

Company registration number: 03118885

**OTC Direct Limited**  
**Annual report and financial statements**  
for the year ended 31 August 2018

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# OTC Direct Limited

## Strategic report

for the year ended 31 August 2018

### Principal activities

The Company's principal activities during the year were pharmaceutical wholesaling and distribution.

### Business review

	2018 £million	2017 £million
Revenue	434.8	413.4
Operating profit	34.7	24.4
Profit for the year	28.3	19.6
Shareholders' equity	67.9	59.2

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Revenue increased to £434.8 million (2017: £413.4 million) whilst operating profit increased to £34.7 million (2017: £24.4 million). The Company's profit for the financial year was £28.3 million (2017: £19.6 million).

Operating profit has increased due to the product mix in sales and the levelling out in the exchange rate that impact upon the PI purchasing. The increase in Equity to £67.9 million (2017: £59.2 million) is due to the profit for the year after the Dividend payment.

The Group manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance, or position of the business. The performance of the division which includes the Company is discussed in the Group's annual report which does not form part of this report.

### 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.

#### 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. In particular, Brexit has the potential to affect the Company.

##### Mitigation

The Company has a rigorous process for identifying and monitoring all business-critical suppliers and develops appropriate contingency plans for suppliers are 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.

#### 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 is subject to a range of regulations relating to such things as product margins, product traceability and the conditions under which products must be stored. Changes to these could affect profitability of the company.

##### 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.

#### Competition

##### Risk

Changes in market dynamics or actions of competitors or manufacturers could adversely impact the Company. The Company faces competition from direct competitors and alternative supply sources such as importers and manufacturers who supply direct to pharmacies.

##### Mitigation

The Company's strategy is to continue to build strong relationships with customers' in order to ensure a high quality service is delivered.

#### 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 limit similar incidents in the future. Any major incident is promptly reported to and investigated by the executive management.

## OTC Direct Limited

### Strategic report (continued) for the year ended 31 August 2018

#### **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.

##### **Mitigation**

The Company has robust purchasing, well developed contractual controls in relation to suppliers and a cohesive product control framework. This includes specific controls for the identification of counterfeit product.

#### **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, business continuity plans and continually seeks to improve control of core business processes, through self-assessment and through specific programmes.

#### **Increased costs**

##### **Risk**

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

##### **Mitigation**

The Company uses procurement professionals and procurement techniques to purchase goods and services on a national 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.

#### **Data protection**

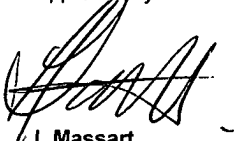
##### **Risk**

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.

Approved by the Board and signed on its behalf by:



L. Massart  
Company Secretary  
30 November 2018

# OTC Direct Limited

## Directors' report

for the year ended 31 August 2018

The Directors present their annual report and the audited financial statements for the year ended 31 August 2018.

### Going concern

The Company has net current assets and continuing cash generation/revolving credit facility with a fellow Group company and therefore the Directors have assessed that there is no material uncertainty surrounding the going concern of the entity. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in note 2 in the financial statements.

### Financial instruments

The Company is exposed to currency, credit and interest rate risk. The Group's treasury function manages these risks at a Group level in accordance with 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, which does not form part of this report.

### Dividends

A final Dividend was declared and paid in the year £19.6 million (2017: £nil).

### Future developments

The Company intends to continue operating in pharmaceutical wholesaling and distribution.

### Post balance sheet events

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

### Directors

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

A Foreman

P Rivas

G Tassone (Appointed on 1 March 2018. Resigned 30 April 2018)

H Barkwill (Resigned 1 March 2018)

Certain Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### Auditor

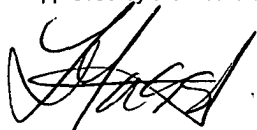
Pursuant to s487 Companies Act 2006, Deloitte LLP were deemed to be reappointed and will therefore continue in office.

### Disclosure of information to auditors

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:



**L Massart**  
Company Secretary  
30 November 2018

Registered office:  
43 Cox Lane  
Chessington  
Surrey  
KT9 1SN  
Registered in England and Wales No. 03118885

## **OTC Direct Limited**

### **Directors' responsibilities statement**

for the year ended 31 August 2018

The Directors are responsible for preparing the Strategic report, Directors' 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 year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- ensure 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 OTC Direct Limited

## Report on the audit of the financial statements

### Opinion

In our opinion the financial statements of OTC Direct Limited:

- give a true and fair view of the state of the company's affairs as at 31 August 2018 and of its profit 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 balance sheet;
- the statement of changes in equity;
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 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 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 year 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

# Independent auditor's report to the members of OTC Direct Limited

## Report on the audit of the financial statements (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.



Sonya Butters FCA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Bristol, United Kingdom

6 December 2018



## OTC Direct Limited

### Income statement

for the year ended 31 August 2018

	Notes	2018 £million	2017 £million
Revenue	4	434.8	413.4
Cost of sales		(380.9)	(369.5)
Gross profit		53.9	43.9
Distribution costs		(12.9)	(14.4)
Administrative expenses		(6.3)	(5.1)
Operating profit		34.7	24.4
Investment revenue	4,8	0.2	0.1
Finance costs	9	-	(0.1)
Profit before taxation		34.9	24.4
Tax	10	(6.6)	(4.8)
Profit for the year	5	28.3	19.6

Revenue and operating profit are all derived from continuing operations.

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

The Company has no comprehensive income and has, therefore, not included a statement of comprehensive income.

# OTC Direct Limited

## Balance sheet

As at 31 August 2018

	Notes	2018 £million	2017 £million
<b>Assets</b>			
<b>Non-current assets</b>			
Tangible assets	13	0.1	0.2
Deferred tax assets	14	0.1	0.1
		0.2	0.3
<b>Current assets</b>			
Inventories	15	24.1	16.0
Trade and other receivables	16	96.3	92.1
Cash and bank balances		0.9	2.6
		121.3	110.7
<b>Total assets</b>		121.5	111.0
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(53.1)	(51.1)
Provisions	18	(0.5)	(0.7)
		(53.6)	(51.8)
<b>Net current assets</b>		67.7	58.9
<b>Total assets less current liabilities</b>		67.9	59.2
<b>Total liabilities</b>		(53.6)	(51.8)
<b>Net assets</b>		67.9	59.2
<b>Equity</b>			
Share capital	19	0.5	0.5
Retained earnings	20	67.4	58.7
<b>Total Equity</b>		67.9	59.2

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

The financial statements of OTC Direct Ltd (company registration number: 03118885) were approved by the Board of directors and authorised for issue on 30 November 2018. They were signed on its behalf by:

P Rivas  
Director

## OTC Direct Limited

### Statement of changes in equity for the year ended 31 August 2018

	Share capital £million	Retained Earnings £million	Total £million
At 1 September 2016	0.5	39.1	39.6
Profit for the year	-	19.6	19.6
At 31 August 2017	0.5	58.7	59.2
Profit for the year	-	28.3	28.3
Dividends paid		(19.6)	(19.6)
At 31 August 2018	0.5	67.4	67.9

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

# OTC Direct Limited

## Notes to the financial statements

for the year ended 31 August 2018

### 1. General information

OTC Direct Limited (the "Company") is a private company limited by shares, 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 3.

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

### 2. Significant accounting policies

#### Basis of accounting

These financial statements are presented in pound sterling because that is the currency of the primary economic environment in which the Company operates.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and 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. Where relevant, equivalent disclosures have been given in the group accounts of Walgreens Boots Alliance, Inc.

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*;
- (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*; and
- (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.

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

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 17, 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 principal accounting policies adopted are set out below.

#### Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in its Strategic report.

The Company has net assets and generates positive cash flows and expects this to continue in future periods.

The Company's Directors have assessed that there is no material uncertainty surrounding the going concern of the entity. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

# OTC Direct Limited

## Notes to the financial statements (continued)

for the year ended 31 August 2018

### 2. Significant accounting policies (continued)

#### Changes in accounting policies and disclosures

In the current year, the Company has applied the following amendments to IFRSs that were issued by the International Accounting Standards Board (IASB) and endorsed for use in the European Union and are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had a material impact on the disclosures or on the amounts reported in these financial statements.

- **Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*:** The Company has adopted the amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* for the first time in the current year. The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles of accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The adoption of these amendments has had no impact on the Company's consolidated financial statements.

- **Amendments to IAS 27 *Equity Method in Separate Financial Statements*:** The Company has adopted the amendments to IAS 27 *Equity Method in Separate Financial Statements* for the first time in the current year. The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, associates and joint ventures in its separate financial statements:
  - at cost;
  - in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9); or
  - using the equity method as described in IAS 28 *Investments in Associates and Joint Ventures*.

The same accounting must be applied to each category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.

The adoption of the amendments has had no impact on the Company's separate financial statements as the Company accounts for investments in subsidiaries and associates at cost and is not an investment entity.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

##### *Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### *Rendering of services*

Where the Company acts in the capacity of an agent, or a logistic service provider, revenue is the service fees and is recognised upon performance of the services concerned.

##### *Investment revenue*

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. 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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

# OTC Direct Limited

## Notes to the financial statements (continued)

for the year ended 31 August 2018

### 2. Significant accounting policies (continued)

#### *The Company as lessee*

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **Foreign currencies**

##### *Currency transactions*

Transactions denominated in currencies other than an entity's functional currency are translated into an entity's functional currency at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in currencies other than an entity'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 an entity'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 an entity'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 profit**

Operating profit is stated before investment income and finance costs.

#### **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.

#### **Cash and bank balances**

Cash and bank balances comprise cash in hand 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.

#### **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:

- 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 – 2 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.

**Notes to the financial statements (continued)**

for the year ended 31 August 2018

**2. Significant accounting policies (continued)**

**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 determined to be 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 those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first in, first out 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.

**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.

**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: 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**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.

**Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

## Notes to the financial statements (continued)

for the year ended 31 August 2018

### 2. Significant accounting policies (continued)

Certain categories of financial assets, such as trade receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against the profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *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 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.

#### *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.

#### *Financial guarantee contract liabilities*

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

#### *Financial liabilities*

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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 expire.

#### *Embedded derivatives*

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through the profit and loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.



**Notes to the financial statements (continued)**

for the year ended 31 August 2018

**3. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 2, 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*

There were no critical judgements 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.

*Key sources of estimation uncertainty*

During the year, there were no key sources of estimation uncertainty.

## OTC Direct Limited

### Notes to the financial statements (continued)

for the year ended 31 August 2018

#### 4. Revenue

All revenues are generated from the UK. An analysis of the Company's revenue is as follows:

	2018 £million	2017 £million
<b>Continuing operations</b>		
Sales of goods	434.8	413.4
	434.8	413.4
Investment revenue (note 8)	0.2	0.1
	435.0	413.5

Included within the Sales of goods for the year is £131.4 million (2017: £158.8 million) in respect of sales to another Group company.

#### 5. Profit for the year

Profit for the year has been arrived at after charging:

	2018 £million	2017 £million
Depreciation of property, plant and equipment	0.1	0.1
Rental charges under operating leases:		
- Property	0.3	0.2

#### 6. Auditor's remuneration

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

	2018 £'000	2017 £'000
Audit of the financial statements	33	35
<b>Total audit fees</b>	<b>33</b>	<b>35</b>

No non-audit services were provided to the Company by its auditor.

#### 7. Staff numbers and costs

All staff and Directors were employed and paid on behalf of the Company by another Group company, Alliance Healthcare Management Services Limited. OTC Direct Limited is recharged for their services which amounted to £10.8 million (2017: £10.7 million).

The employee information and share-based payments are disclosed by a fellow Group undertaking.

	2018 £million	2017 £million
<b>Directors' remuneration:</b>		
Aggregate remuneration	0.5	0.2
	0.5	0.2

#### Remuneration of the highest paid Director:

Aggregate remuneration	0.5	0.2
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#### 8. Investment revenue

	2018 £million	2017 £million
Interest receivable from bank deposits	0.2	0.1
<b>Total interest receivable</b>	<b>0.2</b>	<b>0.1</b>

#### 9. Finance costs

	2018 £million	2017 £million
Interest payable to Group undertakings	-	0.1
<b>Total interest expense</b>	<b>-</b>	<b>0.1</b>

# OTC Direct Limited

## Notes to the financial statements (continued)

for the year ended 31 August 2018

### 10. Tax

An analysis of the tax charge for the year is presented as follows:

	2018 £million	2017 £million
Corporation tax:		
UK corporation tax	6.6	4.8
Deferred tax (note 14)	-	-
	6.6	4.8

Corporation tax is calculated at 19.0% (2017: 19.6%) of the estimated taxable profit for the year.

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

	2018 £million	2017 £million
Profit before tax	34.9	24.4
Tax at the UK corporation rate of 19.0% (2017: 19.6%)	6.6	4.8
<b>Tax charge for the year</b>	<b>6.6</b>	<b>4.8</b>

#### Factors that may affect future current and total tax charges

A future reduction in the corporation tax rate to 17% from 1 April 2020 was enacted by Finance Act 2016 in September 2016. The impact (as applicable) of the future reduction to 17% continues to be reflected in the financial statements.

### 11. Dividends

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

	2018 £million	2017 £million
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year (equivalent to 3920p per share, 2017: nil)	19.6	-

### 12. Intangible assets

	Software £million
<b>Cost</b>	
At 1 September 2017	0.2
At 31 August 2018	0.2
<b>Amortisation</b>	
At 1 September 2017	0.2
At 31 August 2018	0.2
<b>Carrying amount</b>	
At 31 August 2017	-
At 31 August 2018	-

Intangible assets are amortised on a straight line basis over their useful economic life of 5 years.

# OTC Direct Limited

## Notes to the financial statements (continued)

for the year ended 31 August 2018

### 13. Property, plant and equipment

	Short Leasehold Buildings £million	Fixtures, fittings, tools and equipment £million	Total £million
<b>Cost</b>			
At 1 September 2017 and at 31 August 2018	0.4	0.4	0.8
<b>Accumulated depreciation</b>			
At 1 September 2017	0.3	0.3	0.6
Charge for the year	0.0	0.1	0.1
At 31 August 2018	0.3	0.4	0.7
<b>Carrying amount</b>			
At 31 August 2017	0.1	0.1	0.2
At 31 August 2018	0.1	-	0.1

### 14. Deferred Tax

The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior years.

	Decelerated Tax Depreciation £million	Total £million
At 31 August 2017 and at 31 August 2018	0.1	0.1

### 15. Inventories

	2018 £million	2017 £million
Stock	5.8	4.7
Work in Progress	18.3	11.3
<b>Total Inventory</b>	<b>24.1</b>	<b>16.0</b>

The inventory recognised as an expense in the year was £380.9 million (2017: £369.5 million)

### 16. Trade and other receivables

	2018 £million	2017 £million
Amounts falling due within one year:		
Amount receivable for the sale of goods	47.9	58.8
Amounts owed by Group undertakings	37.9	20.3
Other receivables	8.9	12.3
Prepayments and accrued income	1.6	0.7
Included in current assets	96.3	92.1
<b>Total trade and other receivables</b>	<b>96.3</b>	<b>92.1</b>

Included in Amounts owed by Group undertakings is £22.5 million (2017: £4.8 million) relating to cash owed by other Group companies as part of the cash pooling arrangement.

### 17. Trade and other payables

	2018 £million	2017 £million
Amounts falling due within one year:		
Trade payables	26.1	18.6
Amounts owed to Group undertakings	19.9	21.2
Other creditors	1.6	3.2
Accruals and deferred income	1.6	5.4
Corporation tax payable	3.9	2.7
Included in current liabilities	53.1	51.1
<b>Total trade and other payables</b>	<b>53.1</b>	<b>51.1</b>

# OTC Direct Limited

## Notes to the financial statements (continued)

for the year ended 31 August 2018

### 18. Provisions

	Refurbishment and reorganisation £million
At 1 September 2017	0.7
Provisions utilised during the year	(0.2)
<b>At 31 August 2018</b>	<b>0.5</b>

### 19. Share capital

	2018 £million	2017 £million
<b>Authorised</b>		
500,000 ordinary shares of £1 each (2017: 500,000 shares)	0.5	0.5
<b>Issued and Fully paid</b>		
500,000 ordinary shares of £1 each (2017: 500,000 shares)	0.5	0.5

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

### 20. Retained earnings

	£million
At 1 September 2016	39.1
Profit for the year	19.6
At 31 August 2017	58.7
Profit for the year	28.3
Dividend Paid	(19.6)
<b>At 31 August 2018</b>	<b>67.4</b>

### 21. Financial instruments

Categories of financial instruments held at fair value:

	2018 £million	2017 £million
<b>Financial assets at fair value</b>		
At fair value through profit or loss	-	0.1

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts, received from Group.

### 22. Operating lease arrangements

*The Company as lessee*

Lease payments under operating leases recognised as an expense in the year were £0.3 million (2017: £0.2 million)

At the balance sheet date the Company had outstanding commitments under non-cancellable operating leases as follows:

	2018 Land and buildings £million	2017 Land and buildings £million
Less than one year	0.6	0.2
Between one and five years inclusive	1.9	-
More than five years	2.3	-
	<b>4.8</b>	<b>0.2</b>

Operating lease payments represent rentals payable by the Company for certain office properties and warehouses. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 4 years with an option to extend for a further 5 years at the then prevailing market rate.

### 23. Contingent liabilities

The Company has 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 purpose 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 current accounts with the bank on the day netting takes place. As 31 August 2018, the company was not contingently liable under this arrangement for a total amount of £nil (2017:£nil).

## OTC Direct Limited

### Notes to the financial statements (continued)

for the year ended 31 August 2018

#### 24. 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	
	2018 £million	2017 £million	2018 £million	2017 £million
<b>Related party</b>				
Other related parties	0.2	0.3	5.9	-
	<b>Amounts owed by related parties</b>		<b>Amounts owed to related parties</b>	
	2018 £million	2017 £million	2018 £million	2017 £million
<b>Related party</b>				
Other related parties	-	-	0.4	-

No guarantees have been given or received.

#### 25. Ultimate parent undertaking

At 31 August 2018, 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](http://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.