Company registration number: 00928555

Boots UK Limited
Annual report and financial statements
for the year ended 31 August 2021

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Boots UK Limited

Contents

Strategic report

for the year ended 31 August 2021

Principal activities

Boots UK Limited's ("the Company") principal activity during the year was pharmacy, health and beauty retailing.

Business review and key performance indicators (KPI)

Boots is the UK's leading health and beauty retailer with the aim of championing everyone's right to feel good. The Company operated 2,276 stores as at 31 August 2021 (2020: 2,336 stores) and has grown its omni-channel platform, including its online presence, in recent years. The Company's retail stores are conveniently located and its pharmacists are well placed to provide a significant role in the provision of healthcare services, working closely with other primary healthcare providers in the communities the Company serves.

The Boots omni-channel offering is differentiated from that of competitors due to the product brands owned by Walgreens Boots Alliance, Inc. (the "Group"), such as No7, Boots Pharmaceuticals, Soap & Glory, Liz Earle, Sleek MakeUp, Botanics and 'only at Boots' exclusive products, together with its long established reputation for trust and customer care. The Company's brands portfolio is enhanced by the Group's in-house product research and development capabilities. During the year the Company has introduced new beauty brands and new beauty halls in key locations.

The Company's retail store networks are typically complemented by online platforms. Through the boots.com website and integrated mobile application, the 'click and collect' service allows customers to order from a range of over 37,000 products by 8:00p.m. and collect the following day from approximately 94% of the Company's retail stores as at 31 August 2021.

The Boots Advantage Card loyalty program, where customers earn points on purchases for redemption at a later date, continues to be a key element of the Boots offering. As of 31 August 2021, the number of active Boots Advantage Card members amounted to approximately 12 million (2020: 10.5 million). For this purpose, an active member is defined as someone who has used their card during the last six months.

The Company's business is affected by a number of factors including its sales performance during holiday periods (including particularly the winter holiday season) and during the cough, cold and flu season (the timing and severity of which is difficult to predict); significant weather conditions; the timing of its own or competitor discount programs and pricing actions; the timing of changes in levels of reimbursement from governmental agencies and has continued to be impacted by COVID-19.

The components of the Company's revenue are Pharmacy (typically the sale of prescription drugs and provision of pharmacy-related services) and Retail (primarily the sale of health and beauty products including beauty, toiletries and lifestyle merchandising, and non-prescription drugs).

The Company's revenue is subject to the influence of seasonality, with the second fiscal quarter typically the strongest as a result of the winter holiday period. This seasonality affects the Company's proportion of sales between Retail and Pharmacy during certain periods. The components of the Company's financial year sales were as follows:

	2021	2020
	%	%
Pharmacy	**39.3 %**	38.7 %
Retail	**60.7 %**	61.3 %
Total	**100.0 %**	100.0 %

The Company's Retail revenue is impacted by, amongst other factors, the highly competitive nature of the health and beauty category, in particular, its own and its competitors' pricing actions, promotional offers and events, and the customer's desire for value and convenience.

The Company's Pharmacy revenue is impacted by governmental agencies seeking to minimise increases in the costs of healthcare, including pharmaceutical drug reimbursement rates. The amount of government funding available for pharmacy services is typically reviewed and agreed with the pharmacy industry on an annual basis.

The Company's performance and relevant exchange rates are impacted by the current geopolitical environment, including the continuing uncertainty as a result of COVID-19. For more information, see Principal risks and uncertainties on page 4.

The key performance indicators for the Company are provided in the table below.

	2021		2020	
	£million	**Change**	£million	Change
Revenue	**5,812**	**(2.3)%**	5,948	(10.8)%
Operating profit/(loss)	**8**	**103.3 %**	(245)	(223.7)%
Loss for the year	**(111)**	**57.0 %**	(258)	(254.5)%
Shareholders' equity	**1,628**	**17.8 %**	1,382	(34.5)%

The Company's revenue for 2021 has decreased by 2.3% (2020: decreased by 10.8%) to £5,812 million (2020: £5,948 million). Revenue in comparable stores increased by 2.8% (2020: decreased by 12.0%) primarily due to higher retail revenue following the lesser impact of COVID-19 in the current year. Comparable stores are defined as those that have been open for at least twelve months without closure for seven or more consecutive days and without major remodel or being subject to a natural disaster in the past twelve months. Relocated stores are not included as comparable stores for the first twelve months after relocation.

Pharmacy revenue decreased by 0.7% (2020: decreased by 0.9%) to £2,283 million (2020: £2,300 million) and represented 39.3% (2020: 38.7%) of the Company's revenue. Comparable (as defined above) pharmacy revenue increased by 5.2% (2020: increased by 0.5%) as favourable National Health Service funding levels mitigated the impact of ongoing lower prescription volume and reduced demand for services such as travel vaccinations, during the COVID-19 pandemic in the UK.

Business review and key performance indicators (KPI) (continued)
Retail revenue decreased by 3.3% (2020: decreased by 16.1%) to £3,529 million (2020: £3,648 million) and represented 60.7% (2020: 61.3%) of the Company's revenue. Comparable retail revenue increased 1.2% (2020: 19.1%) as a result of a greater impact of COVID-19 in the prior year.

The Company's operating result improved by £253 million to a profit of £8 million (2020: loss of £245 million). This is primarily a result of lower operating costs of £321 million offset by lower gross profit of £31 million, and additional government funding of £47 million in the prior year. The reduction in operating costs is primarily as a result of a reduction in reorganisation costs of £76 million (see below), a reduction in store impairment charges (net)* of £23 million and a reduction in depreciation and amortisation costs of £61 million. Further details of the impact to business operations as a result of COVID-19 can be found below.

During the year, the company generated a post tax loss of £111 million (2020: post tax loss of £258 million), which is an improvement in post tax losses of £147 million, as compared with last year. This improvement year on year was primarily due to the £253 million improvement in the operating result (as discussed above), offset by a higher tax provision of £82 million resulting from a change in corporate tax rates alongside higher finance cost of £11 million.

The Company has £60 million (2020: £62 million) of cash and cash equivalents as at 31 August 2021. In addition, the Company has a cash pooling arrangement with a fellow Group undertaking with which the Company holds £684 million (2020: £623 million) of pooled cash which is available to the Company on demand.

During the year, the Company incurred £62 million (2020: £138 million) of restructuring costs which represent one-off costs associated with changes in the Company's store portfolio alongside store and central support operating models. These current year and prior year restructuring/changes have led to a year over year saving of £94 million. The Company takes an active approach to its store portfolio management to ensure the right stores are at the right locations to best serve its customers, and in 2019, the Company announced the strategic decision to optimise the store portfolio resulting in the consolidation and closure of around 200 stores. The majority of the impacted stores were closed in the prior financial year.

The Company played a vital role at the heart of UK healthcare during the pandemic, keeping stores open to ensure that every community had access to pharmacy, essential health services and medicines. Following the onset of the COVID-19 pandemic, the Company participated in certain government programmes to alleviate the additional cost and cash burdens arising as a result of the pandemic. All employees are employed and paid on behalf of the Company by a fellow Group undertaking which received £10 million (2020: £36 million) in relation to the government's Coronavirus Job Retention Scheme ("furlough" scheme). In the prior year, the Company received advanced funding of £136 million from the NHS which is repayable by way of offsetting against future payments to the NHS. Of this amount, £56 million was repaid in the current financial year and £55 million remains outstanding as at 31 August 2021. In addition, the Company participated in the business rates relief eligible for retail, hospitality and leisure businesses in England applicable during the tax year 2020/2021 resulting in a £112 million reduction (2020: £55 million reduction) in rates for the financial year.

Shareholders' equity has increased by 17.8% (2020: decreased by 34.5%) to £1,628 million (2020: £1,382 million) which is predominantly driven by a £423 million increase in the actuarial reserve, a £51 million reduction in the investment revaluation reserve, dividends amounting to a £15 million and a £111 million loss recognised in the year.

COVID-19
During the year, the Company continued to experience certain impacts of COVID-19. Governmental policies and other initiatives designed to reduce the transmission of COVID-19, including travel restrictions, working from home advisories and restriction on social events resulted in reduced footfall in stores. This had an adverse impact on sales during these periods, particularly in major high street, train station and airport locations.

The lifting of restrictions by the fourth quarter saw a recovery in footfall along with an associated upturn in retail sales and gross margin. Pharmacy sales also strengthened primarily as a result of an increase in COVID testing and vaccinations. Boots.com sales continued to perform above expectations with a 54% increase in revenue year on year.

The Company continued to work with the government and customers to provide support through the pandemic and played a key role in supporting the UK's COVID-19 response, including a nationwide mass testing partnership with the NHS, distributing home testing kits, and supporting the NHS's vaccination programme. During the year, the Company took certain actions to mitigate the impact of COVID-19 through cost containment across the Company alongside the continuation of the government's job retention scheme and the reduction of rent and rates payments at certain locations.

The Company continues to actively monitor, review and manage the impact of COVID-19 on its business including the impact on its customers, team members, suppliers, business partners and distribution channels and continues to actively respond to the impacts of COVID in collaboration with customers, government officials, team members and business partners to ensure the implementation of business and operational continuity plans whilst also taking all available actions to keep its team members and customers healthy and safe.

Whilst all actions have been taken to mitigate the impact of COVID-19, the future impact on the financial position and operating results may be affected by numerous uncertainties, including the severity and duration of the virus including further outbreaks or mutations; governmental, business or other actions; impacts on the supply chain and distribution network; the effect on customer demand; further restrictions; changes to the Company's operations and consequences on the global economy and financial markets. As such there remains some uncertainty around any material impact that could adversely affect the business, but none which are considered to have any significant impact on the results presented in these financial statements.

**The Company recognised a net impairment charge (non-cash charges) in relation to stores amounting to £85 million in 2021 (2020: £108 million) – further details relating to these charges are given in notes 13,14 and 33.*

The Directors and their duties under Section 172 of the Companies Act

The Company has a board of Directors comprised of four directors as stated within the Directors' report.

The Directors believe that a commitment to strong corporate governance standards is an essential element of enhancing long-term shareholder value in a sustainable manner. Being a part of the Walgreens Boots Alliance, Inc. Group, the Company adheres to the Corporate Governance Guidelines (the "guidelines") that have been adopted by Walgreens Boots Alliance, Inc. to assist the Board in the exercise of its responsibilities on behalf of the Company

The Directors and their duties under Section 172 of the Companies Act (continued)
and its shareholders. The guidelines are intended to provide guidance as a component of the flexible framework within which the Directors oversee and direct affairs of the Company.

The Board also complies with the Code of Conduct and Business Ethics, issued by the Group which are applicable to all employees, officers and Directors of the Company. A copy of the Corporate Governance Guidelines can be found at https://investor.walgreensbootsalliance.com/corporate-governance.cfm.

In addition, the Company adheres to the robust framework of delegated authorities and internal policies adopted by the Group, which support the Group's corporate governance arrangements across the organisation.

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would most likely promote the long-term success of the company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

a. the likely consequences of any decision in the long-term;
b. the interests of the Company's employees;
c. the need to foster the Company's business relationships with suppliers, customers and others;
d. the impact of the Company's operations on the community and the environment;
e. the desirability of the Company maintaining a reputation for high standards of business conduct; and
f. the need to act fairly as between members of the Company.

As a part of their induction, the Directors of the Company are briefed on their duties including those under Section 172(1) and they can access professional advice on these either from the Company Secretary or, if they judge necessary, from independent advisors for effective discharge of their duties.

When making any decisions, during the year ended 31 August 2021, the Directors considered, both individually and together, the matters set out in Section 172(1) (a-f) and have acted in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members, as a whole. When making decisions, the Directors take into account the viewpoints of the Company's stakeholders, including employees, suppliers, customers and others as further detailed below.

The Directors welcome feedback and will continue to review how the Company and its Executive Committee can improve engagement with both employees and other stakeholders.

Below are some of the ways in which the Directors have engaged with various stakeholders and fulfilled their duty under this Section.

Employees
The Directors pursue a policy to promote diversity and inclusion among employees. The Company, either directly or through its affiliate companies, has various formal and informal processes to actively engage with its employees. These include employee performance reviews/appraisals, communications through email, intranet, bulletin boards and 'town hall' meetings. The Directors use these processes and engagements to understand employees' views and take these into account while making decisions. By way of example, employee engagement surveys are undertaken covering the majority of the workforce, with results reported to the Board. Survey results are cascaded throughout the organisation, actions are identified through collaboration with the wider employee teams and resulting actions are communicated to colleagues.

Employees are kept informed of the Company's performance and strategy through regular executive briefings and 'town hall' meetings. Employee engagement is encouraged via 'Q&A' forums before and during these events to provide employees with the opportunity to submit questions and/or feedback to the leadership teams, with responses being provided either during or following the event. Employee surveys are frequently used following such events to allow employees to provide feedback. To continue to engage with colleagues and ensuring their health, safety and wellbeing during the ongoing COVID-19 pandemic, such events have been held remotely.

The Company monitors employee-related matters including engagement activities, survey results, diversity, staff retention rates, whistleblowing activity, learning and development activity, pay and reward including gender pay gap along with other initiatives. Throughout the year, key messages are cascaded to all colleagues throughout the organisation.

Customers
The Directors strongly believe in treating customers fairly and providing them with safe and quality products. The Company and its affiliate companies have adopted multiple ways to engage with customers, including face-to-face and social media interactions, surveys and personalised customer communications via the Company's Advantage Card rewards programme. The Directors use these processes to understand the views of its customers, to consider the impact of their decisions on customers' interests and as a means to better respond to the needs of its customers.

The interests of customers are considered in key decisions such as changes to the store portfolio, selection of product lines and brands, environmental, sustainability and ethical considerations, supplier selection and monitoring, and the development of the online platform.

By way of example, following changes in customer requirements as a result of COVID-19, the Company responded quickly by investing in, and doubling the capacity of Boots.com over the lockdown period in the prior year which enabled more online shopping and additional home delivery availability for customers and this online offering continues to grow. Additional actions included increasing the capacity of the free online repeat prescription deliveries, and the introduction of new online pharmacy and beauty services such as virtual consultations.

Suppliers
The Directors aim to ensure that the Company operates fairly, transparently and with integrity with its suppliers. The Company and its associates engage with its suppliers through multiple channels, both formally and informally. These engagements provide the Directors and the wider teams with a broad and diverse understanding of the suppliers and their priorities which enables the Company to consider the interests of its suppliers whilst making decisions.

The Directors and their duties under Section 172 of the Companies Act (continued)
The Company engages with and monitors key suppliers around ethical, environmental and sustainability matters with any changes to such requirements being communicated back to suppliers. The Board seeks to maintain strong supplier partnering relationships with key suppliers whilst considering the need to obtain value for money and the desired levels of service for customers.

Communities
Boots has a unique place in the heart of the communities it serves across the UK. For over 170 years, the Company has used its pharmacy-led expertise and support to help improve the health and wellbeing of local communities. The Company continues to demonstrate an ongoing commitment to operating as a socially responsible business and recognises the active role it can play in helping to build happier and healthier communities.

The Directors value an open dialogue with the communities in which the business operates. This allows the Directors to understand how these communities view the business and the emerging needs of these communities. It also enables the Directors to take into account the impact of their decisions on these communities. The Company, either directly or through its associated companies, engages with the wider community through multiple means which could include social media, charity events and engagement with various associations, amongst others.

The outbreak of COVID-19 in the prior financial year has continued to have an adverse the Company and its various stakeholders. The Directors have engaged with multiple stakeholders, both formally and informally, using processes and methods discussed above to consider their views and interests, while making decisions that would promote the long-term success of the Company for all its members. Some of these decisions include:

a. implementing contingency plans to maintain continuity of operations and ensuring provision of service to customers;
b. continued implementation of measures to keep all employees healthy and safe, including supporting office-based colleagues in a remote working environment and installing protective equipment at work places;
c. expanding home delivery of medications, extending hours of operations to serve local communities and reserving certain hours of operations for customers with increased vulnerability;
d. supporting its suppliers to ensure adequate availability of critical products throughout the supply chain and additional deliveries to pharmacies/ hospitals; and
e. ensuring adequate funding is available to support continuity of business through these adverse conditions.

Principal risks and uncertainties
The Company's Directors monitor the overall risk profile of the Company. In addition, the Directors are responsible for determining clear policies as to what the Company considers to be acceptable levels of risk. These policies seek to enable people throughout the Company to use their expertise to identify risks that could undermine performance and to devise ways of bringing them to within acceptable levels. Where the Directors identify risks that are not acceptable, they develop action plans to mitigate them with clear allocation of responsibilities and timescales for completion and ensure that progress towards implementing these plans is monitored and reported upon.

COVID-19
Risk
The COVID-19 pandemic has created significant volatility, uncertainty and economic disruption which continued into the current financial year. This might adversely affect the future business operations and may materially impact results of operations, cash flows and the financial position of the Company. The extent to which COVID-19 impacts the business is dependent on a number of factors which the Company is not able to predict or control, including but not limited to:

- the longer-term duration of the pandemic, including further waves and new variants, alongside the extent of further local, national and international restrictions and home working advice in response to COVID bringing additional access and IT security risks;
- the provision of further governmental support or other actions in response to the pandemic and the availability of effective medical treatments and vaccines for COVID-19 both locally and globally;
- the impact on internal and external distribution channels and supply chain;
- the evolving impact of the pandemic on economic activity and the pace of recovery by region and market, including the impact on the value of the Company's assets as a result of weaker economic conditions alongside the long-term impacts of the pandemic on the global economy, trade relations, consumer behaviour, and the market in which the Company operates.

Mitigation
The Company remains focused on addressing the impact of COVID-19 and has continued to make significant investments in time and resources to continue to serve its customers and protect the health and well-being of its customers and colleagues.

In response to supply chain risks including the replenishment of inventory, the Company has increased its purchases across many key categories to mitigate any potential sourcing delays and will continue to maximise resource in the stores and distribution centres. The Company has been able to rapidly respond to the increased online trade to allow orders to be fulfilled by expanding the fulfilment network via the use of 'hybrid stores'.
The Company continues to closely monitor its IT and systems risks along with remote access requirements and respond appropriately to ensure continuation of operations.

During the year, the Company has also participated in the government schemes available to businesses such as the Coronavirus Job Retention Scheme ("furlough" scheme) and business rates holidays. The Directors continue to monitor and respond to the impact of COVID-19 on the business and all available actions have been taken to protect the Company's position and performance with a focus on the health and wellbeing of the Company's employees and customers.

Macroeconomic and political environment
Risk
The Company could be affected adversely by the impact of the current macroeconomic and political environment on key suppliers and customer groups. This is heightened due to Brexit.

Mitigation
Following the United Kingdom's departure from the European Union (the "EU") on 31 January 2020, the Company's Brexit project team continues to monitor and mitigate risks that could materialise. The Company has a rigorous process for identifying and monitoring all business critical suppliers and

Principal risks and uncertainties (continued)

Macroeconomic and political environment (continued)
develops appropriate contingency plans for suppliers considered to be vulnerable. The Company also has a rigorous planning process to assess the impact of macroeconomic and political developments on key customer groups. Whilst many of the principal risks and uncertainties noted in this Strategic report could be impacted by Brexit, the mitigation plan is focused on continuity of supply and distribution, pricing, technology, treasury and colleagues.
In the retail environment, part of the Company's continuity of supply mitigation has included increasing stock holding in warehouses and stores where appropriate. For pharmacy, government guidance in relation to medicine stock holding has been followed. The impact of any price increases, as a result of increased supply chain costs, are being considered carefully to ensure that the Company continues to respond to the needs of its customers.

The Company continues to closely monitor those parts of the Company's business previously reliant on EU colleagues. Through such a diligent approach, the Company believes it is well placed to respond to and deal with any outcome.

Impact of regulation
Risk
The Company operates in regulated markets and could be adversely affected by changes to existing regulation, new regulation and/or failure to comply with regulation. The Company could be adversely affected by changes to licensing regimes for pharmacies, prescription processing regimes or reimbursement arrangements.

Mitigation
The Company seeks to control this type of risk through active involvement in policy-making processes, understanding and contributing to government thinking on regulatory matters and building relationships with regulatory bodies directly and through representation in relevant professional and trade associations.

Changes and trends in consumer behaviour
Risk
The Company could be adversely affected by changes in consumer spending levels, shopping habits, seasonality and preferences, including attitudes to its retail and product brands.

Mitigation
The Company's commercial skills and ability to respond flexibly to changing consumer demand are highly developed. Its strategy remains to continue to enhance its market leading position in pharmacy-led health and beauty retailing in the UK, backed by differentiated brands and expert customer service.

Competition
Risk
Changes in market dynamics or actions of competitors or manufacturers could adversely impact the Company. The Company has a wide variety of competitors, including other pharmacies, supermarkets and department stores.

Mitigation
The Company's strategy is to capitalise on the potential and strength of its leading brands and the trust in which they are held, to build strong relationships with customers and suppliers, and to enhance its buying and promotional activities.

Health, safety and environmental risks
Risk
The Company could suffer reputational damage caused by a major health and safety or environmental incident.

Mitigation
The Company applies standards throughout the Group which are closely monitored and regularly audited. Health, safety and environmental incidents are logged and analysed in order to learn the necessary lessons. Any major incident is promptly reported to and investigated by the executive management.

Product/services risk
Risk
The Company could be adversely impacted by the supply of defective products or provision of inadequate services. In particular, this could come from allowing the infiltration of counterfeit products into the supply chain, errors in re-labelling of products and contamination or product mishandling issues. Through its pharmacies, the Company is exposed to risks relating to the professional services it provides.

Mitigation
The Company has robust purchasing processes, well developed contractual controls in relation to suppliers and a cohesive product control framework. This includes specific controls for the identification of counterfeit product. The Company has a rigorous governance framework in place in its pharmacies and the Company conducts regular dispensing compliance reviews to ensure that individual pharmacies follow approved processes.

Major operational business failures
Risk
The Company could be adversely impacted by a major failure of its distribution centres and logistics infrastructure, IT systems or operational systems of key third party suppliers.

Mitigation
The Company operates rigorously audited control frameworks, regularly updates and tests business continuity plans and continually seeks to improve control of core business processes, both through self-assessment and through specific programmes relating to the delivery of key strategic projects.

Principal risks and uncertainties (continued)

Increased costs
Risk
Operating costs may be subject to increases outside the control of the Company.

Mitigation
The Company uses procurement professionals and sophisticated procurement techniques to purchase goods and services on a national and international basis. The cost of living crisis is a concern for all businesses and management will continue to monitor this closely and utilise the resources and experience as aforementioned. The Company carefully controls operating costs such as payroll and has a property management function to manage lease negotiations in the UK.

Change management
Risk
The Company could be affected adversely by the failure to achieve the anticipated commercial, operational and financial benefits from the various change programmes in the course of implementation throughout the Company.

Mitigation
The Company has in place robust governance processes to control all key change programmes, including regular programme board and steering group meetings at which progress to achieve the required benefits is monitored rigorously.

Currency exchange
Risk
The Company has transaction currency exposures relating to the import and export of goods in currencies other than the Company's functional currency.

Mitigation
The Company has rigorous policies and procedures in place to manage and report transaction exposures. Translation exposures are partially mitigated by ensuring that borrowings are denominated in the major currencies in which the Company operates and having forward exchange contracts in place.

Pension contributions
Risk
As the Company is a Participating Employer in a defined benefit pension scheme, it could be required to increase its share of the funding of such a scheme as a result of a number of market factors, which may impact the discount rate assumptions and result in lower than expected pension fund investment returns, and increased life expectancy for Scheme members.

Mitigation
The Trustee of the Scheme has a statutory duty to set the actuarial funding basis and investment strategy which it is required to do in consultation with the Principal Employer, The Boots Company PLC. As a Participating Employer, the Company has authorised the latter to act on its behalf in such discussions and to support that process. The Principal Employer uses independent actuaries to advise on appropriate actuarial assumptions and sensitivities and related investment matters. The UK defined benefit schemes are closed to future accruals.

Data protection
Risk
The Company processes a significant volume of confidential, personal and business data and could be adversely affected if any of this data is accidentally or maliciously lost.

Mitigation
The Company applies rigorous information security policies and procedures such as strong perimeter controls, access controls and data encryption. The Company is committed to the Payment Card Industry Data Security Standards and ensure that all processing done by ourselves complies with data protection legislation inclusive of the recent General Data Protection Regulation. Further, the Company has extensive safeguards around the transmission, use and disclosure of patient health information.

Sustainability
The Company is part of a Group that is proud to be part of a force for good, leveraging many decades of experience and its international scale, to care for people and the planet in numerous social responsibility and sustainability initiatives that have an impact on the health and well-being of millions of people. For further details, please refer to the Group's Corporate Social Responsibility report published on the Group website https://www.walgreensbootsalliance.com/.

Future developments
The Directors do not foresee a change in the principal activity of the Company and expect the general level of activity to remain consistent with 2021 bolstered by further bounce back relating to COVID-19 and new initiatives which are expected to improve results, including a strong focus on the online business. However, there exists a level of uncertainty from trading conditions through the ongoing COVID-19 pandemic within the UK.

Approved by the Board and signed on its behalf by:

A Thompson
Company Secretary

6 June 2022

Directors' report

for the year ended 31 August 2021

The Directors present their report and the audited financial statements for the year ended 31 August 2021.

Going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the business activities and principal risks and uncertainties as set out within the Strategic report including the impact of COVID-19, change in customer behaviour and macro-economic and political environment.

The Company has a loss for the year of £111 million (2020: £258 million). At the balance sheet date, the Company had net assets of £1,628 million (2020: £1,382 million) and net current liabilities of £291 million (2020: £28 million). Net current liabilities included a £260 million intercompany loan which fell due in less than 12 months in this financial year, resulting in an increase in net current liabilities. This loan was repaid after the balance sheet date.

The Company is cash-generative with £60 million of cash and cash equivalents as at 31 August 2021 (2020: £62 million). In addition, the Company partakes in a cash pooling arrangement with a fellow Group undertaking to which the Company had £684 million (2020: £623 million) of pooled cash which is available on demand. The Directors have assessed the willingness and ability of the wider Group to continue to provide the cash pool facility to the Company.

The Directors of the Company continue to monitor and respond to the impact of COVID-19 on the business and all available actions have been taken to protect performance and cash, alongside also the safety of the Company's employees and customers.

The Directors are aware that there will always be an element of uncertainty around making a going concern assessment.

Considering the uncertainties faced, the Directors of the Company have undertaken a comprehensive assessment to consider the going concern of the Company. In making their assessment the Directors have considered:

- the Company's financial position as at the date of this report;
- the unavoidable future cost basis of the business; and
- the expected future performance of the business.

In considering the expected future performance of the business, the strategic planning process reviewed by the Directors of the Company covers the next three financial years. The forecasts have been produced on the following basis:

- base plan - gradual sales recovery post-COVID-19, reflecting managements' estimate for recovery across its customer base along with online sales growth; and
- downside scenario - the 'base plan' adjusted to reflect any potential further impacts of COVID-19 and wider macroeconomic factors limiting the Company's trading for a further period.

Within each forecast, the Directors have reflected financial commitments and existing overhead costs.

The base plan and the potential downside scenario forecasts indicate that the Company will remain able to meet its liabilities as they fall due for a period of at least 12 months after the approval of these financial statements.

The uncertainty of the EU trade relationship continues to pose a risk to the Company as it purchases some of its goods from outside the UK. For retail, as part of the Company's continuity of supply mitigation, it has increased its stock holding in warehouses and stores where appropriate. For pharmacy, government guidance on medicine stock holding has been followed. The impact of any price increases, as a result of increased administration and import duties are being considered carefully to ensure that the Company continues to respond to the needs of its customers.

The Directors note that on 11 January 2022, WBA announced a strategic review of the Boots business, including brands such as No7, which is progressing. The Directors believe that the Company has sufficient working capital facilities to continue to trade based on historic trends and the expectations for future performance to ensure the business continues as a going concern.

Having considered all factors noted above, the Directors have determined that the Company has access to adequate resources to continue operating for a period of at least 12 months from the date these financial statements are signed, and none of the above factors give rise to any material uncertainty around the going concern status of the Company. The Directors, therefore, continue to adopt the going concern basis of account in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in note 3 to the financial statements.

Financial instruments

The Company is exposed to currency, credit, liquidity and interest rate risk. The Group's treasury function manages these risks at a Group level in accordance with the Group Treasury Policy including the use of financial instruments for the purpose of managing these risks. Group risks are discussed in the Group's Annual Report and those applicable to the Company are outlined below.

Liquidity and funding risk

The Company is essentially funded by a combination of its cash from operations, retained profits and the cash pooling facility with a fellow Group undertaking. The Company closely monitors liquidity through a robust cash flow process. Cash flow forecasting is performed, at least, quarterly and forecasts are monitored on a rolling basis to ensure that the Company meets its liquidity requirements and ensures it has adequate sources of funding to meet its operational needs. Furthermore, Management remain focused on rigorous control of capital expenditure and operating costs.

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and credit exposures to retails customers.
Cash and cash equivalents are held in regulated financial institutions with good credit ratings. Sales to retail customers are settled in cash or using major credit cards, which largely mitigates the risk from customers.

Interest rate risk
The Company is exposed to interest rate volatility with regard to existing debt instruments with Group undertakings. Interest rate risk is monitored at a Group level and the Group treasury function initiates necessary hedges to mitigate any interest rate risk.

Foreign currency exchange rate risk
The Company is exposed to fluctuations in foreign currency exchange rates, primarily with respect to the US dollar and Euro, which may affect its fluctuations in cash flows related to foreign currency denominated transactions. The Company enters into foreign currency forward contracts to hedge against the effect of exchange rate fluctuations on non-functional currency cash flows. These transactions are almost exclusively less than 12 months in maturity. In addition, the Company enters into foreign currency forward contracts that are not designated in hedging relationships to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany financing transactions).

The Company's foreign currency derivative instruments are sensitive to changes in exchange rates. The foreign currency derivatives are intended to partially reduce exposure against anticipated transactions, foreign currency trade payables and receivables.

Dividends
The Company declared and paid a dividend of £ 15 million in the year (2020: £nil).

Future developments
The Company intends to continue operating in the pharmacy-led health and beauty retailing. Details of future developments can be found in the Strategic Report and form part of this report by cross-reference.

Post balance sheet events
Following the outbreak during the previous financial year, COVID-19 has continued throughout the year and after the balance sheet date, including the identification of the new Omicron strain. Whilst restrictions have eased and the government's immunisation programme has been deemed successful, there remains some uncertainty relating to COVID-19 which may impact on the future performance of the business.

On 24 February 2022, conflict broke out between Russia and Ukraine. Whilst this conflict is ongoing, there has been no direct impact on the business. Management continue to monitor the situation.

On 31 October 2021, the Company paid back unsecured debt of £260 million that was owed to Group undertakings at the balance sheet date.

None of these events should change the financial performance, position and going concern conclusions reported within these financial statements.

Existence of branches outside the UK
The Company has branches, as defined in section 1046(3) of the Companies Act 2006, outside the UK in Jersey, Guernsey and the Isle of Man.

Directors
The following served as Directors during the year and to the date of this report:

S James	
M Snape	
B Lavery	(appointed 24 February 2021)
B Horner	(appointed 22 March 2021)
R Bradley	(resigned 24 February 2021)

Walgreens Boots Alliance, Inc. provided qualifying third party indemnity provisions to certain Directors of associated companies during the financial year and at the date of this report.

Engagement with employees and employment of disabled persons
All staff and Directors were employed and paid on behalf of the Company by a fellow Group undertaking.

Diversity and inclusion are key aspects of the Company's strong value system and culture which are articulated in the Diversity Policy.. The Company never makes any employment-related decisions based upon a person's race, colour, gender, age, religion, disability, sexual orientation, national origin, former military status, marital status or any other basis protected by law.

The Company recognises the business and social benefits of employing people with disabilities and will do all that is practicable to support them. Employment policies of the Company aim to ensure that, within the areas of attraction, recruitment, promotion and retention, people with disabilities receive treatment that is fair, equitable and consistent with their skills and abilities. Employment practices are reviewed regularly to ensure they provide equality of opportunity, selection, promotion and training. All job applicants called for interview are asked whether they require any special facilities or assistance at the interview. If an existing colleague becomes disabled, every effort is made to retrain and retain them within the Company, wherever reasonable and practicable. If any colleague with a disability feels they have been treated in a way that is contrary to this policy, we encourage the issue be raised with the most appropriate manager. Every effort is made to secure a satisfactory resolution, either through informal means or formally through the grievance redressal procedure.

The Company, either directly or through its associated companies, aims to ensure that all employees are informed about, and engaged with, their part of the business, augmented by a deeper understanding of its future direction. Some of the approaches used to fulfil these would include performance reviews/appraisals, communications through email, intranet, bulletin boards and town hall meetings with senior management. These engagements also allow the Company to take into account the views of the employees in its decision making process.

Statement of corporate governance arrangements
The Directors believe that a commitment to strong corporate governance standards is an essential element of enhancing long-term shareholder value in a sustainable manner. The Company does not report against any formal corporate governance code, as the Company is part of a US listed Group and is governed by the WBA Group's Corporate Governance Guidelines. Being a part of the Walgreens Boots Alliance, Inc. Group, the Company

adheres to the Corporate Governance Guidelines (the "guidelines") that have been adopted by Walgreens Boots Alliance, Inc. to assist the Board in the exercise of its responsibilities on behalf of the Company and its shareholders. The guidelines are intended to provide guidance as a component of the flexible framework within which the Directors oversee and direct affairs of the Company. The Board also complies with the Code of Conduct and Business Ethics, issued by the Group which are applicable to all employees, officers and Directors of the Company. A copy of the Corporate Governance Guidelines can be found at https://investor.walgreensbootsalliance.com/corporate-governance.cfm.

In addition, the Company adheres to the robust framework of delegated authorities and internal policies adopted by the Group, which support the Group's corporate governance arrangements throughout the organisation.

Board composition

The Company has a board of Directors comprised of four directors as stated above. The Board is supported by certain focused sub-groups covering specific matters, including the Brexit Steering Group; the Crisis Management Team; the UK Governance committee; the Capital Committee; and other Colleague Forums which have been established to directly advise and engage with the Company and the Board as required. All groups are led by members of the Senior Leadership Team who keep the wider Executive Committee (a subsection of which comprises the Company's Directors) informed of all relevant matters.

Directors' responsibilities

The Company's Directors are appointed to their roles on the basis of their experience, capability and their ability to lead the business in its effective and strategic decision-making. As a part of their induction, the Directors of the Company are briefed on their duties including those under Section 172(1), and they can access professional advice on these either from the Company Secretary or, if they judge necessary, from independent advisors for effective discharge of their duties.

When making any decisions, the Directors consider, both individually and together, the matters set out in Section 172(1) (a-f), as listed in the Strategic report, and have acted in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members, as a whole. When making decisions, the Directors take into account the viewpoints of the Company's stakeholders, including employees, suppliers, customers and others.

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would most likely promote the long-term success of the Company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to: the likely consequences of any decision in the long term; the interests of the Company's employees; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

Directors' conduct

The WBA Group has adopted a Code of Conduct and Business Ethics applicable to all employees, officers and Directors of the wider Group, including the Company that incorporates policies and guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. The Group has also adopted a Code of Ethics for the CEO and Financial Executives. This Code applies to and has been signed by the Chief Executive Officer, the Chief Financial Officer and Chief Accounting Officer.

Charters of all committees of the Group's Board of Directors, as well as the Group's Corporate Governance Guidelines and Code of Ethics for the CEO and Financial Executives and Code of Conduct and Business Ethics, are available on the Group Company's website at https:// investor.walgreensbootsalliance.com.

Regular training is provided on key areas of risk, compliance and governance including anti-bribery and corruption, data protection, health and safety and diversity which helps to ensure that decisions across the Company are underpinned with the consideration of compliance and good governance.

A Whistleblower Helpline is available to all employees to provide a confidential and anonymous route for any concerns around Company or Director behaviour or compliance to be reported, investigated and addressed accordingly.

Engagement with shareholders

Mr S James (being one of the Company's Directors) reports directly to Ms O Barra who is the Co-Chief Operating Officer for the Group's ultimate parent company, Walgreens Boots Alliance, Inc., and as such, there is regular communication between the Company's Directors and the parent Company.

Statement on business relationships

Boots UK Limited aims to operate fairly, transparently and with integrity in the marketplace. The Company along with its associate companies, engages with its customers, suppliers and other key stakeholders through multiple channels. These may include face to face interactions, social media interactions, conferences, corporate/business websites and surveys. This provides a broad and diverse understanding of the evolving priorities of various stakeholders and helps the Directors to consider these views in their decision making. Please also refer to s172 statement within the Strategic report.

Energy and Carbon reporting

Boots UK Limited is committed to the protection of the environment and the reduction of its carbon footprint. As per changes introduced by the 2018 Regulations of the Companies Act 2006, the Directors of the Company are required to report on the energy and carbon information relating to the Company.

The related carbon footprint, measured in CO2e tonnes, is calculated from the usage data submitted for energy usage from gas and electricity, outbound product delivery, and business travel activity. Conversion factors are applied on the basis of business location. UK-based data is converted using the UK Department for Environment, Food & Rural Affairs (DEFRA) CO2e factors. Conversion factors are updated annually to reflect the factors published by DEFRA that are in effect as of 31 August of the reporting year.

Directors' report (continued)

for the year ended 31 August 2021

Energy and Carbon reporting (continued)
The Company's financial year greenhouse gas emissions and energy use data were as follows:

	2021	2020
	kWh	kWh
Energy consumption used to calculate emissions (kWh)	**430,528,977**	441,544,020
Scope 1 emissions in metric tonnes CO2e:		
Onsite CHP plant - electricity	13,575	13,192
Gas consumption	18,921	15,479
Onsite CHP plant - heat	7,107	6,066
Heat oil/kerosene consumption	13	19
Owned transport	5,358	5,147
Total Scope 1	**44,974**	**39,903**
Scope 2 emissions in metric tonnes CO2e:		
Purchased electricity	**47,633**	49,970
Scope 3 emissions in metric tonnes CO2e:		
Business travel in employee owned vehicles	8,912	14,944
Total gross emission in metric tonnes CO2e	101,519	104,817
£1 million sales	5,812	5,948
Intensity ratio Tonnes CO2e per £1 million sales	17	18

For the financial year ending 31 August 2021, multiple measures have been taken by the Company to reduce its energy consumption and carbon footprint. These include introducing electric vans, replacing inefficient lighting with LED (light emitting diode) technology and improving the heating, ventilation and air conditioning systems.

The Company's sustainability strategy is based upon the belief that healthy communities need a healthy planet. Boots UK aims to continue to be an agent of change, focusing on its own 'Bootprint' and minimising the impact of its products and supply chains. The Company is supporting the BRC Climate Action Roadmap and committed to being net zero carbon by 2040. In partnership with No7, Boots offers a 'Recycle at Boots' scheme where customers can bring their empty hard-to-recycle beauty, health and wellness products into over 700 stores across the UK, in return for Boots Advantage Card points.

The Company has also partnered with Grazia to launch the publication's first sustainable beauty week which took place in October 2021. The event hosted a panel to discuss 'all things sustainable beauty' and our commitments to being a more sustainable business. Furthermore, the Company has also partnered with the British Beauty Council to create an innovative sustainable window display in the St Enoch Centre, in the city where this year's COP26 summit had taken place. The interactive display was designed to embody the beauty of sustainability and the Recycle at Boots scheme, including a chair made from entirely recycled products from the scheme.

Auditor
Pursuant to s487 Companies Act 2006, Deloitte LLP were deemed to be reappointed and will therefore continue in office.

Disclosure of information to the auditor
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act of 2006.

Approved by the Board and signed on its behalf by:

A Thompson
Company Secretary
6 June 2022

Registered office:
Nottingham
NG2 3AA

Registered in England and Wales No. 00928555

Directors' responsibilities statement

for the year ended 31 August 2021

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

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

Under Company law the 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They 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.

Independent auditor's report

to the members of Boots UK Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Boots UK Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 August 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 38.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
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.

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

- obtaining an understanding of the Company's controls over the development and approval of the projections and assumptions used in the cash flow forecasts to support the going concern assumption;
- testing the clerical accuracy of the cash flow forecast model;
- completing an assessment of the consistency of the models used to prepare the forecasts in line with other areas of our audit;
- performing a look back analysis of the historical accuracy of forecasts prepared by management;
- assessing the adequacy of the letter of support received from Walgreen Boots Alliance, Inc ensuring the group can continue to provide support through the cash pool facility;
- perform sensitivity analysis on managements forecasts; and
- assessing the adequacy of the disclosures in the financial statements.

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.

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

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

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. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, pension and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- We have identified a significant risk due to fraud relating to the NHS revenue and receivables being incorrectly valued due to the company utilising the wrong GIC rate to estimate unsettled NHS revenue. In response to this risk we have performed the following procedures:
  - We tested the Design and Implementation and Operating Effectiveness of controls over NHS revenue, including management's controls over the estimation of year end unsettled revenue.
  - We performed substantive procedures over the NHS revenue by performing the following:
    - Assessed the reasonableness of managements estimate by developing an independent estimate of the unsettled NHS revenue which was then compared to managements estimate.
    - Tested the estimated GIC rate used in the NHS revenue estimate by agreeing the GIC rate to the latest NHS settlement data.
    - Tested the unsettled NHS revenue balance by agreeing to subsequent cash receipt from the NHS.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report

to the members of Boots UK Limited (continued)

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Whitlock ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK

6 June 2022

Income statement

for the year ended 31 August 2021

	Notes	2021 £million	2020 £million
Revenue	**5**	**5,812**	5,948
Cost of sales		**(3,710)**	(3,815)
Gross profit		**2,102**	2,133
Other operating income		**10**	47
Distribution costs		**(1,867)**	(2,161)
Administrative expenses		**(237)**	(264)
Operating profit/(loss)		**8**	(245)
Income from shares in Group undertakings	**9**	**16**	17
Finance income	**9**	**—**	10
Finance costs	**10**	**(82)**	(69)
Loss before taxation		**(58)**	(287)
Tax	**11**	**(53)**	29
Loss for the year	**6**	**(111)**	(258)

Revenue and operating profit/(loss) are all derived from continuing operations.

The accompanying notes to the financial statements are an integral part of the Company's financial statements.

Statement of comprehensive income

for the year ended 31 August 2021

	Notes	2021 £million	2020 £million
Loss for the year		**(111)**	(258)
Other comprehensive income/(expense) for the year			
Items that will not be reclassified subsequently to income statement:			
Remeasurement gains/(losses) on defined benefit pension plans	**28**	**503**	(502)
Fair value loss on investments in equity instruments designated as at FVTOCI	**30**	**(51)**	(38)
Tax on items that will not be reclassified subsequently to Income Statement	**28**	**(80)**	77
		372	(463)
Items that are or may be reclassified to the income statement:			
Remeasurement gains on foreign currency options	**29**	**—**	(1)
		—	(1)
Total comprehensive income/(expense) for the year		**261**	(722)

The accompanying notes to the financial statements are an integral part of the Company's financial statements.

Boots UK Limited

Balance sheet
as at 31 August 2021

	Notes	2021 £million	2020 £million
Assets			
Non-current assets			
Intangible assets	13	930	936
Property, plant and equipment	14	639	660
Right-of-use assets	33	1,845	1,893
Investments in subsidiaries	15	14	14
Interests in associates	16	14	14
Other investments	17	94	145
Trade and other receivables	19	1	1
Defined benefit pension asset	26	404	—
		3,941	3,663
Current assets			
Inventories	18	575	591
Current tax assets		13	48
Trade and other receivables	19	954	848
Assets held for sale	20	13	8
Cash and bank balances		60	62
		1,615	1,557
Total assets		5,556	5,220
Liabilities			
Current liabilities			
Trade and other payables	21	(1,406)	(1,247)
Borrowings	23	(260)	—
Lease liabilities	33	(226)	(306)
Provisions	24	(14)	(32)
		(1,906)	(1,585)
Net current liabilities		(291)	(28)
Total assets less current liabilities		3,650	3,635
Non-current liabilities			
Trade and other payables	21	(16)	(28)
Borrowings	23	—	(260)
Lease liabilities	33	(1,825)	(1,774)
Defined benefit pension liability	26	—	(124)
Deferred tax liabilities	25	(181)	(67)
		(2,022)	(2,253)
Total Liabilities		(3,928)	(3,838)
Net assets		1,628	1,382
Equity			
Called up share capital	27	710	710
Actuarial reserve	28	263	(160)
Hedging reserve	29	—	—
Investment revaluation reserve	30	(101)	(50)
Retained earnings	31	756	882
Total Equity		1,628	1,382

The accompanying notes to the financial statements are an integral part of the Company's financial statements.

The financial statements of Boots UK Limited (registered number: 00928555) were approved by the Board of Directors and authorised for issue on 6 June 2022. They were signed on its behalf by:

M Snape
Director
6 June 2022

Boots UK Limited

Statement of changes in equity

for the year ended 31 August 2021

	Share capital	Actuarial reserve	Hedging reserve	Investment revaluation reserve	Retained Earnings	Total
	£million	£million	£million	£million	£million	£million
At 1 September 2019	**710**	**265**	**1**	**(12)**	**1,140**	**2,104**
Loss for the year	—	—	—	—	(258)	(258)
Other comprehensive expenses for the year	—	(425)	(1)	(38)	—	(464)
Total comprehensive income/(expenses) for the year	—	(425)	(1)	(38)	(258)	(722)
Dividends paid (note 12)	—	—	—	—	—	—
At 31 August 2020	**710**	**(160)**	—	**(50)**	**882**	**1,382**
Loss for the year	—	—	—	—	(111)	(111)
Other comprehensive income/(expenses) for the year	—	423	—	(51)	—	372
Total comprehensive income/(expenses) for the year	—	423	—	(51)	(111)	261
Dividends paid (note 12)	—	—	—	—	(15)	(15)
At 31 August 2021	**710**	**263**	—	**(101)**	**756**	**1,628**

The accompanying notes to the financial statements are an integral part of the Company's financial statements.

Notes to the financial statements

for the year ended 31 August 2021

1. General information

Boots UK Limited (the "Company") is a private Company limited by shares and incorporated in the United Kingdom under the Companies Act and is registered in England and Wales.

The address of the registered office is given on page 11.

The nature of the Company's operations and its principal activities are set out in the Strategic report on page 1.

2. Adoption of new and revised standards

Covid-19-related Rent Concessions – Amendments to IFRS 16 (effective for periods commencing on or after 1 June 2020 and 1 April 2021)

In the current year, the Company adopted *Covid-19-Related Rent Concessions (Amendment to IFRS 16)* that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021.
In March 2021, the IASB issued *Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)* that extends the practical expedient to apply to reductions in lease payments originally due on or before 30 June 2022.
In the current financial year, the Company has applied the amendment to IFRS 16 (as issued by the IASB in May 2021) in advance of its effective date.
The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.
The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b. any reduction in lease payments affects only payments originally due in on or before 30 June 2022 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and
c. there is no substantive change to other terms and conditions of the lease.

Impact on accounting for changes in lease payments applying the exemption
The Company has applied the practical expedient retrospectively to all rent concessions that became eligible for the practical expedient as a result of the March 2021 amendment, albeit this has had no impact on the prior year.
The Company has, in total, benefited from a number of waivers of lease payments across its portfolio of stores, where those payments originally included amounts due after 30 June 2021 but before 30 June 2022. The waiver of lease payments which total £41.4 million has been accounted for as a negative variable lease payment in profit or loss, for lease payments waived in the current financial year 2021. The Company has derecognised the part of the lease liability that has been extinguished by the forgiveness of lease payments, consistent with the requirements of IFRS 9:3.3.1.

Other new and revised standards are as below.

Amendments to References to the Conceptual Framework in IFRS Standards	The Company has adopted the amendments included in *Amendments to References to the Conceptual Framework in IFRS Standards* for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The standard which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.
Amendments to IAS 1 and IAS 8 Definition of material	The Company has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.
Amendments to IFRS 7, IFRS 9 and IAS 39	The Company has adopted amendments made to IFRS 7 *Financial Instruments: Disclosures,* IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* provide certain reliefs in relation to interest rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

3. Significant accounting policies

Basis of accounting
These financial statements are presented in pounds sterling because that is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

These financial statements are individual accounts. The Company is exempt from the preparation of consolidated financial statements under s401 of the Companies Act 2006, because it is included in the group accounts of Walgreens Boots Alliance, Inc. The group accounts of Walgreens Boots

3. Significant accounting policies (continued)

Basis of accounting (continued)

Alliance, Inc. are available from the Walgreens Boots Alliance website at www.walgreensbootsalliance.com. The principal office of the parent company preparing consolidated accounts is 108 Wilmot Road, Deerfield, Illinois, 60015, United States.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared on the historical cost basis, except for the following:
(i) certain financial assets and liabilities (including derivative instruments) - measured at fair value;
(ii) assets held for sale - measured at fair value less costs to sell, and;
(iii) defined benefit pension plans - plan assets measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payment*, because the share based payment arrangement concerns the instruments of another group entity;

(b) the requirements of paragraph 33(c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations;*

(c) the requirements of IFRS 7 *Financial Instruments: Disclosures*;

(d) the requirements of paragraphs 91-99 of IFRS *13 Fair Value Measurement;*

(e) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
   (iii) paragraph 118(e) of IAS 38 *Intangible Assets;*

(f) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*; *Statement of cash flows, statement of financial position for the earliest comparative period, capital management disclosures.*

(g) the requirements of IAS 7 *Statement of Cash Flows*;

(h) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors;*

(i) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures;*

(j) the requirements in IAS 24 *Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member, and,*

(k) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers.*

Where relevant, equivalent disclosures have been given in the group accounts of Walgreens Boots Alliance, Inc.

The principal accounting policies adopted are set out below.

Going concern
The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the business activities and principal risks and uncertainties as set out within the Strategic report including the impact of COVID-19, change in customer behaviour and macro-economic and political environment.

The Company has a loss for the year of £111 million (2020: £258 million). At the balance sheet date, the Company had net assets of £1,628 million (2020: £1,382 million) and net current liabilities of £291 million (2020: £28 million). Net current liabilities included a £260 million intercompany loan which fell due in less than 12 months in this financial year, resulting in an increase in net current liabilities. This loan was repaid after the balance sheet date.

The Company is cash-generative with £60 million of cash and cash equivalents as at 31 August 2021 (2020: £62 million). In addition, the Company partakes in a cash pooling arrangement with a fellow Group undertaking to which the Company had £684 million (2020: £623 million) of pooled cash which is available on demand. The Directors have assessed the willingness and ability of the wider Group to continue to provide the cash pool facility to the Company.

The Directors of the Company continue to monitor and respond to the impact of COVID-19 on the business and all available actions have been taken to protect performance and cash, alongside also the safety of the Company's employees and customers.

3. Significant accounting policies (continued)

Going concern (continued)

The Directors are aware that there will always be an element of uncertainty around making a going concern assessment.

Considering the uncertainties faced, the Directors of the Company have undertaken a comprehensive assessment to consider the going concern of the Company. In making their assessment the Directors have considered:

- the Company's financial position as at the date of this report;
- the unavoidable future cost basis of the business; and
- the expected future performance of the business.

In considering the expected future performance of the business, the strategic planning process reviewed by the Directors of the Company covers the next three financial years. The forecasts have been produced on the following basis:

- base plan - gradual sales recovery post-COVID-19, reflecting managements' estimate for recovery across its customer base along with online sales growth; and
- downside scenario - the 'base plan' adjusted to reflect any potential further impacts of COVID-19 and wider macroeconomic factors limiting the Company's trading for a further period.

Within each forecast, the Directors have reflected financial commitments and existing overhead costs.

The base plan and the potential downside scenario forecasts indicate that the Company will remain able to meet its liabilities as they fall due for a period of at least 12 months after the approval of these financial statements.

The uncertainty of the EU trade relationship continues to pose a risk to the Company as it purchases some of its goods from outside the UK. For retail, as part of the Company's continuity of supply mitigation, it has increased its stock holding in warehouses and stores where appropriate. For pharmacy, government guidance on medicine stock holding has been followed. The impact of any price increases, as a result of increased administration and import duties are being considered carefully to ensure that the Company continues to respond to the needs of its customers.

The Directors note that on 11 January 2022, WBA announced a strategic review of the Boots business, including brands such as No7, which is progressing. The Directors believe that the Company has sufficient working capital facilities to continue to trade based on historic trends and the expectations for future performance to ensure the business continues as a going concern.

Having considered all factors noted above, the Directors have determined that the Company has access to adequate resources to continue operating for a period of at least 12 months from the date these financial statements are signed, and none of the above factors give rise to any material uncertainty around the going concern status of the Company. The Directors, therefore, continue to adopt the going concern basis of account in preparing the financial statements.

Investments in subsidiaries
Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

Investments in associates
An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for at cost less, where appropriate, provisions for impairment.

Impairment of investments in subsidiaries and associates
At each balance sheet date, the Company reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Revenue recognition
Revenue is recognised at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to the customer, net of discounts, VAT and other sales-related taxes. Revenue estimations are reduced for estimated customer returns, rebates and other similar allowances.

3. Significant accounting policies (continued)

Sale of goods
Revenue from the sale of goods is recognised when the control is transferred to the customer. When goods are sold together with loyalty points, the consideration is reallocated between the goods and the loyalty points based on standalone value.

In respect of the Boots loyalty scheme, the Advantage Card, as points are issued to customers, the retail fair value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as revenue. Sales of gift vouchers are only included in revenue when vouchers are redeemed. Any breakage on gift cards is recognised based on the redemption pattern.

Pharmacy revenue
Due to the nature of pharmacy revenue, there is an element of estimation involved which is discussed in note 4 in the critical accounting estimates. There is also some variability in the initial recognition of pharmacy revenue which is settled on the actual receipt of funds.

Dividend and interest revenue
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases
The Company as lessee
The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in the expected payments under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.The right-of-use assets are presented separately on the balance sheet.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the income statement in the period in which the event or condition that triggers those payments occurs.

3. Significant accounting policies (continued)

Leases (continued)
The Company as lessor
Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Foreign currencies
Currency transactions
Transactions denominated in currencies other than the Company's functional currency are translated into the Company's functional currency at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in currencies other than the Company's functional currency at the year-end are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured at historical cost and are denominated in currencies other than the Company's functional currency are translated using the exchange rates at the date of the transaction. Non-monetary items that are measured at fair value and are denominated in currencies other than the Company's functional currency are translated using the exchange rates at the date when the fair value was determined. Exchange gains and losses are recognised in the income statement.

Operating result
Operating result is stated after charging restructuring costs but before investment income, income from Group undertakings, finance costs and tax.

Retirement and death benefit costs
Payments to defined contribution retirement benefit schemes, and any insurance premiums relating to the provision of a lump sum death benefit (i.e. life assurance), are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

A defined benefit scheme is a retirement benefits scheme that defines an amount of pension benefit that a scheme member will receive on retirement usually dependent on one or more factors, such as age, years of service and compensation. The Company's net obligation or asset in respect of the defined benefit scheme is calculated by estimating the amount of future benefit that employees earned in return for their service in the current and prior years. That benefit is discounted to determine its present value and the fair value of any assets is deducted.

The discount rate is the yield at the period end on AA rated bonds that have maturing dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Scheme assets are at bid price.

Current and past service costs are recognised in operating profit. Net interest income/expense on defined benefit schemes are recognised in the income statement and as a reduction in the present value of defined benefit scheme liabilities.

Settlement gains or losses resulting from the scheme amendments transferring liabilities of defined benefit schemes are recognised in the income statement and as a reduction in the present value of defined benefits scheme liabilities.

Borrowing costs
Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time as the assets are considered substantially ready for the intended use. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form a part of general borrowings, the amount capitalised is calculated using the weighted-average of rates applicable to relevant general borrowings of the Group during the year. All other Borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation
The tax expense represents the sum of the current tax and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the financial statements (continued)

for the year ended 31 August 2021

3. Significant accounting policies (continued)

Taxation (continued)
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the period
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Cash and bank balances
Cash and bank balances comprises cash in hand, credit card receivables and short-term deposits with maturities of three months or less from the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Where BACS payments have yet to clear the bank as at a period end date, this is reclassified as cash.

Property, plant and equipment
All property, plant and equipment is stated at deemed cost less accumulated depreciation and impairment losses.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, in equal instalments over their expected useful economic lives which are:

- Building improvements
    - Building improvements - depreciated to their estimated residual values over their useful economic lives of not more than 50 years;
    - Assets in the course of construction - not depreciated;

- Plant and machinery - 3 to 10 years; and
- Fixtures, fittings, tools and equipment - 3 to 20 years.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An asset is removed from the balance sheet on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Following the transition from previously extant United Kingdom generally accepted accounting practice (UK GAAP) to FRS 101 - Reduced Disclosure Framework, the Company has taken advantage to restate its property, plant and equipment at deemed cost as permitted under IFRS 1 "First-time adoption". The remeasurement date for this was 31 December 2014. The deemed cost adjustment as at 31 December 2014 was £121 million.

Intangible assets
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Non-current assets (or disposal groups) held for sale
Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Notes to the financial statements (continued)

for the year ended 31 August 2021

3. Significant accounting policies (continued)

Impairment of property, plant and equipment and intangible assets
At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the average weighted cost method. The cost of finished goods comprises the purchase cost of goods and those overheads related to distribution based on normal activity levels. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for any inventory that is identified as slow moving, obsolete or defective.

Government funding and advances
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Further details relating to government grants is given in note 6 of the financial statements.

Government grants relating to costs are recognised or deferred, as relevant, in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

The Company has chosen to present grants relating to cost or income either separately or under a general heading such as 'Other Income' in the income statement.

Financial instruments
Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'amortised cost', 'fair value through other comprehensive income - debt investment' (FVOCI - debt investment), 'fair value through other comprehensive income - equity investment' (FVOCI - equity investment) and 'fair value through profit and loss' (FVPL). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Investments in joint ventures, associates and subsidiaries are carried at cost less impairment. Investments in joint ventures, associates and subsidiaries are accounted for in accordance with IFRS 9.

Amortised cost and effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Notes to the financial statements (continued)

for the year ended 31 August 2021

3. Significant accounting policies (continued)

Financial instruments (continued)
Amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Fair Value OCI - debt investments
A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Fair value through OCI - equity investment
Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery or part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

Fair value through profit or loss
All financial assets which are not classified as amortised cost or fair value through OCI as described above are measured at fair value through profit or loss. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Impairment of financial assets
The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.
The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 or BBB-.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. Significant accounting policies (continued)

Financial instruments (continued)

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to the profit and loss reserve.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities

All financial liabilities, including borrowings, are measured subsequently at amortised cost using the effective interest method or at FVPL.

Financial liabilities at FVPL

Financial liabilities are classified as at FVPL when the financial liability is (i) held for trading or (ii) it is designated as at FVPL. A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVPL.

Financial liabilities at FVPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains' and/or 'other losses' line in profit or loss.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) held-for-trading, or (ii) designated as at FVPL are measured subsequently at amortised cost using the effective interest method.

Notes to the financial statements (continued)
for the year ended 31 August 2021

3. Significant accounting policies (continued)

Financial instruments (continued)
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative financial instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 32.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset due after one year or a creditor due after more than one year if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Factoring arrangements
The Company has a factoring arrangement where certain trade receivables related to pharmacy revenue are sold to the factor. At this point, the factor services the receivables by administering the accounts receivables ledger for a fee that is based upon the total amount of receivables factored at each month end. The charge is at market price. The Company is not subject to any recourse and has not retained any residual interest in the receivables. Substantially all of the risks and rewards are deemed to have been transferred to the factor at the time of the sale, and so at this point the trade receivables balance is derecognised.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Leases
The lease term of real estate leases includes renewal options that are reasonably certain of being exercised. Options to extend are considered reasonably certain of being exercised based on evaluation if there is significant investments within the leased property which have useful lives greater than the non-cancellable lease term, performance of the underlying store and the Company's economic and strategic initiatives.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair value of unlisted equities
The Company holds shares in unlisted equities which are valued at fair value. For such investments, the fair value has been derived using the discounted cash flow method to determine the present value of the expected future economic benefits to be derived from the ownership of these

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Fair value of unlisted equities (continued)
shares. This derivation requires an estimation of future earnings from the underlying investments and a suitable discount rate of 8.75%. A change in these estimates can have significant impact on the value of these investments. A reduction of 5% estimated future earnings would reduce the value of underlying investments by approximately £5 million. A reduction of 1% in the discount rate will improve the investment value by £6 million. For further details please see note 32.

Pension and other post-employment benefits
The assets of defined benefit pension plans are valued at bid price. The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, asset returns, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of the Aon GBP Select AA Curve using scheme cash flows for the Boots Pension Scheme. The mortality rate is based on publicly available UK mortality tables and pension increases are based on the UK's expected future inflation rates. As the Scheme is closed to future accrual, future salary increase assumptions are not relevant. Further details are given in note 26.

Impairment *of property, plant and equipment, right-of-use assets and pharmacy licences*
Determining whether the Company's property, plant and equipment and pharmacy licences have been impaired requires estimations of their present value. The present value calculations require the Company to estimate the future cash flows expected to arise from cash-generating units (stores) and suitable discount rates in order to calculate present values. Key assumptions used in the present value calculation include:

- stores will be operating over the accounting lease term;
- the discount rate used in the present value calculation is 7.7%;
- pharmacy licences associated with each store are assumed to be fully recoverable therefore the store impairment includes a salvage value for the pharmacy licence being equivalent to the present value of the licence based on the book value at the balance sheet date;
- future cash flows used for the individual stores have been forecasted in line with the strategic plan which covers the next three financial years as discussed in the Directors' report. The Directors believe the Company will return to pre-COVID trading levels in the second year of the strategic plan. Growth rates thereafter are in line with inflation at 1.9%; and
- where stores have an accounting lease term that is due to expire within 4 years of the balance sheet date, it is assumed that store leases will extend to the lower of the previous lease contract length or 8 years.

A net impairment loss of £85 million was recognised (2020: £108 million) which comprises pharmacy licences of £1 million (2020: £41 million), property plant and equipment of £14 million (2020: £12 million) and right-of-use asset of £70 million (2020: £55 million).

A total impairment loss of £128 million was recognised in 2021 (2020: £108 million) which comprises pharmacy licences of £16 million (2020: £41 million), property plant and equipment of £19 million (2020: £12 million) and right-of-use assets of £94 million (2020: £55 million). This was offset by the reversal of impairment from prior periods in relation to pharmacy licenses of £14 million (2020: £nil), property plant and equipment of £5 million (2020: £nil) and right-of-use assets of £24 million (2020: £nil).

Sensitivities were performed over the assumptions with the impact as shown below:

Assumption	Impact to total impairment value
No extensions after the accounting lease end date on life of store assets	£10 million increase
Increase discount rate by 1.0% to 8.7%	£16 million increase
Decrease discount rate by 1.0% to 6.7%	£14 million decrease
Pharmacy licences deemed to have 50% salvage value rather than 100%	£36 million increase
Growth rates for gross margin in the strategic plan period +1%	£15 million decrease
Growth rates for gross margin in the strategic plan period (1)%	£21 million increase
Growth rates after the strategic plan period is 0%	£57 million increase
Cumulative 8% reduction in cash flow for the first 5 years of assessment	£39 million increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivities shown are just one possible outcome and should not be taken as an indication of the likelihood of a change occurring in the future.

5. Revenue

An analysis of the Company's revenue is as follows:

	2021 £million	2020 £million
Continuing operations		
Sales of goods	**5,812**	5,948

All revenue is generated in the United Kingdom, Jersey, Guernsey and Isle of Man.

Significant customers
Included in revenue arising from the sales of goods and services is revenue of approximately £2,193 million (2020: £2,293 million) which arose from sales to the Company's largest customer. No other single customers contributed 10% or more to the Company's revenue in either 2021 or 2020.

Notes to the financial statements (continued)

for the year ended 31 August 2021

6. Loss for the year

Loss for the year has been arrived at after charging/(crediting):

	2021 £million	2020 £million
Government funding[1]	**(10)**	(47)
Net foreign exchange losses/(gains)	**1**	(1)
Depreciation of property, plant and equipment (note 14)	**118**	123
Net impairment of property, plant and equipment (note 14)	**14**	14
Loss on disposal of property, plant and equipment	**2**	1
Net impairment of pharmacy licences (note 13)	**1**	56
Amortisation of intangibles (note 13)	**52**	67
Cost of inventories recognised as an expense	**3,685**	3,790
Write downs of inventories recognised as an expense	**1**	7
Depreciation of right-of-use assets (note 33)	**245**	286
Net impairment of right-of-use assets (note 33)	**70**	55
Reorganisation costs[2]	**62**	138

[1] Government funding relates to £nil (2020: £11 million) income received in relation to protective equipment within the Company's premises and £10 million (2020: £36 million) of income received via a fellow Group undertaking under the government's Coronavirus Job Retention Scheme ("furlough" scheme). Note that all employees are employed and paid on behalf of the Company by a fellow Group undertaking.
[2] Reorganisation costs represent one-off costs associated with changes in the Company's store portfolio alongside store and central support operating models.

7. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the financial statements of the Company and fellow Group undertakings and for other services provided to the Company.

	2021 £million	2020 £million
Audit of the financial statements	**0.7**	0.5
Total audit fees	**0.7**	0.5

In addition, the Company incurred £nil (2020: £704,000) in non-audit fees from the auditor in respect of other taxation advisory services of the Company and on behalf of fellow Group undertakings.

Notes to the financial statements (continued)

for the year ended 31 August 2021

8. Staff numbers and costs

All staff and Directors were employed and paid on behalf of the Company by a fellow Group undertaking. The employee information and share-based payments are disclosed in the financial statements of that fellow Group undertaking. The total employee costs paid on behalf of the Company are £1,064 million (2020: £1,119 million). The current year's staff cost is stated net of £10 million (2020: £36 million) received under the government's Coronavirus Job Retention Scheme by the fellow Group undertaking.

Directors' remuneration

	2021 £million	2020 £million
Aggregate remuneration	**2.2**	2.2
Amounts receivable under long-term incentive schemes	**0.4**	0.4
Company contributions to defined contribution schemes	**0.2**	0.2
	2.8	2.8

Amounts receivable under an equity-settled long-term incentive scheme which have not been paid to the Directors as at 31 August 2021 were £12.8 million (2020: £8.6 million). Of this, £3.5 million (2020: £5.0 million) is payable in 2021, £6.1 million (2020: £1.6 million) is payable in 2022, £1.3 million (2020: £nil million) is payable in 2023, £0.2 million (2020: £0.1 million) is payable in 2025, £0.2 million (2020: £0.2 million) is payable in 2026, £0.2 million (2020: £0.2 million) is payable in 2027, £0.8 million (2020: £0.8 million) is payable in 2028, and £0.5 million (2020: £0.6 million) is payable in 2029. All are conditional upon continued employment.

	2021 Number	2020 Number
The number of Directors who:		
Had rewards receivable in the form of shares under the long-term incentive scheme	**4**	4

	2021 £million	2020 £million
Remuneration of the highest paid Director:		
Aggregate remuneration	**1.0**	1.3
Amounts receivable under long-term incentive schemes	**0.4**	0.2
Company contributions to defined contribution schemes	**0.1**	0.1
	1.5	1.6

9. Finance income & income from shares in Group undertakings

	2021 £million	2020 £million
Interest receivable from bank deposits	**—**	1
Interest receivable from Group undertakings	**—**	2
Net interest income on defined benefit scheme asset/liability (see note 26)	—	7
Total finance income	—	10
Income from shares in Group undertakings	**16**	17
	16	27

10. Finance costs

	2021 £million	2020 £million
Interest payable to Group undertakings	**6**	6
Net interest cost on defined benefit scheme asset/liability (see note 26)	**2**	—
Financing fees	**1**	1
Finance charges payable in respect of leases	**73**	62
	82	69

Notes to the financial statements (continued)

for the year ended 31 August 2021

11. Tax

An analysis of the tax charge/(credit) for the year is presented as follows:

	2021 £million	2020 £million
Corporation tax:		
UK corporation tax	**(17)**	(33)
Adjustments in respect of prior periods	**11**	16
	(6)	(17)
Deferred tax (note 25):		
Deferred tax charge/(credit)	**4**	(21)
Adjustments in respect of prior periods	**(5)**	(12)
Adjustments in respect of changes to tax rates	**60**	21
	59	(12)
Total tax charge/(credit) for the year	**53**	(29)

Corporation tax is calculated at 19% (2020: 19%) of the estimated taxable profit for the year.

The tax charge/(credit) for the year can be reconciled to the loss in the income statement as follows:

	2021 £million	2020 £million
Loss before tax	**(58)**	(287)
Tax at the UK corporation rate of 19% (2020: 19%)	**(11)**	(55)
Effects of:		
Expenses not deductible for tax purposes	**2**	5
Non-taxable income	**(4)**	(4)
Remeasurement of deferred tax balances due to change in UK substantively enacted rate	**60**	21
Adjustments in respect of prior periods	**6**	4
Tax charge/(credit) for the year	**53**	(29)

In addition to the amount charged to profit or loss, the following amounts relating to tax have been recognised in other comprehensive income:

	2021 £million	2020 £million
Current tax:		
Tax arising on pension funding partnership	**25**	—
Deferred tax:		
Tax on remeasurement losses/(gains) on defined benefit pension plans	**55**	(77)
Total income tax recognised in other comprehensive income	**80**	(77)

Factors that may affect future current and total tax charges
On 24 May 2021 the UK Finance Act 2021 was substantively enacted increasing the UK tax rate from 19% to 25% effective 1 April 2023. The impact of the tax rate, primarily revaluation of deferred tax liabilities, has been reflected in these financial statements.

12. Dividends

The Company's paid and proposed dividends are presented as follows:

	2021 £million	2020 £million
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year (equivalent to 2.1p per share, 2020: 0.0p per share)	**15**	—

Notes to the financial statements (continued)

for the year ended 31 August 2021

13. Intangible assets

	Pharmacy licences £million	Goodwill £million	Other intangibles £million	Software £million	Software assets in course of construction £million	Total £million
Cost						
At 1 September 2020	722	41	14	485	46	1,308
Additions	—	—	—	3	51	54
Reclassified from assets in course of construction	—	—	—	30	(30)	—
Disposals	—	(3)	—	—	—	(3)
Transferred to assets held for sale	(5)	—	—	—	—	(5)
At 31 August 2021	**717**	**38**	**14**	**518**	**67**	**1,354**
Amortisation						
At 1 September 2020	56	—	14	302	—	372
Charge for the year	—	—	—	52	—	52
Impairment	1	—	—	—	—	1
Disposals	—	—	—	(1)	—	(1)
At 31 August 2021	**57**	**—**	**14**	**353**	**—**	**424**
Carrying amount						
At 31 August 2020	666	41	—	183	46	936
At 31 August 2021	**660**	**38**	**—**	**165**	**67**	**930**

Amortisation of intangible assets is provided to write off the cost, less residual value, in equal instalments over their expected useful economic lives which are:

- pharmacy licences do not expire and therefore have an indefinite life;
- goodwill has been identified as having an indefinite life based on the life and history of the Boots brand along with current market strength and future development plans;
- other intangibles relate to capitalised development costs[1] and are amortised over 5 years;
- software is amortised over 3 to 8 years; and
- software assets in the course of construction are not amortised, and are tested for impairment annually.

[1] Capitalised development costs relate to costs incurred in the development of brands used by the Company.

Amortisation of intangible cost was allocated to distribution costs of £1 million (2020: £1 million) and administrative costs of £51 million (2020: £66 million) the income statement.

Pharmacy licences have been allocated to individual stores of the Company. This represents the lowest level within the Company at which pharmacy licences are monitored for internal management purposes. Goodwill has been allocated to the grouping of all stores for the Company. This represents the lowest level within the Company at which goodwill is monitored for internal management purposes. Pharmacy licences and goodwill are not amortised but are reviewed for impairment on an annual basis, or more frequently if an event occurs or circumstances change that would more likely than not reduce the recoverable amount below its carrying value.

The recoverable amount has been calculated using a value in use calculation which includes a salvage value for pharmacy licences. The value in use calculation requires management to estimate a number of factors, including projected future operating results, economic projections, anticipated future cash flows and discount rates. Management estimate the discount rate using the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the cash-generating unit.

Anticipated future cash flows are based on the Company's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The pre-tax discount rate of 7.7% (2020: 9.75%) used to calculate the value in use is derived from the Company's post-tax weighted average cost of capital, as adjusted for the specific risks relating to the cash-generating unit. The forecast is extrapolated beyond four years based on an estimated long-term average growth rate of 1.9% (2020: 1.9%).

The annual impairment tests support the carrying value of goodwill and therefore there was no impairment charge in the period (2020: £nil). The impairment test for pharmacy licences through review of the stores cash flows gave rise to a net impairment of £1 million (2020: £41 million), this consists of an impairment charge of £15 million (2020: £41 million) and a reversal of impairment of £14 million (2020: £nil). In respect of stores separately identified for closure, no impairment charge (2020: £15 million).

Notes to the financial statements (continued)

for the year ended 31 August 2021

14. Property, plant and equipment

	Building improvements £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Assets in the course of construction £million	Total £million
Cost					
At 1 September 2020	177	96	937	86	1,296
Additions	—	—	34	84	118
Reclassified from assets in course of construction	7	1	60	(68)	—
Disposals	(1)	(3)	(15)	—	(19)
At 31 August 2021	**183**	**94**	**1,016**	**102**	**1,395**
Accumulated depreciation					
At 1 September 2020	73	51	512	—	636
Charge for the year	15	10	93	—	118
Impairment	1	—	13	—	14
Disposals	(1)	(2)	(9)	—	(12)
At 31 August 2021	**88**	**59**	**609**	—	**756**
Carrying amount					
At 31 August 2020	104	45	425	86	660
At 31 August 2021	**95**	**35**	**407**	**102**	**639**

In the year, the Company recognised a net impairment of £14 million (2020: £14 million) of which £14 million (2020: £12 million) relates to store impairment and £nil (2020: £2 million) relate to impairment of assets on closed stores. In respect of the store impairment charge for the current year, this is a net impairment charge of £14 million – consisting of an impairment charge of £19 million (2020: £19 million) and a reversal of impairment of £5 million (2020: £nil).

The recoverable amount of individual stores has been calculated using a value in use calculation. The value in use calculation requires management to estimate a number of factors, including projected future operating results, economic projections, anticipated future cash flows and discount rates. Management estimate the discount rate using the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the cash-generating unit.

Anticipated future cash flows are based on the Company's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The pre-tax discount rate of 7.7% (2020: 9.75%) used to calculate the value in use is derived from the Company's post-tax weighted average cost of capital, as adjusted for the specific risks relating to the cash-generating unit. The forecast is extrapolated beyond four years based on an estimated long-term average growth rate of 1.9% (2020: 1.9%).

15. Investments in subsidiaries

	£million
Cost and carrying amount	
As at 1 September 2020 and **at 31 August 2021**	**14**

The Company's subsidiary undertakings at the balance sheet date, all of which were directly held, are presented as follows:

Notes to the financial statements (continued)

for the year ended 31 August 2021

15. Investments in subsidiaries (continued)

	Principal activities	Share class	Percentage held by the Company directly	Percentage held by the Company or subsidiary undertakings	Country of incorporation	Registered office
Blyth Pharmacy Limited	Dispensary services	Ordinary shares	100.0	100.0	England & Wales	1 Thane Road West, Nottingham, NG2 3AA, UK
Health Team Limited	Provides software for the Boots travel vaccination decision support tool	Ordinary shares	100.0	100.0	England & Wales	1 Thane Road West, Nottingham, NG2 3AA, UK
Wiggly-Amps Limited	Provision of an IT platform to link the NHS and General Practitioner systems for electronic prescriptions	Ordinary shares	100.0	100.0	England & Wales	1 Thane Road West, Nottingham, NG2 3AA, UK

16. Interests in associates and joint ventures

	£million
Cost and carrying amount	
As at 1 September 2020 and **at 31 August 2021**	**14**

The Company's associate and joint venture undertakings at the balance sheet date are presented as follows:

	Principal activity	Share class	Percentage held by the Company directly	Percentage held by the Company or subsidiary undertakings	Country of incorporation	Registered office
Boots Hearingcare Limited	Hearingcare services	Ordinary shares	49.0	49.0	England & Wales	18 Trinity Square, Llandudno, Conwy, LL30 2RH, UK
W.H.C.P (Dundee) Limited	Dispensary services	Ordinary shares	27.4	27.4	Scotland	Wallacetown Health Centre, Lyon Street, Dundee, DD4 6RB, UK

During the year, the Company disposed of its investment in Clarepharm Limited. The investment value was a total of £64,000.

Notes to the financial statements (continued)

for the year ended 31 August 2021

17. Other equity investments

	2021 £million	2020 £million
Investments in equity instruments designated at FVTOCI:		
Shares		
As at 1 September	**145**	183
Fair value loss on investments in equity instruments designated as at FVTOCI	**(51)**	(38)
As at 31 August	**94**	145

The shares included within investments in equity instruments designated at FVTOCI represent investments in unlisted equities. For such investments, the fair value has been derived using the discounted cash flow method to determine the present value of the expected future economic benefits to be derived from the ownership of these shares. See note 32.

The Company's shares in investments in equity instruments at the balance sheet date are presented as follows:

	Principal activity	Share class	Percentage held by the Company directly	Percentage held by the Company or subsidiary undertakings	Country of incorporation	Registered office
Company Chemists' Association Limited	Not for profit	Ordinary shares	37.9	37.9	England & Wales	4 Kingston Hall Kingston On Soar, Nottingham, Nottinghamshire, NG11 0DJ, UK
Octapharm Limited	Dispensary services	Ordinary shares	15.0	15.0	England & Wales	L Rowland & Co Limited, Whitehouse Industrial Estate, Rivington Road, Preston Brook, Runcorn, Cheshire, WA7 3DJ, UK
WBAD Holdings 2 Limited	Holding company	Ordinary shares	2.4	2.4	England & Wales	Sedley Place, 361 Oxford Street, London, United Kingdom, W1C 2JL, UK

18. Inventories

	2021 £million	2020 £million
Finished goods	**575**	591

19. Trade and other receivables

	2021 £million	2020 £million
Amounts falling due within one year:		
Amount receivable for the sale of goods[1]	**104**	93
Amounts owed by fellow subsidiaries[2]	**702**	633
Amounts owed by related parties	**16**	4
Other receivables	**64**	64
Prepayments	**33**	17
Accrued Income[3]	**27**	20
VAT recoverable	**8**	17
Included in current assets	**954**	848
Amounts falling due after more than one year:		
Prepayments	**1**	1
Included in non-current assets	**1**	1
Total trade and other receivables	**955**	849

19. Trade and other receivables (continued)

[1] The Company factors its receivables on a quarterly basis under a non-recourse arrangement which is subject to a variable fee (LIBOR+0.75%) of the receivables factored. The fee incurred under this arrangement is included within finance costs. At the balance sheet date, the amount factored was £284 million (2020: £274 million).

[2] Amounts owed by Group undertakings includes £684 million (2020: £107 million) of pooled cash held in a cash pooling arrangement with a fellow Group undertaking. This balance is unsecured, repayable on demand, and attracts interest which is calculated at the Sterling Overnight Index Average, which is computed as a weighted average of all overnight unsecured lending transactions undertaken in the London interbank market as published by the British Bankers' Association. Remaining amounts owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

[3] Accrued income relates to pharmacy service income receivable from hospitals.

20. Assets held for sale

The assets held for sale within the Company relate to stores which management have committed to sell. The sale of these stores is due to complete within the next financial year.

An impairment loss of £nil (2020: £169,000) has been recognised on the remeasurement of the asset and liabilities as the carrying value of the assets and liabilities was higher than its fair value less costs to sell.

As at 31 August 2021, the assets held for sale comprise:

	2021 £million	2020 £million
Assets		
Inventory	**2**	2
Pharmacy licences	**14**	9
	16	11
Liabilities		
Lease liabilities	**(3)**	(3)
	(3)	(3)
Total assets held for sale	**13**	8

21. Trade and other payables

	2021 £million	2020 £million
Amounts falling due within one year:		
Trade payables	**284**	246
Amounts owed to fellow subsidiaries[1]	**175**	331
Amounts owed to related parties	**193**	—
Other creditors	**206**	147
Accruals	**306**	229
Deferred income[2]	**75**	125
Contract liabilities (note 22)	**167**	169
Included in current liabilities	**1,406**	1,247
Amounts falling due for more than one year:		
Other creditors	**16**	28
Included in non-current liabilities	**16**	28
Total trade and other payables	**1,422**	1,275

[1] Amounts owed to fellow subsidiaries are unsecured, non-interest bearing and repayable on demand.

[2] The deferred income of £75 million (2020: £125 million) consists of £55 million (2020: £107 million) of COVID-19 related advance funding from the health authorities which is repayable by way of offsetting against future payments to the NHS, and £20 million (2020: £18 million) of confirmed income from suppliers in relation to promotional activity in stores for future periods.

Notes to the financial statements (continued)

for the year ended 31 August 2021

22. Contract liabilities

Contract liabilities represent considerations received for performance obligations not yet satisfied. The breakdown of which is as follows:

	2021 £million	2020 £million
Customer loyalty progamme	**154**	155
Gift card	**13**	14
	167	169

A contract liability arises in respect of the Company's Boots Advantage Card Scheme as these points provide a benefit to customers that they would not receive without entering into a purchase contract and the promise to provide loyalty points to the customer is therefore a separate performance obligation. A contract liability is recognised for revenue relating to the loyalty points at the time of the initial sales transaction.

Another contract liability that is recognised is for revenue relating to the value of gift cards purchased by the customer.

Substantially all of the revenue deferred at the current financial year-end will be recognised in the following financial year.

23. Borrowings

	2021 £million	2020 £million
Unsecured borrowing:		
Amounts owed to fellow subsidiaries	**260**	260

	2021 £million	2020 £million
Amount due for settlement within 12 months		
Amounts owed to Group undertakings	**260**	—
Amount due for settlement after 12 months		
Amounts owed to Group undertakings	—	260

As at 31 August 2021 and 31 August 2020, the £260 million amount owed to Group undertakings is unsecured and interest-bearing debt, with interest charged at 0.691% (2020: 0.691%) per annum. This loan was repaid in full on 31 October 2021.

24. Provisions

	Reorganisation £million	Total £million
At 1 September 2020	32	32
Provisions created during the year	53	53
Provisions utilised during the year	(71)	(71)
At 31 August 2021	**14**	**14**

	2021 £million	2020 £million
Current	**14**	32
Non-current	—	—
	14	32

The reorganisation provision relates to the reorganisation of the Company's store portfolio, operating models, team structures and the reorganisation of certain central support office functions. The remaining costs are expected to be incurred in the year to August 2022.

25. Deferred tax

The following are the major deferred tax liabilities and (assets) recognised by the Company and movements thereon during the current and prior periods.

	Accelerated/ (decelerated) tax depreciation	Intangible assets	Pension	Other temporary differences	Total
	£million	£million	£million	£million	£million
At 1 September 2019	13	82	62	1	158
Charge to profit or loss	(25)	(4)	15	1	(13)
Charge to other comprehensive income	—	—	(77)	—	(77)
Charged to retained earnings	—	(1)	—	—	(1)
At 31 August 2020	(12)	77	—	2	67
Charge to profit or loss	(5)	22	46	(4)	59
Charge to other comprehensive income	—	—	55	—	55
At 31 August 2021	**(17)**	**99**	**101**	**(2)**	**181**

26. Retirement and death benefit schemes

The Company is a participating employer in defined benefit pension schemes operated by The Boots Company PLC in the United Kingdom, namely the Boots Pension Scheme, the Boots Supplementary Pension Plan, the Boots Additional Pension Arrangement and the Boots Offshore Pension Plan (Guernsey) (all together referred to as the "Scheme"). The Scheme is set up as a separately administered UK pension trust with a Corporate Trustee. The Scheme was closed to new members and the accrual of future benefits since 1 July 2010.

The Trustee of the Scheme has a statutory duty to set the actuarial funding basis and investment strategy which it is required to do in consultation with the Principal Employer, The Boots Company PLC. As a participating employer, the Company has authorised the latter to act on its behalf in such discussions and to support that process. The Principal Employer uses independent actuaries to advise on appropriate actuarial assumptions and sensitivities and related investment matters. In addition, following a formal agreement in 2016 on the transition to FRS101, the accounting for the Scheme is included within Boots UK Limited's balance sheet and follows the requirements of IAS 19 *Employee Benefits*.

The Scheme is funded by the payment of employer contributions to the trust which invests the pension assets to meet long-term pension liabilities. The Trustee of the Scheme is required to act in the best interest of the Scheme's beneficiaries (which includes past and some current employees and their eligible dependents).

The appointment of Directors to the Corporate Trustee is determined by the Scheme's governing documentation. There are seven Trustee Directors, four of whom are Company nominated with three being member nominated.

In 2021, a surplus of £404 million (2020: a deficit of £124 million) has been recognised in respect of the Scheme. In the event of a funding deficit, the Company will monitor the future funding and increase the funding requirement if needed.

The assets and liabilities of the scheme at 31 August are:

	2021	2020
	£million	£million
Scheme assets at fair value:		
Equities	**965**	1,131
Bonds	**5,025**	5,547
Properties	**370**	370
Derivatives	**413**	475
Cash and cash equivalents	**260**	(776)
Other	**617**	455
Fair value of scheme assets	**7,650**	7,202
Present value of scheme liabilities	**(7,246)**	(7,326)
Defined benefit pension plan surplus/(deficit)	**404**	(124)

The pension scheme has not invested in any of the Company's own financial instruments.

The Scheme's assets include of £260 million of assets (2020: £776 million of liabilites) with quoted prices in active markets, and £7,390 million (2020: £7,978 million) of assets for which quoted prices in active markets are not available. The 'other' asset category in the table above includes £521 million (2020: £155 million) of cash liabilities in relation to the purchase of private debt placements or privately placed fixed income securities.

26. Retirement and death benefit schemes (continued)

To reduce volatility risk a liability driven investment strategy forms part of the Trustee's management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The bond assets category in the table above includes gross assets of £5,594 million (2020: £6,586 million) which includes reverse repurchase agreement assets of £222 million (2020: £164 million), and associated repurchase agreement liabilities of £569 million (2020: £1,039 million). Repurchase agreements are entered into with counterparties to better offset the scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Interest rate and inflation rate derivatives are also employed to complement the use of fixed and index-linked bonds in matching the profile of the scheme's liabilities.

Income statement
The amounts recognised in the Income statement for the year are analysed as follows:

	2021	2020
	£million	£million
Recognised in the Income statement		
Current service cost	**(4)**	(4)
Past service cost	**—**	—
Recognised in arriving at operating loss	**(4)**	(4)
Net interest on defined benefit liability (see note 10 and note 9)	**(2)**	7
Total (expense)/income recognised in the Income statement	**(6)**	3

Statement of comprehensive income
The amounts recognised in the Statement of comprehensive income for the year are analysed as follows:

	2021	2020
	£million	£million
Taken to the Statement of comprehensive income:		
Return/(loss) on plan assets (excluding amounts included in net interest (expense)/income)	**535**	(144)
Actuarial gains arising from changes in experience adjustments	**114**	15
Actuarial loss arising from changes in demographic assumptions	**—**	(229)
Actuarial loss arising from changes in financial assumptions	**(146)**	(163)
Recognised in the Statement of comprehensive income	**503**	(521)
Contributions paid by fellow Group undertakings	**—**	19
Gain/(loss) recognised in the Statement of comprehensive income	**503**	(502)

Plan obligations
Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2021	2020
	£million	£million
Defined benefit obligation at 1 September	**7,326**	7,080
Interest on benefit obligation	**117**	125
Current service cost	**4**	4
Actuarial gains and losses	**32**	377
Disbursements	**(233)**	(260)
Past service cost	**—**	—
Defined benefit obligation at 31 August	**7,246**	7,326

The defined benefit obligation is wholly funded.

Plan assets
Changes in the fair value of plan assets are analysed as follows:

	2021	2020
	£million	£million
Fair value of plan assets at 1 September	**7,202**	7,451
Interest income on plan assets	**114**	132
Contributions by employer	**32**	23
Actuarial gains and losses	**535**	(144)
Disbursements	**(233)**	(260)
Fair value of plan assets at 31 August	**7,650**	7,202

As the Scheme is closed to future accrual, there are no employee contributions. Any contributions by the employer reflect the Recovery Plan and Contribution Schedule agreed with the Trustee following each triennial actuarial valuation which is carried out by the Scheme Actuary at AON Hewitt,

26. Retirement and death benefit schemes (continued)

who is appointed by the Trustee. Actuaries at AON Hewitt provide independent advice and verification of the final figures required for accounting purposes, including the appropriate discount rates. Scheme assets are stated at their market values at the respective balance sheet dates.

Assumptions
The IAS 19 (accounting) valuation of the defined benefit obligation was undertaken by AON Hewitt on 31 August 2021 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

	2021	2020
Main assumptions:		
Rate of salary increases	**N/A**	N/A
Rate of increase in pension payments	**3.00 %**	2.75 %
Discount rate	**1.73 %**	1.62 %
RPI inflation	**3.30 %**	2.90 %
CPI inflation	**2.70 %**	2.25 %
Post-retirement mortality (in years)		
Life expectancy of a male current aged 60	**26.6**	26.6
Life expectancy of a female current aged 60	**28.0**	27.9
Life expectancy of a male current aged 45	**26.9**	26.9
Life expectancy of a female current aged 45	**29.1**	29.0

A single equivalent weighted average discount rate has been computed that results in the same obligation as discounting each cash flow with the spot rate from the discount rate curve that corresponds to the duration of the cash flows. This single equivalent discount rate was then used to calculate the interest cost charged on the obligation. This is known as the "traditional" approach to applying the discount rate curve.

In setting inflation assumptions, the actuary advised that the Company needs to consider the extent to which inflation assumptions should reflect RPI converging to CPI by 2030, the Government's stated intent. The UK Chancellor has a right of veto on any proposals to amend the RPI methodology but only up to 2030 after which the ONS/UKSA have the power to make such amendments as it feels necessary. Following a January 2019 House of Lords report on critical flaws in the RPI calculation, in March 2019 the Chair of UKSA asked the Chancellor to align RPI with CPIH earlier than 2030: the resulting consultation process has not yet completed (CPIH = CPI including owner-occupier housing costs).

The Company has not made any allowance for the intended alignment and continues to adopt the market rate approach for RPI for the following reasons:

- using a market implied rate, when available, is consistent with Group's standard approach;
- observable liquid market data is available to support the assumption set which currently appears to not reflect the expected convergence; and
- industry practice currently favours the use of the market RPI rate and there are fewer large companies adopting the full allowance or partial allowance approach.

The post-retirement mortality assumptions allow for expected increases in longevity. The "current" disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with "future" being that relating to an employee retiring in 2031.

Cash commutation assumptions allow for members to commute 74% of the maximum cash lump sum based on commutation factors currently in force. This is based on the Scheme's triennial valuation which noted that over the last 6 years, members have on average commuted 74% of the maximum pension that can be commuted. This is a change from prior year which saw 25% of their pension commuted based on commutation factors in force.

The expected future benefit payments are set out below:

	2021	2020
	£million	£million
Expected future benefit payments:		
Within one year	**206**	211
Between one to five years	**911**	875
Over five years	**1,328**	1,296
Total	**2,445**	2,382

Sensitivities
The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	**Change in assumption**	**Impact on scheme liabilities**
Discount rate	Increase by 0.25%	Decrease by £315 million
Inflation assumption	Increase by 0.25%	Increase by £270 million
Pension increases	Increase by 0.25%	Increase by £209 million
Rate of deferred increases	Increase by 0.25%	Increase by £59 million
Post retirement mortality	Increase by 1 year	Increase by £320 million

26. Retirement and death benefit schemes (continued)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to changes in the significant assumptions, the same method has been applied as when calculating the pension liability recognised within the balance sheet. The inflation assumption impacts the "pension increases in payment" and deferred pension calculations. Market metrics used to derive the discount rate and price.

Triennial valuation and contributions
The most recently completed triennial valuation of the Company's defined benefit scheme was carried out as at 1 April 2019 and completed on 24 April 2020. There was a funding surplus of £131 million in the Scheme. As agreed with the Trustee, no further Recovery Plan and Schedule of Contribution is required. The Company continues to monitor the funding level on an annual basis. The next valuation is as at 1 April 2022 and due to be completed by 30 June 2023.

Under the existing Contributions Schedule, the total contributions to the defined benefit scheme in 2022 will be £23 million (2021: £32 million) which relates to coupon payments made under a Pension Funding Partnership structure. The Pension Fund Partnership structure holds property assets which are deemed plan assets to the Scheme and the income from the structure are recognised as contributions to the Scheme. The Company leases these property assets from a fellow Group company.

27. Share capital

	2021 £million	2020 £million
Authorised		
709,750,000 ordinary shares of £1 each (2020: 709,750,000 shares)	**710**	710
Issued and fully paid		
709,750,000 ordinary shares of £1 each (2020: 709,750,000 shares)	**710**	710

The Company has one class of ordinary shares which carry no right to fixed income.

28. Actuarial reserve

	Actuarial reserve £million
At 1 September 2019	265
Remeasurement loss on defined benefit pension plans	(502)
Tax on remeasurement loss on defined benefit pension plans	77
At 31 August 2020	(160)
Remeasurement gain on defined benefit pension plans	503
Tax on remeasurement gain on defined benefit pension plans	(80)
At 31 August 2021	**263**

29. Hedging reserve

	Hedging reserve £million
At 1 September 2019	1
Gain arising on changes in fair value of hedging instruments during the period	(1)
At 31 August 2020	—
Change in fair value of hedging instruments during the period	—
At 31 August 2021	—

30. Investment revaluation reserve

	Investment revaluation reserve
	£million
At 1 September 2019	(12)
Fair value loss arising on equity instruments designated as at FVTOCI	(38)
At 31 August 2020	(50)
Fair value loss arising on equity instruments designated as at FVTOCI	(51)
At 31 August 2021	**(101)**

There is no tax in relation to the fair value gain on investments in equity instruments designated at FVTOCI (2020: £nil).

31. Retained earnings

	Retained earnings
	£million
At 1 September 2019	1,146
IFRS16 transition Adjustment	(6)
Profit for the year	(258)
At 31 August 2020	882
Dividends	(15)
Loss for the year	(111)
At 31 August 2021	**756**

32. Financial instruments

Categories of financial instruments held at fair value:

	2021	2020
	£million	£million
Financial assets at fair value		
Equity instruments designated at FVTOCI	**94**	145

Valuation techniques and assumptions applied for the purposes of measuring fair value
The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates matching maturities of the contracts.

The shares included within equity instruments designated at FVTOCI represent investments in unlisted equities. For such investments, the fair value has been derived using the discounted cash flow method to determine the present value of the expected future economic benefits to be derived from the ownership of these shares. During the year, a fair value loss of £51 million was recognised, through OCI, in the underlying value of equity investments due to wider reorganisation of businesses within the WBA Group.

33. Leases

The Company leases certain retail stores, warehouses, distribution centres, office space, land and equipment. The commencement date of all lease terms is the earlier of the date the Company becomes legally obligated to make rent payments or the date the Company has the right to control the property.

Right-of-use assets
(a) Other movements include lease terminations, modifications and remeasurements, foreign exchange and entering into finance subleases.

(b) Impairment losses and reversal of losses are discussed in note 4. See below for amounts recognised in the current year.

In the year, the Company recognised a net impairment charge of £70 million (2020: £55 million), comprising an impairment charge of £94 million (2020: £55 million) and a reversal of impairment relating to prior periods of £24 million (2020: £nil).

The recoverable amount of individual stores has been calculated using a value in use calculation. The value in use calculation requires management to estimate a number of factors, including projected future operating results, economic projections, anticipated future cash flows and discount rates. Management estimate the discount rate using the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the cash-generating unit.

33. Leases (continued)

	2021 £million	2020 £million
Buildings	**1,845**	1,893
Net carrying value at 31 August 2020	**1,893**	1,785
Additions	**492**	590
Depreciation charge for the year	**(245)**	(286)
Impairment losses (b)	**(94)**	(55)
Reversal of impairment losses (b)	**24**	—
Other movements (a)	**(225)**	(141)
Net carrying value at 31 August 2021	**1,845**	1,893

Anticipated future cash flows are based on the Company's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The pre-tax discount rate of 7.7% (2020: 9.75%) used to calculate the value in use is derived from the Company's pre-tax weighted average cost of capital, as adjusted for the specific risks relating to the cash-generating unit. The forecast is extrapolated beyond four years based on an estimated long-term average growth rate of 1.9% (2020: 1.9%).

The income from subleasing right-of-use assets is £17 million (2020: £17 million).

Lease liabilities

The table below show the amounts relating to leases liabilities:

	2021 £million	2020 £million
Amount recognised in the balance sheet		
Current	**226**	306
Non-current	**1,825**	1,774
Total lease liabilities	**2,051**	2,080
Amounts recognised in the income statement		
Interest on lease liabilities	**73**	62
Total recognised in the income statement	**73**	62

In the year the expense relating to variable lease payments is £7 million (2020: £9 million), which are not included in the measurement of lease liability. These relate to lease contracts whereby the lease payment is based upon a percentage of revenue.

During the year, the expense for short term leases from a fellow Group company was £15 million (2020: £24 million).

The total cash flow in relation to leases in the year is £325 million (2020: £240 million).

The weighted average remaining lease term in years is 9.75 years (2020: 10.05 years), and the weighted average discount rate is 3.37% (2020: 3.83%).

The table below shows the Company's financial liabilities in respect of lease liabilities based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2021 £million	2020 £million
Less than 1 year	**241**	256
Between 1 and 2 years	**225**	231
Between 2 and 5 years	**496**	545
Over 5 years	**609**	735
Total contractual cash flows	**1,571**	**1,767**

The undiscounted lease liability commitments are based on contractual obligations, whereas the lease liability on the balance sheet factors in any adjustments made for the lease term and extension options.

33. Leases (continued)

The Company as lessor
Property rental income earned during the year was £19 million (2020: £19 million), recognised in the income statement and all relating to operating leases. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Leasing arrangements: Property is leased to tenants under operating leases with rentals payable monthly. Lease payments for some contracts include rent review clauses, but there are no variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, the Company may obtain bank guarantees for the term of the lease.

Although the Company is exposed to changes in the residual value at the end of the current leases, the Company typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties, where relevant, when considering the carrying values for impairment purposes.

Minimum lease payments receivable on leased properties are as below :

	2021	2020
	£ million	£ million
Within 1 year	**11**	12
Between 1 and 2 years	**10**	11
Between 2 and 3 years	**8**	9
Between 3 and 4 years	**8**	8
Between 4 and 5 years	**6**	8
Later than 5 years	**60**	66
	103	114

34. Contingent liabilities

The Company and other Group Companies have an arrangement with its bank under which its current account balances are netted on a daily basis with those of the other participating Group companies for the purposes of charging or crediting interest. Under this arrangement, each participating company agrees that it is jointly and severally liable to the bank, with each participating company, for the aggregate overdraft balances on the current accounts of all participating companies. Each of the participating company's liability is limited to the amount of any positive cash balance it has in its current accounts with the bank on the day netting takes place. At 31 August 2021, the Company was contingently liable under this arrangement for a total amount of £nil (2020: £nil).

35. Financial commitments

Capital commitments at the balance sheet date for which no provisions have been made, are presented as follows:

	2021	2020
	£million	£million
Contracted		
- Property, plant and equipment and software	**102**	82
	102	82

36. Events after the balance sheet date

Following the outbreak during the previous financial year, COVID-19 has continued throughout the year and after the balance sheet date, including the identification of the new Omicron strain. Whilst restrictions have eased and the government's immunisation programme has been deemed successful, there remains some uncertainty relating to COVID-19 which may impact on the future performance of the business.

On 24 February 2022, conflict broke out between Russia and Ukraine. Whilst this conflict is ongoing, there has been no direct impact on the business. Management continue to monitor the situation.

On 31 October 2021, the Company paid back unsecured debt of £260 million that was owed to Group undertakings at the balance sheet date.

None of these events should change the financial performance, position and going concern conclusions reported within these financial statements.

37. Related parties

During the year, the Company entered into transactions in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries. Transactions entered into, and trading balances outstanding at 31 August with other related parties, are as follows:

Notes to the financial statements (continued)

for the year ended 31 August 2021

37. Related parties (continued)

	Sale of goods and services		Purchase of goods and services	
	2021	2020	**2021**	2020
	£million	£million	**£million**	£million
Related party				
Associates - Boots Hearingcare Limited	**13**	13	**—**	—
Non-wholly owned subsidiaries - Boots Opticians Professional Services Limited	**14**	14	**—**	—
Other related parties - AmerisourceBergen Corporation	**20**	—	**465**	—

	Amounts owed by related parties		Amounts owed to related parties	
	2021	2020	**2021**	2020
	£million	£million	**£million**	£million
Related party				
Associates - Boots Hearingcare Limited	**2**	1	**—**	—
Non-wholly owned subsidiaries - Boots Opticians Professional Services Limited	**4**	3	**—**	—
Other related parties - AmerisourceBergen Corporation	**10**	—	**193**	—

From 1 June 2021, Alliance Healthcare ceased to be a fellow Group Company as WBA sold Alliance Healthcare to AmerisourceBergen Corporation. The above reflects the sale and purchase of goods from 1 June 2021 to 31 August 2021 and the outstanding balance at 31 August, 2021.

Amounts within sale of goods and services relating to Boots Opticians Professional Services Limited include lease rental income of £10 million (2020: £10 m). These rentals represent subleases which have a lease expiry date of March 2023. The minimum lease payments receivable under these leases are included within the disclosure in note 33.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

38. Ultimate parent undertaking

At 31 August 2021, the Company's immediate parent company was Alliance Boots Holdings Limited, a company incorporated in the United Kingdom, and its ultimate parent company and controlling party was Walgreens Boots Alliance, Inc. Walgreens Boots Alliance, Inc. is also the parent undertaking of the largest and smallest group in which the Company is consolidated. The consolidated financial statements of this group are available from the Walgreens Boots Alliance website at www.walgreensbootsalliance.com.

Walgreens Boots Alliance, Inc. is incorporated in the United States of America, its principal office address is 108 Wilmot Road, Deerfield, Illinois, 60015, United States, and registered office address is Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle County, DE, 19808-1674, United States.