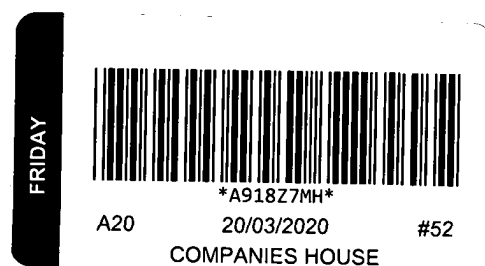


Company registration number: 04034358



Boots International Limited
Annual report and financial statements
for the year ended 31 August 2019

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Boots International Limited

Strategic report

for the year ended 31 August 2019

Principal activities

Boots International Limited ("the Company")'s principal activity during the period was the distribution of healthcare and consumer products to overseas customers, both external and internal to the Walgreens Boots Alliance group of companies (the "Group"). There was a business transfer in January 2018 which means that performance is not comparable on a like for like basis, this transfer will be a larger driver of the increase in revenue in 2019.

Business review

	2019		2018	
	£'000	Change	£'000	Change
Revenue	237,626	33 %	178,496	19 %
Operating profit	19,099	7 %	17,796	16 %
Profit for the year	15,454	9 %	14,120	11 %
Shareholders' equity	72,917	27 %	57,463	33 %

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

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. This is heightened due to the uncertainties around the impacts from Brexit.

Mitigation

The Company has a rigorous process for identifying and monitoring all business critical suppliers and we develop appropriate contingency plans for suppliers we consider to be 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, at the date of this annual report, it remains unclear what the future trading relationship with the EU will look like. Whilst the outcome remains uncertain, the Company's Brexit project team has put in place detailed plans to mitigate risks that could materialise as the potential exit date approaches. Part of the Company's continuity of supply mitigation has included increasing stockholding in warehouses where appropriate, and over-labelling products to ensure continuing supply. The impact of any price increases, as a result of increased administration and import duties, are being considered carefully to ensure that we continue to respond to the needs of our customers. Through such a diligent approach the Company believes it is well placed to deal with any outcome, making appropriate acknowledgment of the current uncertainty.

Impact of regulation

Risk

The Company operates in regulated markets and could be adversely affected by changes to existing regulation, new regulation and/or failure to comply with regulation.

Mitigation

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

Changes and trends in consumer behaviour

Risk

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

Mitigation

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

Competition

Risk

Changes in market dynamics or actions of competitors or manufacturers could adversely impact the Company.

Mitigation

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

Boots International Limited

Strategic report (continued)

for the year ended 31 August 2019

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 contractual controls in relation to suppliers and a cohesive product control framework. This includes specific controls for the identification of counterfeit product.

Data protection

Risk

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

Mitigation

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

Sustainability

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

Approved by the Board and signed on its behalf by:



A Thompson
Company Secretary
18 December 2019

Boots International Limited

Directors' report

for the year ended 31 August 2019

The Directors present their report and the audited financial statements for the year ended 31 August 2019.

Going concern

The Company has net current assets 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 the 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

The Directors do not recommend the payment of a dividend (2018: £Nil).

Future developments

The Company intends to continue operating in the distribution of healthcare and consumer products to its customers.

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 Murphy	Appointed on 21 December 2018
E Harris	Appointed on 19 August 2019
R Counsell	Resigned on 19 August 2019
K Murphy	Resigned on 21 December 2018

The Company provided qualifying third party indemnity provisions to certain directors of associated companies during the financial year and at the date of this report.

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:



A Thompson
Company Secretary
18 December 2019

Registered office:
1 Thane Road West,
Nottingham,
Nottinghamshire,
NG2 3AA

Registered in England and Wales No. 04034358

Boots International Limited

Directors' responsibilities statement

for the year ended 31 August 2019

The Directors are responsible for preparing the Annual report and 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.

Boots International Limited

Independent auditor's report

to the members of Boots International Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2019 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 of Boots International Limited (the 'company') which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 21.

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 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Boots International Limited

Independent auditor's report (continued)

to the members of Boots International 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.



David Crawford CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Nottingham, United Kingdom

18 December 2019

Boots International Limited

Income statement

for the year ended 31 August 2019

		2019	2018
	Notes	£'000	£'000
Revenue	4	237,626	178,496
Cost of sales		(140,791)	(103,391)
Gross profit		96,835	75,105
Distribution costs		(8,574)	(8,031)
Administrative expenses		(69,162)	(49,279)
Operating profit		19,099	17,796
Investment revenue	8	155	109
Profit before taxation		19,254	17,905
Tax	9	(3,800)	(3,785)
Profit for the year	5	15,454	14,120

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 separate statement of comprehensive income.

Boots International Limited

Balance sheet

As at 31 August 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	10	5,631	7,527
Property, plant and equipment	11	1,702	2,233
Deferred tax assets	12	52	51
		7,385	9,811
Current assets			
Inventories	13	49,265	54,215
Trade and other receivables	14	81,013	69,414
Cash and bank balances		802	15,998
		131,080	139,627
Total assets		138,465	149,438
Liabilities			
Current liabilities			
Trade and other payables	15	(56,743)	(83,690)
Provisions	16	(990)	—
		(57,733)	(83,690)
Net current assets		73,347	55,936
Total assets less current liabilities		80,732	65,747
Non-current liabilities			
Trade and other payables	15	(7,815)	(8,284)
		72,917	57,463
Equity			
Share capital	17	35,000	35,000
Retained earnings	18	37,917	22,464
Total Equity		72,917	57,463

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

The financial statements of Boots International Limited (registered number: 04034358) were approved by the Board of directors and authorised for issue on 18 December 2019.

They were signed on its behalf by:

E Harris

Director
E Harris

Boots International Limited

Statement of changes in equity

for the year ended 31 August 2019

	Share capital	Retained Earnings	Total
	£'000	£'000	£'000
At 1 September 2017	35,000	8,343	43,343
Profit for the year	—	14,120	14,120
At 31 August 2018	35,000	22,463	57,463
Profit for the year	—	15,454	15,454
At 31 August 2019	35,000	37,917	72,917

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

Boots International Limited

Notes to the financial statements

for the year ended 31 August 2019

1. General information

Boots International Limited (the "Company") is a private limited company, registered in the United Kingdom.

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 pounds 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. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

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*;

Comparative disclosures for the indicated standards.

- (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*;
- (j) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- (k) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers*.

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

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.

Boots International Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

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 2018. Their adoption has not had a material impact on the disclosures or on the amounts reported in these financial statements.

- **IFRS 9 *Financial Instruments*:** The Company has adopted IFRS 9 *Financial Instruments* (revised in July 2014) and the related consequential amendments to other IFRS Standards for the first time in the current year. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*.

Changes in accounting policies resulting from the adoption of IFRS 9 are described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 September 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.
 - The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on the asset had not increased significantly since its initial recognition.
 - Changes to hedge accounting policies have been applied prospectively.
 - All hedging relationships designated under IAS 39 at 31 August 2018 met the criteria for hedge accounting under IFRS 9 at 1 September 2018 and are therefore regarded as continuing hedging relationships.
- **IFRS 15 *Revenue from Contracts with Customers*:** The Company has adopted IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) for the first time in the current year. IFRS 15 introduced a 5-step approach to revenue recognition, with more prescriptive guidance added to deal with specific scenarios.

The Company has applied IFRS 15 using the retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 September 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

- **IFRIC 22 *Foreign Currency Transactions and Advance Consideration*:** IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

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 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.

Franchise fee income

Franchise revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

Boots International Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Significant accounting policies (continued)

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.

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 after charging restructuring costs but 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 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.

Boots International Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. 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:

- Fixtures, fittings, tools and equipment – 5 to 10 years; and
- Leasehold Improvements – 3 to 8 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Costs incurred for intangible assets which have not yet been completed are recognised as Assets in course of construction.

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

Impairment of property, plant and equipment and intangible assets

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

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

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

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

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

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.

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.

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Significant accounting policies (continued)

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.

For certain categories of financial asset, 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 differences 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.

In reference to IFRS 9, Boots International only holds basic financial instruments, held at amortised cost. Therefore, the only area impacted by the change in accounting standard is trade receivables. The Company has had no debt written off since 2015, and therefore suggests the impact on our current year financial statements would be extremely small and that a provision of £nil is appropriate.

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.

Boots International Limited

Notes to the financial statements (continued) for the year ended 31 August 2019

2. Significant accounting policies (continued)

Inventories

Inventories (both raw materials and finished goods) are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first in, first out method. The cost of finished goods comprises the purchase cost of goods, direct labour 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.

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.

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

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

Taxation

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

Assets under construction

Management judgment is required to determine whether the carrying value of asset under construction is supported by the expected 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.

Stock provision

Management judgement is required to determine the value of the stock provision in relation to excess and obsolete inventory. In assessing the value, this is per the inventory provision policy. Stock is provided for based on remaining shelf life and expected sell through to retailers, the expected sell through is based on an a view of historical data.

Key sources of estimation uncertainty

No areas of estimation uncertainty identified that would cause significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. Revenue

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

	2019	2018
	£'000	£'000
Turnover by geographical location is as follows:		
Europe	68,029	24,723
USA	136,070	120,534
Rest of World	33,527	33,239
Total Revenue	237,626	178,496

Boots International Limited

Notes to the financial statements (continued) for the year ended 31 August 2019

5. Profit for the year

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

	2019	2018
	£'000	£'000
Net foreign exchange losses	517	306
Group recharge for salary costs	58,415	64,683
Depreciation of property, plant and equipment (note 11)	524	602
Impairment of customer relationships (note 10)	—	1,758
Loss on disposal of property, plant and equipment (note 11)	—	39
Cost of inventories	131,333	98,033
Write downs of inventories recognised as an expense	9,458	5,358
Amortisation of intangibles (note 10)	2,394	2,326
Rental charges under operating leases:		
- Land and buildings	1,092	1,270

In the prior year there was an impairment of customer relationships following the acquisition of Sleek International Limited. Sleek International was integrated on the 31st July 2018, and it was part of the WBA Group.

6. Auditor's remuneration

The fee for the audit of these financial statements incurred in 2019 is £54,000 (2018: £17,000). The fee for 2019 includes fees for three other entities within the group. The amount allocated to this entity in 2019 is £42,000.

No non-audit services were provided to the company by its auditor (2018: £nil).

7. Staff numbers and costs

The Directors have not received any remuneration for their services as a Director to the Company during the current year and preceding financial year.

No emoluments are payable to the Directors for their services to the Company in the current or preceding financial periods.

All staff and Directors were employed and paid on behalf of the Company by a fellow Group undertaking.

8. Investment revenue

	2019	2018
	£'000	£'000
Interest receivable from bank deposits	2	16
Interest receivable from Group undertakings	153	93
Total interest receivable	155	109

9. Tax

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

	2019	2018
	£'000	£'000
Corporation tax:		
UK corporation tax	3,814	3,812
Double tax relief	(1,352)	(1,439)
Foreign tax	1,352	1,439
Adjustments in respect of prior periods		
- UK corporation tax	(13)	(6)
- Foreign tax	—	1
	3,801	3,807
Deferred tax (note 12)		
Origin and reversal of timing differences	(17)	(23)
Adjustment in respect of prior period	16	1
	3,800	3,785

Corporation tax is calculated at 19.0% (2018: 19.0%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Boots International Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

9. Tax (continued)

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

	2019 £'000	2018 £'000
Profit before tax	19,254	17,905
Tax at the UK corporation rate of 19.0% (2018: 19.0%)	3,658	3,402
Effects of:		
Expenses not deductible for tax purposes	137	384
Non-taxable income	3	(4)
Non-taxable dividends received	2	3
Tax charge for the year	3,800	3,785

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.

10. Intangible assets

	Customer Relationships £'000	Software £'000	Assets in the course of construction £'000	Total £'000
Cost				
At 1 September 2018	4,428	7,680	811	12,919
Additions		19	1,710	1,729
Transfers to other group entity		(2,708)	—	(2,708)
Reclassified from assets in the course of construction		1,756	(1,756)	—
At 31 August 2019	4,428	6,747	765	11,940
Amortisation				
At 1 September 2018	1,843	3,549	—	5,392
Charge for the year	579	1,815	—	2,394
Transfers to other group entity		(1,477)	—	(1,477)
At 31 August 2019	2,422	3,887	—	6,309
Carrying amount				
At 31 August 2018	2,585	4,131	811	7,527
At 31 August 2019	2,006	2,860	765	5,631

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

- Customer Relationships are amortised over 15 years;
- Software is amortised over 3 to 5 years; and
- Software assets in the course of construction are not amortised.

The annual impairment tests support the carrying value of customer relationships and therefore there was no impairment charge in the period.

Boots International Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

11. Property, plant and equipment

	Fixtures, fittings, tools and equipment	Leasehold improvements	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 September 2018	2,721	922	36	3,679
Additions	114	—	507	621
Reclassified from assets in the course of construction	156	—	(156)	—
Transfers to other group entity	(922)	—	—	(922)
At 31 August 2019	2,069	922	387	3,378
Accumulated depreciation				
At 1 September 2018	1,063	383	—	1,446
Charge for the year	403	121	—	524
Transfers to other group entity	(294)	—	—	(294)
At 31 August 2019	1,172	504	—	1,676
Carrying amount				
At 31 August 2018	1,658	539	36	2,233
At 31 August 2019	897	418	387	1,702

12. Deferred Tax

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

	Accelerated/ (decelerated) tax depreciation	Other temporary differences	Total
	£'000	£'000	£'000
At 1 September 2017	9	—	9
Business transfer	15	—	15
Charge to profit or loss	22	5	27
At 31 August 2018	46	5	51
Charge to profit or loss	6	(5)	1
At 31 August 2019	52	—	52

The Company expects sufficient future profits in order to recognise a deferred tax asset.

13. Inventories

	2019	2018
	£'000	£'000
Raw materials	20,628	19,382
Finished goods	28,637	34,833
	49,265	54,215

14. Trade and other receivables

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Amount receivable for the sale of goods	7,814	7,486
Amounts owed by group undertakings	62,103	52,941
Other receivables	9,642	8,987
Corporation tax receivable	1,454	—
Total trade and other receivables	81,013	69,414

Boots International Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

15. Trade and other payables

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade payables	25,373	34,892
Amounts owed to Group undertakings	19,756	39,944
Corporation tax payable	—	407
Other creditors	44	—
Accruals and deferred income	11,570	8,447
Included in current liabilities	56,743	83,690
Amounts falling due for more than one year:		
Amounts owed to Group undertakings	7,815	8,284
Included in non-current liabilities	7,815	8,284
Total trade and other payables	64,558	91,974

16. Provisions

	2019 £'000	2018 £'000
Reorganisation	696	—
Other provisions	294	—
	990	—
Current	990	—
	990	—

	Reorganisation £'000	Other provisions £'000	Total £'000
At 1 September 2018	—	—	—
Provisions created during the year	696	294	990
At 31 August 2019	696	294	990

The reorganisation provision relates to employee restructuring within the head office operations. The majority of these costs are expected to be incurred in the next year.

17. Share capital

	2019 £'000	2018 £'000
Authorised		
40,000,000 ordinary shares of £1 each (2018: 40,000,000 shares)	40,000	40,000
Issued and fully paid		
35,000,002 ordinary shares of £1 each (2018: 35,000,002 shares)	35,000	35,000

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

Boots International Limited

Notes to the financial statements (continued) for the year ended 31 August 2019

18. Retained earnings

	£'000
At 1 September 2017	8,343
Profit for the year	14,120
At 31 August 2018	22,463
Profit for the year	15,454
At 31 August 2019	37,917

19. Operating lease arrangements

The Company as lessee

Lease payments under operating leases recognised as an expense in the year were £1,092,000 (2018: £1,270,000)

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

	2019 Land and buildings £'000	2018 Land and buildings £'000
Less than one year	908	908
Between one and five years inclusive	2,412	3,322
More than five years	—	—
	3,320	4,230

Operating lease payments represent rentals payable by the Company for its office properties. The lease has a term of 8 years and expires in April 2023.

20. 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	
	2019 £'000	2018 £'000
Related party		
Non-wholly owned subsidiary - Alliance Healthcare Portugal	534	287
Non-wholly owned subsidiary - Alliance Healthcare Italy	884	970
	Amounts owed by related parties	
	2019 £'000	2018 £'000
Related party		
Non-wholly owned subsidiary - Alliance Healthcare Portugal	12	67
Non-wholly owned subsidiary - Alliance Healthcare Italy	105	487

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

21. Ultimate parent undertaking

At 31 August 2019, the Company's immediate parent company was Alliance Boots Holdings Limited and its ultimate parent company and controlling party was Walgreens Boots Alliance, Inc. Walgreens Boots Alliance, Inc. is also the parent undertaking of the largest and smallest group in which the Company is consolidated. The consolidated financial statements of this group are available from the Walgreens Boots Alliance website at www.walgreensbootsalliance.com.

Walgreens Boots Alliance, Inc. is incorporated in the United States of America, and its principal office address is 108 Wilmot Road, Deerfield, Illinois, 60015.