wholesaling businesses.

As the business model for wholesale changes through a combination of regulatory change and pressure for manufacturers looking for new ways to gain greater control of their products' supply chain, these disciplines are becoming more important – but are coupled with the scale and capacity to be able to work for the largest manufacturers yet support the smallest of community pharmacies.

We have an established and efficient wholesale infrastructure that is designed specifically to service both elements of this specialist distribution requirement.

Our scale and efficiency have made us the distribution partner of choice for manufacturers seeking to outsource elements of their supply chain or to operate a direct to pharmacy distribution service, while our quality of service and range of value added services allow us to remain a leader in pharmaceutical wholesaling in the markets in which we operate.

From tailored contract delivery for major pharmaceutical companies, through marketing support and data provision right through to support for individual pharmacists in terms of ongoing training, product data information, store management systems and merchandising advice and support, Alliance Healthcare's wholesale and distribution services are recognised as being a true leader in terms of service, innovation and reliability.

Pro forma financial results and operating review

Introduction

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.

Pro forma financial results

To assist in understanding the performance of the Group, pro forma financial information has been prepared to show the results from continuing operations of the Group as if the two former groups had always been combined and the acquisition of Alliance Boots plc by AB Acquisitions Limited had taken place prior to 31 March 2006. The pro forma revenue and profit statement for continuing operations has been prepared on an adjusted basis, which means before exceptional items and amortisation of customer relationships and brands.

Detailed pro forma financial information, including the basis of preparation, is set out in the “Additional pro forma financial information for continuing operations” on pages 34 to 36.

Alliance Boots has delivered an excellent set of financial results in our first full financial year since the merger, which included nine months of operating under private ownership. The Health & Beauty Division delivered good revenue growth while at the same time substantially increasing its trading margin. The Pharmaceutical Wholesale Division also performed well in what were particularly difficult market conditions in many countries.

Revenue increased year on year by 4.8% to £15,304 million, like for like revenue increasing by 1.9%. Trading profit (which comprises profit from operations before exceptional items, amortisation of customer relationships and brands, and share of post tax earnings of associates and joint ventures) increased by 20.3% to £771 million and EBITDA on the same basis by 17.9% to £1,027 million. For associates and joint ventures our share of post tax earnings before exceptional items increased by 22.4% to £60 million. Total EBITDA, including our share of EBITDA of associates and joint ventures, increased by 17.8% to £1,119 million.

Cash generated by operations was strong during the year, including a net working capital inflow of £183 million. This has enabled us to fund investment to grow our businesses. We invested £285 million of cash on capital expenditure, a large proportion of which was spent on upgrading retail stores and on logistics. In addition, £184 million of cash was invested in new acquisitions, associates and joint ventures, including £138 million for the purchase of 108 pharmacies in the UK and £41 million on our new wholesale joint venture in China. Net borrowings at the year end were £8,746 million and shareholders' equity was £4,013 million.

Business transformation

Following the move to private ownership in June 2007, we have been able to dedicate much of our efforts on accelerating the transformation of our Group to further improve performance.

Our primary focus has been on delivering previously announced and newly identified cost savings, commencing the integration of Boots and Alliance Pharmacy in the UK including the re-branding of our community pharmacies, progressing opportunities to develop Boots outside the UK and expanding our pharmaceutical wholesaling operations, both internationally and in related business areas, ensuring that we continue to meet customer expectations in terms of products and service.

During the year we delivered £68 million of merger cost savings, primarily from harmonised buying prices and reduced corporate costs, and remain on track with the longer term project to streamline our combined distribution network. This means that we have already reached our initial goal of achieving 60% of our £100 million per annum target merger cost synergies by 31 July 2008 and we still expect to achieve the overall target by July 2010.

Divisional highlights

for the year ended 31 March 2008

	Revenue £million	Trading profit £million	Year on year growth	
			Revenue	Trading profit
Health & Beauty	6,848	603	+4.2%	+20.1%
Pharmaceutical Wholesale ¹	9,562	206	+5.8%	+15.7%
Contract Manufacturing & Corporate Costs	105	(38)	+22.1%	
Intra-group	(1,211)	–		
Group ²	15,304	771	+4.8%	+20.3%
Share of revenue & trading profit of associates and joint ventures	2,484	83	+17.3%	+18.6%
	17,788	854	+6.3%	+20.1%

¹ Own brand exports are included in the results of the Pharmaceutical Wholesale Division, having previously been separately reported. Comparatives have been restated to reflect this management change.

² Group trading profit comprises profit from operations before exceptional items, amortisation of customer relationships and brands, and share of post tax earnings of associates and joint ventures.

In the pro forma operating and financial review, the Health & Beauty Division results are further split between the UK and International businesses, given the relative size of our UK business.

A glossary of key terms and a list of principal businesses, associates and joint ventures are included on pages 61 to 64.

Health & Beauty Division



The Boots offering is differentiated from that of our competitors due to the well established product brands which we own and our "only at Boots" exclusive products, together with our long established reputation for trust and customer care.

Performance overview

The Health & Beauty Division delivered good revenue growth while at the same time substantially increasing its trading margin. Revenue increased year on year by 4.2% to £6,848 million, trading profit increased by 20.1% to £603 million and trading margin increased by 1.2 percentage points to 8.8%. On a constant currency basis revenue increased by 3.7% in total, up 3.6% on a like for like basis, and trading profit increased by 19.7%.

Health & Beauty Division highlights

for the year ended 31 March 2008

	Total £million	Year on year growth	
		Total	Like for like
Revenue			
UK	6,153	+3.3%	+3.6%
International:			
Norway	295	+10.5%	+0.1%
Republic of Ireland	184	+18.7%	+10.0%
The Netherlands	147	+6.5%	+2.6%
Thailand	47	+27.0%	+5.2%
Italy	20	0.0%	-2.8%
Russia	2	n/a	n/a
	695	+12.5%	+3.6%
	6,848	+4.2%	+3.6%
Trading profit			
UK	565	+20.5%	
International	38	+15.2%	
	603	+20.1%	
Trading margin			
UK	9.2%	+1.3pp	
International	5.5%	+0.2pp	
	8.8%	+1.2pp	

Health & Beauty Division at a glance

Health & Beauty Division retail outlets
at 31 March 2008

	With a pharmacy	Without a pharmacy	Total
UK	2,351	267 ¹	2,618
International:			
Norway	137	11	148
Republic of Ireland	43	5	48
The Netherlands	78	–	78
Thailand	141	–	141
Italy	20	1	21
Russia	14	–	14
	433	17	450
	2,784	284	3,068

¹ Includes 106 standalone optical practices.

“Here come the girls”

Trading in the run-up to Christmas was good, assisted by our award winning “Gorgeous” TV led advertising campaign based on the office party.



No7 by Boots

Sales of our No7 cosmetics and skincare brand grew very significantly year on year, partly as a result of very high customer demand for our award-winning No7 Protect & Perfect Beauty Serum, a successful No7 marketing programme and continuing new product development with a strong pharmaceutical focus.





76,000

Over 76,000 employees

3,068

Working in 3,068 retail outlets



Exclusive product ranges

Our own product brands, such as Boots, No7, 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.



Strong brands

Our strategy is to capitalise on the potential and strength of our leading brands and the trust in which they are held, and to build strong relationships with customers.



Market leading positions

Our Soltan own brand holds the market leading position in the UK sun care market.

UK revenue by product category

for the year ended 31 March 2008

	£million	Mix	Year on year growth
Dispensing & Related Income	2,150	34.9%	-0.5%
Retail:			
Retail Health ¹	940	15.3%	+1.2%
Beauty & Toiletries ²	1,923	31.3%	+11.2%
Lifestyle ³	1,140	18.5%	+0.2%
	4,003	65.1%	+5.5%
	6,153	100.0%	+3.3%

Health & Beauty Division – UK

In the UK total revenue increased year on year by 3.3% to £6,153 million, growth being held back by the sale of 94 pharmacies in spring 2007 to comply with the pharmacy divestment undertakings given to the Office of Fair Trading at the time they approved the merger of Alliance UniChem Plc and Boots Group PLC. Like for like revenue increased by 3.6%, retail like for like revenue (which excludes Dispensing & Related Income) increasing by 5.7%. Trading profit increased by 20.5% to £565 million and trading margin by 1.3 percentage points to 9.2%.

Total dispensing volumes increased year on year by 3.3% to 188 million items, growth being held back by the sale of the 94 pharmacies which were mainly in community locations with a high percentage of prescription business. Items growth on a like for like basis increased by 3.9%, our growth being particularly strong in prescriptions collected on behalf of patients from doctors' practices and in prescriptions supplied to care homes. Dispensing & Related Income reduced slightly in value as a result of downward adjustments to reimbursement rates in relation to generic prescription medicines which came into effect in England and Wales in October 2006, July 2007 and October 2007 and slowed dispensing market growth in value terms. As usual, we are taking steps to mitigate the impact of these changes where possible.

Related Income from pharmacy services, which currently comes primarily from Medicine Use Reviews and other locally commissioned services, while still relatively modest, increased year on year by more than 40%. Our pharmacists in England and Wales carried out 384,000 Medicine Use Reviews during the year which was more than double the number carried out in the previous year. We have a market leading position in the provision of such services with over 75% of our pharmacies incorporating private consultation facilities. In England the smoking ban in public indoor spaces was introduced in July 2007. Since then we have seen a significant increase in customer usage of our smoking cessation services.

The National Health Service has delayed its plans for electronic prescriptions to be fully operational across all pharmacies in England. The initial service, which we fully deployed into all our pharmacies in England and Wales over a year ago, enables pharmacies to scan barcodes on paper subscriptions printed by doctors. Once the vast majority of doctors and pharmacies have the new system operational, printed barcoded prescriptions will be superseded by electronically

transferred prescriptions from the doctor to the patient's nominated pharmacy. A similar electronic prescription service is now scheduled to begin roll-out in Scotland in 2009.

As the leading operator of retail pharmacies in the UK, with significantly more outlets and prescription volume than any other operator, we remain committed to making high quality healthcare more available and accessible. We now provide pharmacy services up until midnight in more than 70 of our pharmacies and in addition are starting to have doctors' surgeries operate in Boots stores. The first surgery opened during the year utilising space surplus to retail requirements with a further two having opened since the year end. We intend to significantly increase the number of such surgeries over the coming years.

Revenue in the Retail Health category, where we are the market leader, increased by 1.2% to £940 million. Sales of non-prescription medicines more than offset a decline in other retail healthcare products such as footcare. Optical revenue from owned practices increased by 3.5% on a like for like basis.

We continue to develop our differentiated healthcare product offering, including our extensive range of Boots branded healthcare products, building on our excellent reputation for customer care and trust. In the New Year we ran a successful "change one thing" campaign for the third consecutive year, reflecting many of our customers' desires to lead more healthy lifestyles. The Boots Health Club, which enables customers to receive targeted healthcare information on specific health issues, more than doubled its membership during the year and now has over 3.7 million members. With over a third of its members being aged 60 or over it particularly appeals to our older customers who, as members, are entitled to a 10% discount on our Boots own brand healthcare products.

Revenue in the Beauty & Toiletries category, where we have leading market positions and exclusive product brands, increased by 11.2% to £1,923 million. This performance was driven by high growth in the cosmetics & fragrances sub-category with excellent No7 skincare sales and gross margin growth. Trading in the run-up to Christmas was good, assisted by our award winning "Gorgeous" TV led advertising campaign based on the office party. Our post-Christmas sale was also very strong.

Within cosmetics & fragrances, sales of our No7 cosmetics and skincare brand grew very significantly year on year, partly as a result

of very high customer demand for our award-winning No7 Protect & Perfect Beauty Serum, a successful No7 marketing programme and continuing new product development with a strong pharmaceutical focus. In January 2008 we successfully launched a No7 Protect & Perfect total skincare regime which includes specially formulated day, night and eye creams. Shortly thereafter we launched No7 For Men, a comprehensive range of men's skincare products which has already achieved a good market share. No7, the UK's leading cosmetics brand for many years, is now in addition the leading skincare brand. Sales of self selection cosmetics and fragrances also grew significantly year on year.

Toiletries revenue grew by a modest amount, reflecting strong competition and relatively inclement summer weather compared to 2006, which adversely impacted the sun care market where we have the market-leading position with Soltan. Men's toiletries performed well, partially as a result of new product development by a leading brand, as did haircare. Better stock management and buying enabled us to improve our overall toiletries' gross margin while at the same time reducing prices for our customers.

Revenue in the Lifestyle category increased by 0.2% to £1,140 million at a significantly improved overall gross margin. Key sub-categories where we grew revenue were nutrition, which is a strong driver of footfall, and seasonal, where we had good seasonal gift sales and an excellent post Christmas sale. These increases were partially offset by declines in the photographic sub-category, despite a strong performance in digital, and to a lesser extent in electrical and baby.

Our own product brands, such as Boots, No7, 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 new No7 product ranges, other new developments during the year included the re-launch of a repackaged Boots Essentials range, the launch of Botanics Organic products and the launch of Boots Expert Hair Loss Treatment Spray for Women. This treatment, which is a good example of our ability to innovate, is the result of seven years of scientific research and slows down hair thinning, encourages thicker hair right from the hair follicle and across the scalp, and boosts the overall feel and condition of the hair.

¹ The Retail Health category comprises sales of non-prescription medicines, other health related products and optical sales.

² The Beauty & Toiletries category comprises the cosmetics & fragrances and toiletries sub-categories.

³ The Lifestyle category comprises the baby, nutrition, photography, electrical, seasonal and other lifestyle sub-categories.

We attribute much of the success of Boots this year to our increasing focus on customer service and care, with the customer being very much at the heart of our business strategy. Customers view us as being knowledgeable, trustworthy and experts in our field with a particularly good understanding of what women want. Each week we analyse about 20,000 customer responses to in-store marketing surveys to better understand customers' evolving needs. As a result we continue to refine our offer and during the year increased training and store staffing levels, which we believe have been key factors behind improved customer satisfaction measures.

The Boots Advantage Card loyalty scheme, where customers earn points on purchases for redemption at a later date, is a key element of our offering. At the year end 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) was 15.4 million, making it one of the largest loyalty schemes in the UK.

During the year we expanded the Boots.com website to include a comprehensive section providing healthcare advice on a broad range of ailments. Development of a major site upgrade is now well underway which will make Boots.com much easier for our customers to use and more closely integrate the site with our retail offering.

In July 2007, shortly after our change to private ownership, we combined our Boots and Alliance Pharmacy businesses under a single leadership team to form a multi-format Boots UK health and beauty business. This will enable us to achieve significant operational and financial synergies on a faster timescale. The integration of the two businesses has progressed rapidly under the new leadership team, with an integrated store management structure fully implemented at the beginning of April 2008.

Following the successful trial of our new "your local Boots pharmacy" branded format in which we saw substantial increases in both retail sales and dispensing volumes, we decided to roll-out this new format over a two year period to the majority of our community pharmacies. At the year end we had 50 pharmacies trading under the new format with the post year end conversion rate now starting to ramp up to a target of around 50 pharmacies per month. The total capital investment in this programme will be around £65 million, reflecting the size of our commitment to the provision of modern pharmacies in community locations.

During the year we increased the number of our retail outlets with a pharmacy in the UK by 99. We acquired 108 pharmacies, opened 23 new NHS pharmacy contracts, nine of which were in existing stores which previously did not have a pharmacy, and sold 26 pharmacies, all of which were to complete the pharmacy divestment undertakings given to the Office of Fair Trading at the time they approved our merger. In addition we closed six pharmacies. Over 500 retail outlets underwent refits, many of which were part of our programme designed to address historic under-investment in smaller Boots stores, and we carried out 28 relocations. During the year we also relocated four standalone Boots Opticians practices to within stores, utilising space surplus to our retail requirements, and successfully switched 13 practices to our franchise model, bringing the total owned to 250 at the year end and the total franchised to 36.

We remain on track to complete in 2009 our major supply chain reconfiguration programme announced just over two years ago. In July 2007 a key first step in the project was finished when a major section of our new automated warehouse in Nottingham became fully operational. This is now handling around a quarter of our retail volume.

Health & Beauty Division – International

Total revenue in countries outside the UK increased year on year by 12.5% to £695 million. Trading profit increased by 15.2% to £38 million, trading margins increasing by 0.2 percentage points. On a constant currency basis, revenue increased by 7.2%, like for like revenue increasing by 3.6%, and trading profit increased by 9.9%. Excellent profit growth in the Republic of Ireland and Thailand more than offset lower profits in Norway and The Netherlands.

Outside the UK, 52 outlets were added during the year, the number of outlets with pharmacies increasing by 50.

In Norway revenue increased by 10.5% to £295 million, an increase of 0.1% on a like for like basis, trading being adversely impacted by new pharmacy openings by competitors and cost pressures. In the first quarter of 2008 we successfully converted eight Alliance Apotek pharmacies to a new Boots Apotek branded format specifically developed for the Norwegian market, which sells a targeted range of Boots beauty products in addition to other health and beauty products. Initial results from this trial are very encouraging, in part due to high customer awareness of the Boots brand and our products.

We expect to take a decision in the next few months to roll-out this new format across Norway. We have also recently launched a new website, www.bootsapotek.no, to sell Boots beauty products across Norway. Ten outlets were added during the year.

In the Republic of Ireland, where we trade as Boots, revenue increased by 18.7% to £184 million, an increase of 10.0% on a like for like basis, growth being very strong across all product categories including dispensing. The cosmetics & fragrances sub-category performed particularly well in terms of sales and margin. A net seven stores were added during the year reflecting our strategy to significantly expand our presence in Ireland where by the year end we had 48 stores. Since then we have completed our first retail pharmacy acquisition for many years, which we see as a further way of accelerating growth in the Republic of Ireland.

In The Netherlands revenue in our Kring branded pharmacies increased by 6.5% to £147 million, an increase of 2.6% on a like for like basis. As in Norway, the total number of pharmacies in the country continued to increase, trading being adversely impacted by higher staff costs due to a national shortage of pharmacists and, to a lesser extent, lower gross margin. Three outlets were added during the year.

In Thailand, where we trade as Boots, revenue increased by 27.0% to £47 million, an increase of 5.2% on a like for like basis, growth and profitability being much stronger in the second half of the year as the economic and political climate became more stable. A net 24 outlets were added during the year, making us one of the largest pharmacy chains in Thailand in terms of outlets. The proportion of locally sourced Boots product has continued to increase with a beneficial impact on margin and we are now exploring opportunities to source product in Thailand for other geographical markets. This complements our long established sourcing office in Hong Kong which has recently been renamed Alliance Boots Sourcing (Hong Kong) to reflect its increasingly wider role in sourcing product from the Far East, not just for Boots in the UK but for our Pharmaceutical Wholesale and other Health & Beauty businesses.

Pharmaceutical Wholesale Division



In January 2007 we announced plans to re-brand the Pharmaceutical Wholesale Division's principal businesses in each country under a common brand name, "Alliance Healthcare". By the year end we had completed the re-branding other than in the UK and Norway which will be re-branded later in 2008.

Performance overview

The Pharmaceutical Wholesale Division performed well in what were again particularly difficult market conditions in many countries, reflecting the strength of our geographically diverse portfolio of businesses. Revenue totalled £9,562 million, an increase of 5.8%, trading profits increasing by 15.7% to £206 million. Overall trading margins increased by 0.2 percentage points. Adjusting for acquisitions and disposals, on a constant currency basis, like for like revenue increased by 1.6% and like for like trading profit increased by 11.1%, like for like trading margins increasing by 0.2 percentage points.

Pharmaceutical Wholesale Division highlights

for the year ended 31 March 2008

	Total £million	Year on year growth	
		Total	Like for like
Revenue			
France	3,935	+5.0%	+1.1%
UK	2,086	+5.5%	+0.7%
Spain	1,106	+5.0%	+1.1%
Italy	923	-1.4%	-5.0%
The Netherlands	736	+4.8%	+0.9%
Czech Republic	294	+19.0%	+10.7%
Russia	281	+44.1%	+43.2%
Norway	243	+9.5%	+3.7%
Other	42	+35.5%	n/a
Intra-segment	(84)		
	9,562	+5.8%	+1.6%
Trading profit	206	+15.7%	+11.1%
Trading margin	2.2%	+0.2pp	+0.2pp

Pharmaceutical Wholesale Division at a glance

Our pharmaceutical wholesale businesses are among the market leaders in almost all of Western Europe, either directly or via our associate or joint venture relationships. At the core of the businesses is the provision of consistently high service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability while maintaining competitive pricing. As part of this service we offer a wide range of innovative added-value services to help pharmacists develop their own businesses.

Alongside these core wholesale activities we provide services to pharmaceutical manufacturers, providing them with the opportunity to gain greater control over their product distribution while outsourcing non-core activities. These services include, among other activities, prewholesale and contract logistics, direct deliveries to pharmacies and specialised medicine delivery including related home healthcare.

Delivering service and value

We aim to provide our pharmacy customers with high service levels at competitive prices.



Adding value for the pharmacist

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.





135,000

Delivering to over 135,000* pharmacies, doctors, health centres and hospitals

370

From over 370* pharmaceutical wholesale warehouses

15

Across 15* countries

* Figures stated are as at 31 March 2008, are approximate and include associates and joint ventures.



Almus generics

The continued growth of Almus, our exclusive range of generic medicines, provides marketing and sourcing benefits aimed at offsetting the impact of patent expiries.



Expansion across Europe

The roll-out of Almus into other European countries is set to continue on a phased basis over the coming years. In March 2008 we also introduced an Almus range of OTC medicines for sale to third party customers in the UK.



Alvita

During the year we also expanded our range of Alvita branded healthcare products utilising Boots product development and sourcing capabilities in the UK and Far East.

Revenue totalled £9,562 million, an increase of 5.8%, trading profits increasing by 15.7% to £206 million. Overall trading margins increased by 0.2 percentage points. Adjusting for acquisitions and disposals, on a constant currency basis, like for like revenue increased by 1.6% and like for like trading profit increased by 11.1%, like for like trading margins increasing by 0.2 percentage points. Trading profits were higher in five out of eight countries with our business in the UK performing particularly well.

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 10%.

In January 2007 we announced plans to re-brand the Pharmaceutical Wholesale Division's principal businesses in each country under a common brand name, "Alliance Healthcare". By the year end we had completed the re-branding other than in the UK and Norway which will be re-branded later in 2008.

Markets and products

We estimate that our wholesale markets grew year on year by around 5.0% in value on a constant currency basis, this growth being weighted on the basis of our wholesale revenue. This is higher than in the previous year, mainly as a result of a return to positive volume growth in France compared to a reduction in the previous year as the Government sought to reduce consumption down towards that in other European countries.

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. Generic penetration rates are typically significantly higher in northern European markets than in the south. Compared to the previous year, penetration of generics grew in all the southern European markets in which we operate.

We estimate that the overall level of parallel trade in Europe was lower than in the previous year, with manufacturers continuing to seek ways to curtail these activities.

A key trend over the last year has been an increase in the number of branded ethical pharmaceutical manufacturers switching from selling via pharmaceutical wholesalers to selling direct to pharmacies using relatively few third party distributors to deliver the product, invoice customers and collect payments. We have long established relationships with these manufacturers and have rapidly established a significant share of this part of the market, which is most developed in the UK, utilising our highly efficient and reliable pharmaceutical wholesaling logistics network. We also continue to expand the provision of prewholesale and contract logistics services to pharmaceutical manufacturers. In April 2008 we further expanded our range of services provided to manufacturers through the acquisition of Central Homecare in the UK.

The continued growth of Almus, our exclusive range of generic medicines, provides marketing and sourcing benefits aimed at offsetting the impact of patent expiries. During the year we significantly increased sales in the UK, our longest established market where Almus is now one of the leading generics labels, and similarly increased sales in France and Italy where we launched Almus in the previous year. In February 2008 we started actively marketing Almus in Germany and in September 2007 Alliance Boots and Cardinal Health announced a joint sourcing and marketing agreement for the sale of the Almus brand of generic medicines into the US market. The roll-out of Almus into other European countries is set to continue on a phased basis over the coming years. In March 2008 we also introduced an Almus range of OTC medicines for sale to third party customers in the UK.

During the year we also expanded our range of Alvita branded healthcare products utilising Boots product development and sourcing capabilities in the UK and Far East. These products, which include surgical dressings and blood pressure monitors, are now sold to independent pharmacy customers in five countries. We are at the early stages of developing more new product ranges to be sold through our wholesale network. This will enable our independent pharmacy customers to differentiate their retail offering and maximise the value of their front of pharmacy operation.

We are further differentiating our wholesale offering by continuing to develop the range of services offered to independent pharmacy customers. This includes membership of Alpega 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. Alpega Pharmacy now operates in five countries with around 1,000 members.

In France revenue increased by 5.0% to £3,935 million, an increase of 1.1% on a like for like basis, the proportion of product which manufacturers sell and distribute direct to pharmacies continuing to increase. We continue to counter the trend in direct sales within the French market through actions such as the roll-out of a more competitive generics offer, including Almus. As a result of these initiatives our generics revenue increased year on year by over 25%. The previously announced restructuring of our French warehouse network was completed during the year which has improved operational efficiency and profitability and better positioned our business to adapt as the market continues to evolve.

In the UK revenue increased by 5.5% to £2,086 million, like for like revenue increasing by 0.7% mainly as a result of higher sales to hospitals and Boots which more than offset lower revenue from branded ethical pharmaceutical manufacturers switching to selling direct to pharmacies. We have rapidly established a market-leading position in the UK for the provision of direct deliveries to pharmacies on behalf of manufacturers. As a result, we increased volume through our logistics network by nearly 20% year on year and were also able to open a significant number of new wholesale accounts with pharmacies who had not previously experienced our high customer service levels. These factors, together with increased merger cost synergies, enabled the business to perform particularly strongly in profit terms.

Just after the year end, in April 2008, we acquired Central Homecare which provides home healthcare services to patients in the UK who require management of complex drug therapies. This acquisition gives us a presence in what we see as a highly attractive segment of the market with excellent long term growth potential.

In Spain total revenue increased by 5.0% to £1,106 million, an increase of 1.1% on a like for like basis. Domestic competition was particularly strong as manufacturers sought to curtail export sales and increase direct distribution to pharmacies.

In Italy revenue decreased by 1.4% to £923 million, a decrease of 5.0% on a like for like basis, the market being impacted by government actions to reduce pharmaceutical expenditure. During the year we rationalised our distribution network to improve efficiency and reduce costs, the costs to achieve this having a short term impact on profits.

In The Netherlands revenue increased by 4.8% to £736 million, an increase of 0.9% on a like for like basis. Trading was difficult due to regulatory action and increased competition. Action has been taken to improve efficiency and reduce costs, the costs to achieve this having a short term impact on profits.

In the Czech Republic revenue increased by 19.0% to £294 million, an increase of 10.7% on a like for like basis, reflecting a strong performance in the pharmacy channel where we gained market share.

In Russia revenue increased by 44.1% to £281 million, an increase of 43.2% on a like for like basis, reflecting continuing profitable expansion of the business. We gained market share through our focus on selling more expensive pharmaceutical products at competitive prices. Shortly before the year end we also won a major tender for the supply of hepatitis B vaccine to hospitals over a seven month period.

In Norway revenue increased by 9.5% to £243 million, an increase of 3.7% on a like for like basis, profitability being impacted by higher employment costs which have now been brought in line.

Other revenue, which increased by 35.5% to £42 million, mainly comprises own brand exports to third parties, which we now manage within our Pharmaceutical Wholesale Division and will also include Almus sales in Germany. Own brand exports increased significantly year on year, mainly as a result of higher sales to the US, losses on this activity being much lower than in the previous year following the decision taken just over a year ago to focus activities on our own international businesses and selected large markets.



Top: Quality assured

We consistently deliver high standards of efficiency and effectiveness for our customers.

Left: Adding value

Our innovative added-value services and exclusive product offerings are aimed at helping pharmacists develop their own businesses.

Other

Contract Manufacturing & Corporate Costs

Revenue from Contract Manufacturing for third party health and beauty brands, which utilises capacity which we do not require for internal supply in our three owned manufacturing facilities and associate assembly plant in Poland, increased year on year by 22.1% to £105 million. This increase was mainly as a result of winning new contracts to manufacture proprietary brands for leading consumer goods companies. The profit contribution from Contract Manufacturing was allocated to Boots in the UK as in prior years.

We have embarked on a programme to establish Boots Contract Manufacturing as a standalone business within the Group. We believe that this will enable it to compete more effectively, both internally and externally, by ensuring greater transparency and accountability, and by speeding up and improving the effectiveness of decision taking.

Corporate Costs, which include unrealised profit in stock adjustments, decreased year on year by £1 million to £38 million due to lower fixed corporate costs as a result of further merger synergies and savings arising from no longer being a publicly quoted company. These have been partially offset by increased expenditure on areas such as corporate development where we have expanded and broadened the scope of our activities.

Associates and joint ventures

Investment in associates and joint ventures, almost all of whom wholesale and distribute pharmaceuticals, remains a key component of our Group's activities.

Our share of revenue of associates and joint ventures increased year on year by 17.3% to £2,484 million. Our share of trading profit at £83 million increased year on year by 18.6%, our share of post tax earnings before exceptional items increasing by 22.4% to £60 million, there being no exceptional items in the year we are reporting on. On a constant currency basis, adjusting for changes in associate and joint venture interests, like for like revenue increased by 9.1%, like for like trading profit by 9.6% and like for like post tax earnings before exceptional items by 16.8%.

Hedef Alliance increased earnings, mainly due to lower net financing costs. During the year Hedef Alliance closed 26 warehouses, most of which were satellite facilities, in order to improve performance. Alliance Healthcare Portugal performed very well, its trading margin being higher due to increased commercial activities. We do not comment specifically on the performance during the year of Galenica in Switzerland and ANZAG in Germany as both are quoted companies who report their own results separately on different year ends. Galenica however published its 2007 Annual Report in March 2008 in which they reported net profit (after tax) up 30.1% year on year on revenue up 17.5%.

In January 2008, we completed the formation of our 50:50 joint venture in Guangzhou Pharmaceuticals Corporation ("GP Corp") in China, with our Chinese partner, Guangzhou Pharmaceutical Company Limited, for a total consideration of £41 million. This 50% investment was made via our 80% owned UK investment vehicle, Alliance BMP Limited. GP Corp is the fourth largest pharmaceutical wholesaler in China with around a 3% market share and is the leader in its home province of Guangdong with a market share of approximately 18%. In addition it operates 29 pharmacies, being the maximum permitted under current regulations for a 50:50 foreign invested joint venture.

China is now the seventh largest pharmaceutical market in the world and is experiencing rapid economic growth which is driving even higher growth rates for healthcare expenditure. The pharmaceutical wholesale and distribution market is currently fragmented and largely regionally based and principally involves supply to hospital pharmacies.

Since our joint venture was established in China, good progress has been made on joint workstreams designed to expand the business and grow profits.

In February 2008, we increased our representation on the ANZAG board as an initial step towards developing a much closer working relationship.

Cash flow

Cash generated by operations during the year was strong at £1,152 million. This included a net working capital inflow of £183 million which has enabled us to fund investment to grow the Group. Around £43 million of the working capital inflow was due to increased factoring of receivables on a non recourse basis, primarily in Italy.

We invested £285 million of cash on capital expenditure, a year on year increase of more than 20%, which was £28 million more than our depreciation and amortisation charge within trading profit. This reflects our commitment under private ownership to invest in the long term development of Alliance Boots. Over three quarters of this investment was in our Health & Beauty Division, primarily in the UK. The key area of expenditure in the UK was the upgrading and opening of new outlets, other major projects being our new automated warehouse in Nottingham and information technology projects including a major upgrade of the Boots.com website. Capital expenditure in our Pharmaceutical Wholesale Division was mainly on upgrading our distribution network and on information technology.

£184 million of cash was invested in new acquisitions, associates and joint ventures, including £138 million for the purchase of 108 pharmacies in the UK and £41 million on our new wholesale joint venture in China. This was partially funded by £47 million from disposals of which £36 million was from pharmacies sold just after the beginning of the year to complete the divestment programme agreed with the Office of Fair Trading.

Financial position

At the year end, net borrowings (defined as cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of unamortised prepaid financing fees) were £8,746 million and shareholders' equity was £4,013 million.



Top: Continued expansion

In January 2008, we completed the formation of our 50:50 joint venture in Guangzhou Pharmaceuticals Corporation ("GP Corp") in China, with our Chinese partner.

Bottom left: Investing in complementary areas

We have embarked on a programme to establish Boots Contract Manufacturing as a standalone business within the Group, utilising capacity which we do not require for internal supply in our three owned manufacturing facilities and associate assembly plant in Poland.

Bottom right: Operating a flexible expansion model

Investment in associates and joint ventures, almost all of whom wholesale and distribute pharmaceuticals, remains a key component of our Group's activities.

Additional pro forma financial information for continuing operations

Basis of preparation

To assist in understanding the performance of the Group, pro forma financial information has been prepared to show the results from continuing operations of the Group as if the two former groups had always been combined and the acquisition of Alliance Boots plc by AB Acquisitions Limited had taken place prior to 31 March 2006. The pro forma revenue and profit statement for continuing operations has been prepared on an adjusted basis, which means before exceptional items and amortisation of customer relationships and brands.

Pro forma combined Group revenue and adjusted profit statement for continuing operations

for the year ended 31 March 2008

	2008 £million	2007 £million
Revenue including share of revenue of associates and joint ventures	17,788	16,726
Less: share of revenue of associates and joint ventures	(2,484)	(2,118)
Revenue	15,304	14,608
EBITDA including share of EBITDA of associates and joint ventures	1,119	950
Less: share of EBITDA of associates and joint ventures	(92)	(79)
EBITDA	1,027	871
Trading profit including share of trading profit of associates and joint ventures	854	711
Less: share of trading profit of associates and joint ventures	(83)	(70)
Trading profit	771	641
Share of post tax earnings before exceptional items of associates and joint ventures	60	49
	831	690

Pro forma combined Group adjusted segmental analysis for continuing operations – primary segments

for the year ended 31 March 2008

Group revenue and trading profit

	2008 £million	2007 £million
Revenue		
Health & Beauty	6,848	6,574
Pharmaceutical Wholesale	9,562	9,042
Contract Manufacturing	105	86
Intra-group	(1,211)	(1,094)
	15,304	14,608
Trading profit		
Health & Beauty	603	502
Pharmaceutical Wholesale	206	178
Corporate Costs	(38)	(39)
	771	641

Health & Beauty Division revenue and trading profit

	2008 £million	2007 £million
Revenue		
UK	6,153	5,956
International:		
Norway	295	267
Republic of Ireland	184	155
The Netherlands	147	138
Thailand	47	37
Italy	20	20
Russia	2	1
	695	618
	6,848	6,574
Trading profit		
UK	565	469
International	38	33
	603	502

Additional UK revenue analysis:

	2008 £million	2007 £million
Dispensing & Related Income	2,150	2,160
Retail:		
Retail Health	940	929
Beauty & Toiletries	1,923	1,729
Lifestyle	1,140	1,138
	4,003	3,796
	6,153	5,956

Pharmaceutical Wholesale Division revenue and trading profit

	2008 £million	2007 £million
Revenue		
France	3,935	3,746
UK	2,086	1,978
Spain	1,106	1,053
Italy	923	936
The Netherlands	736	702
Czech Republic	294	247
Russia	281	195
Norway	243	222
Other	42	31
Intra-segment	(84)	(68)
	9,562	9,042
Trading profit	206	178

Pro forma combined Group adjusted cash flow for continuing operations for the year ended 31 March 2008

	2008 £million	2007 £million
Cash generated from operations	1,152	887
Acquisitions and disposals	(137)	(19)
Cash capital expenditure	(285)	(236)
Fixed asset disposal proceeds	35	20
Total cash inflow	765	652

The pro forma combined cash flow excludes cash outflows related to the merger in July 2006 and the acquisition by AB Acquisitions Limited in June 2007. This comprises transaction costs, costs in relation to merger synergies and additional supplementary pension contributions agreed as a result of the acquisition.

Key reconciliations between pro forma and statutory financial results for the period ended 31 March 2008

Pro forma revenue for the year ended 31 March 2008 is reconciled to revenue for the period ended 31 March 2008 as presented in the statutory Group income statement as follows:

	2008 £million
Revenue	
Pro forma revenue	15,304
Relating to pre acquisition	(3,439)
Statutory revenue	11,865

Pro forma trading profit for the year ended 31 March 2008 is reconciled to profit from operations for the period ended 31 March 2008 as presented in the statutory Group income statement as follows:

	2008 £million
Trading profit/profit from operations	
Pro forma trading profit	771
Relating to pre acquisition	(172)
	599
Exceptional items	(58)
Amortisation of customer relationships and brands	(55)
	486
Share of post tax earnings of associates and joint ventures	49
Statutory profit from operations	535

Financial review – statutory basis

Basis of preparation

The summarised consolidated financial statements presented in the Annual Review have been extracted from the Group's audited Consolidated Financial Statements for the period ended 31 March 2008, prepared in accordance with International Financial Reporting Standards (IFRS). Full details of the accounting policies adopted by the Group are included within the Consolidated Financial Statements, which are published on the Company's website at www.allianceboots.com or from the Company's registered office at Alliance Boots GmbH, Baarerstrasse 78, CH-6300 Zug, Switzerland.

The statutory financial results for the period ended 31 March 2008 include the consolidated results of Alliance Boots plc from the time it was acquired by AB Acquisitions Limited on 26 June 2007 on an acquisition accounting basis.

Financial results

Profit from operations was £535 million. Within profit from operations was a net £58 million charge for exceptional items and a £55 million charge for the amortisation of customer relationships and brands following the fair valuation of the consolidated assets and liabilities of Alliance Boots plc on acquisition. These exceptional items comprised £8 million in relation to merger cost synergies, £17 million for the second phase of integration projects including the re-branding of community pharmacies, property optimisation and systems harmonisation, £6 million for the systems rationalisation and supply chain reconfiguration project in our UK business within the Health & Beauty Division and £27 million of costs incurred in relation to the acquisition of Alliance Boots plc. Net finance costs were £599 million and profit for the period attributable to equity shareholders was £10 million.

Net finance costs

The principal component of the net finance costs of £599 million was the cost of servicing debt raised to finance the acquisition of Alliance Boots plc. The comparable net interest cash outflow was lower at £541 million, mainly due to £27 million of amortisation of prepaid financing fees and £19 million of rolled up interest on mezzanine debt, which is payable when the debt itself is repaid.

Tax

Net tax was a credit of £74 million, which included a one-off deferred tax credit of £90 million arising on restatement of UK deferred tax following the reduction of the corporate tax rate from 30.0% to 28.0%. Tax paid was £58 million.

Cash flow

To assist in understanding the cash flow of the Group, the table below separates out the cash flows associated with the financing and acquisition of Alliance Boots plc by AB Acquisitions Limited.

	2008 £million
Acquisition of Alliance Boots plc	(11,886)
Issue of ordinary share capital	3,800
	(8,086)
Cash generated from operations	619
Tax paid	(58)
Net interest paid	(541)
Acquisitions and disposals of other businesses, associates and joint ventures	(118)
Purchase of property, plant and equipment, and intangible assets	(222)
Disposal of property, plant and equipment, and intangible assets	19
Other	23
	(278)
Amortisation of prepaid financing fees	(27)
Capitalised finance costs	(19)
Currency translation differences and fair value adjustments on financial instruments	(336)
Net borrowings at 31 March 2008	(8,746)

The acquisition of Alliance Boots plc was financed through external borrowings, the issue of loan notes and equity, the latter through the issue of share capital which raised £3,800 million. The total cost of acquisition was £11,059 million which included the issue of £366 million of loan notes and £85 million of costs. The net borrowings of Alliance Boots plc at acquisition were £827 million.

Net cash generated from operations totalled £619 million. This was after £102 million paid into the Group's UK pension funds, in addition to regular contributions in accordance with agreements with the pension fund trustees. Excluding £54 million of transaction and acquisition related costs incurred by Alliance Boots plc which were not paid until after the acquisition was completed, net working capital inflow including provisions was £47 million.

Cash outflow on acquisitions and disposals of other businesses, associates and joint ventures was £118 million. On a gross basis £138 million of cash was invested in new acquisitions, associates and joint ventures, including pharmacies and our new wholesale joint venture in China.

The cash outflow on the purchase of property, plant and equipment, and intangible assets was £222 million. Over three-quarters of this investment was in our Health & Beauty Division, primarily in the UK. The key area of expenditure in the UK was the upgrading and opening of new retail outlets, other major projects being our new automated warehouse in Nottingham and information technology projects including a major upgrade of the Boots.com website. Capital expenditure in our Pharmaceutical Wholesale Division was mainly on upgrading our distribution network and on information technology.

Shareholders' equity

Shareholders' equity at the year end totalled £4,013 million.

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 £8,746 million.

Capital structure

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

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

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

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

Treasury policies

The Group's treasury policies, which are reviewed at least annually, were approved by the Board on 4 June 2008.

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

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

Liquidity risk management

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

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

The Group's core borrowing is provided through £8.2 billion of committed bank facilities which at the year end were fully drawn partially in Euros and Swiss Francs. These facilities mature between 2014 and 2017. The Group also has access to a committed £820 million revolving credit facility, £200 million of which has been utilised in providing a guarantee to the Boots Pension Scheme and £620 million of which was available as at the year end. This facility provides access to funding in a range of currencies and is available until 2014. In addition, the Group has in issue a £300 million Eurobond which matures in May 2009.

The Group's net borrowings vary throughout the year in a predictable seasonal pattern. Net borrowings are typically at their highest in the period September to December due to the working capital requirements of Christmas trading. The Group monitors its net borrowings position on a daily basis against both budget and a rolling two month cash forecast.

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 60% of the Group's total borrowings were at fixed or capped interest rates.

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 £1,928 million of the Group's net borrowings were in Euros.

The Group has a policy of hedging material currency denominated transaction exposures, other than those offset by corresponding translation exposures, by entering into forward currency exchange sales and purchase contracts where such exposures arise.

Based on the hedging position and currency mix of earnings of the Group at the year end, movements in exchange rates relative to Sterling would not have a significant impact on the Group's earnings.

Credit risk management

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

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

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

Retirement benefit obligations

The total charge before tax for retirement benefit obligations was £39 million. This comprised £45 million of costs within profit from operations partially offset by net finance income of £6 million. At the year end the total net retirement benefit surplus on an accounting basis was £297 million before deferred tax.

The principal scheme is the Boots Pension Scheme. This scheme, which is closed to new members, has continued with its investment strategy of planning to hold 15% of assets in equity and property to back long term liabilities, and 85% of assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years. The other large scheme is the Alliance UniChem UK Group Pension Scheme. This scheme, which is also closed to new members, plans to hold 50% of funds in return seeking assets such as equities and 50% in investments with cash flows which match projected pension obligations under a liability driven investment strategy. Both schemes have entered into Memoranda of Understanding with the Group. This resulted in the payment of £102 million of additional contributions during the period, an agreement that conservative investment strategies would be maintained and that a further £366 million of contributions will be made over the next 10 years from August 2008, of which £20 million will be paid in 2008/09 and each of the following four financial years.

Our people



We understand the many challenges that lie ahead and have the people and skills in our organisation to meet these challenges. All our people have worked hard this year and delivered far more than many commentators and observers thought possible.

Alliance Boots is a major employer in the UK and many other countries. At the year end the Group, including our associates and joint ventures, employed over 110,000 people in more than 20 countries. Wherever we operate we seek to be recognised as an employer of choice.

We communicate with our people through a wide variety of channels, reflecting the diversity and geographical spread of our businesses.

Our aim is to ensure that all our people are informed and engaged about their part of the business locally, augmented with deeper understanding about the Group overall and its future direction.

We have a variety of approaches to fulfil these aims including regular face-to-face team briefings, conference calls, magazines, newsletters and a number of intranet sites. Feedback is sought on the effectiveness of our communications and surveys have been instituted in a number of our businesses to gauge the morale of our people and what is important to them. In the most recent “Great Place To Work” survey covering the Boots branded activities in the UK we are pleased that the overall satisfaction score has risen significantly since Alliance Boots came under private ownership.

It is critical to the success of the Group that we continue to nurture the different and diverse talents in our businesses and corporate functions and we have designed our employment policies to achieve this. We aim to provide equal opportunities, regardless of sex, race, religion or belief, sexual orientation, disability or ethnic origin.

We do all that is practicable to meet our responsibilities towards the employment and training of disabled people. Where one of our people becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

We communicate closely with works councils and other employee forums around Europe and have two European Works Councils to brief and consult with representatives on pan-European issues.

We encourage the further interest and involvement of our people in the Group’s future through performance-related bonuses. There are a number of recognition schemes within our businesses to highlight and reward particular achievements of the people in providing service to our customers.



Top: Employee engagement

We aim to ensure that all our people are informed and engaged about their part of the business locally, augmented with deeper understanding about the Group overall and its future direction.

Bottom: “Great Place To Work”

Wherever we operate we seek to be recognised as an employer of choice.

Risk management

Like all businesses, Alliance Boots faces a variety of risks. Here we report on our approach to identifying, monitoring and assessing risks and the steps we take, where necessary, to mitigate them.

Our risk management process

Our executive Directors play the leading role, monitoring the overall risk profile and regularly reporting to the Board through the audit committee. In addition, the Board through the executive Directors is responsible for determining clear policies as to what Alliance Boots considers to be acceptable levels of risk. These policies seek to enable people throughout our Group to use their expertise to identify risks that could undermine performance and to devise ways of bringing them within acceptable levels.

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

The risks we face

Impact of regulation

Risk

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

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

Mitigation

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

Changes and trends in consumer behaviour

Risk

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

Mitigation

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

Competition

Risk

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

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

Mitigation

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

Health, safety and environmental risks

Risk

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

Mitigation

We set standards throughout the Group which are closely monitored and regularly audited. Health, safety and environmental incidents are logged and analysed in order to learn the necessary lessons. Any major incident is promptly reported to and investigated by the Group operating committee.

Product/services risk

Risk

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

Mitigation

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

Major operational business failures

Risk

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

Mitigation

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

Increased costs

Risk

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

Mitigation

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

Acquisitions

Risk

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

Mitigation

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

Currency exchange

Risk

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

Mitigation

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

Funding and interest rate risks

Risk

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

Mitigation

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

We prepare long term cash/borrowings projections for each business and the Group which are periodically reviewed. We also prepare annual cash/borrowings budgets by day for each business and the Group and, similarly, every month we prepare cash/borrowings forecasts by day covering two months forward. We report and monitor actual cash/borrowings by business and for the Group on a daily basis, comparing this to budgets and short term cash/borrowings forecasts.

Tight controls are in place over the approval of capital expenditure and other long term investments, including the purchase of new businesses and investments in associates and joint ventures.

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

Pension contributions

Risk

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

Mitigation

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

Corporate social responsibility



Wherever we do business, our priority is to make a positive contribution to the communities that we serve. Many of our experts in the UK help schools and work in partnership with local healthcare professionals to educate parents and children on the importance of being safe in the sun.

We are committed to maintaining our tradition of excellence in corporate social responsibility, both in terms of performance and reporting. In addition to this section within the Annual Review, we will publish a separate 2007/08 Corporate Social Responsibility Report in September 2008, after having published our first corporate social responsibility report as a merged business in autumn 2007. This year's report will be significantly more comprehensive in terms of reported measures than we were able to collate and publish in our first year. It will be written in accordance with Global Reporting Initiative guidelines and criteria.

Our corporate social responsibility strategy is clear and well understood. The necessary systems and structures are in place and operating efficiently. Most important of all, our people are committed to playing their part in building a sustainable group.

The social responsibilities committee, which is a committee of the Board chaired by Ornella Barra, keeps under review and advises the Board on the Company's policies and practices in the areas of corporate social responsibility, including those related to environment, diversity and equal opportunities, race relations, employment of people with disabilities, charitable giving and ethical matters, and the Company's values and standards.

Defining our shared sense of responsibility

We manage our corporate social responsibility programme based on four key areas of activity that are in line with our core values. These are: Our community, Our environment, Our marketplace and Our workplace. In this section, we outline our progress in each area over the past year.

Developing an adaptive approach

Within each of these areas, we have identified key priorities that reflects our values and supports our objective of building a sustainable world-leading group. This approach provides us with a consistent framework and takes into account the different social, environmental and economic priorities in the countries in which Alliance Boots has businesses. It is supported by a leader in each business who is locally responsible for delivering against agreed targets.

We formally launched our new cross-business programme at our first Group corporate social responsibility meeting held in December 2007. The creation of this active network across our Group will help us to find new ways to capture and guide the passion of our people.

Our community

Wherever we do business, our priority is to make a positive contribution to the communities that we serve. Community health is at the centre of this activity. Through our network of pharmacies and the independent pharmacies we supply, we can reach millions of people in many countries. Being a good neighbour also means encouraging our employees to share their expertise to help people lead healthier lifestyles. We also provide them with opportunities to devote their time and energy to supporting causes that matter.

During the year, on a pro forma basis the Group made charitable donations of £2 million, a year-on-year increase of 17.6%. In the UK, this includes donations to BBC Children in Need, Breast Cancer Care, The Eve Appeal, Leonard Cheshire Disability and MacMillan Cancer Relief. In Italy, health-related donations in 2007 included donations to community-based charity Malati del Tigullio, the surgical department at the hospital in Lavagna and the association of neuroblastoma in conjunction with the Gaslini hospital in Genoa.

The Group has no affiliation to any political party or group in any country and makes no political donations.

Progress against the targets we set and published last year is as follows:

Target: Increase community health activity that makes a positive contribution to the wider public health agenda and is aligned to our business priorities

During the year, we increased community health activity through a number of initiatives that contributed positively to public health in the communities we serve. Our businesses shared knowledge and expertise, and have built on their experiences for the benefit of our patients and customers.

In France we recently set up a training session for members of Alphega Pharmacy focusing on how to react in case of a heart attack and how to use a defibrillator when the victim's condition demands it. Following the session, many of our independent pharmacy customers invested in defibrillators and publicised this potentially life-saving service within their local communities.

At the heart of our mission

“While we drive the Group forward, we always keep in mind our belief that a responsible business is a healthy business.

I continue to be impressed with the enthusiasm of our people and the genuine commitment they have to corporate social responsibility, as well as their real understanding of why this is so important to Alliance Boots.

The trust that Alliance Boots and its predecessor businesses have earned is fundamental to our success. I strongly believe that by continuing to further develop our corporate social responsibility programmes, we will achieve our vision of becoming the world's leading pharmacy-led health and beauty group.”

Ornella Barra
Chairman of the social responsibilities committee
4 June 2008

Following the devastating earthquake in Peru, our Spanish wholesale business organised an internal campaign and employees generously donated money, clothes and first aid items to the non-governmental organisation “Mano a Mano”, which sent the material direct to Peru.

The Boots “change one thing” campaign has also contributed to the public health agenda in the UK and the Republic of Ireland over the past two years, helping thousands of customers stick to their New Year’s resolutions, such as giving up smoking or improving their diet. In January 2008 we extended this successful initiative into schools in the UK, launching a website that provides students and teachers with a wide range of online resources designed to encourage young people to think about their health, help them learn the skills they need to make healthy choices, and support them in making positive changes to their lifestyle. (www.bootschangeonethingschools.com)

Target: Increase customer and employee fundraising for our key charity partners

A large number of the people who work for Alliance Boots genuinely want to make a contribution to the good health of the community. We do not need to ask them to be generous with their time and energy, but we do give them encouragement, providing volunteering opportunities and supporting their fund-raising efforts. During the year, we also increased our customer and employee fundraising. For example, in November 2007, employees from across the UK helped to raise a record total of £1.2 million for the BBC ‘Children in Need’ appeal.

Target: Set up payroll giving schemes in Alliance Healthcare where possible

Payroll giving schemes have now been set up for all employees in the UK, including our wholesale business.

Our environment

At a time when climate change is of increasing concern to us all, our highest environmental priority is to improve our carbon management.

Highlights of progress against the targets we set and published last year are as follows:

Target: In line with national and international commitments on climate change, we will establish a long term corporate strategy to reduce the carbon intensity of our businesses, including our products, services and buildings

Our strategy prioritises reducing carbon intensity in transport, buildings and products and during the last 12 months, we have implemented numerous initiatives to cut our carbon.

Transport: In our Pharmaceutical Wholesale Division we continue to upgrade our wholesale delivery fleets to vehicles with more efficient carbon emissions. In our Health & Beauty Division we have reduced the overall carbon emissions caused by goods imported from Asia through reducing the volume of our own brand products air freighted to the UK from Asia and increasing the efficiency of our shipping operation using larger containers.

Buildings: We have taken steps to reduce energy consumption across many of our retail outlets, warehouses and offices, for example, by more accurate monitoring of energy consumption, improved insulation and the introduction of energy-saving lighting. We also encourage our employees to promote energy savings, for example, in Spain we launched an internal campaign called Actua Ahora (Act Now).

Products: We have recently started to work on minimising the carbon footprint of the products we sell. For example, in conjunction with the Carbon Trust, we conducted a detailed study of two of our shampoos, analysing the complete life cycle of the product – from sourcing raw materials right through to disposing of waste – in search of ways to cut carbon output at every stage. As a result, we reduced the carbon footprint of both products.

Target: We will continue to reduce waste at source and work towards zero waste to landfill, setting appropriate targets within each business and reporting annual progress

We now have a much greater understanding of waste recycling and how we can reduce the amount of waste created and sent to landfill across our Group. We are looking to recycle wherever possible and will be setting targets for waste reduction over the coming year.

Target: We will continue to reduce like for like own brand packaging by 10% by 2010, in line with the UK Government “Courtauld Commitment” Initiative

To date we are on track to achieve this commitment. Our packaging is now made from recyclable materials where possible and in our manufacturing operations, we have reduced packaging by removing transit packaging and increasing the use of recycling bins.

Our marketplace

Central to the success of our Group is the trust in which Alliance Boots is held by our customers and wider stakeholders. We aim to reflect integrity and stewardship in everything we do.

Progress against the targets we set and published last year is as follows:

Target: Review stakeholder communications to ensure they reflect our mission, purpose and values

In our first year as a private healthcare company, in addition to this comprehensive Annual Review, we have published full Consolidated Financial Statements for the Group. These reports demonstrate our desire and commitment to be at the forefront of best practice corporate governance reporting. In addition, the separate 2007/08 Corporate Social Responsibility Report will be published in September 2008.

Target: Work with leading charities to raise awareness of key health concerns among our customers

Over the past year, we have successfully worked with leading charities in many countries to raise awareness of the key health concerns among our customers. For example, in the UK, we have worked closely with Breast Cancer Care to raise awareness of the disease through the special training of our pharmacy professionals. We have also worked with Cancer Research UK to promote skin protection, in conjunction with our Soltan sun care brand, focusing on in-store education and community health campaigning.

Target: Introduce a Code of Conduct to all our employees

A Code of Conduct was issued to all employees during the past year, translated into all languages in which we operate. This code covers a wide range of issues including equal opportunities, health and safety, animal testing, ethical procurement, substance misuse, bribery, privacy and, more positively, how we engage with communities and on environmental issues.

We worked with bodies such as the Institute of Business Ethics and Business in the Community, as well as our own Group Internal Audit & Risk Management Department, to ensure the Code is rigorous, robust and fit for purpose in a modern international group. If an employee is unsure about what to do in a specific situation, we encourage them to raise questions and seek appropriate advice.

Our workplace

For a business that is about helping people look and feel better, it is second nature to make the health and wellbeing of our own employees a very high priority. We continue to train and develop our people at all levels, so they are equipped to meet the challenges of our industry.

Progress against the targets we set and published last year is as follows:

Target: Establish a long term, cross-group health and safety strategy to prevent accidents and report progress annually

During the year, the new health and safety strategy has been set and introduced. Detailed information regarding this will be included in our separate Corporate Social Responsibility Report to be published in September 2008.

Target: Deliver a workplace health programme that is aligned to the business and makes a positive contribution to the health and wellbeing of our people

Good progress has been made in the workplace health programme, which is aimed at improving the wellbeing of our people, and it is planned to roll this out across our Group in the coming year. As a pharmacy-led health and beauty business, we want Alliance Boots to be a healthy place to work and we give our employees the help and support they

need to make positive changes to their lifestyle. Some of the initiatives we promote include smoking cessation, understanding skin cancer, subsidised gym membership and many more.

For the third year running in Boots, we extended our “change one thing” campaign into the workplace. All Boots employees were invited to participate in “Commit to Quit” or “Commit to Get Fit”. In June 2007, our successful workplace programme in Boots won a UK Government Health, Work and Wellbeing Award. Judged by a panel of independent experts, this new initiative celebrates good practice in the way that companies promote good health at work.

Target: Introduce an induction day for new joiners across the Group

New employees across the Group now participate in induction training days, which include taking each new joiner through the Group’s Code of Conduct.



Top: Helping disabled people

As a corporate partner of Leonard Cheshire, we are currently providing funding for the charity’s communication project, which aims to help disabled adults with speech communications impairments to express themselves.

Bottom: Our environment

We now have a much greater understanding of waste recycling and how we can reduce the amount of waste created and sent to landfill across our Group. We are looking to recycle wherever possible and will be setting targets for waste reduction over the coming year.

Board of Directors



Stefano Pessina
Executive Chairman

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



Marco Pagni
Group Legal Counsel & Chief Administrative Officer

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



Steve Duncan
Executive Chairman, Health & Beauty

Steve Duncan was appointed Executive Chairman, Health & Beauty in July 2007 having previously been Community Pharmacy Director. Prior to the merger of Alliance UniChem and Boots Group he was the Executive Director of Alliance UniChem responsible for its retail division. Before that Steve was Managing Director of Alliance Pharmacy, having joined the business in 1974. He is a pharmacist and a Fellow of the Royal Pharmaceutical Society of Great Britain.



Ornella Barra
Wholesale & Commercial Affairs Director

Ornella Barra was appointed Wholesale & Commercial Affairs Director of Alliance Boots in July 2006. Previously she was an executive Director of Alliance UniChem with wholesale and commercial affairs responsibilities, having been appointed to its Board in 1997 when Alliance Santé merged with Alliance UniChem. Before that, she was a Director of Alliance Santé and General Manager of Alleanza Salute Italia. She is a pharmacist by profession and was recently appointed as a special professor at the University of Nottingham's School of Pharmacy.



George Fairweather
Group Finance Director

George Fairweather was appointed Group Finance Director of Alliance Boots in July 2006 having joined Alliance UniChem in the same position in 2002. Before that he was Group Finance Director of Elementis and Dawson International and also worked for Dixons Group, Procter & Gamble and KPMG Thomson McLintock. George is a non-executive director of Mitchells & Butlers and a member of The Institute of Chartered Accountants of Scotland.



Dominic Murphy

Kohlberg Kravis Roberts

Dominic Murphy is a Partner of Kohlberg Kravis Roberts & Co. L.P. (KKR) and head of its healthcare and consumer products industry team in Europe. Prior to joining KKR he was a Partner at Cinven, having previously worked for 3i.



Mattia Caprioli

Kohlberg Kravis Roberts

Mattia Caprioli is a Director of Kohlberg Kravis Roberts & Co. L.P. (KKR). He is also a director of Legrand in which KKR has an investment. Prior to joining KKR in 2001 he worked for Goldman Sachs International.



Sergio D'Angelo

Kohlberg Kravis Roberts

Sergio D'Angelo is a Principal of Kohlberg Kravis Roberts & Co. L.P. (KKR). Prior to joining KKR in 2005 he worked for BC Partners having previously worked for Citigroup.

Chris Britton

Non-executive Director

Chris Britton was appointed as a non-executive Director on 4 June 2008. Chris was an Executive Board Member and President – Baby Food Division of Royal Numico, the Netherlands based publicly listed multinational infant and clinical nutrition group, up until its acquisition by Danone in November 2007. Before that he worked for Diageo in various marketing and general management positions, latterly as Global Marketing Director.



Etienne Jornod

Non-executive Director

Etienne Jornod was appointed as a non-executive Director on 31 March 2008. Etienne, who is based in Switzerland, is Chairman and Chief Executive Officer of Galenica, an associate company, and was a non-executive director of Alliance UniChem for six years until its merger with Boots Group. He is a non-executive director of PubliGroupe.



Nick Land

Non-executive Director

Nick Land was appointed as a non-executive Director on 31 March 2008, is Chairman of the audit committee and is a member of the social responsibilities committee. Nick is a non-executive director of Royal Dutch Shell, Vodafone Group, BBA Aviation and Ashmore Group. Previously he was a partner and Chairman of Ernst & Young in the UK and a member of its Global Executive Board. He is a member of the Institute of Chartered Accountants in England and Wales.

Tony De Nunzio

Non-executive Director

Tony De Nunzio CBE was appointed as a non-executive Director on 4 June 2008, is Chairman of the remuneration committee and is a member of the audit committee. Tony is Executive Chairman of Maxeda, a private Netherlands-based retail group with stores in 12 countries, in which KKR funds hold a significant investment. Prior to joining Maxeda in 2005 he was President and Chief Executive Officer of ASDA having previously been Chief Financial Officer. Tony also worked for Unilever, L'Oreal and PepsiCo in various finance positions.

Board report on corporate governance

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

The Board

At 31 March 2008 the Board comprised the Executive Chairman, four other executive Directors, three Directors representing KKR and two non-executive Directors. Since then a further two non-executive Directors have been appointed. The Board has reviewed the composition of the Board and the balance of skills, knowledge and experience its members bring, and concluded that the Board has the appropriate balance for the Company.

Biographies and other details of Board members are shown on pages 48 and 49. The responsibilities of each of the executive Directors are set out in writing and published on the Company's website at www.allianceboots.com.

Non-executive Directors are appointed for an initial term of three years and, subject to performance, are re-appointed where appropriate. There is an expectation of renewal of that appointment for two further three-year periods.

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

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

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

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

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

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

Board committees

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

Remuneration committee

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

Tony De Nunzio (Chairman)
Stefano Pessina
Dominic Murphy

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

Audit committee

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

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

The role of the committee and details of how it carried out its duties are set out in the audit committee report on pages 55 and 56.

Social responsibilities committee

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

Ornella Barra (Chairman)
Nick Land
Steve Duncan
Marco Pagni

The role of the committee and how it carried out its duties is summarised in the Corporate Social Responsibility section of this review on pages 44 to 47.

A Code of Conduct and Business Ethics, approved by the social responsibilities committee and the Board, sets out the ethics, principles and standards which must be consistently upheld by each Division, business and corporate function. This code is published on the Company's website at www.allianceboots.com.

Internal control

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

The Board considers an efficient risk management and control framework with an actively managed balance of risk and reward to be fundamental to the Company achieving its corporate objectives. The effectiveness of the ongoing process to identify, evaluate and manage significant risks is reviewed annually by the audit committee on behalf of the Board. The committee also has responsibility for overseeing management action needed to remedy any shortcomings or weaknesses identified.

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

Key elements of the Group's system of internal controls are as follows:

- regular Board meetings with a formal schedule of matters reserved by the Board for decision;
- Board approval of the Group's strategic plan and annual budget;
- an annual risk review by the audit committee and subsequently by the Board, based on business risk reviews and control self assessments;
- clearly defined organisational structures and appropriate delegated authorities for the Group's Divisions and businesses with delegated authorities reviewed on an annual basis;
- monthly reviews by the executive management of key performance indicators to assess progress towards objectives, with action being taken as required;
- continuous monitoring of regulatory developments;
- procedures for planning, approving, executing and monitoring business acquisitions, divestments and capital expenditure projects, supplemented by post-investment performance reviews;
- dispensing and professional pharmacy protocols which are reviewed and against which compliance is audited on a regular basis;
- procedures for security and specialist handling of certain drug classes;
- a rolling programme of surveys by the Group's insurance brokers to advise on physical risks;
- centralised treasury operations, operating within defined limits and subject to regular reporting requirements;
- a Group internal audit function providing independent scrutiny of internal control systems and risk management procedures;
- operational review teams within individual businesses, providing management assurance on key controls primarily in wholesale depots and retail outlets;
- regular monitoring of risks and control systems throughout the year by operating businesses, with periodic exception reporting;
- a self-certification process, whereby operating businesses are required to confirm in writing that the system of internal control is operating effectively and the internal controls are documented including where and how frequently the controls are performed and by whom;
- the Director of Internal Audit & Risk Management has the right of direct access to the audit committee and the Executive Chairman of the Company;
- continuous monitoring by the Group legal function of claims and litigation throughout the Group;
- a requirement for specialist legal, financial and other professional advice to be obtained as part of the Group's business activities; and
- monitoring the Group's defined benefit pension funds, including the evaluation of investment policy and performance and a regular assessment of pension liabilities and net funding, with the support of independent actuaries and specialist pensions advisors.

Social, environmental and ethical matters

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

Ownership of the Company

The Company, a new Group holding company which has recently been established in Switzerland, is a direct subsidiary of AB Acquisitions Holdings Limited, the Gibraltar investment vehicle jointly controlled by certain funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR) and Alliance Santé Participations S.A., a company indirectly wholly owned by Stefano Pessina and of which Stefano Pessina and Ornella Barra are directors.

Board report on remuneration

The remuneration committee consists of three Directors, Tony De Nunzio (committee Chairman), Stefano Pessina and Dominic Murphy. The committee is scheduled to meet twice each year. The Board approved revised terms of reference for the committee on 4 June 2008 which are published on the Company's website at www.allianceboots.com.

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

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

Policy overview

The philosophy of the committee is to:

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

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

Executive remuneration comprises the following key elements:

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

Each of these elements is described below:

Basic salary

Basic salaries paid to executive Directors for the period from when Alliance Boots was taken private on 26 June 2007 up until the year end on 31 March 2008 are detailed in the emoluments section on page 54.

Executive Directors' salaries are reviewed shortly after the end of each financial year and are set taking into account market rates and the size and complexity of the Group. Basic salaries following the latest review, which were effective at the beginning of June 2008, are as follows:

Director	£
S. Pessina	593,000
O. Barra	430,000
S. W. J. Duncan	410,000
G. R. Fairweather	505,000
M. Pagni	395,000

Short term bonus scheme

Stefano Pessina does not participate in the short term bonus scheme for executive Directors. The short term bonus scheme for other executive Directors in 2007/08 provided a maximum bonus potential of 100% of basic salary at 31 March 2008. 80% of the bonus was dependent on Group financial performance and 20% on personal performance.

Bonus amounts actually earned by each executive Director from when Alliance Boots was taken private on 26 June 2007 up until the year end on 31 March 2008 are detailed in the emoluments section on page 54.

For 2008/09 the maximum bonus potential has been increased to between 110% and 125% of basic salary after taking into account current market rates. This will be split 70% on Group trading profit and 30% on personal performance.

Pension

Pension entitlements for executive Directors, where applicable, are calculated only on the basic salary element of remuneration.

Stefano Pessina has no pension arrangement from the Group.

Ornella Barra is a member of a tax approved pension scheme into which defined contributions are made by the Group. Subject to Ornella Barra only selecting investments offered by the scheme, a certain level of benefits are guaranteed to be payable at retirement age. Pension entitlement is calculated only on the basic salary element of remuneration.

Steve Duncan is a deferred member of the Alliance UniChem Group UK Pension Scheme and has ceased to accrue benefits in respect of future service. His accrued pension benefit is defined by reference to his final pensionable salary as defined in the Scheme rules. Since 6 April 2006, Steve Duncan has received a supplementary payment of 40% of his basic salary.

George Fairweather is an active member of the Alliance UniChem Group UK Pension Scheme and a deferred member of the Alliance UniChem 1993 Pension Scheme. Since 6 April 2006, future service benefits accrue in the Alliance UniChem Group UK Pension Scheme on his full basic salary. At that date an annuity adjustment was made to his benefits under the Alliance UniChem Group UK Pension Scheme to reflect his entitlement under the Alliance UniChem 1993 Pension Scheme. In addition, if the accrual in any year exceeds the annual allowance, as defined by the Pensions Act 2004, George Fairweather has the option to waive the excess accrual and receive a lump sum payment on an agreed scale in lieu. For the calendar year 2007, the accrual was in excess of the annual allowance. Consequently the excess accrual was waived by George Fairweather and the amount due in accordance with the agreed scale has been shown as a supplementary pension payment.

Marco Pagni is a deferred member of the defined contribution section of the Alliance UniChem Group UK Pension Scheme. His deferred benefits are equivalent to the value of contributions paid and accumulated investment returns. Since 1 May 2006, Marco Pagni has received a supplementary payment of 40% of basic salary.

Other benefits

Executive Directors are entitled to a company car or car allowance and other benefits comparable to those provided by other major companies. During the period, George Fairweather participated in a funded unapproved death benefit scheme which provided benefits on death comparable to those contained in the Group's approved pension schemes. Stefano Pessina and Ornella Barra are reimbursed the cost of travel to and from work, accommodation and subsistence while working for the Group. The provision of these benefits reflects market practice and does not relate to performance. The value of these benefits for each Director serving during the period, including expenses chargeable to income tax, are detailed in the emoluments section on page 54. Where a Director is entitled to a benefit but chooses not to take that benefit, a cash supplement is paid in lieu of that benefit.

Service contracts

Each of the executive Directors has a service contract. Details of the contracts of executive Directors who served during the period are as follows:

Director	Date of contract	Notice period by Alliance Boots	Notice period by Director
S. Pessina	31 July 2006	1 year rolling	6 months
O. Barra	31 July 2006	1 year rolling	6 months
S. W. J. Duncan	31 July 2006	1 year rolling	1 year
G. R. Fairweather	31 July 2006	1 year rolling	1 year
M. Pagni	1 June 2005	6 months rolling	6 months

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

Directors representing KKR

The fee paid to each Director representing KKR is £20,000 per annum.

Non-executive Directors

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

The basic fee paid to each non-executive Director is £50,000 per annum. In addition Nick Land receives a fee of £20,000 per annum for chairing the audit committee. Non-executive Directors do not participate in any pension scheme or bonus arrangements but are reimbursed travel, subsistence and accommodation costs.

The initial appointment dates for the non-executive Directors were as follows:

Director	Initial appointment date
C. Britton	4 June 2008
A. De Nunzio	4 June 2008
E. Jorod	31 March 2008
N. C. E. Land	31 March 2008

Emoluments

An analysis of executive Directors' emoluments relating to salaries and fees, short term bonuses, pension supplements and other benefits from when Alliance Boots was taken private on 26 June 2007 up until the year end on 31 March 2008 are shown in the table below:

£000	Salaries and fees	Short term bonuses	Pension supplements	Other benefits	Total
S. Pessina	453	–	–	110	563
O. Barra	317	317	–	84	718
S. W. J. Duncan	302	272	121	16	711
G. R. Fairweather	373	373	41	16	803
M. Pagni	280	286	120	11	697
	1,725	1,248	282	237	3,492

Pension entitlement

Details of pensions earned by the executive Directors' in office at 31 March 2008 during the period from when Alliance Boots was taken private on 26 June 2007 up until the year end on 31 March 2008 are shown below:

£000	Accrued pension at 31 March 2008	Increase in accrued pension during the period to 31 March 2008 gross of inflation	Increase/(decrease) in accrued pension during the period to 31 March 2008 net of inflation	Money purchase contributions during the period	Transfer value of accrued benefits as at 26 June 2007	Transfer value of accrued benefits as at 31 March 2008	Increase in transfer value of benefits less Directors' contributions	Transfer value of accrued benefits less Directors' contributions net of inflation
O. Barra ¹	–	–	–	200	–	–	–	–
S. W. J. Duncan ²	119	–	(3)	–	1,785	2,170	385	2,109
G. R. Fairweather	98	17	14	–	852	1,251	382	1,198
M. Pagni ³	–	–	–	–	–	–	–	–

¹ Ornella Barra is a member of the International Pension Scheme (money purchase scheme).

² Steve Duncan is a deferred member of the defined benefits section of the Alliance UniChem Group UK Pension Scheme. His accrued pension did not increase between 26 June 2007 and 31 March 2008.

³ Marco Pagni is a deferred member of the defined contributions section of the Alliance UniChem Group UK Pension Scheme. No contributions have been payable into the Scheme during the period and therefore no amounts are disclosed.

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the period. Retained benefits from previous employment is taken into account. The increase in accrued pension during the period is after deducting the increase due to inflation, at the annual rate of 3.9%, on the previous year's accrued pension.

By order of the Board

Tony De Nunzio

Chairman of the remuneration committee

4 June 2008

Audit committee report

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

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

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

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

Terms of reference

The Board approved revised terms of reference for the committee on 4 June 2008 which are published on the Company's website at www.allianceboots.com.

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

- consider the appointment, re-appointment and/or removal of the external auditors;
- agree with the external auditors the scope and nature of their audit, review their quality control procedures, ensure co-ordination of audits, review their management letter and management's response, and discuss any issues arising from their audit;
- consider any change to the independence of, objectivity of and fees to the external auditors;
- consider the effectiveness of the external audit process taking into consideration relevant professional and regulatory requirements;
- maintain and monitor a policy on the engagement of the external auditors to supply non-audit services;
- review the programme, resourcing, effectiveness and results of the internal audit function and approve any change to the Director of Internal Audit & Risk Management;
- monitor, review and challenge where necessary the integrity of financial statements and formal announcements relating to the financial performance of the Group;
- review the consistency of accounting policies;
- review the existence and functioning of an effective system of internal controls and confirm via self-assessment questionnaires that the controls are documented, how frequently the controls are performed and by whom;
- review the effectiveness of systems for financial reporting and risk management;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- monitor compliance with the Group's borrowing limits;
- review the status of any material litigation and contingent liabilities involving the Group; and
- monitor compliance with the principles of good boardroom practice.

Policy on non-audit services

As part of its remit, the committee keeps under review the nature and extent of audit and non-audit services provided to the Group by the external auditors, KPMG Klynveld Peat Marwick Goerdeler SA. The committee approved on 4 June 2008 a revised policy for the approval of non-audit services provided by the external auditors. Under this policy, the external auditors cannot be engaged to perform any of the following services:

- bookkeeping for underlying accounting transactions, or maintaining accounting records or the preparation of financial statements to be audited and used outside the Group;
- tax assignments performed where fees are contingent and material and/or dependent on uncertain tax law and audit judgement;
- acting as an advocate before a regulatory or statutory body on a matter which is material to the financial statements or dependent on audit judgement;
- handling tax payments;
- providing a fully outsourced internal audit function;
- carrying out internal audit work in an area which the Group auditor would want to place reliance on;
- undertaking an internal audit management role;
- design or the implementation of financial information systems;
- valuations and/or other appraisal services where the results will or may be incorporated in audited financial statements;
- underwriting or promoting shares;
- investment advisory services;
- legal services involving matters where the outcome has a potentially material effect on the Group financial statements;
- providing recruitment services in relation to key management positions;
- seconding employees to key management positions; or
- providing actuarial or pension valuation services.

This list of prohibited non-audit services may only be varied by the audit committee.

Under this policy it has been agreed that, due to their significant understanding of the Group and its businesses therefore ensuring cost efficiency and confidentiality, the external auditors may be engaged for certain non-audit services, including advice on tax matters, recent developments and/or complex or high risk areas and due diligence activities associated with potential acquisition or disposals of businesses.

A copy of the policy setting out a full list of the permitted non-audit services are published on the Company's website at www.allianceboots.com.

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

Policy on employment of former employees of the external auditor

As part of its remit, the committee keeps under review the objectivity, independence and effectiveness of the external auditor. The committee approved on 4 June 2008 a revised paper on the policy on employment of former employees of external auditors. Under this policy:

- no member of the external audit team can be recruited into a Group role in the Company for a period of two years following their association with the audit;
- no current or former partner of the external auditor may be appointed as a Director of the Company for three years after the termination of their employment with the external auditor; and
- no current or former partner or employee of the external auditor may be appointed as a Director of the Company or join the Group operating committee at any time without the prior approval of the Chairman of the audit committee.

Whistleblowing

24 hour helplines, managed by Expolink, operated in the UK during the period. These helplines provide reports to designated officers of the Company, including the Company Secretary, who in turn report cases to the audit committee. The committee monitors these cases until resolution is complete. Throughout the rest of the Group, the Company's whistleblowing policy sets out arrangements whereby employees can report to the Company Secretary any concerns or suspicions about possible wrongdoing in financial reporting or other matters, which are reported to the committee.

Nick Land

Chairman of the audit committee

4 June 2008

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Review and the Consolidated Financial Statements in accordance with applicable law and regulations.

In preparing Consolidated Financial Statements, the Directors have:

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

The Directors are responsible for keeping proper accounting records and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditor's statement

to the members of Alliance Boots GmbH

As Group auditors, we have audited the Consolidated Financial Statements (Group income statement, Group statement of recognised income and expense, Group balance sheet, Group cash flow statement and related notes) of Alliance Boots GmbH for the period ended 31 March 2008, from which the summarised consolidated financial statements were derived, in accordance with International Standards on Auditing and Swiss Auditing Standards. In our report dated 4 June 2008 we expressed an unqualified opinion on the Consolidated Financial Statements of Alliance Boots GmbH.

We read the other information contained in the Annual Review and consider whether it is consistent with the audited Consolidated Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Consolidated Financial Statements. Our responsibilities do not extend to any other information.

In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the Consolidated Financial Statements from which they were derived.

For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarised consolidated financial statements should be read in conjunction with the Consolidated Financial Statements from which the summarised consolidated financial statements were derived and our audit report thereon.

KPMG Klynveld Peat Marwick Goerdeler SA

John A. Morris
Auditor in charge

Dr. Elisabeth Kruck

Zug, Switzerland
4 June 2008

Summarised consolidated financial statements

Group income statement

for the period ended 31 March 2008

	£million
Revenue	11,865
Profit from operations before share of post tax earnings of associates and joint ventures	486
Share of post tax earnings of associates and joint ventures	49
Profit from operations	535
Finance income	254
Finance costs	(853)
Loss before tax	(64)
Tax	74
Profit for the period	10
Attributable to:	
Equity shareholders of the Company	10
Minority interests	–
	10

All income and expense of the Group arose from continuing operations.

Group statement of recognised income and expense

for the period ended 31 March 2008

	£million
Exchange differences on translation of non-Sterling denominated operations	101
Defined benefit pension schemes – actuarial gains and losses	181
Gains deferred in hedging reserve	1
Available-for-sale investments – losses on revaluation deferred in equity	(24)
	259
Tax on items taken directly to equity	(54)
Income and expense recognised directly in equity	205
Profit for the period	10
Total recognised income and expense for the period	215
Attributable to:	
Equity shareholders of the Company	213
Minority interests	2
	215

Group balance sheet

as at 31 March 2008

	£million
Assets	
Non-current assets	
Goodwill	4,514
Other intangible assets	5,460
Property, plant and equipment	2,078
Investments in associates and joint ventures	910
Available-for-sale investments	48
Other receivables	66
Deferred tax assets	66
Retirement benefit assets	317
Derivative financial instruments	1
	13,460
Current assets	
Inventories	1,422
Trade and other receivables	2,130
Cash and cash equivalents	413
Restricted cash	366
Derivative financial instruments	2
	4,333
Total assets	17,793
Liabilities	
Current liabilities	
Borrowings	(733)
Trade and other payables	(2,509)
Current tax liabilities	(30)
Provisions	(31)
Derivative financial instruments	(22)
	(3,325)
Net current assets	1,008
Non-current liabilities	
Borrowings	(8,585)
Other payables	(25)
Deferred tax liabilities	(1,545)
Retirement benefit obligations	(20)
Provisions	(57)
Derivative financial instruments	(188)
	(10,420)
Net assets	4,048
Equity	
Share capital	1,005
Share premium	2,795
Retained earnings	137
Other reserves	76
Shareholders' equity	4,013
Minority interests	35
Total equity	4,048

Group cash flow statement

for the period ended 31 March 2008

	£million
Operating activities	
Profit from operations	535
Adjustments to reconcile profit from operations to cash generated from operations:	
Share of post tax earnings of associates and joint ventures	(49)
Depreciation and amortisation	256
Decrease in inventories	34
Decrease in receivables	224
Decrease in payables and provisions	(265)
Movement in retirement benefit assets and obligations	(116)
Cash generated from operations	619
Tax paid	(58)
Net cash from operating activities	561
Investing activities	
Acquisition of businesses	(10,790)
Cash and cash equivalents of businesses acquired net of overdrafts	420
Disposal of businesses	20
Purchase of investments in associates and joint ventures	(41)
Purchase of available-for-sale investments	(3)
Purchase of property, plant and equipment, and intangible assets	(222)
Disposal of property, plant and equipment, and intangible assets	19
Dividends received from associates and joint ventures	19
Interest received	61
Net cash used in investing activities	(10,517)
Financing activities	
Interest paid	(598)
Interest element of finance lease obligations	(4)
Proceeds from borrowings	8,200
Repayment of borrowings	(621)
Fees associated with raising finance	(246)
Cash and cash equivalents transferred to restricted cash	(366)
Issue of ordinary share capital	3,800
Repayment of capital element of finance lease obligations	(16)
Contribution from minority interest	17
Net cash from financing activities	10,166
Net increase in cash and cash equivalents in the period	210
Cash and cash equivalents at beginning of period	–
Currency translation differences	(13)
Cash and cash equivalents at 31 March 2008	197

All cash flows of the Group arose from continuing operations.

Glossary of key terms

EBITDA

Trading profit before depreciation and amortisation.

Exceptional items

Items classified by Alliance Boots as exceptional in nature. These are not regarded as forming part of the 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.

In 2007/08 these mainly comprised costs in relation to merger synergies, systems rationalisation and supply chain reconfiguration projects, and costs in relation to the acquisition of Alliance Boots plc.

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.

Trading margin

Trading profit expressed as a percentage of revenue.

Trading profit

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

Principal businesses, associates and joint ventures

Health & Beauty Division

UK

Boots UK
1 Thane Road West
Nottingham
NG2 3AA
United Kingdom

Telephone: +44 (0)115 950 6111
Facsimile: +44 (0)115 959 5525
Websites: www.boots-uk.com
www.boots.com

Norway

Alliance Apotek
Hoffsveien 70c
P.O. Box 413 Skøyen
0213 Oslo
Norway

Telephone: +47 23 25 07 00
Facsimile: +47 23 25 07 01
Websites: www.allianceapotek.no
www.bootsapotek.no

Republic of Ireland

Boots Ireland
Liffey Valley Shopping Centre
Fonthill Road
Clondalkin
Dublin 22
Republic of Ireland

Telephone: +353 (0)1 626 7245
Facsimile: +353 (0)1 623 5661

The Netherlands

Alliance Apotheek
Hambakenwetering 5a
5231 DD 's-Hertogenbosch
The Netherlands

Telephone: +31 (0)73 628 2900
Facsimile: +31 (0)73 628 2910
Website: www.alliance-apotheek.nl

Thailand

Boots Thailand
97/11 6th Floor
Rajdamri Road
Lumpini
Pathumwan
Bangkok 10330
Thailand

Telephone: +66 (0)2 251 8811
Facsimile: +66 (0)2 250 4991
Website: www.bootsthailand.com

Pharmaceutical Wholesale Division

France

Alliance Healthcare France
222 rue des Caboeufs
92622 Gennevilliers Cedex
France

Telephone: +33 (0)1 40 80 51 00
Facsimile: +33 (0)1 47 33 10 78
Website: www.alliance-healthcare.fr

UK

UniChem
UniChem House
Cox Lane
Chessington
Surrey KT9 1SN
United Kingdom

Telephone: +44 (0)20 8391 2323
Facsimile: +44 (0)20 8974 1707
Website: www.unicem.co.uk

Spain

Alliance Healthcare España
Torre Milenium
Av. Francesc Macià, 60 – Planta 17
08208 Sabadell (Barcelona)
Spain

Telephone: +34 93 739 72 00
Facsimile: +34 93 739 72 50
Website: www.alliance-healthcare.es

Italy

Alliance Healthcare Italia
Via Moggia 75/a
16033 Lavagna (GE)
Italy

Telephone: +39 0185 315 71
Facsimile: +39 0185 323 510
Website: www.alliance-healthcare.it

The Netherlands

Alliance Healthcare Nederland
Hambakenwetering 5a
5231 DD 's-Hertogenbosch
The Netherlands

Telephone: +31 (0)73 628 2911
Facsimile: +31 (0)73 628 2499
Website: www.alliance-healthcare.nl

Czech Republic

Alliance Healthcare Czech Republic
Podle Trati 7
108 00 Praha 10 – Malešice
Czech Republic

Telephone: +420 220 19 51 11
Facsimile: +420 220 19 51 01
Website: www.alliance-healthcare.cz

Russia

Alliance Healthcare Russia
109383 Peschanij karier
3. Building 1-1B.
Moscow
Russia

Telephone: +7 495 228 1638/787 9029
Facsimile: +7 495 787 5209
Website: www.alliance-healthcare.ru

Norway

Holtung
Snipetjernvegen 10
N-1405 Langhus
Norway

Telephone: +47 64 85 03 00
Facsimile: +47 64 85 03 99
Website: www.holtung.no

Principal businesses, associates and joint ventures

Contract Manufacturing

UK

Boots Manufacturing
D10 Building
Thane Road
Beeston
Nottingham
NG90 2PR
United Kingdom

Telephone: +44 (0)115 968 6326

Facsimile: +44 (0)115 959 5525

Website: www.boots-manufacturing.com

Associates and joint ventures

Turkey

Hedef Alliance
Basin Ekpres Yolu
Kavak Sokak Ser Plaza
No:3 A Blok Kat 3
34530 Yenibosna
Istanbul
Turkey

Telephone: +90 212 452 72 00

Facsimile: +90 212 452 72 28

Website: www.hedefalliance.com.tr

Germany

Andreae-Noris Zahn (ANZAG)
Solmsstraße 25
60486 Frankfurt am Main
Germany

Telephone: +49 (0)69 7920 3-0

Facsimile: +49 (0)69 7920 3-369

Website: www.anzag.de

Switzerland

Galenica
Untermattweg 8
P.O. Box
CH-3001 Berne
Switzerland

Telephone: +41 58 852 81 11

Facsimile: +41 58 852 81 12

Website: www.galenica.com

Portugal

Alliance Healthcare Portugal
Rua Projectada à Rua Três da Matinha
Bloco A 1° C
1900-796 Lisboa
Portugal

Telephone: +351 (0)21 861 4700

Facsimile: +351 (0)21 861 4799

Website: www.alliance-healthcare.pt

China

Guangzhou Pharmaceuticals Corporation
No. 97-103 Datong Road
Liwan District
Guangzhou 510410
Guangdong Province
People's Republic of China

Telephone: +86 20 8181 4966

Facsimile: +86 20 8183 9341

Website: www.gzmpc.com

Hedef Alliance also owns UCP in Egypt and ANZAG owns Farmexport in Romania. In addition, UCP itself has an associate in Algeria and ANZAG has an associate in Croatia.

Alliance Boots GmbH

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Registered office
Alliance Boots GmbH
Baarerstrasse 78
CH-6300 Zug
Switzerland

Contact
enquiries@allianceboots.com

Website
www.allianceboots.com