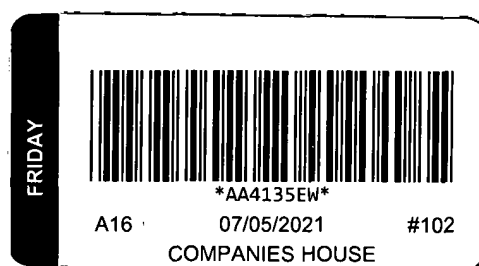


Company registration number: 00928555



Boots UK Limited
Annual report and financial statements
for the year ended 31 August 2020

Boots UK Limited

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Boots UK Limited

Strategic report

for the year ended 31 August 2020

Principal activities

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

Business review

The Company is a pharmacy-led health and beauty retail business focused on helping people look and feel their best. The Company operated 2,336 stores as of 31 August 2020 (2019: 2,465 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. The Company has introduced new beauty brands and 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 'order and collect' service allows customers to order from a range of over 33,000 products by 8:00p.m. and collect the following day from approximately 98% of the Company's retail stores as of 31 August 2020.

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 2020, the number of active Boots Advantage Card members totalled approximately 10.5 million (2019: 14.4 million). For this purpose, an active member is defined as someone who has used their card in the last six months.

The Company's business is affected by a number of factors including COVID-19, 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 and the timing of changes in levels of reimbursement from governmental agencies.

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:

| | 2020 | 2019 |
|----------|---------|---------|
| | % | % |
| Pharmacy | 38.7 % | 34.8 % |
| Retail | 61.3 % | 65.2 % |
| Total | 100.0 % | 100.0 % |

The Company's Retail revenue is impacted by, among other things, 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 also impacted by the current geopolitical environment, including the uncertainty as a result of COVID-19 and the political uncertainty in the United Kingdom surrounding "Brexit". For more information, see Principle Risks and Uncertainties on page 4.

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

| | 2020 | | 2019 | |
|----------------------------|----------|----------|----------|---------|
| | £million | Change | £million | Change |
| Revenue | 5,948 | (10.8)% | 6,667 | (1.8)% |
| Operating (loss)/profit | (245) | (223.7)% | 198 | (49.4)% |
| (Loss)/profit for the year | (258) | (254.5)% | 167 | (47.3)% |
| Shareholders' equity | 1,382 | (34.5)% | 2,110 | 12.7 % |

Strategic report (continued)

for the year ended 31 August 2020

Business review (continued)

The Company's revenue for 2020 has decreased by 10.8% (2019: decreased by 1.8%) to £5,948 million (2019: £6,667 million). Revenue in comparable stores decreased by 12.0% (2019: decreased by 2.3%) mainly due to lower retail revenue as a result of COVID-19. 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 0.8% (2019: decreased by 2.2%) to £2,300 million (2019: £2,320 million) and represented 38.7% (2019: 34.8%) of the Company's revenue. Comparable (as defined above) pharmacy revenue increased by 0.5% (2019: decreased by 1.6%) 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.

Retail revenue decreased by 16.1% (2019: decreased by 1.6%) to £3,647 million (2019: £4,347 million) and represented 61.3% (2019: 65.2%) of the Company's revenue. Comparable retail revenue decreased 19.1% (2019: 2.6%) reflecting lower UK retail revenue including the impact of COVID-19.

Operating result decreased to a loss of £245 million (2019: profit of £198 million) primarily due to lower revenue and gross margin as a result of the global pandemic coupled with higher restructuring costs. The Company recognised an impairment loss in relation to stores totalling £108 million in 2020 (2019: £0.4 million) which comprises of pharmacy licences £41 million, property plant and equipment £12 million and right-of-use asset £55 million. In addition, a further impairment of £15 million on pharmacy licences and £2 million on property, plant and equipment was recognised in relation to store closures. These factors directly impacted the loss for the year which has decreased to a loss of £258 million (2019: profit of £167 million). Further details of the impact to business operations as a result of COVID-19 can be found below.

The Company has £62 million (2019: £64 million) of cash and cash equivalents as at 31 August 2020. In addition, the Company has a cash pooling arrangement with a fellow Group undertaking to which the Company holds £623 million (2019: £623 million) of pooled-cash which is available to the Company on demand.

During the year, the Company incurred £138 million (2019: £43 million) of restructuring costs which represent one-off costs associated with changes in the Company's store portfolio, operating models, employee redundancy and central support office reorganisations. In the prior year, 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 current financial year.

In addition, the Company took advantage of certain government programmes to alleviate the additional cost and cash burdens arising as a result of COVID-19. All employees are employed and paid on behalf of the Company by a fellow Group undertaking which received £36 million in relation to the government's Coronavirus Job Retention Scheme ("furlough" scheme). £11 million of funding was received in relation to protective equipment within the Company's stores. The Company also 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, £25 million has been repaid in the current financial year and £111 million remains on the balance sheet as at 31 August 2020. In addition, the Company took advantage of the business rates relief eligible for retail, hospitality and leisure businesses in England applicable from 2020 to 2021 tax year resulting in a £55 million reduction in rates for the financial year 2020.

Shareholders' equity has decreased by 34.5% (2019: increased by 12.7%) to £1,382 million (2019: £2,110 million) which is predominantly driven by £425 million reduction in the actuarial reserve, £38 million reduction in the investment revaluation reserve, £6 million impairment adjustment in relation to the transition to IFRS 16 Leases and £258 million loss recognised in the year.

COVID-19

In December 2019, a novel strain of coronavirus, which causes the infectious disease known as COVID-19, was reported. The World Health Organization declared COVID-19 a "Public Health Emergency of International Concern" on 30 January 2020 and a global pandemic on 11 March 2020. COVID-19 has severely impacted, and is expected to continue to impact the UK. COVID-19 has created significant public health concerns as well as significant volatility, uncertainty and economic disruption in every region in which the Company operates, all of which have been adversely affected and may continue to adversely affect the industries and the business operations. Policies and initiatives designed to reduce the transmission of COVID-19 have resulted in, among other things, temporary closure or reduced hours of operation of certain store locations in the UK, reduced customer traffic and sales in the retail pharmacies and the adoption of work from home policies.

COVID-19 adversely affected global economic conditions in financial year 2020 and the Company expects this will continue into financial year 2021 and possibly longer. The situation surrounding COVID-19 remains fluid, and the Company is actively managing its response in collaboration with customers, government officials, team members and business partners and assessing potential impacts to its financial position and operating results, as well as developments in business. As COVID-19 impacts the UK economy, the Company has put plans in place to maintain continuity of its operations, while also taking steps to keep its team members healthy and safe.

During the year, the Company experienced certain adverse impacts of COVID-19, particularly in the second half of financial year 2020. Sales were adversely impacted reflecting a significant reduction in footfall in stores, particularly in major high street, train stations and airport locations due to government restrictions. Footfall did, however, improve steadily in the fourth quarter compared with the third quarter. While most stores remained open throughout the UK lockdown to provide communities with pharmacy and essential healthcare, the largest premium beauty and fragrance counters were effectively closed. During the three months ended 31 May 2020, more than 100 Boots stores, mainly in high street, train stations and airport locations, were temporarily closed. Pharmacy volume was impacted by a decline in doctor visits and hospital patient admissions in the third quarter. Additionally, retail gross margin was adversely impacted by sales mix, with a shift from higher margin discretionary categories to lower margin essential categories, and by higher supply chain costs. The Company took measures to keep stores open during this period, incurring incremental selling, general and administrative expenses, including higher employee costs and store expenses related to social distancing and incremental cleaning. Operating income was significantly and adversely impacted as a result of the foregoing factors.

In response to COVID-19, various governmental legislation, regulations, orders, policies and initiatives have been implemented designed to reduce the transmission of COVID-19, as well as to help address economic and market volatility and instability resulting from COVID-19. The Company has assessed and will continue to assess the impact of these governmental actions on the Company.

Strategic report (continued)

for the year ended 31 August 2020

COVID-19 (continued)

To continue to work with customers and manage through the pandemic, the Company launched COVID-19 testing sites in the UK completing more than one million COVID-19 tests across the UK. There is no financial impact to the Company on the running of these sites as they are fully reimbursed by the UK government. The Company also took certain actions during financial year 2020 to partly mitigate the impact of COVID-19 through cost containment across the Company including temporary store closures, furloughing employees at the peak of the crisis, decreasing store hours and reducing rent at some locations.

As a result of COVID-19, a portion of the workforce, including employees and the extended workforce, rapidly shifted to a working from home environment beginning in March 2020 and many continue to work remotely.

The Company anticipates additional mandates and directives throughout the continuation of the COVID-19 pandemic and for some time thereafter. The impact of this activity and consumer, customer and health care utilisation patterns depends upon the evolving factors and future developments. As a result, the financial and/or operational impact these COVID-19 related governmental actions and inactions will have on the Company's trading, operating results, cash flows and/or financial condition is uncertain.

The Company continues to closely monitor the impact of COVID-19 on its business, including how it is impacting the customers, team members, suppliers, vendors, business partners and distribution channels. However, the future impact that COVID-19 will have on the financial position and operating results may be affected by numerous uncertainties, including the severity of the virus, the duration of the outbreak, governmental, business or other actions, impacts on the supply chain, the effect on customer demand, store closures or changes to the Company's operations. The health of the workforce, and the ability to meet staffing needs in stores, distribution facilities and other critical functions cannot be predicted and is vital to the Company's operations. The impacts of a potential worsening of global economic conditions and the continued disruptions to, and volatility in, the credit and financial markets, consumer spending as well as other unanticipated consequences remain unknown. Further, additional waves of COVID-19 in financial year 2021 or beyond would cause many of the impacts described herein to return or be exacerbated. In addition, the Company cannot predict with certainty the impact that COVID-19 has on customers, vendors, suppliers and other business partners; however, any material effect on these parties could adversely impact the business.

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

The Company has a board of Directors comprised of three 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 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:

- 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.

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 2020, 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.

Strategic report (continued)

for the year ended 31 August 2020

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

Employees (continued)

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. In addition, to continue to engage with colleagues and ensuring their health, safety and wellbeing during the COVID-19 pandemic, the 2021 Financial Year Annual Strategy meeting was held virtually over a two-day period to enable colleagues to participate remotely.

The Company monitors employee-related matters including engagement activities, survey results, staff retention rates, diversity, 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 has responded quickly by investing in, and doubling the capacity of Boots.com over the lockdown period which enabled more online shopping and additional home delivery availability for customers. 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 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 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 during the financial year has had an adverse impact not only on the Company but also on various stakeholders associated with the Company. 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. introducing measures to keep all employees healthy and safe, including the transition of office-based colleagues to 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 our 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.

Strategic report (continued)

for the year ended 31 August 2020

Principal risks and uncertainties (continued)

COVID-19

Risk

The COVID-19 pandemic has created significant volatility, uncertainty and economic disruption. 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 will depend on numerous evolving factors and future developments that the Company is not able to predict or control, including but not limited to:

- the severity and duration of the pandemic, including whether there are additional "waves" or other additional periods of increases or spikes in the number of COVID-19 cases in areas in which the Company operates;
- the duration, degree and effectiveness of governmental, business or other actions in response to the pandemic, including but not limited to quarantine, working from home, social distancing and face mask measures; restrictions on or changes to operations up to and including complete or partial closure of the stores, facilities and distribution centres; economic measures; stimulus payments and other fiscal policy changes; or additional measures that may not yet be effected;
- the timing and availability of, and prevalence of access to and utilisation of, effective medical treatments and vaccines for COVID-19;
- changes in the timing and extent of restrictions impacting businesses and customers as a result of COVID-19, which may vary materially over time and among the different regions and markets served;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- the impact of the pandemic on economic activity and the pace and extent of recovery when the pandemic subsides, which may vary materially over time and among the different regions and markets served;
- the extent and duration of the effect on consumer confidence, economic well-being, spending, customer demand, buying patterns and shopping behaviours, including spend on discretionary categories, which often include higher margin products, and increased utilisation of online sales channels, both during and after the pandemic;
- the health of and the impact on team members and the Company's ability to meet staffing needs in our stores, distribution facilities, wholesale operations, corporate offices and other critical functions, including if team members are quarantined as a result of exposure;
- the impacts - financial, operational and otherwise - on distribution channels and supply chain, including manufacturers and suppliers of products sold and logistics and transportation providers, and on other strategic partners and service providers, including the ability of these third parties to pay amounts owed timely or in full or to remain in business;
- consequences on business performance and strategic initiatives stemming from the substantial investment of time and other resources to the pandemic response;
- the incremental costs of doing business during and/or after the pandemic;
- volatility or disruptions in the credit and financial markets during and/or after the pandemic;
- any impairment in value of the Company's tangible or intangible assets which could be recorded as a result of a weaker economic conditions;
- the potential effects on the Company's internal controls including those over financial reporting as a result of changes in working environments such as working from home and similar orders that are applicable to team members and business partners, among others;
- changes to, and modifications of, business practices and internal policies and procedures, including in response to regulatory changes as a result of COVID-19;
- increased cyber security risks, including as a result of colleagues, and employees of the Company's business partners, vendors, suppliers and other third parties with which it does business, working remotely;
- the impact of regulatory and judicial changes in liability for workers compensation and potential increases in insurance costs, medical claims costs and workers' compensation claim costs;
- the impact of litigation or claims from customers, employees, suppliers, regulators or other third parties relating to COVID-19 or the Company's actions in response thereto;
- the potential reputational harm to the Company's brands if the Company fails to appropriately respond, or is perceived to have inadequately responded, to risks relating to COVID-19;
- the rapidly changing and fluid circumstances caused by the pandemic and the Company's ability to respond quickly or appropriately to those circumstances; and
- the long-term impacts of the pandemic on the global economy, trade relations, consumer behaviour, our industry and business operations.

Mitigation

The Company is focussed on addressing the impact of COVID-19 and has made significant investments in time and resources to continue to serve its customers despite severe operational constraints. The Company has incurred and continues to incur additional costs related to efforts to protect the health and well-being and meet the needs of customers and colleagues, including provision of additional cleaning materials within stores and other Company premises, and focusing on home delivery and digital services to connect with customers. The Company expects to continue to incur additional costs, which may be significant, as it continues to respond to this pandemic. COVID-19 has also caused supply chain disruption which has resulted and may continue to result in higher supply chain costs to replenish inventory in the stores and distribution centres. Furthermore, whilst the Company has significantly increased its purchases across many key categories, it may face delays or difficulty sourcing certain products which could negatively impact the business.

Furthermore, management remains focused on mitigating COVID-19, which has required, and will continue to require, a substantial investment of time and resources across the enterprise and could delay other value added services. Many employees transitioned to remote working arrangements as a result of the pandemic, which amplified the Company's already extensive reliance on computer systems and the continued need for unimpeded access to the internet to use those systems. The increase in remote working arrangements has increased certain operational risks, including but not limited to cybersecurity risks, and could adversely affect the Company's ability to manage its business. The Company has also modified other parts of operations during the pandemic, including changes in the manner in which team members interact with customers and each other, adjusting the in-store returns process, establishing protocols for customer traffic, reducing store hours, and, in some locations, other restrictions or modifications on operations due to local restrictions or their effects. There can be no assurance that such measures will be sufficient to mitigate the risks posed by the pandemic, and implementation of such measures have adversely affected, and may continue to negatively affect, the customer experience, sales, and results from operations.

Strategic report (continued)

for the year ended 31 August 2020

Principal risks and uncertainties (continued)

COVID-19 (continued)

The impact of COVID-19 may also exacerbate other risks discussed herein, including but not limited to those related to consumer behaviour and expectations, competition, brand reputation, implementation of strategic initiatives, cybersecurity threats, technology systems disruption, supply chain disruptions, labour availability, litigation and legal proceedings, and regulatory requirements and proceedings, any of which could have a material adverse effect on business. This situation is changing rapidly and additional impacts may arise that management are not aware of currently.

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 performance and cash, but also the safety of employees. The Company has also taken advantage of the government schemes available to businesses such as the Coronavirus Job Retention Scheme and cash advances from the NHS, health and safety equipment grants and business rates holidays.

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

The Company has a rigorous process for identifying and monitoring all business critical suppliers and 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.

The United Kingdom left the European Union (the "EU") on 31 January 2020, and there is now a transition period until 31 December 2020 in which the United Kingdom and European Union are to negotiate a new trading relationship for goods and services. The future trading relationship with the EU remains unclear. The Company's Brexit project team has put in place detailed plans to mitigate risks that could materialise. While many of the principle risks and uncertainties noted in this Strategic Report could be impacted by Brexit, the mitigation plan is focused on continuity of supply, 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 administration and import duties, are being considered carefully to ensure that the Company continues to respond to the needs of its customers.

In relation to technology, those areas of software coding that were written on the assumption that the United Kingdom would remain part of the EU, have been amended. Appropriate enhancements to master data have also been made to facilitate potential customs and duty changes, which in turn mitigates risk in relation to tax compliance. Treasury policies have been reviewed to ensure that they remain applicable over the coming months and effectively manage risk.

Parts of the Company's business rely on EU colleagues. The Company continues to work closely with its colleagues, making all the latest guidance available via its on-line learning tool for both colleagues and their families.

Through such a diligent approach the Company believes it is well placed to deal with any outcome, making appropriate acknowledgment of the current uncertainty.

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 our buying and promotional activities.

Boots UK Limited

Strategic report (continued)

for the year ended 31 August 2020

Principal risks and uncertainties (continued)

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.

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 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.

Strategic report (continued)

for the year ended 31 August 2020

Principal risks and uncertainties (continued)

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.

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 2020 in the forthcoming year, which is a result of new products and a strong focus on the Company's 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

17 December 2020

Directors' report

for the year ended 31 August 2020

The Directors present their report and the audited financial statements for the year ended 31 August 2020.

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 and the impact of COVID-19.

At the balance sheet date, the Company had net assets of £1,382 million with net current liabilities of £28 million. Of the net current liabilities, £306 million is a relates to leases liabilities payable within the next 12 months of the balance sheet date which has come about through transition to IFRS 16 *Leases*.

The Company has £62 million (2019: £64 million) of cash and cash equivalents as at 31 August 2020. In addition, the Company has a cash pooling arrangement with a fellow Group undertaking to which the Company holds £623 million (2019: £623 million) of pooled-cash which is available to the Company on demand. The Directors have assessed the willingness and ability of the wider Group to continue to provide the cash pool facility. The Company also has a loan with a fellow group undertaking of £260 million (2019: £260 million) which is due for repayment on 31 August 2022. In addition, the Company has no external debt or covenants.

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

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 performance and cash, but also the safety of the Company's employees. The company has taken advantage of the government schemes available to businesses such as the Coronavirus Job Retention Scheme and cash advances from the NHS, health and safety equipment grants and rates holidays.

Considering the significant uncertainties faced, the Directors 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.

The strategic planning process reviewed by the Directors 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 UK is currently experiencing a second wave of COVID-19 to which the 'Base plan' has been adjusted to reflect this. Additional analysis has been performed to consider the impact of a further lockdown too. This downside scenario and the additional analysis indicated the Company could continue to meet its obligations and therefore remains a going concern..

Within each forecast, management have reflected financial commitments and existing overhead costs. Additional forecasts have been reviewed without the impact from government support for scenario planning purposes.

The base plan and the potential downside scenario forecasts with and without the impact from government support indicate that the Company will remain able to meet its current cost base for a period beyond the 12 months after the approval of these financial statements.

The uncertainty of the EU trade negotiations poses 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.

Following considerations of these forecasts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence until at least 12 months after the approval of the financial statements. Therefore, the Directors 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 and included within note 3 to the financial statements.

Interest rate risk

The Company is exposed to interest rate volatility with regard to existing debt instruments with Group undertakings.

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.

Boots UK Limited

Directors' report (continued)

for the year ended 31 August 2020

Dividends

No dividend was declared or paid in the year (2019: £70 million). A dividend of £15 million was paid on 19 November 2020 following the receipt of income from shares in a Group undertaking.

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

The COVID-19 pandemic was declared by the World Health Organisation as a global pandemic on 11 March 2020 which has continued after the balance sheet date. This outbreak had a significant impact on all aspects of business including the Company's operational and financial performance for the current financial year. There are still numerous uncertainties relating to COVID-19 which may continue to impact the future performance of the business. Subsequently, further local and national lockdowns have been introduced to parts of the UK which will impact the future operations of the business further. However this should not change the financial performance, financial position and going concern conclusions reported within these financial statements.

The United Kingdom left the European Union (the "EU") on 31 January 2020, and there is now a transition period until 31 December 2020 in which the United Kingdom and EU are to negotiate a new trading relationship. As the future of the trading relationship remains unclear, the potential impact to the Company therefore remains uncertain. However, the Company has robust contingency plans in place and continues to closely monitor the situation.

On 19 November 2020, the Company received £15 million income from its investment in WBAD Holdings 2 Limited. On the same day, a dividend of £15 million was paid to the Company's immediate parent.

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:

R Bradley
S James
M Snape
E Fagan (Resigned 31 January 2020)

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. 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, 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 three 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' report (continued)

for the year ended 31 August 2020

Statement of corporate governance arrangements (continued)

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.

Boots UK Limited

Directors' report (continued)

for the year ended 31 August 2020

Energy and Carbon reporting (continued)

The Company's financial year greenhouse gas emissions and energy use data were as follows:

| | 2020 kWh |
|---|---------------|
| Energy consumption used to calculate emissions (kWh) | 441,544,020 |
| Scope 1 emissions in metric tonnes CO2e: | |
| Onsite CHP plant - electricity | 13,192 |
| Gas consumption | 15,479 |
| Onsite CHP plant - heat | 6,066 |
| Heat oil/kerosene consumption | 19 |
| Owned transport | 5,147 |
| Total Scope 1 | 39,903 |
| Scope 2 emissions in metric tonnes CO2e: | |
| Purchased electricity | 49,970 |
| Scope 3 emissions in metric tonnes CO2e: | |
| Business travel in employee owned vehicles | 14,944 |
| Total gross emission in metric tonnes CO2e | 104,817 |
| £1 million sales | 5,948 |
| Intensity ratio Tonnes CO2e per £1 million sales | 17.62 |

For the financial year ending 31 August 2020, 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.

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
17 December 2020

Registered office:
Nottingham
NG2 3AA

Registered in England and Wales No. 00928555

Directors' responsibilities statement

for the year ended 31 August 2020

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 2020 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 41.

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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.

Independent auditor's report

to the members of Boots UK Limited (continued)

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.

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

Nottingham, UK

17 December 2020

Boots UK Limited

Income statement

for the year ended 31 August 2020

| | | 2020 | 2019 |
|--|----------|--------------|--------------|
| | Notes | £million | £million |
| Revenue | 5 | 5,948 | 6,667 |
| Cost of sales | | (3,815) | (4,141) |
| Gross profit | | 2,133 | 2,526 |
| Other operating income | | 47 | — |
| Distribution costs | | (2,161) | (2,109) |
| Administrative expenses | | (264) | (219) |
| Operating (loss)/profit | | (245) | 198 |
| Income from shares in Group undertakings | 9 | 17 | 16 |
| Finance income | 9 | 10 | 10 |
| Finance costs | 10 | (69) | (9) |
| Other gains | 11 | — | 2 |
| (Loss)/profit before taxation | | (287) | 217 |
| Tax | 12 | 29 | (50) |
| (Loss)/profit for the year | 6 | (258) | 167 |

Revenue and operating (loss)/profit 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 2020

| | Notes | 2020 £million | 2019 £million |
|--|-------|------------------|------------------|
| (Loss)/profit for the year | | (258) | 167 |
| Other comprehensive (expense)/income for the year | | | |
| Items that will not be reclassified subsequently to income statement: | | | |
| Remeasurement (losses)/gains on defined benefit pension plans | 31 | (502) | 178 |
| Fair value loss on investments in equity instruments designated as at FVTOCI | 33 | (38) | (12) |
| Tax on items that will not be reclassified subsequently to Income Statement | 31 | 77 | (30) |
| | | (463) | 136 |
| Items that are or may be reclassified to the income statement: | | | |
| Remeasurement gains on foreign currency options | 32 | (1) | 1 |
| | | (1) | 1 |
| Total comprehensive (expense)/income for the year | | (722) | 304 |

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 2020

| | Notes | 2020 £million | 2019 £million |
|--|-------|------------------|------------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 14 | 936 | 1,003 |
| Property, plant and equipment | 15 | 660 | 717 |
| Right-of-use assets | 36 | 1,893 | — |
| Investments in subsidiaries | 16 | 14 | 14 |
| Interests in associates | 17 | 14 | 14 |
| Other investments | 18 | 145 | 183 |
| Trade and other receivables | 20 | 1 | 21 |
| Defined benefit pension asset | 29 | — | 371 |
| | | 3,663 | 2,323 |
| Current assets | | | |
| Inventories | 19 | 591 | 580 |
| Current tax assets | | 48 | — |
| Trade and other receivables | 20 | 848 | 897 |
| Assets held for sale | 21 | 8 | — |
| Derivative financial instruments | 35 | — | 1 |
| Cash and bank balances | | 62 | 64 |
| | | 1,557 | 1,542 |
| Total assets | | 5,220 | 3,865 |
| Liabilities | | | |
| Current liabilities | | | |
| Current tax liabilities | | — | (31) |
| Trade and other payables | 23 | (1,247) | (1,202) |
| Lease liabilities | 36 | (306) | — |
| Obligations under finance leases (prior year only) | 26 | — | (1) |
| Provisions | 27 | (32) | (25) |
| | | (1,585) | (1,259) |
| Net current (liabilities)/assets | | (28) | 283 |
| Total assets less current liabilities | | 3,635 | 2,606 |
| Non-current liabilities | | | |
| Trade and other payables | 23 | (28) | (76) |
| Borrowings | 25 | (260) | (260) |
| Lease liabilities | 36 | (1,774) | — |
| Obligations under finance leases (prior year only) | 26 | — | (1) |
| Long-term provisions | 27 | — | (1) |
| Defined benefit pension liability | 29 | (124) | — |
| Deferred tax liabilities | 28 | (67) | (158) |
| | | (2,253) | (496) |
| Total Liabilities | | (3,838) | (1,755) |
| Net assets | | 1,382 | 2,110 |
| Equity | | | |
| Called up share capital | 30 | 710 | 710 |
| Actuarial reserve | 31 | (160) | 265 |
| Hedging reserve | 32 | — | 1 |
| Investment revaluation reserve | 33 | (50) | (12) |
| Retained earnings | 34 | 882 | 1,146 |
| Total Equity | | 1,382 | 2,110 |

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 17 December 2020. They were signed on its behalf by:



M Snape
Director
17 December 2020

Boots UK Limited

Statement of changes in equity

for the year ended 31 August 2020

| | Share capital £million | Actuarial reserve £million | Hedging reserve £million | Investment revaluation reserve £million | Retained Earnings £million | Total £million |
|---|------------------------------|----------------------------------|--------------------------------|--|----------------------------------|-------------------|
| Balance at 1 September 2018 | 710 | 117 | — | — | 1,049 | 1,876 |
| Profit for the year | — | — | — | — | 167 | 167 |
| Other comprehensive income/(expenses) for the year | — | 148 | 1 | (12) | — | 137 |
| Total comprehensive income for the year | — | 148 | 1 | (12) | 167 | 304 |
| Dividends paid | — | — | — | — | (70) | (70) |
| At 31 August 2019 as previously reported | 710 | 265 | 1 | (12) | 1,146 | 2,110 |
| IFRS 16 transition adjustment (note 2) | — | — | — | — | (6) | (6) |
| At 1 September 2019 as restated | 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 expenses for the year | — | (425) | (1) | (38) | (258) | (722) |
| At 31 August 2020 | 710 | (160) | — | (50) | 882 | 1,382 |

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 2020

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 12.

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

Impact of initial application of IFRS 16

In the current year, the Company has applied IFRS 16 *Leases* (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 September 2019.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 'Leases'.

Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 September 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 September 2019. In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 has not significantly changed the scope of contracts that meet the definition of a lease for the Company.

Impact on lessee accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- (a) Recognises right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of the future lease payments;
- (b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss.

Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other operating expenses' in profit or loss.

(ii) Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's financial statements.

Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Notes to the financial statements (continued)

for the year ended 31 August 2020

2. Adoption of new and revised standards (continued)

Impact of initial application of IFRS 16 (continued)

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). This change has not resulted in the reclassification of any sub-lease agreements as leases.

Financial impact of the initial application of IFRS 16

The impact on retained earnings of the adoption of IFRS 16 was as follows:

| | £million |
|--|----------|
| Recognition of right-of-use assets | 1,785 |
| Recognition of lease liabilities | (1,802) |
| Reclassification of short lease hold premium | (23) |
| Reclassification of prepaid rent | (30) |
| Reclassification of other payables | 49 |
| Reclassification of vacant properties provision | 1 |
| Reclassification of non-trade accruals | 1 |
| Reclassification of restructuring cost | 8 |
| Reclassification of lease incentive | 4 |
| Recognition of associated deferred tax (note 28) | 1 |
| | (6) |

When measuring lease liabilities, the Company discounted lease payments using appropriate incremental borrowing rates. The weighted average rate applied is 3.83%.

Impact of initial application of other amendments to IFRS Standards and Interpretations

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|--|--|
| Amendments to IFRS 9 Prepayment Features with Negative Compensation | The company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. |
| Annual Improvements to IFRS Standards 2015–2017 Cycle IAS 12 Income Taxes and IAS 23 Borrowing Costs | The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards, none of these amendment has had a material impact on the disclosures or the financial statement. |
| IFRIC 23 Uncertainty over Income Tax Treatments | The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. |

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 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 of America.

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 financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Notes to the financial statements (continued)

for the year ended 31 August 2020

3. Significant accounting policies (continued)

Basis of accounting (continued)

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 and the impact of COVID-19.

At the balance sheet date, the Company had net assets of £1,382 million with net current liabilities of £28 million. Of the net current liabilities, £306 million is a relates to leases liabilities payable within the next 12 months of the balance sheet date which has come about through transition to IFRS 16 *Leases*.

The Company has £62 million (2019: £64 million) of cash and cash equivalents as at 31 August 2020. In addition, the Company has a cash pooling arrangement with a fellow Group undertaking to which the Company holds £623 million (2019: £623 million) of pooled-cash which is available to the Company on demand. The Directors have assessed the willingness and ability of the wider Group to continue to provide the cash pool facility. The Company also has a loan with a fellow group undertaking of £260 million (2019: £260 million) which is due for repayment on 31 August 2022. In addition, the Company has no external debt or covenants.

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

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 performance and cash, but also the safety of the Company's employees. The company has taken advantage of the government schemes available to businesses such as the Coronavirus Job Retention Scheme and cash advances from the NHS, health and safety equipment grants and rates holidays.

Considering the significant uncertainties faced, the Directors 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.

Notes to the financial statements (continued)

for the year ended 31 August 2020

3. Significant accounting policies (continued)

Going concern (continued)

The strategic planning process reviewed by the Directors 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 a potential second wave of COVID-19 limiting the Company's trading for a further period.

Within each forecast, management have reflected financial commitments and existing overhead costs. Additional forecasts have been reviewed without the impact from government support for scenario planning purposes.

The base plan and the potential downside scenario forecasts with and without the impact from government support indicate that the Company will remain able to meet its current cost base for a period beyond the 12 months after the approval of these financial statements.

The uncertainty of the EU trade negotiations poses 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.

Following considerations of these forecasts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence until at least 12 months after the approval of the financial statements. Therefore, the Directors 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.

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.

Notes to the financial statements (continued)

for the year ended 31 August 2020

3. Significant accounting policies (continued)

Revenue recognition

Dividend and interest revenue

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

Interest 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.

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.

Notes to the financial statements (continued)

for the year ended 31 August 2020

3. Significant accounting policies (continued)

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.

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.

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.

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.

Notes to the financial statements (continued)

for the year ended 31 August 2020

3. Significant accounting policies (continued)

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 cost or 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:

Land and buildings

- Freehold land and assets in the course of construction - not depreciated;
- Freehold and long leasehold buildings - depreciated to their estimated residual values over their useful economic lives of not more than 50 years;
- 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

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.

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.

Government funding and advances

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants related to income are presented as a credit in the income, either separately or under a general heading such as 'Other income'.

Notes to the financial statements (continued)

for the year ended 31 August 2020

3. Significant accounting policies (continued)

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.

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.

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.

Notes to the financial statements (continued)

for the year ended 31 August 2020

3. Significant accounting policies (continued)

Financial instruments (continued)

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.

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.

Notes to the financial statements (continued)

for the year ended 31 August 2020

3. Significant accounting policies (continued)

Financial instruments (continued)

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.

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 35.

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.

Notes to the financial statements (continued)

for the year ended 31 August 2020

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.

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Leases

Management exercises judgement in determining the value of the right-of-use asset and lease liability on its lease contracts. The Company determines if an arrangement contains a lease at the inception of a contract. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease during the lease term. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of the remaining future minimum lease payments during the lease term. 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. The incremental borrowing rate is based on the Company's estimated rate of interest for a collateralized borrowing over a similar term as the lease term. The operating lease right-of-use assets also include lease payments made before commencement, lease incentives and are recorded net of impairment. Operating leases are expensed on a straight line basis over the lease term.

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 measurements and valuation processes

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Pharmacy revenue

Due to timing of the receipt of pharmacy revenue, the Company holds two months of revenue estimates at each period end. This estimate is calculated by taking the reimbursement rate from the latest payment, adjusting for known changes in market conditions and applying this to the number of items data received from the stores. As at the balance sheet date, the total value of the estimated pharmacy revenue was £313 million (2019: £337 million).

Loyalty card

The fair value of the points issued relative to the fair value of the transaction is deferred and must only be recognised as revenue when the points are redeemed. This relative fair value is calculated using the retail value net of VAT, adjusted to take into account the expected level of redemption. The amount and age profile of the contract liability in the balance sheet is reviewed on a regular basis and adjusted to reflect expectations of redemption. Due to COVID-19, the redemption profile changed significantly, and thus the redemption rate was amended to eliminate the potential impact from COVID-19.

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 shares (see note 33).

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 29.

Notes to the financial statements (continued)

for the year ended 31 August 2020

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

Impairment of property, plant and equipment 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:

- that the stores will be operating over the accounting lease term;
- the discount rate used in the present value calculation is 9.75%;
- pharmacy licences associated to 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; and
- 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%.

A total impairment loss of £108 million was recognised in 2020 (2019: £0.4 million) which comprises of pharmacy licences £41 million, property plant and equipment £12 million and right-of-use asset £55 million.

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

| Assumption | Impact to total impairment value |
|---|----------------------------------|
| Use minimum of remaining life of store assets or lease term | £45 million increase |
| Use maximum of remaining life of store assets or lease term | £7 million decrease |
| Increase discount rate by 1.0% to 10.75% | £13 million increase |
| Pharmacy licences deemed to have 50% salvage value rather than 100% | £31 million increase |
| The Company returns to pre-COVID trading levels in the third year of the strategic plan rather than the second year. Growth from year 4 is consistent with inflation at 1.9%. | £20 million increase |
| Growth rates after the strategic plan period is 0% | £8 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:

| | 2020 | 2019 |
|------------------------------|----------|----------|
| | £million | £million |
| Continuing operations | | |
| Sales of goods | 5,948 | 6,667 |

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

Information about major customers

Included in revenues arising from the sales of goods and services are revenues of approximately £2,293 million (2019: £2,320 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 2020 or 2019.

Notes to the financial statements (continued)

for the year ended 31 August 2020

6. (Loss)/profit for the year

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

| | 2020 | 2019 |
|---|----------|----------|
| | £million | £million |
| Government funding ¹ | (47) | — |
| Depreciation of property, plant and equipment (note 15) | 123 | 133 |
| Impairment of property, plant and equipment (note 15) | 14 | 13 |
| Loss on disposal of property, plant and equipment | 1 | 3 |
| Impairment of pharmacy licences (note 14) | 56 | — |
| Amortisation of intangibles (note 14) | 67 | 60 |
| Cost of inventories recognised as an expense | 3,790 | 4,114 |
| Write downs of inventories recognised as an expense | 7 | 27 |
| Rental charges under operating leases ² | | |
| - Property | — | 366 |
| - Hire of plant and machinery | — | 1 |
| Depreciation of right-of-use assets (note 36) | 286 | — |
| Impairment of right-of-use assets (note 36) | 55 | — |
| Reorganisation costs ³ | 138 | 43 |

¹ Government funding relates to £11 million income received in relation to protective equipment within the Company's premises and £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 The movement compared to the prior year is due to the transition to IFRS 16.

³ Restructuring costs relate to reorganisations costs associated to changes in store portfolio, operating models, employee redundancy and central support office reorganisations.

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.

| | 2020 | 2019 |
|-----------------------------------|----------|----------|
| | £million | £million |
| Audit of the financial statements | 0.5 | 0.3 |
| Total audit fees | 0.5 | 0.3 |

In addition, the Company incurred £704,000 (2019: £343,000) in non-audit fees from the auditor in respect of other taxation advisory services of the Company and on behalf of fellow Group undertakings.

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 £1,119 million (2019: £1,111 million) which is net of £36 million received under the government's Coronavirus Job Retention Scheme by the fellow Group undertaking.

Directors' remuneration

| | 2020 | 2019 |
|---|----------|----------|
| | £million | £million |
| Aggregate remuneration | 2.2 | 2.6 |
| Amounts receivable under long-term incentive schemes | 0.4 | 0.3 |
| Company contributions to defined contribution schemes | 0.2 | 0.2 |
| | 2.8 | 3.1 |

Amounts receivable under an equity-settled long-term incentive scheme which have not been paid to the Directors as at 31 August 2020 were £8.6 million (2019: £8.1 million). Of this, £0.1 million (2019: £0.6 million) payable in 2020, £5.0 million (2019: £2.6 million) payable in 2021, £1.6 million (2019: £nil) is payable in 2022, £0.1 (2019: £0.3 million) is payable in 2025, £0.2 million (2019: £0.9 million) is payable in 2026, £0.2 million (2019: £0.8 million) is payable in 2027, £0.8 million (2019: £2.1 million) is payable in 2028, and £0.6 million (2019: £nil) is payable in 2029. All are conditional upon continued employment.

Notes to the financial statements (continued)

for the year ended 31 August 2020

8. Staff numbers and costs (continued)

| | 2020 Number | 2019 Number |
|---|------------------|------------------|
| The number of Directors who: | | |
| Had rewards receivable in the form of shares under the long-term incentive scheme | 4 | 6 |
| | | |
| | 2020 £million | 2019 £million |
| Remuneration of the highest paid Director: | | |
| Aggregate remuneration | 1.3 | 1.3 |
| Amounts receivable under long-term incentive schemes | 0.2 | — |
| Company contributions to defined contribution schemes | 0.1 | 0.1 |
| | 1.6 | 1.4 |

9. Finance income & income from shares in Group undertakings

| | 2020 £million | 2019 £million |
|---|------------------|------------------|
| Interest receivable from bank deposits | 1 | 1 |
| Interest receivable from Group undertakings | 2 | 3 |
| Net interest income on defined benefit scheme liability/asset | 7 | 6 |
| Total finance income | 10 | 10 |
| Income from shares in Group undertakings | 17 | 16 |
| | 27 | 26 |

10. Finance costs

| | 2020 £million | 2019 £million |
|---|------------------|------------------|
| Interest payable to Group undertakings | 6 | 7 |
| Financing fees | 1 | 2 |
| Finance charges payable in respect of leases ¹ | 62 | — |
| | 69 | 9 |

¹ Following the adoption of the new lease standard IFRS 16, finance charges payable in respect of leases have been disclosed within finance costs in 2020 (see note 36).

11. Other gains

| | 2020 £million | 2019 £million |
|-------------|------------------|------------------|
| Other gains | — | 2 |
| | — | 2 |

In the prior year, the other gains related to the profit on sale of interests in associates for Beccles H.C.C. Limited, Maryhill Dispensary Limited, Torrington Park H.C.C. Limited, Tuschem Limited and Colne (H.C.C.) Limited.

No other gains or losses have been recognised in respect of loans and receivables. No gains or losses have been recognised on financial liabilities measured at amortised cost.

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2020

12. Tax

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

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Corporation tax: | | |
| UK corporation tax | (33) | 53 |
| Adjustments in respect of prior periods | 16 | 1 |
| | (17) | 54 |
| Deferred tax (note 28): | | |
| Deferred tax credit | (21) | (9) |
| Adjustments in respect of prior periods | (12) | 5 |
| Adjustments in respect of changes to tax rates | 21 | — |
| | (12) | (4) |
| Total tax (credit)/charge for the year | (29) | 50 |

Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the year.

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

| | 2020 £million | 2019 £million |
|---|------------------|------------------|
| (Loss)/profit before tax | (287) | 217 |
| Tax at the UK corporation rate of 19% (2019: 19%) | (55) | 41 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 5 | 8 |
| Non-taxable income | (4) | (5) |
| Remeasurement of deferred tax balances due to change in UK substantively enacted rate | 21 | — |
| Adjustments in respect of prior periods | 4 | 6 |
| Tax (credit)/charge for the year | (29) | 50 |

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

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Deferred tax: | | |
| Tax on remeasurement (gains)/losses on defined benefit pension plans | (77) | 30 |
| Total income tax recognised in other comprehensive income | (77) | 30 |

Factors that may affect future current and total tax charges

The UK Budget Announcement on 11 March 2020 stated that the corporation tax rate reduction to 17% from 1 April 2020 will no longer take place and that the current rate of 19% will remain in force. The change from 17% to 19% was substantively enacted on 17 March 2020 and has therefore been reflected in these financial statements.

13. Dividends

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

| | 2020 £million | 2019 £million |
|---|------------------|------------------|
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year (2019: 9.9p per share) | — | 70 |

Notes to the financial statements (continued)

for the year ended 31 August 2020

14. 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 2019 | 729 | 41 | 14 | 434 | 34 | 1,252 |
| Additions | 4 | — | — | 4 | 59 | 67 |
| Reclassified from assets in course of construction | — | — | — | 47 | (47) | — |
| Disposals | (2) | — | — | — | — | (2) |
| Transferred to assets for sale | (9) | — | — | — | — | (9) |
| At 31 August 2020 | 722 | 41 | 14 | 485 | 46 | 1,308 |
| Amortisation | | | | | | |
| At 1 September 2019 | — | — | 14 | 235 | — | 249 |
| Charge for the year | — | — | — | 67 | — | 67 |
| Impairment | 56 | — | — | — | — | 56 |
| At 31 August 2020 | 56 | — | 14 | 302 | — | 372 |
| Carrying amount | | | | | | |
| At 31 August 2019 | 729 | 41 | — | 199 | 34 | 1,003 |
| At 31 August 2020 | 666 | 41 | — | 183 | 46 | 936 |

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 costs¹ 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 assets is charged to distribution costs and administrative expenses in 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 in the current year. 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 9.75% (2019: 10.75%) 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% (2019: 2.0%).

The annual impairment tests support the carrying value of goodwill and therefore there was no impairment charge in the period. The impairment test for pharmacy licences through review of the stores cash flows gave rise to an impairment of £41 million (2019: £nil). A further £15 million of impairment charge (2019: £nil) was recognised in relation to stores separately identified for closure.

Notes to the financial statements (continued)

for the year ended 31 August 2020

15. Property, plant and equipment

| | Land and buildings £million | Plant and machinery £million | Fixtures, fittings, tools and equipment £million | Assets in the course of construction £million | Total £million |
|--|-----------------------------------|------------------------------------|--|--|-------------------|
| Cost | | | | | |
| At 1 September 2019 | 172 | 98 | 914 | 50 | 1,234 |
| Additions | — | — | — | 93 | 93 |
| Reclassified from assets in course of construction | 9 | 5 | 43 | (57) | — |
| Disposals | (4) | (7) | (20) | — | (31) |
| At 31 August 2020 | 177 | 96 | 937 | 86 | 1,296 |
| Accumulated depreciation | | | | | |
| At 1 September 2019 | 56 | 44 | 417 | — | 517 |
| Charge for the year | 18 | 11 | 94 | — | 123 |
| Impairment | 1 | — | 13 | — | 14 |
| Disposals | (2) | (4) | (12) | — | (18) |
| At 31 August 2020 | 73 | 51 | 512 | — | 636 |
| Carrying amount | | | | | |
| At 31 August 2019 | 116 | 54 | 497 | 50 | 717 |
| At 31 August 2020 | 104 | 45 | 425 | 86 | 660 |

In the year, the Company recognised impairment of £14 million (2019: £13 million) of which £12 million relates to store impairment and £2 million relate to impairment of assets on closed stores.

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 9.75% (2019: 10.75%) 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% (2019: 2.0%).

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2020

16. Investments in subsidiaries

| | | | | | | £million |
|--|--|--|--|--|--|----------|
| Cost and carrying amount | | | | | | |
| As at 1 September 2019 and at 31 August 2020 | | | | | | 14 |

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

| | 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 |

17. Interests in associates

| | | | | | | £million |
|--|--|--|--|--|--|----------|
| Cost and carrying amount | | | | | | |
| As at 1 September 2019 and at 31 August 2020 | | | | | | 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 |
| Clarepharm Limited | Dispensary services | Ordinary shares | 36.6 | 36.6 | England & Wales | Thompson Jenner, 28 Alexandra Terrace, Exmouth, Devon, EX8 1BD, 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 investments in Govanhill Pharmacy Limited and Woodside Pharmacy (Glasgow) Limited. Their investment value was a total of £7,000.

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2020

18. Other equity investments

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Investments in equity instruments designated at FVTOCI: | | |
| Shares | | |
| As at 1 September | 183 | 195 |
| Fair value loss on investments in equity instruments designated as at FVTOCI | (38) | (12) |
| As at 31 September | 145 | 183 |

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 35.

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 | Sedly Place, 361 Oxford Street, London, United Kingdom, W1C 2JL, UK |

During the year, the Company disposed of its investments in Holmscroft H.C. Limited and Victoria Pharmacy Limited. Their investment value was a total of £32,000.

19. Inventories

| | 2020 £million | 2019 £million |
|-----------------------|------------------|------------------|
| Finished goods | 591 | 580 |

Notes to the financial statements (continued)

for the year ended 31 August 2020

20. Trade and other receivables

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Amounts falling due within one year: | | |
| Amount receivable for the sale of goods ¹ | 97 | 76 |
| Amounts owed by fellow subsidiaries ² | 633 | 644 |
| Other receivables ³ | 64 | 88 |
| Prepayments ³ | 17 | 64 |
| Accrued Income ⁴ | 20 | 21 |
| VAT recoverable | 17 | 4 |
| Included in current assets | 848 | 897 |
| Amounts falling due for more than one year: | | |
| Prepayments | 1 | 2 |
| Other receivables ³ | — | 19 |
| Included in non-current assets | 1 | 21 |
| Total trade and other receivables | 849 | 918 |

¹ The Company factors its receivables on a quarterly basis under a non-recourse arrangement which is subject to 2% fee of the receivables factored. The fee incurred under this arrangement is included within finance costs. At the balance sheet date, the amount factored was £274 million (2019: £313 million).

² Amounts owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

³ Following the adoption of the new lease standard IFRS 16, prepaid rent of £30 million held within prepayments in the prior year, short leasehold premiums totalling £23 million (£4 million within other receivables - current and £19 million within other receivables - non current) are now included within the value of the right-of-use asset (see note 36).

⁴ Accrued income relates to pharmacy service income receivable from hospitals.

21. 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 are due to complete within the next financial year.

An impairment loss of £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 2020, the asset held for sale comprised of the following:

| | 2020 £million | 2019 £million |
|-----------------------------------|------------------|------------------|
| Assets | | |
| Inventory | 2 | — |
| Pharmacy licences | 9 | — |
| | 11 | — |
| Liabilities | | |
| Lease liabilities | (3) | — |
| | (3) | — |
| Total assets held for sale | 8 | — |

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2020

22. Derivative financial instruments

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Financial assets carried at fair value through profit or loss (FVTPL) | | |
| Derivatives that are not designated in hedge accounting relationships: | | |
| Foreign currency options | — | 1 |
| | — | 1 |

Further details of derivative financial instruments are provided in note 35.

23. Trade and other payables

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Amounts falling due within one year: | | |
| Trade payables | 246 | 311 |
| Amounts owed to fellow subsidiaries ¹ | 331 | 340 |
| Other creditors | 147 | 150 |
| Accruals | 229 | 220 |
| Deferred income ² | 125 | 16 |
| Contract liabilities (note 24) | 169 | 165 |
| Included in current liabilities | 1,247 | 1,202 |
| Amounts falling due for more than one year: | | |
| Other creditors ³ | 28 | 76 |
| Included in non-current liabilities | 28 | 76 |
| Total trade and other payables | 1,275 | 1,278 |

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

² The deferred income of £125 million (2019: £16 million) consists of £107 million (2019: £nil) of COVID-19 related advance funding from the health authorities and £18 million (2019: £16 million) of confirmed income from suppliers in relation to promotional activity in stores for future periods.

³ Following the adoption of the new lease standard IFRS 16, lease incentives of £48 million held within other creditors - non current in the prior year are now included within the value of the right-of-use asset (see note 36).

24. Contract liabilities

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

| | 2020 £million | 2019 £million |
|----------------------------|------------------|------------------|
| Customer loyalty programme | 155 | 155 |
| Gift card | 14 | 10 |
| | 169 | 165 |

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 yearend will be recognised in the following financial year.

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2020

25. Borrowings

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Unsecured borrowing: | | |
| Amounts owed to fellow subsidiaries | 260 | 260 |
| Amount due for settlement after 12 months | | |
| Amounts owed to Group undertakings | 260 | 260 |

As at 31 August 2020 and 31 August 2019, the £260 million amount owed to Group undertakings is unsecured debt and is a loan due for repayment on 31 August 2022 (2019: 30 September 2021). Interest is charged at 0.691% (2019: 2.221%) per annum.

26. Obligations under finance leases (only for 2019 comparative presentation before IFRS 16 adoption)

The maturity of the Company's net obligations under finance leases are presented as follows:

| | 2019 £million |
|---|------------------|
| Less than one year | 1 |
| Between one year and five years inclusive | 1 |
| Less: future finance charges | — |
| Present value of lease obligations | 2 |

Analysed as:

| | |
|--|---|
| Amounts due for settlement within 12 months (shown under current liabilities) | 1 |
| Amounts due for settlement after 12 months (shown under non-current liabilities) | 1 |

The prior year balance relates to the net finance lease obligations prior to IFRS 16 adoption.

27. Provisions

| | Reorganisation £million | Vacant property £million | Total £million |
|-------------------------------------|----------------------------|--------------------------------|-------------------|
| At 1 September 2019 | 23 | 3 | 26 |
| Adoption of IFRS 16 | — | (3) | (3) |
| Provisions created during the year | 138 | — | 138 |
| Provisions utilised during the year | (129) | — | (129) |
| At 31 August 2020 | 32 | — | 32 |

| | 2020 £million | 2019 £million |
|-------------|------------------|------------------|
| Current | 32 | 25 |
| Non-current | — | 1 |
| | 32 | 26 |

The reorganisation provision relates to reorganisations of store portfolio, operating models, employee structures and central support office reorganisations. The remaining costs are expected to be incurred in the year to August 2021.

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2020

28. 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 £million | Intangible assets £million | Pension £million | Other temporary differences £million | Total £million |
|--------------------------------------|--|----------------------------------|---------------------|---|-------------------|
| At 1 September 2018 | 11 | 86 | 34 | — | 131 |
| Charge to profit or loss | 2 | (4) | (2) | — | (4) |
| Charge to other comprehensive income | — | — | 30 | — | 30 |
| Charged to retained earnings | — | — | — | 1 | 1 |
| At 31 August 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 |

29. 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 future benefit accrual 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 2020, a deficit of £124 million (2019: a surplus of £371 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:

| | 2020 £million | 2019 £million |
|---|------------------|------------------|
| Scheme assets at fair value: | | |
| Equities | 1,131 | 823 |
| Bonds (including repurchase agreement liabilities) | 5,547 | 5,493 |
| Properties | 370 | 386 |
| Derivatives | 475 | 364 |
| Cash and cash equivalents | (776) | 55 |
| Other | 455 | 330 |
| Fair value of scheme assets | 7,202 | 7,451 |
| Present value of scheme liabilities | (7,326) | (7,080) |
| Defined benefit pension plan (deficit)/surplus | (124) | 371 |

The pension scheme has not invested in any of the Company's own financial instruments nor in properties or other assets used by the Company.

The Scheme's assets include of £776 million of liabilities (2019: £55 million of assets) with quoted prices in active markets, and £7,978 million (2019: £7,396 million) of assets for which quoted prices in active markets are not available. The 'other' asset category in the table above includes £155 million (2019: £55 million) of cash liabilities in relation to the purchase of private debt placements or privately placed fixed income securities.

Notes to the financial statements (continued)

for the year ended 31 August 2020

29. 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 £6,586 million (2019: £5,658 million) which includes reverse repurchase agreement assets of £164 million (2019: £49 million), and associated repurchase agreement liabilities of £1,039 million (2019: £165 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:

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Recognised in the Income statement | | |
| Current service cost | (4) | (2) |
| Past service cost | — | (19) |
| Recognised in arriving at operating profit | (4) | (21) |
| Net interest on defined benefit liability | 7 | 6 |
| Total income/(expense) recognised in the Income statement | 3 | (15) |

Statement of comprehensive income

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

| | 2020 £million | 2019 £million |
|---|------------------|------------------|
| Taken to the Statement of comprehensive income: | | |
| (Loss)/return on plan assets (excluding amounts included in net interest expense) | (144) | 883 |
| Actuarial gains/(losses) arising from changes in experience adjustments | 15 | (88) |
| Actuarial changes arising from changes in demographic assumptions | (229) | 144 |
| Actuarial changes arising from changes in financial assumptions | (163) | (782) |
| Recognised in the Statement of comprehensive income | (521) | 157 |
| Contributions paid by fellow Group undertakings | 19 | 21 |
| (Loss)/gain recognised in the Statement of comprehensive income | (502) | 178 |

Plan obligations

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

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Defined benefit obligation at 1 September | 7,080 | 6,454 |
| Interest on benefit obligation | 125 | 157 |
| Current service cost | 4 | 2 |
| Actuarial gains and losses | 377 | 726 |
| Disbursements | (260) | (278) |
| Past service cost | — | 19 |
| Defined benefit obligation at 31 August | 7,326 | 7,080 |

The defined benefit obligation is wholly funded.

Plan assets

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

| | 2020 £million | 2019 £million |
|---|------------------|------------------|
| Fair value of plan assets at 1 September | 7,451 | 6,659 |
| Interest income on plan assets | 132 | 163 |
| Contributions by employer | 23 | 24 |
| Actuarial gains and losses | (144) | 883 |
| Foreign currency differences | (260) | (278) |
| Fair value of plan assets at 31 August | 7,202 | 7,451 |

Notes to the financial statements (continued)

for the year ended 31 August 2020

29. Retirement and death benefit schemes (continued)

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, 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 31 August 2020 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

| | 2020 | 2019 |
|--------------------------------------|--------|--------|
| Main assumptions: | | |
| Rate of salary increases | N/A | N/A |
| Rate of increase in pension payments | 2.75 % | 2.85 % |
| Discount rate | 1.62 % | 1.80 % |
| RPI inflation | 2.90 % | 3.05 % |
| CPI inflation | 2.25 % | 1.85 % |
| Post-retirement mortality (in years) | | |
| Current pensioners at 60 – male | 26.6 | 26.1 |
| Current pensioners at 60 – female | 27.9 | 27.8 |
| Future pensioners at 60 – male | 26.9 | 26.4 |
| Future pensioners at 60 – female | 29.0 | 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:

| | 2020 | 2019 |
|--|--------------|--------------|
| | £million | £million |
| Expected future benefit payments: | | |
| Within one year | 211 | 207 |
| Between one to five years | 875 | 862 |
| Over five years | 1,296 | 1,295 |
| Total | 2,382 | 2,364 |

Notes to the financial statements (continued)

for the year ended 31 August 2020

29. Retirement and death benefit schemes (continued)

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 £325 million |
| Inflation assumption | Increase by 0.25% | Increase by £294 million |
| Rate of salary increases | Increase by 0.25% | Increase by £71 million |
| Post retirement mortality | Increase by 1 year | Increase by £331 million |

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.

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. Market metrics used to derive the discount rate and price inflation assumptions could increase or decrease in the future, by more or less than the change set out.

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 2021 will be £23 million (2020: £22 million) which relates to coupon payments made under a Pension Funding Partnership structure. The 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.

30. Share capital

| | 2020 £million | 2019 £million |
|---|------------------|------------------|
| Authorised | | |
| 709,750,000 ordinary shares of £1 each (2019: 709,750,000 shares) | 710 | 710 |
| Issued and fully paid | | |
| 709,750,000 ordinary shares of £1 each (2019: 709,750,000 shares) | 710 | 710 |

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

31. Actuarial reserve

| | Actuarial reserve £million |
|--|----------------------------------|
| At 1 September 2018 | 117 |
| Remeasurement gain on defined benefit pension plans | 178 |
| Tax on remeasurement gain on defined benefit pension plans | (30) |
| At 31 August 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) |

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2020

32. Hedging reserve

| | Hedging reserve £million |
|--|--------------------------------|
| At 1 September 2018 | — |
| Gain arising on changes in fair value of hedging instruments during the period | 1 |
| At 31 August 2019 | 1 |
| Loss arising on changes in fair value of hedging instruments during the period | (1) |
| At 31 August 2020 | — |

33. Investments revaluation reserve

| | Investments revaluation reserve £million |
|---|---|
| At 1 September 2018 | — |
| Fair value loss arising on equity instruments designated as at FVTOCI | (12) |
| At 31 August 2019 | (12) |
| Fair value loss arising on equity instruments designated as at FVTOCI | (38) |
| At 31 August 2020 | (50) |

34. Retained earnings

| | Retained earnings £million |
|------------------------------|----------------------------------|
| At 1 September 2018 | 1,049 |
| Dividends paid | (70) |
| Profit for the year | 167 |
| At 31 August 2019 | 1,146 |
| IFRS16 transition adjustment | (6) |
| Loss for the year | (258) |
| At 31 August 2020 | 882 |

35. Financial instruments

Categories of financial instruments held at fair value:

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Financial assets at fair value | | |
| Derivatives that are designated in an effective hedging relationship | — | 1 |
| Equity instruments designated at FVTOCI | 145 | 183 |

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.

Notes to the financial statements (continued)

for the year ended 31 August 2020

36. 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. See note 2, new accounting pronouncements for additional information.

Right-of-use assets

| | 2020 £million |
|--|------------------|
| Cost | |
| Recognised on adoption of IFRS 16 'Leases' | 1,785 |
| Additions | 590 |
| Disposals | (141) |
| At 31 August 2020 | 2,234 |
| Depreciation | |
| Charge for the year | 286 |
| Impairment | 55 |
| At 31 August 2020 | 341 |
| Net book amount | |
| At 31 August 2020 | 1,893 |

The income from subleasing right-of-use assets is £17 million.

Lease liabilities

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

In the year the expense relating to variable lease payments is £9 million (2019: £28 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.

The total cash flow for leases in the year is £240 million.

The weighted average remaining lease term in years is 10.05 years, and the weighted average discount rate is 3.83%.

The Company as lessee

Lease payments under operating leases recognised as an expense in 2019 before the adoption of IFRS 16, *Leases* were £367 million.

The Company as lessor

Property rental income earned during the year was £19 million (2019: £22 million). 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.

37. 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 2020. The Company was contingently liable under this arrangement for a total amount of £nil (2019: £nil).

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2020

38. Financial commitments

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

| | 2020 £million | 2019 £million |
|--|------------------|------------------|
| Contracted | | |
| - Finance leases entered into (under IAS17) | — | 2 |
| - Property, plant and equipment and software | 82 | 82 |
| | 82 | 84 |

39. Events after the balance sheet date

The COVID-19 pandemic was declared by the World Health Organisation as a global pandemic on 11 March 2020 which has continued after the balance sheet date. This outbreak had a significant impact on all aspects of business including the Company's operational and financial performance for the current financial year. There are still numerous uncertainties relating to COVID-19 which may continue to impact the future performance of the business. Subsequently, further local and national lockdowns have been introduced to parts of the UK which will impact the future operations of the business further. However this should not change the financial performance, financial position and going concern conclusions reported within these financial statements.

The United Kingdom left the European Union (the "EU") on 31 January 2020, and there is now a transition period until 31 December 2020 in which the United Kingdom and EU are to negotiate a new trading relationship. As the future of the trading relationship remains unclear, the potential impact to the Company therefore remains uncertain. However, the Company has robust contingency plans in place and continues to closely monitor the situation.

On 19 November 2020, the Company received £15 million income from its investment in WBAD Holdings 2 Limited. On the same day, a dividend of £15 million was paid to the Company's immediate parent.

40. 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:

| | Sale of goods | | Purchase of goods | |
|---|------------------|------------------|-------------------|------------------|
| | 2020 £million | 2019 £million | 2020 £million | 2019 £million |
| Related party | | | | |
| Associates - Boots Hearingcare Limited | 13 | 18 | — | — |
| Non-wholly owned subsidiaries - Boots Opticians Professional Services Limited | 4 | 2 | — | — |

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---------------------------------|------------------|---------------------------------|------------------|
| | 2020 £million | 2019 £million | 2020 £million | 2019 £million |
| Related party | | | | |
| Associates - Boots Hearingcare Limited | 1 | 3 | — | — |
| Non-wholly owned subsidiaries - Boots Opticians Professional Services Limited | 3 | 2 | — | — |

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.

41. Ultimate parent undertaking

At 31 August 2020, the Company's immediate parent company was Alliance Boots Holdings Limited 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, and its principal office address is 108 Wilmot Road, Deerfield, Illinois, 60015.