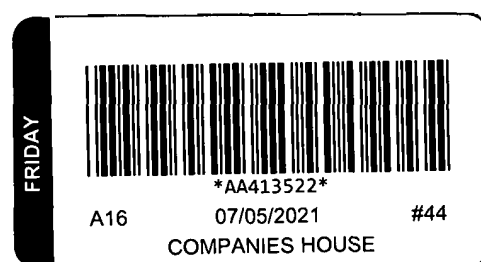


Company registration number: 03118885



**OTC Direct Limited**  
**Annual report and financial statements**  
for the year ended 31 August 2020

## **Contents**

<b>Strategic report</b>	<b>1</b>
<b>Directors' report</b>	<b>5</b>
<b>Directors' responsibilities statement</b>	<b>7</b>
<b>Statement of Corporate Governance Arrangements</b>	<b>8</b>
<b>Independent auditor's report</b>	<b>9</b>
<b>Income statement</b>	<b>11</b>
<b>Balance sheet</b>	<b>12</b>
<b>Statement of changes in equity</b>	<b>13</b>
<b>Notes to the financial statements</b>	<b>14</b>

## Strategic Report for the year ended 31 August 2020

### Principal activities

OTC Direct Limited's (the "Company") principal activities during the year were pharmaceutical wholesaling and distribution.

### Business review

Key Performance Indicators	2020		2019	
	£million	Change	£million	Change
Revenue	392.4	(6)%	416.4	(4)%
Operating profit	31.1	(1)%	31.5	(9)%
Profit for the year	25.1	(2)%	25.6	(10)%
Shareholders' equity	64.6	(1)%	65.5	(4)%

Revenue decreased to £392.4 million (2019: £416.4 million) whilst operating profit decreased to £31.1 million (2019: £31.5 million). The Company's profit after tax for the financial period was £25.1 million (2019: £25.6 million).

Operating profit has remained consistent despite small market declines in core product categories and cost pressures due to COVID-19.

The Company has maintained its strong financial position during and at the end of the financial year. The Company had net assets of £64.6 million (2019: £65.5 million) at the end of the financial year. The Company adopted IFRS 16 Leases accounting standard on 1 September 2019, and the impact on the financial statements is discussed in note 2 Adoption of new and revised standards.

The Walgreens Boots Alliance, Inc. consolidated group ("Group") manages its operations on a divisional basis. 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.

In December 2019, an outbreak of Coronavirus disease (COVID-19) emerged globally and became more widespread in 2020, including a major outbreak in United Kingdom. The Company did not experience significant disruptions from COVID-19 and continued to deliver a normal service. It is difficult to predict the continuing impact that COVID-19 will have on the financial position and operating results due to numerous uncertainties, but the Directors of the Company have taken adequate mitigating actions. Further details regarding COVID-19 risk and mitigation can be found in the Principal risks and uncertainties section on page 2.

On 6 January 2021, Walgreens Boots Alliance, Inc., the ultimate parent company, entered into an agreement to sell its Pharmaceutical Wholesale division, including the Company, to AmerisourceBergen Corporation. The aim of the deal is to create a global leader in pharmaceutical wholesaling and to provide increased benefits to pharmacists, manufacturers, consumers and patients. The deal is expected to strengthen the market position of the Company through a larger scope of value-added activities.

### Section 172(1) statement

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.

The Company continues to play an important role in the provision of medicines and healthcare services across the UK. 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. Below are some of the ways in which the Directors have engaged with various stakeholders and fulfilled their duty under this section.

**Customers:** The Directors strongly believe in treating customers fairly and providing them with safe and quality products and superior product availability and value. The Company has adopted multiple ways to engage with customers, these may include face-to-face interactions and surveys. Due to COVID-19 the Directors have continued to engage customers through virtual forums, meetings and presentations. The Directors use these processes to understand the views of the customers and consider the impact of their decisions on customer's interest. Significant improvements in customer service have been achieved in the last two years with additional developments are forecast for the coming year.

**Suppliers:** The Directors aim to ensure that the Company operates fairly, transparently and with integrity with its suppliers and values this relationship of strategic importance. The Company engages with its suppliers through multiple channels, both formally and informally. These engagements provide the Directors with a broad and diverse understanding of supplier priorities and allows them to take into account the interest of suppliers while making decisions.

## Strategic Report (continued) for the year ended 31 August 2020

**Employees:** The Directors consider employee engagement a critical factor in the long term sustainable success of the Company. The Company implemented an employee survey process as well as different employee forums with the aim of assessing employee engagement levels and identifying key concerns. The Company completed its engagement survey with all colleagues taking part. Directors and their teams are developing action plans based on the survey responses. A number of actions have been implemented during the year including various employee welfare related improvements at its facilities. The Company has commenced the roll-out of "communication hubs" across its service centres.

Development programmes have taken place throughout all sites for first line managers and the Company has also launched an e-learning platform with a suite of learning modules. There have also been apprenticeship programmes running at all levels of the organisation.

**Communities and other:** 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, among others.

Alongside other Group companies within the UK, the Company has raised funds for the European Organisation for Research and Treatment of Cancer ("EORTC") to support its efforts in the fight against cancer through a wide variety of activities involving many colleagues. Together, these companies have raised and donated over £900,000 to EORTC since the start of the partnership.

Alongside other Group companies within the UK, the Company has raised funds for Vitamin Angels to help its work to end child malnutrition in the UK and across the world. Since 2019 the companies have raised £60,000 through various colleague activities.

**COVID-19:** The outbreak of the pandemic has had an 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 take into account 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 included

- a. Putting contingency plans in place to maintain continuity of operations and ensure provision of service to our customers.
- b. Introducing measures to keep all colleagues healthy and safe. Transitioning office based colleagues to remote work environment and installing protective equipment at work places.
- c. Supporting suppliers to ensure adequate availability of critical products throughout the supply chain.
- d. Ensuring adequate funding for the Company to support continuity of business through these adverse conditions.

### Principal risks and uncertainties

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

### COVID-19

#### Risk

The COVID-19 pandemic has created significant volatility, uncertainty and economic disruption. These factors may have an adverse impact on the future business operations and financial position of the company.

#### Mitigation

The company is focused on addressing the impact of COVID-19 and has taken significant steps to support its employees, continue to serve its customers and maintain its services despite operational constraints. The situation surrounding COVID-19 remains fluid and the company will continue to actively manage its response in collaboration with customers, suppliers, government and our colleagues.

### 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 has appropriate contingency plans for suppliers it considers vulnerable. The Company also has a rigorous planning process to assess the impact of macroeconomic and political developments on key customer groups.

In relation to Brexit, the United Kingdom left the European Union ("EU") on 31 January 2020 and ended the following transition period with a Free Trade Agreement ("FTA"). The FTA is complex and contains elements which will require continued analysis, investment and implementation, but the Company is committed to protecting and maintaining the supply of essential products. The Company's Brexit team remains in place and meets regularly to review and update action plans for delivering under the UK-EU trading relationship. Risk to the Company's supply chain will remain and key areas need to be planned and delivered, such as the new customs requirements and trading under the Northern Ireland protocol.

# OTC Direct Limited

## Strategic Report (continued) for the year ended 31 August 2020

### **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 regulations 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 of 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 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.

#### **Mitigation**

The Company has robust purchasing, well developed 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.

## OTC Direct Limited

### Strategic Report (continued) for the year ended 31 August 2020

#### *Data protection*

##### *Risk*

The Company processes 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 and access controls. The Company ensures 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  
15 January 2021

# OTC Direct Limited

## Directors' Report for the year ended 31 August 2020

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

### Going concern

The Company has net current assets and continuing cash generation 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 3 to the financial statements.

### Financial risks

The Company is exposed to a variety of financial risks, which includes the effects of changes in market prices (interest rates and foreign exchange rates), credit risk, and liquidity risk. Being part of the larger Walgreens Boots Alliance Group, the Directors of the Company monitor these risks, in conjunction with, the Group Treasury function, and necessary action is taken either at the Company level or at a Group level to manage these risks, in line with the Group Treasury policy. Below is a summary of the various risk management policies that have been adopted by the Group and its subsidiaries.

#### Credit Risk

Credit risk is the risk that a counter party may default on its contractual obligations, resulting in financial loss. In the Company, credit risk arises from multiple sources including cash balances and deposits held with financial institutions, derivative financial instruments and credit exposures to customers including outstanding receivables or committed transactions. The Group has issued specific policies to mitigate credit risk which have been adopted by the Company. These require the Company to assess the creditworthiness of potential customers prior to extending their credit terms, deal only with Group approved Financial Institutions and restrict the balances held with each financial institution at an agreed limit.

#### Liquidity risk

The Company needs to maintain adequate liquidity to carry out its business. The Group's approach to managing liquidity in the short term is to minimise risk and maintain liquidity and in the long term is to maintain a strong balance sheet and financial flexibility. In order to meet these objectives, the Company participates in a Group cash pooling arrangement and liquidity is monitored both at the Company level and at a Group level. Based on the review of cash generated via operations, cash flow forecast and long term cash requirements, the Company, may take on incurrence of both long term and short term debt to meet its short term and long term liquidity objectives either from approved financial institutions or from other Group subsidiaries.

#### Interest rate risk

The Company may face interest rate volatility, with regard to existing variable-rate debt instruments and future incurrences of fixed or variable-rate debt, which exposure primarily relates to movements in various interest rates, such as LIBOR and commercial paper rates. In order to mitigate the risk of adverse interest rate movements, the Company or other Group subsidiaries, may, either individually or collectively, enter into interest rate swaps or forward-starting interest rate swaps to hedge these exposures.

#### Foreign currency exchange rate risk

The Company may be exposed to fluctuations in foreign currency exchange rates. These primarily arise from cash flows related to foreign denominated transactions, investment in foreign subsidiaries, translation of foreign currency earnings to functional currency and debt extended or incurred in a non-functional currency. To manage these, the Company or other Group subsidiaries, on its behalf, may enter into foreign currency forward contracts to hedge against the effect of exchange rate fluctuations on non-functional currency cash flows. In addition, the Company or other Group subsidiaries, on its behalf, may also enter 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).

#### Commodity price risk

The Company may also be exposed to the risk of fluctuations in commodity costs on raw materials, energy and logistics. To manage these, the Company, may enter into a commodity risk hedging programme after discussions with the Group Treasury department.

### Dividends

An interim dividend of £26.0 million (2019: £28.0 million) was declared and paid in the year. The Directors do not recommend the payment of a final dividend (2019: £nil).

### Future developments

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

### Post balance sheet events

On 6 January 2021, Walgreens Boots Alliance, Inc., the ultimate parent company, entered into an agreement to sell its Pharmaceutical Wholesale division, including the Company, to AmerisourceBergen Corporation. Further details can be found in note 24 Events after the balance sheet date.

There have been no other 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:

P Rivas

M Evans

D Tooby

G Tassone

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

**Directors' Report (continued)**  
**for the year ended 31 August 2020**

**Engagement with suppliers, customers and others**

The Company aims to operate fairly, transparently and with integrity in the marketplace. The Company understands the importance of developing business relationships and, in order to do this, engages with its customers, suppliers and other key stakeholders through multiple channels. These may include face to face interactions, conferences, corporate/business websites and surveys. This provides a broad and diverse understanding of evolving priorities of various stakeholders and helps the Company and its Directors to consider these views in their decision making. Further details of how Directors have engaged with key stakeholders can be found in the Section 172(1) statement on page 1.

**Energy and Carbon reporting**

The Company is determined to protect the environment and reduce our 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:

- a. The energy usage of the Company for the year was 8,719 mWh (2019: 7,909 mWh).
- b. Total CO2 emissions for the year were 1,487 tonnes (2019: 1,485 tonnes).
- c. To put this in a more meaningful context, the Company had a CO2 emission of 3.79 tonnes per £million of revenue (2019: 3.57 tonnes per £million of revenue).
- d. During the year the Company has undertaken multiple measures to reduce its energy consumption and the carbon footprint. Some of these include, use of efficient lighting heating and cooling equipment, engagement and education of colleagues on energy consumption and use alternative energy systems where feasible. The overall energy usage of the Company has increased by 10.2% and the CO2 emission has increased by 0.1%.

The carbon footprint, measured in CO2e tonnes, is calculated from the energy usage data submitted for gas and electricity, outbound product delivery, and business travel activity. 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 August 31 of the reporting year.

**Auditor**

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

**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  
15 January 2021

Registered office:  
43 Cox Lane  
Chessington, Surrey  
KT9 1SN

Registered in England and Wales No. 03118885



**Directors' Responsibilities Statement  
for the year ended 31 August 2020**

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 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.

## OTC Direct Limited

### Statement of Corporate Governance Arrangements for the year ended 31 August 2020

#### 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. Being a part of the Walgreens Boots Alliance (WBA) Group, the Company adheres to the Corporate Governance Guidelines (these "Guidelines") adopted by Walgreens Boots Alliance, Inc to assist the Board in the exercise of its responsibilities on behalf of the Company and its stockholders. The Guidelines are intended to provide guidance as a component of the flexible framework within which the directors oversee and direct the affairs of the Company. The Board also complies with the Code of Conduct and Business Ethics, issued by WBA and these 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 WBA Group, which support the Group's corporate governance arrangements as a whole.

# OTC Direct Limited

## 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 (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 August 2020 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; and
- the related notes 1 to 26.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Independent auditor's report (continued)**

to the members of OTC Direct Limited

### ***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  
15 January 2021

## OTC Direct Limited

### Income statement

for the year ended 31 August 2020

		2020	2019
	Notes	£million	£million
Revenue	5	392.4	416.4
Cost of sales		(341.4)	(364.2)
Gross profit		51.0	52.2
Distribution costs		(14.4)	(15.3)
Administrative expenses		(5.5)	(5.4)
Operating profit		31.1	31.5
Finance income	9	0.1	0.3
Finance costs	10	(0.2)	(0.1)
Profit before taxation		31.0	31.7
Tax	11	(5.9)	(6.1)
Profit for the year	6	25.1	25.6

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 2020

	Notes	2020 £million	2019 £million
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	3.2	3.4
Right-of-use assets	22	3.3	—
Deferred tax assets	15	—	0.1
		<b>6.5</b>	<b>3.5</b>
<b>Current assets</b>			
Inventories	16	22.5	29.4
Trade and other receivables	17	99.8	88.9
Cash and bank balances		0.1	0.2
		<b>122.4</b>	<b>118.5</b>
<b>Total assets</b>		<b>128.9</b>	<b>122.0</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	(60.1)	(56.0)
Lease liabilities - current	22	(0.4)	—
Provisions	19	(0.2)	(0.5)
<b>Total liabilities</b>		<b>(60.7)</b>	<b>(56.5)</b>
<b>Net current assets</b>		<b>61.7</b>	<b>62.0</b>
<b>Total assets less current liabilities</b>		<b>68.2</b>	<b>65.5</b>
<b>Non-current liabilities</b>			
Lease liabilities - non-current	22	(3.2)	—
Deferred tax liabilities	15	(0.4)	—
		<b>(3.6)</b>	<b>—</b>
<b>Net assets</b>		<b>64.6</b>	<b>65.5</b>
<b>Equity</b>			
Share capital	20	0.5	0.5
Retained earnings	21	64.1	65.0
<b>Total Equity</b>		<b>64.6</b>	<b>65.5</b>

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

The financial statements of OTC Direct Limited (registered number: 03118885) were approved by the Board of directors and authorised for issue on 15 January 2021. They were signed on its behalf by:



Director  
P Rivas

## OTC Direct Limited

### Statement of changes in equity for the year ended 31 August 2020

	Share capital £million	Retained Earnings £million	Total £million
At 1 September 2018	0.5	67.4	67.9
Profit for the year	—	25.6	25.6
Dividends paid (note 12)	—	(28.0)	(28.0)
At 31 August 2019	0.5	65.0	65.5
Profit for the year	—	25.1	25.1
Dividends paid (note 12)	—	(26.0)	(26.0)
<b>At 31 August 2020</b>	<b>0.5</b>	<b>64.1</b>	<b>64.6</b>

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

OTC Direct Limited (the "Company") is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales.

The address of the registered office is given on page 6.

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 January 2016, IASB issued IFRS 16 Leases, which supersedes IAS 17 Leases. IFRS 16 increases the transparency and comparability of organisations by requiring the capitalisation of substantially all leases on the Balance Sheet and disclosures of key information about leasing arrangements. Under this new standard, at the lease commencement date, a lessee recognises a right-of-use asset and lease liability, which is initially measured at the present value of the future lease payments. For Income Statement purposes, interest on the lease liability is recognised separately from amortisation of the right-of-use asset. Further details of these new requirements are described in note 3 Significant accounting policies.

The Company adopted this new accounting standard on September 1, 2019 using the modified retrospective approach and applied the new standard to all leases through a cumulative-effect adjustment to beginning retained earnings. As a result, comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company also elected the practical expedient to not reassess whether a contract contains a lease on the adoption date.

The adoption of this new accounting standard resulted in recognition of lease liabilities of £3.9 million and recognition of right-of-use assets of £3.7 million. This is net of lease incentives as of August 31, 2019, resulting in a decrease in Trade and other payables of £0.2m. The impact on opening retained earnings was £Nil. The weighted average incremental borrowing rate applied to lease liabilities recognised in the balance sheet on 1 September 2019 is 2.9%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 August 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the balance sheet at the date of initial application:

	£million
Operating lease commitments at 31 August 2019	4.5
Effect of discounting the above amounts	(0.6)
<b>Lease liabilities recognised at 1 September 2019</b>	<b>3.9</b>

#### 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 amendments 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 pound sterling because that is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at 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 IFRS 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*;
- (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.
- (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 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 current assets and generates positive cash flows and expects this to continue in future periods.

The Company had £0.1 million (2019: £0.2 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 in which the Company holds £26.9 million (2019: £24.4 million) of pooled cash which is available to the Company on demand. The Company's Directors have assessed the willingness and ability of the Group to continue to provide the cash pool facility.

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 colleagues.

The Directors have undertaken an 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 expected future performance of the business; and
- risks and uncertainties.

The strategic planning process reviewed by the Directors covers the next three financial years. Following considerations of their 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.

**Notes to the financial statements (continued)**  
**for the year ended 31 August 2020**

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

**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.

*Rendering of services*

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

*Interest revenue*

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.

**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 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 the 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.

**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 comprises 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.

**Notes to the financial statements (continued)**  
**for the year ended 31 August 2020**

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

**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 - 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.

**Leases**

The Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IFRS 16 and IAS 17 are presented separately below.

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 recognised 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 asset. The Company utilises its incremental borrowing rate to discount the lease payments. The incremental borrowing rate is based on the Company's estimated rate of interest for a collateralised borrowing over a similar term as the lease term. Short-term leases with an initial term of 12 months or less and leases of low value assets are not recorded on the balance sheet. 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 Company accounts for lease components and non-lease components as a single lease component. The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. The Company has property leases which require reimbursement for common area maintenance and insurance, which are expensed as incurred as variable lease costs and hence are not included in the lease payments used to calculate the lease liability. Other property leases contain one fixed lease payment that includes common area maintenance and insurance. These fixed payments are considered part of the lease payment and included in the right-of-use assets and lease liabilities. Initial terms for leased premises are typically 10 years and may include renewal options, rent escalation clauses or cancellation clauses. The lease term of property leases include renewal options that are reasonably certain of being exercised. Options to extend are considered reasonably certain of being exercised based on evaluation of multiple factors including if there is significant investments within the leased property which have useful lives greater than the non-cancellable lease term and the Company's economic and strategic initiatives. The Company does not separately account for the land portion of the leases involving land and building.

Lease incentives, intangibles arising from acquisition of leases as a part of business combination, accrued rent, and prepaid rent are considered part of the measurement of the right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. The Company performs impairment testing for its long-lived assets at asset group level. The asset group is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable and exceeds its fair value.

*Policies applicable prior to 1 September 2019*

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.

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.

**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.

**Notes to the financial statements (continued)**  
**for the year ended 31 August 2020**

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

**Impairment of property, plant and equipment and intangible assets**

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

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

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

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

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and 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. 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.

*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*

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.

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.

**Notes to the financial statements (continued)**  
**for the year ended 31 August 2020**

**3. Significant accounting policies (continued)**  
**Financial instruments (continued)**

For certain categories of financial assets, such as trade receivables, assets 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 against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. 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 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 they expire.

**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*

During the year, the Directors have concluded that there were no critical accounting judgements.

*Key sources of estimation uncertainty*

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

**5. Revenue**

All revenues are generated from the UK.

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

	2020	2019
	£million	£million
<b>Continuing operations</b>		
Sales of goods	392.4	416.4
	<b>392.4</b>	<b>416.4</b>

Included within the sales of goods for the year is £88.0 million (2019: £122.7 million) in respect of sales to another Group company.

**6. Profit for the year**

Profit for the year has been arrived at after charging:

	2020	2019
	£million	£million
Depreciation of property, plant and equipment	0.4	0.4
IFRS 16 lease expenses (note 22):		
- Property	0.5	—
Rental charges under operating leases:		
- Property	—	0.6

**7. 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.

	2020	2019
	£'000	£'000
Audit of the financial statements	35	34
<b>Total audit fees</b>	<b>35</b>	<b>34</b>

No non-audit services were provided to the Company by its auditor in the current or preceding year.

# OTC Direct Limited

## Notes to the financial statements (continued) for the year ended 31 August 2020

### 8. 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 £11.1 million (2019: £11.1 million)

#### Directors' remuneration

	2020	2019
	£million	£million
Aggregate remuneration	0.5	0.1
	0.5	0.1

	2020	2019
	Number	Number
The number of directors who:		
Are members of a defined contribution scheme	1	2

	2020	2019
	£million	£million
Remuneration of the highest paid director:		
Aggregate remuneration	0.3	0.1
	0.3	0.1

### 9. Finance income

	2020	2019
	£million	£million
Interest receivable from bank deposits	—	0.1
Interest receivable from Group undertakings	0.1	0.2
	0.1	0.3

Amounts receivable from Group undertakings are recharged at Sterling Overnight Index Average rate.

### 10. Finance costs

	2020	2019
	£million	£million
Financing costs	0.1	0.1
Finance charges payable in respect of leases	0.1	—
	0.2	0.1

**Notes to the financial statements (continued)**  
**for the year ended 31 August 2020**

**11. Tax**

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

	2020 £million	2019 £million
Corporation tax:		
UK corporation tax	5.5	6.1
Adjustments in respect of prior periods	(0.1)	—
	5.4	6.1
Deferred tax (note 15)	0.5	—
	5.9	6.1

Corporation tax is calculated at 19.0% (2019: 19.0%) 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:

	2020 £million	2019 £million
Profit before tax	31.0	31.7
Tax at the UK corporation rate of 19.0% (2019: 19.0%)	5.9	6.0
Effects of:		
Expenses not deductible for tax purposes	0.1	—
Adjustments in respect of prior periods	(0.1)	0.1
Tax charge for the year	5.9	6.1

*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.

**12. 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:		
Interim dividend for the year (equivalent to 5,200p per share, 2019: 5,600p per share)	26.0	28.0
	26.0	28.0

The Directors do not recommend the payment of a final dividend (2019: £nil).



# OTC Direct Limited

## Notes to the financial statements (continued) for the year ended 31 August 2020

### 13. Intangible assets

	Software £million
<b>Cost</b>	
At 1 September 2019	0.2
<b>At 31 August 2020</b>	<b>0.2</b>
<b>Amortisation</b>	
At 1 September 2019	0.2
<b>At 31 August 2020</b>	<b>0.2</b>
<b>Carrying amount</b>	
At 31 August 2019	—
<b>At 31 August 2020</b>	<b>—</b>

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

### 14. Property, plant and equipment

	Short Leasehold Buildings £million	Fixtures, fittings, tools and equipment £million	Total £million
<b>Cost</b>			
At 1 September 2019	3.2	1.3	4.5
Additions	0.1	0.1	0.2
<b>At 31 August 2020</b>	<b>3.3</b>	<b>1.4</b>	<b>4.7</b>
<b>Accumulated depreciation</b>			
At 1 September 2019	0.6	0.5	1.1
Charge for the year	0.2	0.2	0.4
<b>At 31 August 2020</b>	<b>0.8</b>	<b>0.7</b>	<b>1.5</b>
<b>Carrying amount</b>			
At 31 August 2019	2.6	0.8	3.4
<b>At 31 August 2020</b>	<b>2.5</b>	<b>0.7</b>	<b>3.2</b>

### 15. Deferred Tax

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

	Decelerated/ (accelerated) tax depreciation £million	Total £million
At 1 September 2018	0.1	0.1
Charge to profit or loss	—	—
At 31 August 2019	0.1	0.1
Charge to profit or loss	(0.5)	(0.5)
<b>At 31 August 2020</b>	<b>(0.4)</b>	<b>(0.4)</b>

### 16. Inventories

	2020 £million	2019 £million
Work-in-progress	9.8	15.4
Finished goods	12.7	14.0
	<b>22.5</b>	<b>29.4</b>

The amount of inventory recognised as an expense in the year was £341.4 million (2019: £364.2 million).

# OTC Direct Limited

## Notes to the financial statements (continued) for the year ended 31 August 2020

### 17. Trade and other receivables

	2020 £million	2019 £million
Amounts falling due within one year:		
Amount receivable for the sale of goods	56.9	48.0
Amounts owed by group undertakings	38.1	35.2
Other receivables	2.1	4.3
Prepayments	0.4	0.2
Accrued income	2.3	1.2
Included in current assets	99.8	88.9
<b>Total trade and other receivables</b>	<b>99.8</b>	<b>88.9</b>

Included within Amounts owed by Group undertakings is £26.9 million (2019: £24.4 million) relating to cash held by other Group companies as part of a cash pooling arrangement, which is subject to interest charged at Sterling Overnight Index Average rate.

### 18. Trade and other payables

	2020 £million	2019 £million
Amounts falling due within one year:		
Trade payables	30.6	29.9
Amounts owed to Group undertakings	15.5	15.4
Other creditors	7.1	1.6
Accruals	3.6	2.6
Deferred income	3.3	3.8
Corporation tax payable	—	2.7
Included in current liabilities	60.1	56.0
<b>Total trade and other payables</b>	<b>60.1</b>	<b>56.0</b>

Amounts owed to Group undertakings are unsecured and repayable on demand. No interest is incurred on these amounts.

Included in other creditors in the current year is £5.7 million of VAT which has been deferred in line with the Government's COVID-19 policy.

### 19. Provisions

	Refurbishment and reorganisation £million
At 1 September 2019	0.5
Provisions released during the year	(0.3)
<b>At 31 August 2020</b>	<b>0.2</b>

### 20. Share capital

	2020 £million	2019 £million
<b>Authorised</b>		
500,000 ordinary shares of £1 each (2019: 500,000 ordinary shares)	0.5	0.5
<b>Issued and fully paid</b>		
500,000 ordinary shares of £1 each (2019: 500,000 ordinary shares)	0.5	0.5

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

**Notes to the financial statements (continued)**  
**for the year ended 31 August 2020**

**21. Retained earnings**

	£million
At 1 September 2018	67.4
Dividends paid	(28.0)
Profit for the year	25.6
At 31 August 2019	65.0
Dividends paid	(26.0)
Profit for the year	25.1
At 31 August 2020	64.1

**22. Leases**

The Company leases warehouses and certain 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. With the adoption of IFRS 16 Leases effective September 1, 2019, all leases are now classified as finance lease except for short term leases less than twelve months and low value asset leases.

*The Company as lessee*

Lease payments under operating leases recognised as an expense in 2019 before the adoption of IFRS 16 Leases were £0.6 million.

Operating lease payments before the adoption of IFRS 16 Leases represent rentals payable by the Company for warehouses and equipment. These have an average duration of between 5 and 10 years.

**Amounts recognised in the balance sheet**

	31 August 2020
	Land and buildings
	£million
<b>Right-of-use assets</b>	<b>3.3</b>
Lease liabilities - current	0.4
Lease liabilities - non-current	3.2
<b>Total lease liabilities</b>	<b>3.6</b>

**Amounts recognised in the income statement**

	31 August 2020
	Land and buildings
	£million
Depreciation expense on right-of-use assets	0.4
Interest expense on lease liabilities	0.1

**Other supplemental disclosures are as follows:**

	31 August 2020
	£million
Total cash flow for leases	0.5
Weighted average remaining lease term in years	8
Weighted average discount rate	2.9 %

**Notes to the financial statements (continued)**  
**for the year ended 31 August 2020**

**22. Leases (continued)**

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under leases, which fall due as follows:

	2020	2019
	Land and buildings	Land and buildings <sup>1</sup>
	£million	£million
Less than one year	0.5	—
Between one and five years inclusive	2.0	—
More than five years	1.5	—
Future minimum lease payments	4.0	—
Interest portion	(0.4)	—
Lease liability	3.6	—

<sup>1</sup> Prior to adoption of IFRS 16, Leases.

**23. 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 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).

**24. Events after the balance sheet date**

On 6 January 2021, Walgreens Boots Alliance, Inc., the ultimate parent company, entered into an agreement to sell its Pharmaceutical Wholesale division, including the Company, to AmerisourceBergen Corporation. The transaction is expected to be finalised by September 2021, subject to the completion of standard closing conditions including the required regulatory approvals. The Company's financial results and the position at the end of the financial year have not been impacted by this event and thus no adjustment is required.

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

**25. 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	2019	2020	2019
	£million	£million	£million	£million
<b>Related party</b>				
Alliance Healthcare Italia Distribuzione S.p.A.	—	0.1	3.1	4.1

	Amounts owed by related parties		Amounts owed to related parties	
	2020	2019	2020	2019
	£million	£million	£million	£million
<b>Related party</b>				
Alliance Healthcare Italia Distribuzione S.p.A.	—	—	0.1	0.2

Alliance Healthcare Italia Distribuzione S.p.A. is a company where directors of Walgreens Boots Alliance Inc. hold a qualifying interest.

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

**26. Ultimate parent undertaking**

On 22 April 2020, the immediate parent company of the Company changed from Alliance Boots Holdings Limited to WBA UK Holdco 1 Limited.

At 31 August 2020, the Company's immediate parent company was WBA UK Holdco 1 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.