

**Superdrug Stores plc**

Annual Report and Financial Statements

For the 52 Weeks ended 26 December 2020



**Superdrug Stores plc**  
**Annual Report and Financial Statements**  
**For the 52 Weeks ended 26 December 2020**

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# **Superdrug Stores plc**

## **Strategic Report**

### **For the 52 Weeks ended 26 December 2020**

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The directors present their Strategic Report for the 52 weeks ended 26 December 2020.

#### **General Information**

The Company is a private company, limited by shares and is incorporated and domiciled in England, in the United Kingdom. The registered number of the Company is 00807043. The address of its registered office is 51 Sydenham Road, Croydon, Surrey CR0 2EU. The Company is an indirect wholly-owned subsidiary of A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands, with its principal place of business in Hong Kong.

#### **Principal Activity**

The principal activity of the Company is a health and beauty retailer in the United Kingdom.

#### **Results and Business Review**

The Company has had a challenging period with the Covid-19 pandemic causing very significant disruption to the retail industry. Notwithstanding being classified as an essential retailer, footfall decline of 75% on the high street resulted in the Company temporarily closing 230 stores during the first national lockdown. As a result, and notwithstanding a significant increase in Online trading, revenue for the second quarter declined by 40%. The Company recovered in the second half as the first lockdown restrictions were lifted before further lockdowns in the run-up to Christmas impacted the important final month of the year. Revenue for the full year therefore declined by 15% to £1,111 million (2019: £1,304 million).

Profit before tax was £18.8 million, a decrease of 79.0% over last period's £89.4 million driven by the impact of the revenue decline despite the Company putting in place a series of measures to reduce costs, capital expenditure and preserve cashflow. The Company also benefitted from £14.2 million of government grants under the Coronavirus Job Retention Scheme. As a consequence, operating margin declined to 3.2% compared to the prior period of 8.2%.

Fixed assets decreased by £80.8 million from the prior period due to a net reduction of 13 stores during the period and the IFRS16 re-measurement of leased assets driven by a reassessment of likelihood to exercise extension options, the reduction of rent levels and reduction in average lease term on lease renewal as the Company continues to operate on short, flexible leases in the uncertain retail environment. Additionally, an impairment charge of £10.7 million (2019: £1.9 million) was booked against Right of Use assets and Property, plant and equipment to reflect the lower expected cashflows from the store estate, especially those situated in major city centres and travel hubs.

Working capital was also closely managed during the course of the period. Inventories increased by £10.5 million, with additional product ranges held to support Covid-19 trading conditions. Trade and other receivables decreased by £60.9m to £126.3 million (2019: £187.1 million) reflecting an improvement in credit control as well as lower levels of trading activity and intercompany balances. Trade and other payables increased by £34.2 million to £357.3 (2019: £323.1 million) driven by the deferral of VAT payments into 2021.

The Company also significantly reduced its capital expenditure during the period, decreasing by 46% to £15.5 million. In addition, no dividends were paid to the shareholder to ensure that the financial position of the Company remained strong. However, the Company continued to prioritise cashflows to the pension scheme, contributing a further £18.5 million in the year and reducing the deficit to £9.8 million at the period end. Cash and cash equivalents therefore increased by £118.9 million to stand at £188.8 million at the period end.

#### **Business Environment**

The UK retail environment, including the Health & Beauty market, endured a very challenging year in 2020 with the impact of the Covid-19 pandemic. With a large proportion of retail stores being closed the year saw a significant acceleration of online retail, which can be expected to continue even after the impacts of the pandemic start to recede. This re-emphasises the need for retailers to have a strategy capable of operating in both the online and in-store channels, in order to benefit from both the convenience of online shopping but also the customer service and experience that in-store retail can provide.

**Superdrug Stores plc**  
**Strategic Report (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Strategy**

The Company continues to strive to be the best in everyday accessible beauty and health. The recent financial year was unlike any before with the global pandemic, and therefore store opening programmes, and refurbishment programmes, slowed down. The Company did open 7 new stores but also closed 20, resulting in trading estate of 788 stores at the period end.

The Company's online channel saw significant growth as customers were forced to shop online as a result of nationwide government lockdowns across the year. The Company benefitted from being able to provide customers with varied and flexible delivery solutions. For example, order & collect in all stores or home delivery in major city centres – both in just 30 minutes. Additionally, the Company was able to utilise its store estate to provide a flexible fulfilment model to cater for the growth in demand. A re-launched App during the year also helped to drive online customer conversion to record levels. All these activities support the Company's "O+O" (Online and Offline) strategy, aiming to provide seamless accessibility and experience however customers choose to start or conclude their shopping mission.

The Company's pharmacies are an important part of the customer offering, with 198 NHS pharmacies across the UK which are currently supporting with the Covid-19 vaccine rollout. Additionally the Company's online healthcare channels, both the Online Doctor and the eNHS services, continued to grow and complement the provision of healthcare services in-store through its pharmacies and 82 nurse clinics.

The Company's Health & Beautycard customer loyalty programme proved to be a pivotal way to communicate to its customers throughout the pandemic. The proportion of sales from members continues to increase and be a focus for the business, enticing shoppers with benefits such as double points offers throughout the year, 'member only' pricing deals, and the double points offered to Superdrug Mobile customers. The programme continues to perform well and by the period end the number of registered members stood at over 15 million.

The Company also continues to focus hard on its cost base, driving efficiencies that can be invested in improving the customer offer and making our colleagues lives easier. During the period significant procurement savings were made across all areas of the business helping to fund investments in technology, both in-store and online.

**Principal Risks and Uncertainties**

The management of the Company and the execution of the Company's strategy are subject to a number of risks. These are reviewed formally by the board of directors of the Company (the "Board") and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects. The key business risks are as follows:

- **Competition:** The Company operates in a highly competitive market particularly concerning price and product availability and quality. This can result in downward pressures on volumes and margins. In order to mitigate this risk, market research is carried out, prices are monitored on a regular basis, pricing is adjusted accordingly and the Company carries out planned promotional activities.
- **Costs:** The Company focuses on all rising costs including fuel, rent, rates and wages and seeks all possible means to ensure that the effects of price rises are minimised.
- **Data and IT security:** The Company relies upon its IT infrastructure to deliver its operations and through which it handles significant volumes of data. The security, resilience and control of these key assets are of significant importance to and focus of management. The Company works closely with experts within the wider A.S. Watson Group to leverage capability and technology to constantly monitor and improve this area.
- **Employees:** The Company's performance depends largely on its staff. The loss of key individuals and the inability to recruit people with the right experience and skills could adversely impact the Company's results. To mitigate these issues, the Company continues to run programmes to improve staff retention.

**Superdrug Stores plc**  
**Strategic Report (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Principal Risks and Uncertainties (continued)**

- **Global pandemics:** The arrival of the global coronavirus pandemic in early 2020 presented significant risks and uncertainties to the retail industry and the UK economy. The Company relies upon established business continuity plans to deal with such business disruption, including the ability for head office staff to work remotely through its IT platform investments, as well as ensuring that supply chains are protected to ensure its stores, and the vital NHS pharmacy services the Company provides, can continue through the disruption.

**Key Performance Indicators (“KPIs”)**

The directors monitor progress of the Company's performance by reference to the following KPIs:

	<b>At 26 December 2020</b>	<b>At 28 December 2019</b>
Revenue	£1,111m	£1,304m
Operating profit	£35.5m	£107.0m
Operating margin	3.2%	8.2%

The directors are confident that the Company is well-positioned to meet its short term aspirations and that its longer term prospects are considerable.

**Financial Risk Management**

The Company is funded by operationally generated cash flow, group loans and external short term bank overdraft facilities if required. The Company sets financial risk management policies in accordance with A.S. Watson Group's policies and procedures. The A.S. Watson Group is part of the CK Hutchison Holdings Limited group. Treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates and to minimise the Company's financial risk.

a) **Credit risk**

Short-term surplus bank funds are placed with high quality financial institutions. As the Company's retail sales are usually in cash or by credit or debit card, credit risk is to a great extent short-term and limited to the recovery of supplier income.

b) **Liquidity risk**

The Company's liquidity risk is mitigated by internal funding primarily from the immediate holding company, A.S. Watson (Health & Beauty UK) Limited, in order to meet the Company's funding requirements.

c) **Foreign exchange risk**

The Company's direct foreign exchange exposure is minimal, with most purchases contracted and paid for in sterling. The Company has a greater exposure to indirect foreign exchange currency risk which it manages through ongoing planning and review with key suppliers.

The Company's financial instruments consist of cash, bank overdrafts, intercompany balances with A.S. Watson group companies, trade receivables and trade payables. The carrying value of these are all recorded at amortised cost. Their contractual maturities are less than one year, with the exception of the group borrowings disclosed in notes 15 and 16.

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**Strategic Report (continued)**  
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**Companies Act 2006 Section 172 (1) Statement**

Under section 172 of the Companies Act 2006, directors of a company are required to act in a way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, having regard to a range of different matters as stated therein.

The duty emphasises that the board of directors must consider the wider impact of its decisions, rather than just the financial and strategic elements. The board should also create a culture whereby the long-term consequences of its actions and the long-term success of the company are given due consideration.

*(i) The likely consequences of any decision in the long term*

It is essential that the Board makes decisions which are best for the Company in the long term. These decisions are focussed on long-term success, not short-term gains, which will stand the Company in good stead for the future. This has been a major focus for a number of years, particularly in light of the pressure on the high street as a result of the struggling retail market. The added impact of the Covid-19 pandemic has meant that the long-term sustainability of the Company has been brought closer into the spotlight, especially given that a number of retailers are closing their doors on a permanent basis, and many more downsizing.

The Company works closely with its shareholder and stakeholders to review, update and agree its five-year strategy each year. Consideration is given to the changing retail landscape and investments that may be needed to support future growth as well as financial projections. The strategy is formally signed off by the Board each year, which then forms the basis for the operating plans to deliver against the agreed targets.

The Investment Committee of the Company, chaired by the Chief Executive and supported by the Finance Director, holds regular meetings to ensure all significant spend decisions have a comprehensive review before decisions are taken and contracts are signed. This also ensures to the extent possible, commitments with sufficient flexibility or otherwise only minimum commitments, will be entered into by the Company, so as to allow the Company to remain agile in an ever changing environment at a time where the nature of the high street is changing rapidly across various town centres.

*(ii) The interest of the employees of the Company*

The relationship with the employees of the Company is paramount. The Company actively engages with its employees to ensure that their opinions and ideas are always considered, and that employees are kept up to date and informed. The Company holds an annual conference for Store Managers and Assistant Store Managers to provide an update on the current performance and future plans of the Company. Regular conferences are also held for Head Office employees, and equivalent 'all hands' meetings also take place at its Distribution Centres.

All employees have access to a social networking platform, which is used for Company communication, as well as sharing less formal messages with each other on store events, like charity fundraising. Access to this collaborative network helps to drive employee engagement. Throughout the Covid-19 pandemic employees have been receiving regular communication and updates from the Chief Executive and Customer & People Director so that they are kept up to date and informed of business action, and of the impact of the situation on business performance.

The Company was recognised in the Financial Times Diversity Leaders awards in 2020, being ranked one of the highest European based retailers. The award recognises the good work that has been delivered through the "Everyone Matters" Company-wide diversity & inclusion strategy, which remains a key priority across the business.

The Company is also a strong supporter of its defined benefit pension scheme, taking seriously its responsibilities to ensure the retirement obligations are funded and secured appropriately for its employees. The Finance Director and the Customer & People Director meet with the Trustees of the scheme on a quarterly basis to this end.

**Superdrug Stores plc**  
**Strategic Report (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Companies Act 2006 Section 172 (1) Statement (continued)**

*(iii) The need to foster the business relationships of the Company with suppliers, customers and others*

In all instances the Company aims to create and maintain open and transparent business relationships, which are paramount to ensuring high quality products can be obtained on terms that can meet customer demand. The directors are also mindful of the need to maintain, and enhance, good supplier relationships in the strategy they deliver for the Company. An example of working collaboratively with suppliers was seen approaching the end of the Brexit transition period, when the Company worked actively and closely with its EU-based suppliers to minimise supply chain disruption.

The Company participates in regular independent surveys across its key suppliers, seeking feedback on matters such as clarity of strategy, business practices and payment performance. Both the Commercial Director and Healthcare Director also hold regular "top to top" meetings with major suppliers to ensure that open communication channels and positive business relationships are maintained.

The Company acknowledges the importance of its customers to the continued and long term success of the business, and places great emphasis on customer experience whilst shopping. Through the Company's loyalty scheme, store level surveys are undertaken on a weekly basis with customers to gain real-time feedback with a view to improving customer service.

*(iv) The impact of the operations of the Company on the community and the environment*

The Company recognises the importance of managing the social impact of the business and minimising any adverse impact of its operations on the environment. The Corporate Social Responsibility ("CSR") agenda of the Company is led by the Property Director and the Customer & People Director under the banner of "Doing good feels Super" which provides central oversight to all the activities of the Company in this aspect. Additionally, the Chief Executive represents the Company on the global A.S. Watson Group CSR Committee ensuring that the Company benefits from group-wide expertise and resources in this important area.

In 2020 the Company demonstrated its commitment to change by becoming the first health and beauty retailer in the UK to join the New Plastics Economy Global Commitment. The Company also launched its first reusable tote bag made from recycled plastic bottles. Each bag uses the plastic from five recycled bottles. Over 18,000 have been sold so far which has not only reduced the need for customers to use plastic carrier bags but also used recycled materials from 90,000 plastic bottles.

During the height of the pandemic the Company offered the services of its fully trained nurses to support the NHS during the peak bottleneck of the initial wave of Covid-19 in the UK. In December 2020, the Company was also selected to help the UK Government deliver the Covid-19 vaccination programme and continues to support this roll out in the current financial year.

The Company also has a long-standing charity partnership with Marie Curie which supports fundraising across its stores, distribution centres and head office. This partnership also helps the local stores drive community engagement and maintain good community relations. To date this partnership has provided Marie Curie with £6 million of funding.

*(v) The desirability of the Company maintaining a reputation for high standards of business conduct*

The Company expects the highest standard of business conduct from its employees. They receive regular regulatory and compliance updates, and the Company also has in place policies, procedures and processes in respect of modern slavery, anti-bribery and corruption, as well as tax strategy.

All employees sign up to the A.S. Watson Code of Conduct upon joining the Company, which sets out the minimum standards for all employees of the A.S. Watson Group of companies. The Code aims to promote honest and ethical conduct and encourage trust, fair dealing and integrity in all interactions with customers, suppliers, colleagues and stakeholders.

**Superdrug Stores plc**  
**Strategic Report (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Companies Act 2006 Section 172 (1) Statement (continued)**

*(vi) The need to act fairly as between members of the Company*

The Company works closely with its shareholder, agreeing the strategic direction, reviewing financial performance and major investment decisions, and maintaining an open communication on matters of importance. Such approach drives benefits for both the Company and its shareholder.

**Corporate Governance**

The Company is part of the A.S. Watson Group of companies ("ASW Group"), and ultimately part of CK Hutchison Holdings Limited ("CKHH", and together with its subsidiaries, the "CKHH Group"), a company whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited.

The Company adopts and applies high standards of corporate governance best suited to the needs and interests of the CKHH Group as it believes that an effective corporate governance framework is fundamental to promoting and safeguarding interests of the shareholder and other stakeholders and enhancing shareholder value.

For year ended 26 December 2020, under The Companies (Miscellaneous Reporting) Regulations 2018 the Company has adopted the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") which are available on the Financial Reporting Council website as an appropriate framework when making a disclosure about its corporate governance arrangements. The Company's reporting against the Wates Principles is set out below.

*Principle 1: Purpose and Leadership*

The Company's principal objective is to be the best for everyday and accessible beauty and health, both on the High Street and Online. This business purpose is clearly cascaded and communicated throughout the Company as it focusses on delivering this objective consistently for its customers. This in turn ensures financial returns for its shareholder, stability and progression for its employees and continued investment in the business and the communities which it serves.

Whilst the Board is responsible for the overall direction and management of the Company, the effective day-to-day management of the Company is overseen by the Company's executive management team (the "Exec"), supported by delegated authorities to certain senior officers and employees which is generally based on financial thresholds. The Board regularly reviews these authorities to ensure they are appropriate and relevant.

The Exec and members of the Board meet regularly to discuss and review strategies, performance, business plans, budgets and risk profiles of the Company. Whilst the Board is charged with the task of promoting the long-term success of the Company and making decisions in the best interests of the Company, the Exec is accountable for the conduct and performance of the Company within the agreed strategies. The Board together with the Exec instil and uphold the Company's objectives and strategies through the day-to-day operations and management of the Company.

*Principle 2: Board Composition*

The Board is comprised of four directors which provides for representation of both the Exec and also the Company's shareholder. The Exec is represented by the Chief Executive and the Finance Director, with the Company's shareholder represented by the A.S. Watson Group Managing Director and A.S. Watson Group Finance Director. The Board considers its current size and composition constitutes an effective board appropriate to meet the strategic needs and challenges of the Company and ensure effective decision-making.

The Exec comprises of ten senior executives, led by the Chief Executive. Collectively the Exec possesses extensive retail leadership experience, gained across several different organisations and countries. It includes executives with specialist professional qualifications, most notably in relation to the Company's pharmacy operations.

**Superdrug Stores plc**  
**Strategic Report (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Corporate Governance (continued)**

Diversity and inclusion is a key part of the Company's culture. The Company is committed to developing a more diverse workforce, including at the most senior levels. It recognises the benefits of a Board and Exec that possesses a balance of skill sets, experience, expertise and diversity of perspectives appropriate for the strategies of the Company. The Company believes that board diversity enhances decision-making capability and thus the overall effectiveness of the Board and the Exec in achieving sustainable business operation and enhancing shareholder value.

*Principle 3: Directors' Responsibilities*

The Board and each director have a clear understanding of their accountability and responsibilities. The Board is committed to achieving and maintaining the high standards of corporate governance structure, policies and practices of the ASW Group, taking into account the business and regulatory frameworks within which the Company operates. Business plans and budgets are prepared annually by management of the Company and are subject to review and approval by the Board and the executive management team of ASW Group as part of the ASW Group's five-year corporate planning cycle. Management of the Company is also responsible for preparing monthly management reports on the financial results and key operating statistics of the Company. Monthly meetings are held with the executive management team of ASW Group to review these reports, business performance against budgets, forecasts, significant business risks sensitivities and strategies of the Company.

The Board as a whole is responsible for promoting the long-term success of the Company and making decisions in the best interests of the Company in line with the agreed business plans and strategies. Throughout the year, the management of the Company provides to the directors updates and other information with respect to the performance, business activities and development of the Company. The Company also has in place a formal structure of the Board approved delegated authorities to ensure that there are appropriate controls surrounding decisions and commitments that may bind the Company.

The Board considers that all of these robust corporate governance and internal control frameworks and company leadership, working together, promote effective stewardship to deliver long-term value for the Company and its shareholder as a whole.

*Principle 4: Opportunity and Risk*

The Company is committed to the long-term sustainability of its business by regularly reviewing its business model and practices to identify opportunities for improving its performance and creating value for stakeholders. The Exec meets regularly to discuss and consider these opportunities and conducts an annual strategic review and quarterly forecasting exercise to embed decisions and allocate resources accordingly.

The Board seeks to instil risk awareness across the Company's business operation and has put in place policies and procedures which provide a framework for the identification, reporting and management of risks. The Company adopts an Enterprise Risk Management framework to manage its risk exposure and appetite. The framework facilitates a systematic approach in identifying, assessing and managing risks within the Company, be they of strategic, financial, operational or compliance nature. There is ongoing dialogue amongst the Exec about current and emerging risks, their plausible impact and mitigation measures. On a half-yearly basis, the Company is required to formally identify and assess the significant risks the business faces.

*Principle 5: Remuneration*

The remuneration of the directors and senior executives of the Company is determined with reference to their expertise and experience in the industry, the performance and profitability of the Company as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Remuneration arrangements are also subject to oversight and approval from the Company's shareholder. All employees also participate in bonus arrangements which are determined in accordance with the performance of the Company and the individual's performance. The Board considers that the remuneration structure of the Company aligns with the Company's objectives, values and strategies to support long-term sustainable success.

**Superdrug Stores plc**  
**Strategic Report (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Corporate Governance (continued)**

The Gender Pay Gap is reviewed by the Exec, and an action plan is formulated for improvements across the whole organisation. The Exec is committed to developing a more diverse senior leadership team across the Company and has introduced balanced shortlists for all senior management and director appointments covering gender and ethnicity to bolster its leadership team and future progression potential.

*Principle 6: Stakeholder Relationships and Engagement*

The Board actively promotes engagement and communications with stakeholders, including employees, shareholder, customers, business partners, suppliers, its Pension Scheme, regulators, government, community groups and media partners. The Company actively encourages employees to express their views and has established various channels including a social platform 'The Hub' allowing two way communication between colleagues at all levels of the organisation. The Hub is used regularly by over 75% of employees to engage with the culture, share views, ask questions and learn about the business. The Company also regularly collects views from other stakeholders through a variety of channels, such as independently sourced feedback and assessment reports by the Company's key suppliers on its performance across a range of measures such as business relationships, supply chain management and payment processes.

The Company is committed to achieving and maintaining high standards of openness, probity and accountability. There are established whistle-blowing policy and mechanisms which allow the employees of the Company and those who deal with the Company to report any suspected impropriety, misconduct or malpractice concerning the Company with confidence.

The Company has adopted a proactive approach to its social, economic and environmental responsibilities as outlined in its s.172 disclosures.

**Future Outlook and Prospects**

The UK retail environment remained challenging in the first half of 2021, with the third national lockdown reducing High Street footfall in January to 65% below pre-pandemic levels and recovering only to 30% below in May. The second half will see the completion of the national vaccination programme for Covid-19, the further removal of social distancing provisions and possibly the return to international travel; all of which will significantly assist the High Street recovery. The directors therefore are approaching the second half of the year with cautious optimism. The proactive steps the Company took in 2020 to reduce costs and capital expenditure, have ensured the financial position of the Company remains robust.

At the same time the Company is planning strategies to mitigate the impact of these events and to maintain its strong price perception on the high street and attract footfall with its beauty and healthcare products and services offering, both in-store and online. The ability to trade through the global pandemic in 2020, coupled with a clear future strategy, and cash flows that can support investment, leaves the Company well positioned to invest in growth for beyond 2021.

On behalf of the Board



R A Fleming  
Director

12 June 2021

**Superdrug Stores plc**  
**Directors' Report**  
**For the 52 Weeks ended 26 December 2020**

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The directors present their report and the audited Financial Statements of the Company for the 52 weeks ended 26 December 2020.

**Future Developments**

The directors' opinion on the future outlook and prospects of the Company has been included in the Strategic Report.

**Dividends**

No dividends were paid during the year (2019: £35.0 million).

**Directors**

The directors have access to the advice and services of the company secretary and board members are able to take independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors.

The directors possess an appropriate balance of skills and experience for the requirements of the business. The Board and its committees operate within a framework of scheduled meetings, with additional ad hoc meetings being held, as required.

The directors of the Company during the period and up to the date of approving this report were:

D K M Lai  
A J Heaton  
P W Macnab  
R A Fleming

As permitted by s234(2) of the Companies Act 2006, the Company maintains directors' and officers' liability insurance which provides insurance cover against liabilities which directors and other officers of the Company may incur personally as a consequence of claims made against them alleging breach of duty or other unlawful acts or omissions in their capacity as directors and officers. The qualifying third party indemnity provision was in force during the financial period and also at the date of approval of the financial statements.

**Information included in the Strategic Report**

Stakeholder and employee engagement details and the directors' opinion on financial risk management has been included in the Strategic Report.

**Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

**Superdrug Stores plc**  
**Directors' Report**  
**For the 52 Weeks ended 26 December 2020**

**Streamlined Energy and Carbon Reporting (SECR) disclosure**

The Company's environmental reporting accords with SECR requirements, with the reporting period being for the calendar year 2020. The Company's SECR disclosure presents the carbon footprint, together with appropriate intensity metric and total use of electricity, gas and transport fuels.

*Methodology*

For the Company's reporting, the Company has employed the service of a specialist advisor, Ista Energy Solutions Ltd, to quantify the Greenhouse Gas ("GHG") emissions associated with the Company's operations.

The report follows the GHG Reporting Protocol – Corporate Standard as the accepted methodology to meet the mandatory SECR requirements. The UK government's greenhouse gas conversion factors have been applied to calculate the carbon emissions to the following reporting standards:

- The Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard (WBCSD & WRI, 2004)
- The Greenhouse Gas Protocol – Scope 2 guidance, amendment to the GHG Protocol Corporate Standard (WNCSD & WRI, 2015). Application of location-based and market-based emission factors for electricity supplies
- The Greenhouse Gas Protocol – Corporate Value Chain (scope 3) Accounting and Reporting Standard (WBCSD & WRI, 2011)
- Where data was missing, values were estimated using an extrapolation of available data

An operational control approach has been used in order to define the Company's organisational boundary. This is the basis for determining Scope 1 and Scope 2 emissions for which the Company is responsible. The Company has chosen to provide additional optional disclosure regarding scope 3 emissions as these areas are fundamental to the operations of the Company.

*Energy efficiency action*

In the period covered by the report the Company has undertaken a LED upgrade across its two main distribution centres and also in several stores, as part of the design of a LED retro-fit programme across all its stores in the coming years. Alongside this, new energy efficient air conditioning has been retro-fitted in nine stores.

**GHG emissions and energy use report**

	Units	52 weeks ended 26 December 2020
Energy consumption used to calculate emissions	kWh	75,573,484
Emissions from gas & transport (Scope 1)	tCO <sub>2</sub> e	4,884
Emissions from purchased electricity (Scope 2)	tCO <sub>2</sub> e	12,195
Emissions from 3 <sup>rd</sup> party logistics & business travel in cars (Scope 3)	tCO <sub>2</sub> e	927
<b>Total gross emissions</b>	<b>tCO<sub>2</sub>e</b>	<b>18,006</b>
<i>Total gross emissions per £'m of revenue</i>		<i>16.2</i>
Carbon offsets procured via Green Electricity Tariff	tCO <sub>2</sub> e	(11,861)
<b>Total net emissions</b>	<b>tCO<sub>2</sub>e</b>	<b>6,145</b>
<i>Total net emissions per £'m of revenue</i>		<i>5.5</i>

**Superdrug Stores plc**  
**Directors' Report (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Statement of Directors' Responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

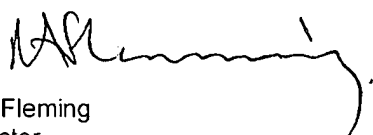
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

**Directors' confirmations**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



R A Fleming  
Director

12 June 2021

**Superdrug Stores plc**  
**Independent Auditors' Report to the member of Superdrug Stores plc**  
**For the 52 Weeks ended 26 December 2020**

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**Report on the audit of the financial statements**

**Opinion**

In our opinion, Superdrug Stores plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 26 December 2020 and of its profit and cash flows for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 26 December 2020; the Statement of Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- agreeing the underlying cash flow projections to management approved forecasts, assessing how these forecasts are compiled and assessing the accuracy of management's forecasts
- evaluating the key assumptions used by management within these forecasts including revenue growth
- considering liquidity and available financial resources
- assessing whether the stress testing performed by management appropriately considered the risks facing the business
- reviewing adequacy of management's disclosure on going concern and consistence with our knowledge obtained through the audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Superdrug Stores plc**  
**Independent Auditors' Report to the member of Superdrug Stores plc (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

**Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the period ended 26 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

**Responsibilities for the financial statements and the audit**

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

**Superdrug Stores plc**  
**Independent Auditors' Report to the member of Superdrug Stores plc (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Responsibilities for the financial statements and the audit (continued)**

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation (including VAT, payroll taxes, income tax and Coronavirus Job Retention Scheme) and health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud and actual and potential litigation and claims
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulation
- Review of key correspondence with tax regulatory authorities in relation to compliance with laws and regulations
- Review of whistleblowing helpline log and the results of management's investigation of such matters
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of right of use assets and property, plant and equipment, including the disclosure of such matters in the financial statements; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, or posted by members of senior management with a financial reporting oversight role

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

*Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting**

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

**Superdrug Stores plc**  
**Independent Auditors' Report to the member of Superdrug Stores plc (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**Companies Act 2006 exception reporting (continued)**

We have no exceptions to report arising from this responsibility.



David Beer (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Gatwick

23 June 2021

**Superdrug Stores plc**  
**Statement of Comprehensive Income**  
**For the 52 Weeks ended 26 December 2020**

		<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
	<b>Note</b>		
<b>Income Statement</b>			
Revenue		1,111,403	1,303,797
Cost of Sales		(1,024,249)	(1,142,915)
<b>Gross Profit</b>		<b>87,154</b>	<b>160,882</b>
Administrative expenses		(72,168)	(62,585)
Other operating income	3	20,468	8,730
<b>Operating profit</b>	3	<b>35,454</b>	<b>107,027</b>
Finance income	6	312	536
Finance costs	6	(17,003)	(18,165)
<b>Profit before taxation</b>		<b>18,763</b>	<b>89,398</b>
Income tax expense	7	(4,125)	(19,648)
<b>Profit for the financial period</b>		<b>14,638</b>	<b>69,750</b>
<b>Other Comprehensive Expense</b>			
<i>Items that will not be reclassified subsequently to profit and loss</i>			
Actuarial losses recognised in pension scheme	17	(12,240)	(6,030)
Movement on deferred tax relating to pension deficit	7	2,326	1,025
		<b>(9,914)</b>	<b>(5,005)</b>
<b>Total comprehensive income for the period</b>		<b>4,724</b>	<b>64,745</b>

Revenue and operating profit arise from the Company's continuing operations.

**Superdrug Stores plc**  
**Balance Sheet**  
**As at 26 December 2020**

Registered Number: 00807043

		At 26 December 2020 £'000	At 28 December 2019 £'000
	Note		
<b>Fixed assets</b>			
Intangible assets	8	140,825	140,732
Property, plant and equipment	9	100,147	127,709
Right of use assets	10	345,611	398,942
		<b>586,583</b>	<b>667,383</b>
<b>Current assets</b>			
Inventories	13	263,079	252,559
Trade and other receivables	14	126,295	187,149
Cash and cash equivalents		188,771	69,879
<b>Total current assets</b>		<b>578,145</b>	<b>509,587</b>
<b>Creditors – amounts falling due within one year</b>			
Trade and other payables	15	(357,316)	(323,093)
Lease liabilities		(74,164)	(86,610)
		<b>(431,480)</b>	<b>(409,703)</b>
<b>Net current assets</b>		<b>146,665</b>	<b>99,884</b>
<b>Total assets less current liabilities</b>		<b>733,248</b>	<b>767,267</b>
<b>Creditors – amounts falling due after more than one year</b>			
Borrowings	16	(85,000)	(85,000)
Lease liabilities		(313,325)	(347,321)
Retirement benefit obligation	17	(9,785)	(15,186)
Provisions for liabilities	18	(3,503)	(2,849)
<b>Net assets</b>		<b>321,635</b>	<b>316,911</b>
<b>Equity</b>			
Called up share capital	20	22,000	22,000
Share premium account		103,400	103,400
Retained earnings		196,235	191,511
<b>Total shareholder's funds</b>		<b>321,635</b>	<b>316,911</b>

The notes on pages 21 to 40 form part of these financial statements.

These financial statements on pages 17 to 40 were authorised for issue by the Board of on  
22 June 2021 and signed on its behalf by:



R A Fleming  
Director

**Superdrug Stores plc**  
**Statement of Changes in Equity**  
**For the 52 Weeks ended 26 December 2020**

	<b>Called up Share Capital £'000</b>	<b>Share premium account £'000</b>	<b>Retained Earnings £'000</b>	<b>Total Shareholder's funds £'000</b>
<b>At 29 December 2018</b>	<b>22,000</b>	<b>103,400</b>	<b>161,766</b>	<b>287,166</b>
Profit for the financial period	-	-	69,750	69,750
<b>Other Comprehensive (Expense)/Income for the period</b>				
Actuarial losses on pension scheme	-	-	(6,030)	(6,030)
Movement on deferred tax relating to pension deficit	-	-	1,025	1,025
<b>Transactions with shareholder</b>				
Dividends	-	-	(35,000)	(35,000)
<b>At 28 December 2019</b>	<b>22,000</b>	<b>103,400</b>	<b>191,511</b>	<b>316,911</b>
Profit for the financial period	-	-	14,638	14,638
<b>Other Comprehensive (Expense)/Income for the period</b>				
Actuarial losses on pension scheme	-	-	(12,240)	(12,240)
Movement on deferred tax relating to pension deficit	-	-	2,326	2,326
<b>At 26 December 2020</b>	<b>22,000</b>	<b>103,400</b>	<b>196,235</b>	<b>321,635</b>

**Superdrug Stores plc**  
**Cash Flow Statement**  
**For the 52 Weeks ended 26 December 2020**

		<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
	<b>Note</b>		
<b>Cash flow from operating activities</b>			
Company operating profit		35,453	107,027
Adjustments for:			
Depreciation, amortisation and impairment charge	3	124,514	114,952
Loss on disposal of intangible assets	8	92	20
Loss on disposal of tangible assets	9	1,368	1,708
Gain on early termination of leases		(285)	(465)
Defined benefit pension contributions	17	(18,500)	(20,500)
<b>Operating cash flow before movement in working capital</b>		<b>142,642</b>	<b>202,742</b>
Increase in inventory	13	(10,520)	(23,677)
Decrease in trade and other receivables	14	58,404	33,062
Increase/(decrease) in trade and other payables	15	58,200	(34,236)
<b>Operational cash flow after movement in working capital</b>		<b>248,726</b>	<b>177,891</b>
Interest paid	6	(16,354)	(16,781)
Taxation paid	7	(9,090)	(12,253)
<b>Net cash inflow from operating activities</b>		<b>223,282</b>	<b>148,857</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(15,503)	(28,714)
Purchase of intangible fixed assets	8	(987)	(872)
Interest received	6	312	536
<b>Net cash outflow from investing activities</b>		<b>(16,178)</b>	<b>(29,050)</b>
<b>Cash flow from financing activities</b>			
Lease payments		(88,212)	(92,226)
Dividends paid	19	-	(35,000)
<b>Net cash outflow from financing activities</b>		<b>(88,212)</b>	<b>(127,226)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>118,892</b>	<b>(7,419)</b>
Cash and cash equivalents at beginning of period		69,879	77,298
<b>Cash and cash equivalents at end of period</b>		<b>188,771</b>	<b>69,879</b>

**Superdrug Stores plc**  
**Notes to the Financial Statements**  
**For the 52 Weeks ended 26 December 2020**

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**1. Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**Basis of Preparation**

The financial statements of Superdrug Stores plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006, as applicable for companies using FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The following exemptions from the requirements of EU adopted IFRS, as it existed on 26 December 2020 have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - Paragraph 79(a) (iv) of IAS 1
  - Paragraph 73(e) of IAS 16 Property, plant and equipment
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information); and
  - 134-136 (capital management disclosures)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- Paragraph 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets'; and
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**1. Summary of Significant Accounting Policies (continued)**

**Going Concern**

The Company meets its day-to-day working capital requirements through its cash reserves and group loans. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and group loans for a period of at least 12 months from the date of signing these financial statements.

Forecasts have been produced to reflect severe but plausible scenarios as a result of the Covid-19 pandemic. These scenarios assume an additional six month lockdown period from October 2021 to March 2022, reducing sales in line with previous lockdown data. This still results in a sufficient cash position before taking into consideration additional cost saving actions including reducing investment capital spend and other discretionary costs. The Company has sufficient cash reserves to enable it to meet its obligations as they fall due for a period of at least 12 months from the date of signing these financial statements.

The Company has no external debt and has access to group borrowings via a credit agreement with A. S. Watson Group (HK) Limited. Under the agreement, A. S. Watson Group (HK) Limited has agreed to make available a credit facility of £125,000,000, charging interest at 3.5%, maturing on 15 June 2025. The Company has a pooled bank overdraft facility of £20,000,000, which is provided by National Westminster Bank plc and which is unsecured and repayable on demand. Further information on the Company's borrowings is given in note 15 and 16.

Having assessed the principal risks, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

**Consolidation**

The Company is a wholly owned subsidiary of A.S. Watson (Health & Beauty UK) Limited, its immediate parent company. The smallest group into which the results of the Company are consolidated is A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands with its principal place of business in Hong Kong. The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

**Subsidiaries**

Subsidiaries are entities in which the Company has the power to govern the financial and operating policies so as to obtain economic benefits from their activities.

**Revenue**

Revenue represents retail sales to customers and commission income from goods and services provided by third parties in the United Kingdom and Europe. It is measured at the fair value of the consideration received or receivable and is recognised on the day that the sale is made. Revenue through internet sites is recognised once an order has been fulfilled and despatched.

Revenue is shown net of returns, the cost of loyalty card points, colleague discounts and sales made on an agency basis, and is stated net of value added tax. Commission income, arising from goods and services provided by third parties, is recognised in revenue based on the terms of the contract.

In respect of loyalty schemes, as points are issued to customers the retail value of those points is deferred. When the points are used by customers they are recorded as revenue. Liabilities are recorded to estimate the proportion of the points issued which are expected to be redeemed by the customers.

In the opinion of the directors there is only one class of business.

**Cost of Sales**

Cost of sales consists of expenses incurred in bringing products to a saleable position and condition. Such costs principally include purchasing of products from suppliers, packaging and distribution costs, direct staff costs and store costs, including depreciation of store and warehouse right of use assets and property, plant and equipment.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**1. Summary of Significant Accounting Policies (continued)**

**Supplier Income**

Supplier incentives, promotional funding, volume related rebates and discounts, collectively known as 'supplier income', are deducted from cost of sales and are recognised in accordance with supplier agreements on an accrual basis as they are earned for each relevant supplier contract. Amounts due relating to supplier income are recognised within trade receivables, except in cases where the Company currently has a legally enforceable right to set-off and intends to offset amounts due from suppliers, in which case only the net amount receivable or payable is recognised. Accrued supplier income is recognised within accrued income when earned and not invoice at the balance sheet date.

**Other Operating Income**

Other operating income relates to government grants, rental income receivable and logistics backhaul income. The income is recognised on an accruals basis.

**Government Grants**

Government grants are accounted for under the accruals model as permitted by FRS101. Grants of a revenue nature are recognised in other operating income in the same period as the related expenditure. This includes the Government Coronavirus Job Retention Scheme (Furlough).

**Foreign Currency**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

**Intangible Assets**

*a) Pharmacy licences*

An intangible asset arising on the purchase of a pharmacy licence is recognised at cost and is capitalised as an intangible asset. The licences are not amortised, as they are deemed to have an indefinite useful economic life. Impairment reviews are carried out on an annual basis to ensure that the carrying value of each individual licence is still appropriate.

*b) Computer software*

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of between five to seven years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of between five to seven years. All amortisation is included within administrative expenses within the income statement.

*c) Brands*

Brands and trademarks are recognised at fair value at the acquisition date. They are not amortised as they are deemed to have an indefinite useful life. The assets are tested for impairment on an annual basis and are carried at cost less any provision for impairment, and any impairment that is identified is recognised in the income statement.

The non-amortisation of intangible assets diverges from paragraph 22 of Schedule 1 to "The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008" (S1 2008/410), which requires intangible assets to be written off over their useful economic life. As such, the non-amortisation of the pharmacy licences and the Brands is a departure, for the purposes of giving a true and fair view, from the requirements of paragraph 22 of Schedule 1 to the Regulations. It is not possible to quantify the effect of the departure because the pharmacy licences and the Brand is deemed to have an indefinite useful life.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**1. Summary of Significant Accounting Policies (continued)**

**Property, Plant and Equipment**

Tangible assets are stated at historic cost, net of accumulated depreciation. The cost of fixed assets is their historic purchase price, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of the tangible fixed assets less their estimated residual values, using the straight-line method, over the following expected useful economic lives of the assets concerned. Leaseholds with an unexpired term of greater than 50 years are treated as long leaseholds.

Long leasehold improvements	length of the lease
Short leasehold improvements	shorter of 6 ¾ years or length of the lease
Fixtures, fittings and equipment	5 to 10 years

The useful economic lives of assets are reviewed annually.

**Impairment of Non-Financial Assets**

Non-financial assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment. All other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

**Inventory**

Inventory is valued at the lower of cost and net realisable value, at weighted average cost and consists of finished goods purchased for resale. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made as appropriate for shrinkage and slow moving items.

**Trade and Other Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced and any impairment loss is recognised in the income statement. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

**Trade Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**1. Summary of Significant Accounting Policies (continued)**

**Current and Deferred Income Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is the amount of income tax payable in respect of taxable profit for the period or prior periods. Tax is calculated at the rate relevant to the financial period.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**Employee Benefits**

The Company operates both a defined benefit pension scheme and a defined contribution pension scheme for its employees. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension plan under which the Company pays fixed contributions into a separate entity.

The Company's defined benefit pension scheme is closed with employees making no further contributions. The pension scheme deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method. Plan assets are recorded at fair value.

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses. The financing charge is determined by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets. The cost is included in the income statement.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects the risks specific to the liability. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all provisions. To measure the expected credit losses, provisions have been grouped based on shared credit risk characteristics and the days past due.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**1. Summary of Significant Accounting Policies (continued)**

**Leases**

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Contracts may contain both lease and non-lease components. However, the Company has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Extension and termination options are included in a number of leases across the Company. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term and measurement of the liability if the lease is reasonably certain to be extended (or not terminated).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- uses recent third party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing were received.
- makes adjustments specific to the lease (e.g. lease term, country, currency and security).

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**2. Critical Accounting Estimates and Judgments**

The Company makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events.

The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

**Significant estimates and assumptions**

**a) Useful economic lives of property, plant and equipment**

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation, and the physical condition of the assets.

**b) Impairment**

Financial assets and non-financial assets, such as brands, pharmacy licences, computer software, right of use assets and property, plant and equipment are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Trade receivables are impaired on expected credit loss basis.

The Company tests whether assets have suffered any impairment on an annual basis. The impact of Covid-19 on expected future cash flows and the current trading performance represents the trigger for impairment assessment. For the 2020 and 2019 reporting period the recoverable amount of the cash-generating units (CGUs), being individual stores that have indicated signs of impairment, was determined based on value-in-use calculations.

The value in use has been calculated using the cash flow performance from the current period adjusted for the next five years based on the Board approved five year plan. Sales forecasts for 2021 have been reduced by 15%-25% based on 2019 results and sales growth of 6% for 2022 and 2% per annum thereafter until 2025, has been applied. The assumptions include estimated gross margin based on market segment and location. Operating costs are based on the current structure of the business, adjusting for inflationary increases but not reflecting any future cost-saving measures.

The resulting cash flows are discounted using a pre-tax discount rate of 3.81% and compared to the carrying value of property, plant, and equipment and right of use assets.

A total impairment charge of £10.7m has been recognised in property plant and equipment and right of use assets.

The following sensitivities have been applied to the calculation of impairments on assets at store level:

- Sales reduction of 5% for 2021 to 2025
- Sales increase of 5% for 2021 to 2025
- Pre-tax discount rate was 1% higher

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**2. Critical Accounting Estimates and Judgments (continued)**

**b) Impairment (continued)**

These sensitivities have the following impact to the impairment of assets:

		Increase/(decrease) in impairment £'000		
	Current impairment	5% lower sales growth	5% higher sales growth	1% higher discount rate
Property, plant and equipment	3,456	323	(722)	575
Right of use assets	7,264	2,888	(2,149)	78
Total	10,720	3,211	(2,871)	653

**c) Retirement benefit obligation**

The Company operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on interest rates of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 17. Any changes to assumptions used will impact the carrying value of the retirement benefit obligation. As detailed in note 17, the retirement benefit obligation is most sensitive to changes in the discount rate and inflation.

**d) Determination of the lease term**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of retail stores, office and warehouse, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate)
- If any leasehold improvements are expected to have a significant remaining value or the stores is profit making, the Company is typically reasonably certain to extend (or not terminate)
- Otherwise, the Company considers other factors including historical lease durations and costs and business disruption required to replace the leased asset

Most extension options in retail stores have been included in the lease liability because the majority of them are profitable and replacing in other locations would cause business disruption.

As at 26 December 2020, potential future cash outflows of £13.1m (undiscounted) (2019: £3.1m) have not been included in the lease liability because it is not reasonably certain that the lease will be extended.

**Significant judgements**

In order to assess whether it is appropriate for the Company to be reported as a going concern, the directors apply judgement having undertaken appropriate enquiries and having considered the business activities and the Company's principal risks and uncertainties as set out on pages 3-4.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**3. Operating Profit**

Operating profit is stated after (crediting)/charging:

		52 weeks ended 26 December 2020 £'000	52 weeks ended 28 December 2019 £'000
	Note		
Variable lease payments not included in lease liabilities		(789)	1,590
Expense/(Income) relating to short-term leases		3,874	(280)
Loss on disposal of intangible assets		92	20
Loss on disposal of property, plant and equipment		1,368	1,708
Amortisation of intangible assets	8	802	647
Depreciation of property, plant and equipment	9	24,871	23,827
Impairment of property, plant and equipment	9	3,456	-
Impairment of right of use assets	10	7,264	1,889
Right of use asset depreciation	10	88,121	88,588
Amounts payable to the Company's auditors:			
- audit fees		180	190
- audit related assurance services		12	14
- non-audit related assurance services		10	29
Other operating income			
- Government grants		(14,200)	-
- Rental income		(3,207)	(5,596)
- Other income		(3,061)	(3,134)

**4. Employees**

The total aggregate remuneration comprises:

	52 weeks ended 26 December 2020 £'000	52 weeks ended 28 December 2019 £'000
Wages and salaries (including directors)	204,129	193,077
Social security costs	13,780	12,973
Other pension costs	5,257	6,203
<b>Total staff costs</b>	<b>223,166</b>	<b>212,253</b>

The average monthly number of persons (including directors) employed by the Company during the period was:

	52 weeks ended 26 December 2020 No.	52 weeks ended 28 December 2019 No.
By activity:		
Selling	12,865	12,605
Administration	674	652
	<b>13,539</b>	<b>13,257</b>

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**5. Directors**

The directors' emoluments were as follows:

	<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
Remuneration	1,834	2,039
Long term incentive plan	98	314
	<b>1,932</b>	<b>2,353</b>

The company has no share based schemes and all remuneration is settled in cash.

There are no post-employment benefits accruing under the Company's defined benefit scheme.

D K M Lai and A J Heaton are remunerated by other group entities which do not recharge the Company. These directors do not receive any remuneration for their services to the Company.

The highest paid director's emoluments were as follows:

	<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
Remuneration	1,387	1,531
Long term incentive plan	65	290
	<b>1,452</b>	<b>1,821</b>

**6. Finance income and costs**

	<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
Bank interest	312	536
<b>Total finance income</b>	<b>312</b>	<b>536</b>
Pension financing charge	(859)	(1,410)
Interest payable on loans from group undertakings	(6,509)	(6,792)
Interest expense on lease liabilities	(9,635)	(9,963)
<b>Total finance costs</b>	<b>(17,003)</b>	<b>(18,165)</b>
<b>Net finance costs</b>	<b>(16,691)</b>	<b>(17,629)</b>

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**7. Income tax expense**

<b>Tax expense included in the income statement</b>	<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
UK corporation tax on profits for the period	818	13,859
Adjustment in respect of prior periods	(1,469)	2,259
<b>Total current tax (credit)/charge</b>	<b>(651)</b>	<b>16,118</b>
Origination and reversal of timing differences	4,776	4,697
Adjustment in respect of prior periods	-	(1,167)
<b>Total deferred tax</b>	<b>4,776</b>	<b>3,530</b>
<b>Tax on profit</b>	<b>4,125</b>	<b>19,648</b>
<b>Tax credit included in Other Comprehensive Income</b>		
Deferred tax:		
Origination and reversal of temporary differences	(2,326)	(1,025)
<b>Total tax credit included in Other Comprehensive Income</b>	<b>(2,326)</b>	<b>(1,025)</b>

The effective rate of 22.0% (2019: 22.0%) is higher than (2019: higher than) the standard UK corporation tax rate of 19%. The differences are:

	<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
Profit before taxation	18,763	89,398
Income tax at standard UK corporation tax rate of 19% (2019: 19%)	3,565	16,986
Effects of:		
Non-deductible expenses	2,029	1,570
Adjustment in respect of prior periods	(1,469)	1,092
<b>Tax on profit</b>	<b>4,125</b>	<b>19,648</b>

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. As the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**8. Intangible assets**

	<b>Brands £'000</b>	<b>Pharmacy licences £'000</b>	<b>Computer software £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 29 December 2019	125,000	19,410	3,711	148,121
Additions	-	1	986	987
Disposals	-	(25)	(329)	(354)
<b>At 26 December 2020</b>	<b>125,000</b>	<b>19,386</b>	<b>4,368</b>	<b>148,754</b>
<b>Accumulated amortisation and impairment</b>				
At 29 December 2019	-	5,788	1,601	7,389
Amortisation	-	-	802	802
Disposals	-	(2)	(260)	(262)
<b>At 26 December 2020</b>	<b>-</b>	<b>5,786</b>	<b>2,143</b>	<b>7,929</b>
<b>Net book value</b>				
<b>At 26 December 2020</b>	<b>125,000</b>	<b>13,600</b>	<b>2,225</b>	<b>140,825</b>
At 28 December 2019	125,000	13,622	2,110	140,732

Intangible assets amortisation is recorded in administrative expenses in the income statement.

**9. Property, plant and equipment**

	<b>Long leasehold improvements £'000</b>	<b>Short leasehold improvements £'000</b>	<b>Fixtures, fittings and equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 29 December 2019	12,434	79,565	149,151	241,150
Additions	-	(59)	2,192	2,133
Disposals	(6)	(19,926)	(15,674)	(35,606)
<b>At 26 December 2020</b>	<b>12,428</b>	<b>59,580</b>	<b>135,669</b>	<b>207,677</b>
<b>Accumulated depreciation</b>				
At 29 December 2019	11,661	41,363	60,417	113,441
Charge for the period	21	8,106	16,744	24,871
Impairment	-	901	2,555	3,456
Eliminated on disposals	(6)	(19,450)	(14,782)	(34,238)
<b>At 26 December 2020</b>	<b>11,676</b>	<b>30,920</b>	<b>64,934</b>	<b>107,530</b>
<b>Net book value</b>				
<b>At 26 December 2020</b>	<b>752</b>	<b>28,660</b>	<b>70,735</b>	<b>100,147</b>
At 28 December 2019	773	38,202	88,734	127,709

Depreciation of £22,442,000 is recorded in cost of sales and £2,429,000 is recorded in administrative expenses in the income statement.

During the period, an impairment charge of £3,456,000 (2019: £nil) was charged to the income statement, recorded in administrative expenses.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**10. Right of use assets**

	<b>Retail Stores £'000</b>	<b>Warehouse £'000</b>	<b>Offices £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
At 29 December 2019	<b>338,194</b>	<b>41,474</b>	<b>11,951</b>	<b>7,323</b>	<b>398,942</b>
Additions	66,167	-	-	6,072	72,239
Re-measurements	(24,727)	-	-	(5,458)	(30,185)
Impairment	(7,264)	-	-	-	(7,264)
Depreciation	(81,058)	(3,920)	(1,011)	(2,132)	(88,121)
<b>At 26 December 2020</b>	<b>291,312</b>	<b>37,554</b>	<b>10,940</b>	<b>5,805</b>	<b>345,611</b>

Depreciation of £86,677,000 is recorded in cost of sales and £1,444,000 is recorded in administrative expenses in the income statement.

During the period, an impairment charge of £7,264,000 (2019: £1,889,000) was charged to the income statement, recorded in administrative expenses.

Re-measurements include amendments made to leases where the lease period or future rent payments have changed since the initial recognition.

**Lease liabilities**

	<b>At 26 December 2020 £'000</b>	<b>At 28 December 2019 £'000</b>
Current	74,164	86,610
Non-current	313,325	347,321
	<b>387,489</b>	<b>433,931</b>

The current and future undiscounted cashflows for the lease liabilities are:

	<b>At 26 December 2020 £'000</b>	<b>At 28 December 2019 £'000</b>
Within 1 year	81,739	94,475
Between 1 and 2 years	79,574	82,469
Between 2 and 5 years	161,112	168,049
More than 5 years	100,036	127,639
	<b>422,461</b>	<b>472,632</b>

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**11. Deferred tax asset**

	Depreciation in excess of capital allowances £'000	Lease Accounting IFRS16 £'000	Temporary differences £'000	Retirement benefit obligation £'000	Total £'000
<b>At 29 December 2018</b>	<b>896</b>	<b>6,635</b>	<b>(1,454)</b>	<b>5,198</b>	<b>11,275</b>
(Charge)/credit to income statement	(393)	(655)	1,159	(3,641)	(3,530)
Credit to other comprehensive income	-	-	-	1,025	1,025
<b>At 28 December 2019</b>	<b>503</b>	<b>5,980</b>	<b>(295)</b>	<b>2,582</b>	<b>8,770</b>
(Charge)/credit to income statement	596	29	(2,352)	(3,049)	(4,776)
Credit to other comprehensive expense	-	-	-	2,326	2,326
<b>At 26 December 2020</b>	<b>1,099</b>	<b>6,009</b>	<b>(2,647)</b>	<b>1,859</b>	<b>6,320</b>

**12. Investments**

The net book value of investments at 26 December 2020 was £nil (2019: £nil).

The subsidiaries, all of which are incorporated in the United Kingdom and are wholly owned, are as follows:

<b>Subsidiary</b>	<b>Registered address</b>	
Superdrug Pension Trustee Limited	51 Sydenham Road, Croydon, Surrey, CR0 2EU	Dormant

**13. Inventories**

	<b>At 26 December 2020 £'000</b>	<b>At 28 December 2019 £'000</b>
Finished goods and goods for resale	<b>263,079</b>	<b>252,559</b>

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks ended 26 December 2020 was £829,237,000 (2019: £983,130,000). Inventories are stated after provisions for impairment of £12,797,000 (2019: £11,748,000). There is no material difference between carrying amount and replacement cost of the inventory.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**14. Trade and other receivables**

	At 26 December 2020 £'000	At 28 December 2019 £'000
Trade receivables	58,938	76,641
Amounts owed by group undertakings	30,511	48,068
Other receivables	8,371	25,730
Prepayments	22,155	27,940
Deferred tax asset (note 11)	6,320	8,770
	<b>126,295</b>	<b>187,149</b>

Trade receivables are stated after provisions for impairment of £2,011,000 (2019: £2,916,000). Amounts owed by group undertakings are unsecured, repayable on demand and are non-interest bearing.

**15. Trade and other payables**

	At 26 December 2020 £'000	At 28 December 2019 £'000
Trade creditors	59,348	61,714
Amounts owed to group undertakings	144,941	135,467
Corporation tax	5,157	14,898
Other taxation and social security	35,085	21,005
Accruals	50,788	64,586
Deferred income	6,971	5,674
Other creditors	55,026	19,749
	<b>357,316</b>	<b>323,093</b>

Amounts owed to group undertakings includes an unsecured loan from A.S. Watson (Health & Beauty UK) Limited totalling £110,000,000 (2019: £110,000,000). The interest rate on this loan is 12-month GBP LIBOR + 2.5% per annum since 1 October 2020. The effective interest rate in 2020 is 2.7% (2019: 3.4%) and the loan is repayable on demand.

The Company has a pooled bank overdraft facility of £20,000,000, which is provided by National Westminster Bank plc and which is unsecured and repayable on demand. Interest is payable at National Westminster Bank plc base rate plus 1.25%. During the period there were no drawings (2019: £nil) on this facility.

The Company has recognised the following liabilities related to contracts with customers for eGift card and loyalty points. These are included within other creditors.

	At 26 December 2020 £'000	At 28 December 2019 £'000
Contract liabilities	<b>12,222</b>	<b>11,088</b>

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**16. Borrowings**

	At 26 December 2020 £'000	At 28 December 2019 £'000
Amounts owed to group undertakings	85,000	85,000

Borrowings relate to a credit agreement with A. S. Watson Group (HK) Limited. Under the agreement, A. S. Watson Group (HK) Limited has agreed to make available a credit facility of £125,000,000, charging interest at 3.5%, maturing on 15 June 2025.

At the period end, the amount borrowed on this credit facility was £85,000,000 (2019: £85,000,000). No repayments were made during the financial period ended 26 December 2020 (2019: £nil).

**17. Retirement benefit obligation**

The retirement benefit obligation relates to a defined benefit scheme, the A.S. Watson (Health & Beauty UK) Pension Plan (the "Scheme"). The Scheme is governed by a Trustee board, and the assets of the Scheme are held separately from the Company's assets. The Scheme is closed, with employees making no further contributions, and members accruing no further defined benefits.

The Scheme was subject to a triennial actuarial valuation as at 31 March 2018, carried out by Barnett Waddingham on the projected unit basis. The results of this valuation were finalised in October 2018 and a recovery plan agreed, under which the Company would pay annual contributions from 1 January 2019 of £18.5m until 31 December 2020 (which includes funding for Scheme expenses), and a further one off contribution of £2.9m in 2021. The next valuation effective date is 31 March 2021.

The retirement benefit obligation at the year-end has been calculated by Isio Services Limited, as actuarial advisers to the Company, using the projected unit credit method and based on adjusting the position at 31 March 2019 for known events and changes in market conditions as allowed under IAS 19 Revised.

The amounts recognised in the balance sheet are as follows:

	At 26 December 2020 £'000	At 28 December 2019 £'000
Present value of funded obligation	(266,482)	(232,563)
Fair value of plan assets	256,697	217,377
Retirement benefit obligation	(9,785)	(15,186)
Deferred income tax asset (note 11)	1,859	2,582
<b>Net retirement benefit obligation</b>	<b>(7,926)</b>	<b>(12,604)</b>

The retirement benefit obligation and the associated deferred income tax asset are shown within different line items on the balance sheet.

The only amount recognised in the income statement is the pension financing charge (including expenses) cost totalling £859,000 (2019: £1,410,000), included within finance costs.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**17. Retirement benefit obligation (continued)**

**a) Other comprehensive (expense)/income**

Re-measurement of the retirement benefit obligation has been recognised as follows:

	<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
Return on plan assets, excluding amounts in interest	24,710	19,685
Actuarial gains/(losses) arising from changes in:		
Demographic assumptions	(767)	4,287
Financial assumptions	(36,925)	(29,441)
Experience	742	(561)
<b>Total actuarial losses</b>	<b>(36,950)</b>	<b>(25,715)</b>
<b>Total re-measurement losses</b>	<b>(12,240)</b>	<b>(6,030)</b>

**b) Valuations**

The movements in the retirement benefit obligation are as follows:

	<b>52 weeks ended 26 December 2020 £'000</b>	<b>52 weeks ended 28 December 2019 £'000</b>
Changes in the present value of retirement benefit obligation:		
At start of financial period	232,563	208,525
Interest cost on the defined benefit obligation	4,298	5,831
Actuarial losses	36,950	25,715
Net transfer out liability	(3,160)	(2,637)
Benefits paid	(4,169)	(4,871)
<b>At end of financial period</b>	<b>266,482</b>	<b>232,563</b>
Changes in the fair value of plan assets:		
At start of financial period	217,377	180,279
Investment return on plan assets	24,710	19,685
Interest income on plan assets	4,189	5,280
Contributions by Company	18,500	20,500
Pension scheme expenses	(750)	(859)
Net transfer out liability	(3,160)	(2,637)
Benefits paid	(4,169)	(4,871)
<b>At end of financial period</b>	<b>256,697</b>	<b>217,377</b>

The Company's expected contributions (including expenses) to the defined benefit section for the next financial period ending 1 January 2022 are £10,375,000 (2020: £18,500,000).

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**17. Retirement benefit obligation (continued)**

**b) Valuations (continued)**

The major categories of plan assets as a percentage of total plan assets are as follows:

	At 26 December 2020 %	At 28 December 2019 %
Equities	24.6	23.8
Debts	69.0	64.8
LDI Derivatives/Other	4.5	6.3
Cash	1.9	5.1
	<b>100.00</b>	<b>100.0</b>

**c) The principal actuarial assumptions used at the balance sheet date are as follows:**

	At 26 December 2020	At 28 December 2019
Discount rate	1.50%	2.80%
Retail price index	2.90%	2.85%
Pension increases	2.85%	2.80%
Life expectancy at balance sheet date for a pensioner at normal retirement age (now 65 years):		
Male pensioner	20.8	20.7 years
Female pensioner	22.8	22.7 years
Life expectancy at balance sheet date for a future pensioner at normal retirement age:		
Male pensioner	22.2	22.1 years
Female pensioner	24.4	24.2 years

The discount rate is based on the yield of AA-rated sterling corporate bonds appropriate to the term of the Scheme's liabilities. The base mortality assumptions are based on the S2PXA tables, with future improvements based on the CMI 2019 projections with a smoothing factor of 7.0 and a long-term rate of improvement of 1.25% per annum.

The weighted average duration of the defined benefit obligation at the end of the period is 22 years (2019: 22 years).

**d) Sensitivities**

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, with changes in more than one assumption more likely as these may be correlated.

An increase of 0.25% in the discount rate would decrease the retirement benefit obligation by £14.8 million. A decrease of 0.25% in the discount rate would increase the retirement benefit obligation by £16.0 million.

An increase of 0.25% in the inflation rate would increase the retirement benefit obligation by £15.4 million. A decrease of 0.25% in the inflation rate would decrease the retirement benefit obligation by £12.8 million.

The sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

**17. Retirement benefit obligation (continued)**

**e) Other disclosures**

The Scheme exposes the Company to actuarial risks such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Company is not exposed to any unusual entity specific or Scheme specific risks. The Trustee's investment strategy mitigates some of these risks. Market (investment) risk is addressed by diversification across asset classes and investment managers. The Trustee keeps investment performance under review and the Company is consulted before changes are made to the investment policy.

**18. Provisions for liabilities**

	At 26 December 2020 £'000
<b>Provisions</b>	
At 29 December 2019	2,849
Utilised during the period	(1,295)
Released during the period	(649)
Provision made during the period	2,598
<b>At 26 December 2020</b>	<b>3,503</b>

Provisions comprise estimates for store closure costs, including dilapidations, and store exit costs. Provisions are used within 12 months of the store closure date.

**19. Dividends paid**

	At 26 December 2020 £'000	At 28 December 2019 £'000
£nil per ordinary share of 10p each (2019: 15.9p per ordinary share of 10p each)	-	35,000

**20. Called up share capital**

	At 26 December 2020	At 28 December 2019
Allotted and fully paid ordinary shares of 10p each (£'000)	22,000	22,000
Number of shares ('000 shares)	220,000	220,000

**21. Contingent liabilities**

The Company has issued guarantees in respect of property lease rentals for a fellow group undertaking, Kruidvat Real Estate UK Limited, to an annual value of £1,370,850 (2020: £1,472,350).

**Superdrug Stores plc**  
**Notes to the Financial Statements (continued)**  
**For the 52 Weeks ended 26 December 2020**

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**22. Capital and other commitments**

At 26 December 2020 the Company had a duty deferment guarantee in favour of HM Customs & Excise to the value of £3,000,000 (2019: £1,500,000).

The Company has no capital commitments (2019: £nil).

**23. Controlling parties**

The Company's immediate parent undertaking is A.S. Watson (Health & Beauty UK) Limited, a company registered in England. The smallest group into which the results of the Company are consolidated is A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands with its principal place of business in Hong Kong. The registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The financial statements of A.S. Watson Holdings Limited are not publicly available.

The Company's ultimate parent undertaking and controlling party and the largest group to consolidate these financial statements is CK Hutchison Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and incorporated in the Cayman Islands. The financial statements of CK Hutchison Holdings Limited can be obtained from 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.