

Company registration number: 00928555

Boots UK Limited
Annual report and financial statements
for the year ended 31 August 2018

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Boots UK Limited

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Boots UK Limited

Strategic report

for the year ended 31 August 2018

Principal activities

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

Business review and key performance indicators

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

	2018 £million	Change	Restated* 2017 £million	Change
Revenue	6,790	-2.3%	6,948	-0.8%
Operating profit	391	-22.3%	503	-2.5%
Profit for the year	317	-18.3%	388	-11.2%
Shareholders' equity	1,872	+5.6%	1,772	+47.2%

*2017 has been restated to reclassify £111 million of revenue from Group undertakings, previously included within cost of sales, to revenue.

The Company is a pharmacy-led health and beauty retail business focused on helping people look and feel their best. The Company operated 2,485 stores as of 31 August 2018 (2017: 2,486 stores) and has an online presence. Our retail stores are conveniently located and its pharmacists are well placed to provide a significant role in the provision of healthcare services, working closely with other primary healthcare providers in the communities we serve.

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

The Company's retail store networks are typically complemented by online platforms. Through the boots.com website and integrated mobile application, the 'order and collect' service allows customers to order from a range of over 33,000 products by 8:00 p.m. and collect from noon the following day from approximately 99% of our retail stores as of 31 August 2018.

The Boots Advantage Card loyalty program, where customers earn points on purchases for redemption at a later date, continues to be a key element of the Boots offering. As of 31 August 2018, the number of active Boots Advantage Card members totalled approximately 14.4 million (2017: 14.6 million). For this purpose, an active member is defined as someone who has used their card in the last six months.

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

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

The Company's Retail revenue, gross profit and gross profit margin are impacted by, among other things, the highly competitive nature of the health and beauty category. In particular, our own and our competitors' pricing actions, promotional offers and events and the customer's desire for value and convenience.

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

In addition, on 28 August 2018, the Company acquired shares in WBAD Holdings 2 Limited, a fellow Group undertaking, for £195 million.

Future developments

The Company intends to continue operating in the pharmacy-led health and beauty retailing.

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.

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 the EU referendum.

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.

Boots UK Limited

Strategic report (continued)

for the year ended 31 August 2018

Principal risks and uncertainties (continued)

Impact of regulation

Risk

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

Mitigation

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

Changes and trends in consumer behaviour

Risk

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

Mitigation

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

Competition

Risk

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

Mitigation

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

Health, safety and environmental risks

Risk

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

Mitigation

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

Product/services risk

Risk

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

Mitigation

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

Major operational business failures

Risk

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

Mitigation

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

Increased costs

Risk

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

Mitigation

The Company uses procurement professionals and sophisticated procurement techniques to purchase goods and services on a national and international basis. The Company carefully controls operating costs such as payroll and has a property management function to manage lease negotiations in the UK.

Strategic report (continued)

for the year ended 31 August 2018

Principal risks and uncertainties (continued)

Change management

Risk

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

Mitigation

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

Currency exchange

Risk

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

Mitigation

The Company has rigorous policies and procedures in place to manage and report transaction exposures. Translation exposures are partially mitigated by ensuring that borrowings are denominated in the major currencies in which we operate.

Pension contributions

Risk

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

Mitigation

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

Data protection

Risk

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

Mitigation

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

Approved by the Board and signed on its behalf by:



A Thompson
Company Secretary
11 October 2018

Boots UK Limited

Directors' report

for the year ended 31 August 2018

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

Going concern

The Company has net current assets and continuing cash generation and therefore the directors have assessed that there is no material uncertainty surrounding the going concern of the entity. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

Financial instruments

The Company is exposed to currency and interest rate risk. The Group's treasury function manages these risks at a Group level in accordance with Group Treasury Policy including the use of financial instruments for the purpose of managing these risks. Group risks are discussed in the Group's Annual Report, which does not form part of this report.

Dividends

A dividend of £320 million (2017: £nil) was declared and paid in the year.

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:

R Bradley	
E Fagan	
S James	(appointed 3 October 2018)
M Snape	(appointed 3 October 2018)
K Birch	(resigned 18 June 2018)
N Clements	(appointed 26 June 2018, resigned 3 October 2018)
P Dunne	(appointed 26 June 2018, resigned 3 October 2018)
J Wass	(resigned 26 June 2018)

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

Auditor

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

Disclosure of information to auditor

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

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

Approved by the Board and signed on its behalf by:



A Thompson
Company Secretary
11 October 2018

Registered office:
Nottingham
NG2 3AA

Registered in England and Wales No. 00928555

Boots UK Limited

Directors' responsibilities statement

for the year ended 31 August 2018

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Boots UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Boots UK Limited:

- give a true and fair view of the state of the company's affairs as at 31 August 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 35.

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.

Independent auditor's report to the members of Boots UK Limited (continued)

Report on other legal and regulatory requirements

Options on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception


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

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

We have nothing to report in respect of these matters.

Use of our report

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


Jane Whitlock ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Nottingham, UK
11 October 2018

Boots UK Limited

Income statement

for the year ended 31 August 2018

	Notes	2018 £million	Restated* 2017 £million
Revenue	4	6,790	6,948
Cost of sales		(4,121)	(4,136)
Gross profit		2,669	2,812
Distribution costs		(2,110)	(2,106)
Administrative expenses		(168)	(203)
Operating profit		391	503
Income from shares in Group undertakings	8	8	6
Investment revenue	8	5	1
Finance costs	9	(6)	(13)
Other gains and losses	10	-	1
Profit before taxation		398	498
Tax	11	(81)	(110)
Profit for the year	5	317	388

*2017 has been restated to reclassify £111 million of revenue from Group undertakings, previously included within cost of sales, to revenue.

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.

Boots UK Limited

Statement of comprehensive income

for the year ended 31 August 2018

	Notes	2018 £million	2017 £million
Profit for the year		317	388
Other comprehensive income for the year			
Items that will not be reclassified subsequently to income statement:			
Remeasurement gains on defined benefit pension plans	26	125	170
Tax on items that will not be reclassified subsequently to income statement	11	(22)	10
Total comprehensive income for the year		420	568

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

Boots UK Limited


Balance sheet

As at 31 August 2018

	Notes	2018 £million	2017 £million
Assets			
Non-current assets			
Intangible assets	13	997	1,020
Property, plant and equipment	14	787	799
Investments in subsidiaries	15	9	2
Interests in associates	16	14	14
Other investments	17	195	-
Trade and other receivables	19	22	22
Defined benefit pension asset	26	205	60
		2,229	1,917
Current assets			
Inventories	18	635	643
Trade and other receivables	19	877	866
Derivative financial instruments	20	1	-
Cash and bank balances		40	39
		1,553	1,548
Total assets		3,782	3,465
Liabilities			
Current liabilities			
Current tax liabilities		(36)	(51)
Trade and other payables	21	(1,156)	(1,179)
Borrowings	23	(245)	-
Obligations under finance leases	22	(1)	(1)
Provisions	24	(6)	(12)
		(1,444)	(1,243)
Net current assets		109	305
Total assets less current liabilities		2,338	2,222
Non-current liabilities			
Trade and other payables	21	(72)	(47)
Borrowings	23	(260)	(295)
Obligations under finance leases	22	(1)	(2)
Long term provisions	24	(2)	(2)
Deferred tax liabilities	25	(131)	(104)
		(466)	(450)
Total liabilities		(1,910)	(1,693)
Net assets		1,872	1,772
Equity			
Share capital	27	710	710
Actuarial reserve	28	117	14
Retained earnings	29	1,045	1,048
Total Equity		1,872	1,772

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

The financial statements of Boots UK Limited (registered number 00928555) were approved by the Board of directors and authorised for issue on 11 October 2018. They were signed on its behalf by:



M Snape
Director

Boots UK Limited

Statement of changes in equity

for the year ended 31 August 2018

	Share capital £million	Actuarial reserve £million	Retained earnings £million	Total £million
At 1 September 2016	710	(166)	660	1,204
Profit for the year	-	-	388	388
Other comprehensive income for the year	-	180	-	180
Total comprehensive income for the year	-	180	388	568
At 31 August 2017	710	14	1,048	1,772
Profit for the year	-	-	317	317
Other comprehensive income for the year	-	103	-	103
Total comprehensive income for the year	-	103	317	420
Dividends paid (note 12)	-	-	(320)	(320)
At 31 August 2018	710	117	1,045	1,872

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

Boots UK Limited

Notes to the financial statements

for the year ended 31 August 2018

1. General information

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

The address of the registered office is given on page 4.

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 are individual accounts. The Company is exempt from the preparation of consolidated financial statements under s401 of the Companies Act, because it is included in the group accounts of Walgreens Boots Alliance, Inc. (the "Group"). The group accounts of Walgreens Boots Alliance, Inc. are available from the Walgreens Boots Alliance website at www.walgreensbootsalliance.com. The principal office of the parent company preparing consolidated accounts is 108 Wilmot Road, Deerfield, Illinois, 60015, United States of America.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at 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.

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 IFRS 7 *Financial Instruments: Disclosures*;
- (c) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*;
- (d) 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*;
- (e) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*; *Statement of cash flows*, *statement of financial position for the earliest comparative period*, *capital management disclosures*.
- (f) the requirements of IAS 7 *Statement of Cash Flows*;
- (g) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- (h) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*; and
- (i) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The principal accounting policies adopted are set out below.

Going concern

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

The Company has net current assets and generates positive cash flows and expects this to continue in future periods. In addition, the Company has no external debt or covenants. 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.

Notes to the financial statements (continued)

for the year ended 31 August 2018

2. Significant accounting policies (continued)

- Changes in accounting policies and disclosures
- (IASB) and endorsed for use in the European Union and are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had a material impact on the disclosures or on the amounts reported in these financial statements.
- Amendments IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*: The Company has adopted the amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* for the first time in the current year. The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles of accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.
- A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.
- The adoption of these amendments has had no impact on the Company's financial statements.
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*: The Company has adopted the amendments to IAS 27 *Equity Method in Separate Financial Statements* for the first time in the current year. The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, associates and joint ventures in its separate financial statements:
 - at cost;
 - in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9); or
 - using the equity method as described in IAS 28 *Investments in Associates and Joint Ventures*.
- The same accounting must be applied to each category of investments.
- The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.
- The adoption of the amendments has had no impact on the Company's financial statements as the Company accounts for investments in subsidiaries and associates at cost and is not an investment entity.
- Investments in subsidiaries**
- Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.
- Investments in associates**
- An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for at cost less, where appropriate, provisions for impairment.
- Impairment of investments**
- At each balance sheet date, the Company reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.
- Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.
- If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
- Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the financial statements (continued)

for the year ended 31 August 2018

2. Significant accounting policies (continued)

Revenue recognition

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

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

Dividend and interest revenue

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

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

The Company as lessee

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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.

The Company as lessor

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

Borrowing costs

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

Foreign currencies

Currency transactions

Transactions denominated in currencies other than the 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 the 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.

Notes to the financial statements (continued)

for the year ended 31 August 2018

2. Significant accounting policies (continued)

Operating profit

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

Retirement and death benefit costs

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

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

The discount rate is the yield at the period end on AA rated bonds that have maturing dates approximating to the terms of the Company's obligations.

The calculation is performed by a qualified actuary using the projected unit credit method. Scheme assets are at bid price.

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

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

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 2018

2. Significant accounting policies (continued)

Property, plant and equipment

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

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

- 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;
- Short leasehold buildings – depreciated over the lease term;
- Building improvements – depreciated over the lower of: their useful economic lives and the remaining lease term;
- Plant and machinery – 3 to 10 years; and
- Fixtures, fittings, tools and equipment – 3 to 20 years.

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

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

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.

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.

Management have reviewed loss making stores and assessed such stores for impairment purposes. No material differences have been noted.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first in, first out method or weighted average cost 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.

Notes to the financial statements (continued)
for the year ended 31 August 2018

2. Significant accounting policies (continued)

Financial instruments

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

Financial assets

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

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

Effective interest method

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

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

Available for sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

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

Impairment of financial assets

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

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS, 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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Notes to the financial statements (continued)

for the year ended 31 August 2018

2. Significant accounting policies (continued)

Financial instruments (continued)

With the exception of AFS equity instruments, 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.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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.

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.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 30.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

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

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.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Notes to the financial statements (continued)

for the year ended 31 August 2018

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Company's accounting policies

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.

Operating lease commitments

The Company has entered into commercial property leases and as a lessee it obtains the use of property, plant and equipment. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

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. Further details are contained in note 25.

Key sources of estimation uncertainty

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

Pharmacy revenue

Due to timing of the receipt of pharmacy revenue, the Company holds two months of revenue estimates at each period end. This estimate is calculated by taking the reimbursement rate from the latest payment, adjusting for known changes in market conditions and applying this to the number of items data received from the stores.

Loyalty card

The fair value of the points issued relative to the fair value of the transaction is deferred and must only be recognised as revenue when the points are redeemed. This relative fair value is calculated using the retail value net of VAT, adjusted to take into account the expected level of redemption. The amount and age profile of deferred income in the balance sheet is reviewed on a regular basis and adjusted to reflect expectations of redemption.

Fair value measurements and valuation processes

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

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

Impairment of investments in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries at the balance sheet date was £9 million (2017: £2 million) with no impairment loss recognised in 2018 (2017: impairment loss of £nil).

Pension and other post-employment benefits

The assets of defined benefit pension plans are valued at bid price. The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, asset returns, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of the Corporate bond model (Global RATE: Link 10:90 model with gilts adjustment). The mortality rate is based on publicly available UK mortality tables and pension increases are based on the UK's expected future inflation rates. As the Scheme is closed to future accrual, future salary increase assumptions are not relevant. Further details are given in note 26.

Boots UK Limited

Notes to the financial statements (continued) for the year ended 31 August 2018

4. Revenue

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

	2018 £million	Restated* 2017 £million
Continuing operations		
Sale of goods	6,790	6,948
Investment revenue (note 8)	13	7
	6,803	6,955

*2017 has been restated to reclassify £111 million of revenue from Group undertakings, previously included within cost of sales, to revenue.

All revenue is generated in the United Kingdom.

Information about major customers

Included in revenues arising from the sales of goods are revenues of approximately £2,373 million (2017: £2,418 million) which arose from sales to the Company's largest customer. No other single customers contributed 10% or more to the Company's revenue in either 2018 or 2017.

5. Profit for the year

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

	2018 £million	Restated* 2017 £million
Net foreign exchange gains	(1)	(4)
Depreciation of property, plant and equipment (note 14)	120	126
Impairment of property, plant and equipment (note 14)	-	7
Impairment of intangible assets (note 13)	-	5
(Profit)/loss on disposal of property, plant and equipment	(5)	4
Amortisation of intangibles (note 13)	61	60
Cost of inventories recognised in the year (note 18)	4,121	4,156
Write-downs of inventories recognised as an expense	24	49
Reversal of write downs of inventories recognised in the year	(25)	(51)
Write-down of receivables	1	3
Rental charges under operating leases (note 31):		
- Property	360	352
- Hire of plant and machinery	3	4
Reorganisation costs	-	44

*2017 has been restated to reclassify £111 million of revenue from Group undertakings, previously included within cost of sales, to revenue.

6. Auditor's remuneration

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

	2018 £million	2017 £million
Audit of the financial statements	0.3	0.3
Total audit fees	0.3	0.3

In addition, there were non-audit fees of £10,000 relating to other assurance-related services (2017: £nil).

Boots UK Limited

Notes to the financial statements (continued) for the year ended 31 August 2018

7. Staff numbers and costs

All staff and directors were employed and paid on behalf of the Company by a fellow Group undertaking. The employee information and share-based payments are disclosed in the financial statements of that fellow Group undertaking.

Directors' remuneration

	2018 £million	2017 £million
Aggregate remuneration	2.4	1.6
Company contributions to defined contribution schemes	0.1	0.1
	2.5	1.7

Amounts receivable under an equity-settled long-term incentive scheme which have not been paid to the directors as at 31 August 2018 were £4.6 million (2017: £1.8 million). Of this, £0.4 million (2017: £0.5 million) is payable in 2018, £1.8 million (2017: £0.4 million) payable in 2019, £0.3 million (2017: £0.4 million) is payable in 2025, £1.0 million (2017: £0.3 million) is payable in 2026 and £1.1 million (2017: £nil) is payable in 2027. All are conditional upon continued employment.

	2018 Number	2017 Number
The number of directors who:		
Are members of a defined benefit pension scheme	-	-
Are members of a defined contribution scheme ¹	4	4
Had rewards receivable in the form of shares under the long-term incentive scheme	6	4

¹ This relates to the number of directors who were members of a defined contribution scheme as at 31 August 2018.

	2018 £million	2017 £million
Remuneration of the highest paid director:		
Aggregate remuneration	0.9	0.8
Company contributions to defined contribution schemes	0.1	0.1
	1.0	0.9

8. Investment revenue

	2018 £million	2017 £million
Interest receivable from Group undertakings	2	1
Net interest income on defined benefit scheme asset	2	-
Interest from bank deposits	1	-
Total interest receivable	5	1
Income from shares in Group undertakings	8	6
	13	7

9. Finance costs

	2018 £million	2017 £million
Interest payable to Group undertakings	3	8
Financing fees	3	3
Net interest cost on net defined benefit scheme asset	-	2
	6	13

10. Other gains and losses

	2018 £million	2017 £million
Profit on sale of investments	-	1

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

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2018

11. Tax

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

	2018 £million	2017 £million
Corporation tax:		
UK corporation tax	76	96
Deferred tax (note 25):		
Deferred tax charge	-	(2)
Adjustments in respect of prior periods	5	29
Adjustments in respect of changes to tax rate	-	(13)
	5	14
Total tax charge for the year	81	110

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

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

	2018 £million	2017 £million
Profit before tax	398	498
Tax at the UK corporation rate of 19.0% (2017: 19.6%)	76	97
Effects of:		
Non-taxable income	(4)	(3)
Expenses not deductible for tax purposes	4	-
Changes in tax rate	-	(13)
Adjustments in respect of prior periods	5	29
Tax charge for the year	81	110

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

	2018 £million	2017 £million
Deferred tax:		
Items that are or may be reclassified subsequently to the income statement:		
Tax on remeasurement gains on defined benefit pension plans	22	(10)
Total income tax charge/(credit) recognised in other comprehensive income	22	(10)

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 of the future reduction to 17% continues to be reflected in the financial statements.

12. Dividends

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

	2018 £million	2017 £million
Amounts recognised as distributions to equity holders in the year:		
Dividend for the year (equivalent to 45.1 pence per share, 2017: nil pence per share)	320	-

Notes to the financial statements (continued)

for the year ended 31 August 2018

13. Intangible assets

	Goodwill – Pharmacy £million	Goodwill – Other £million	Other intangibles £million	Software £million	Software assets in the course of construction £million	Total £million
Cost						
At 1 September 2017	728	41	14	344	51	1,178
Additions	1	-	-	-	38	39
Reclassified from assets in course of construction	-	-	-	24	(24)	-
Disposals	-	-	-	(6)	-	(6)
At 31 August 2018	729	41	14	362	65	1,211
Amortisation						
At 1 September 2017	-	-	12	146	-	158
Charge for the year	-	-	1	60	-	61
Disposals	-	-	-	(5)	-	(5)
At 31 August 2018	-	-	13	201	-	214
Carrying amount						
At 31 August 2017	728	41	2	198	51	1,020
At 31 August 2018	729	41	1	161	65	997

Pharmacy goodwill recognised as intangible assets does not expire and therefore is considered to have an indefinite life. Other goodwill has been identified as having an indefinite life based on the life and history of the Boots brand along with current market strength and future development plans.

Pharmacy and other goodwill are not amortised but are subject to annual impairment tests. The annual impairment tests support the carrying value of goodwill and pharmacy licences and therefore there was no impairment charge in the period.

Goodwill and indefinite-lived intangible assets are evaluated for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying value. The fair value is determined using the income approaches. The income approach requires management to estimate a number of factors, including projected future operating results, economic projections, anticipated future cash flows and discount rates. The determination of the fair value requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: discount rates, terminal growth rates, forecasts of revenue, operating income, depreciation, amortisation and capital expenditures. Although management believes that the estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of any goodwill impairment charge, or both.

14. Property, plant and equipment

	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Assets in the course of construction £million	Total £million
Cost					
At 1 September 2017	159	82	835	39	1,115
Additions	-	3	9	106	118
Reclassified from assets in course of construction	7	9	65	(81)	-
Disposals	(1)	(3)	(23)	-	(27)
At 31 August 2018	165	91	886	64	1,206
Accumulated depreciation					
At 1 September 2017	27	23	266	-	316
Charge for the year	15	11	94	-	120
Disposals	-	(1)	(16)	-	(17)
At 31 August 2018	42	33	344	-	419
Carrying amount					
At 31 August 2017	132	59	569	39	799
At 31 August 2018	123	58	542	64	787

Boots UK Limited

Notes to the financial statements

for the year ended 31 August 2018

14. Property, plant and equipment (continued)

Included in the carrying amount above is property, plant and equipment held under finance leases of £2 million (2017: £4 million). Depreciation for the financial year on these assets was £1 million (2017: £2 million). The carrying value of land and buildings at 31 August is comprised of

	2018 £million	2017 £million
Freehold land and buildings	11	12
Long leasehold	6	2
Short leasehold	106	118
	123	132

15. Investments in subsidiaries

	£million
Cost	
At 1 September 2017	2
Additions	7
At 31 August 2018	9
Carrying amount	
At 31 August 2017	2
At 31 August 2018	9

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

	Principal activity	Share class	Percentage held by the Company directly	Percentage held by the Company or subsidiary undertakings	Country of incorporation
Blyth Pharmacy Limited	Dispensary services	Ordinary shares	77.5	77.5	England & Wales
Health Team Limited	Provides software for the Boots travel vaccination decision support tool	Ordinary shares	100.0	100.0	England & Wales

The registered addresses of the investments above have been included within the appendix on page 33 which forms part of these financial statements.

16. Interests in associates

	£million
Cost and carrying amount	
At 1 September 2017 and 31 August 2018	14

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

	Principal activity	Share class	Percentage held by the Company directly	Percentage held by the Company or subsidiary undertakings	Country of incorporation
Beccles H.C.C. Limited	Dispensary services	Ordinary shares	50.0	50.0	England & Wales
Boots Hearingcare Limited	Hearingcare services	Ordinary shares	49.0	49.0	England & Wales
Clarepharm Limited	Dispensary services	Ordinary shares	36.6	36.6	England & Wales
Colne (HCC) Limited	Dispensary services	Ordinary shares	25.0	25.0	England & Wales
Govanhill Pharmacy Limited	Dispensary services	Ordinary shares	10.1	10.1	Scotland
Maryhill Dispensary Limited	Dispensary services	Ordinary shares	25.0	25.0	Scotland
Torrington Park H.C.C. Limited	Dispensary services	Ordinary shares	31.0	31.0	England & Wales
Tuschem Limited	Dispensary services	Ordinary shares	22.0	22.0	England & Wales
W.H.C.P (Dundee) Limited	Dispensary services	Ordinary shares	27.4	27.4	Scotland
Woodside Pharmacy (Glasgow) Limited	Dispensary services	Ordinary shares	25.0	25.0	Scotland

The registered addresses of the investments above have been included within the appendix on page 33 which forms part of these financial statements.

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2018

17. Other investments

	2018 £million	2017 £million
Available for sale investments carried at fair value		
Shares	195	-

The shares included within available for sale investments represent investments in unlisted equities. For such investments, the fair value has been derived using the discounted cash flow method to determine the present value of the expected future economic benefits to be derived from the ownership of these shares. See note 30.

On 28 August 2018, the Company acquired shares in WBAD Holdings 2 Limited, a company registered in England and Wales for £195 million.

The Company's other investment undertakings at the balance sheet date are presented as follows:

	Principal activity	Share class	Percentage held by the Company directly	Percentage held by the Company or subsidiary undertakings	Country of incorporation
Company Chemists' Association Limited	Not for profit	Ordinary shares	37.9	37.9	England & Wales
Holmscroft H.C. Limited	Dispensary services	Ordinary shares	10.0	10.0	Scotland
Keighley Health Centre Limited	Dispensary services	Ordinary shares	16.7	16.7	England & Wales
Nelson (H.C.C.) Limited	Dispensary services	Ordinary shares	10.6	10.6	England & Wales
Octapharm Limited	Dispensary services	Ordinary shares	15.0	15.0	England & Wales
Swindon Health Centre (PD) Limited	Dispensary services	Ordinary shares	12.7	12.7	England & Wales
Victoria Pharmacy Limited	Dispensary services	Ordinary shares	12.5	12.5	Scotland
WBAD Holdings 2 Limited	Holding company	Ordinary shares	2.4	2.4	England & Wales

The registered addresses of the investments above have been included within the appendix on page 33 which forms part of these financial statements.

18. Inventories

	2018 £million	2017 £million
Raw materials	-	5
Work-in-progress	-	14
Finished goods	635	624
	635	643

The cost of inventories recognised as an expense during the year in respect of continuing operations was £4,121 million (2017: £4,156 million).

In the current year, the inventory valuation method moved from the retail inventory method to the weighted average cost method. The impact of this change has been immaterial.

19. Trade and other receivables

	2018 £million	2017 £million
Amounts falling due within one year:		
Amounts receivable for the sale of goods	95	93
Amounts owed by group undertakings	606	628
Other receivables	88	76
Prepayments and accrued income	87	69
VAT recoverable	1	-
Included in current assets	877	866
Amounts falling due for more than one year:		
Other receivables	20	21
Prepayments and accrued income	2	1
Included in non-current assets	22	22
Total trade and other receivables	899	888

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2018

20. Derivative financial instruments

	2018 £million	2017 £million
Financial assets carried at fair value through profit or loss (FVTPL)		
<i>Derivatives that are not designated in hedge accounting relationships:</i>		
Forward foreign currency contracts	1	-
	1	-

Further details of derivative financial instruments are provided in note 30.

21. Trade and other payables

	2018 £million	2017 £million
Amounts falling due within one year:		
Trade payables	243	246
Amounts owed to Group undertakings	332	305
Other creditors	154	192
Accruals and deferred income	427	436
Included in current liabilities	1,156	1,179
Amounts falling due for more than one year:		
Other creditors	72	47
Included in non-current liabilities	72	47
Total trade and other payables	1,228	1,226

22. Obligations under finance leases

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

	2018 £million	2017 £million
Less than one year	1	1
Between one year and five years inclusive	1	2
	2	3
Less: future finance charges	-	-
Present value of lease obligations	2	3
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	1	1
Amounts due for settlement after 12 months (shown under non-current liabilities)	1	2

It is the Company's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 5 years (2017: 6 years). For the year ended 31 August 2018, the average effective borrowing rate was 5.0 per cent (2017: 8.6 per cent). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Company's lease obligations is approximately equal to their carrying amount.

23. Borrowings

	2018 £million	2017 £million
Unsecured borrowing:		
Amounts owed to Group undertakings	505	295

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2018

23. Borrowings (continued)

	2018 £million	2017 £million
Amount due for settlement within 12 months:		
Amounts owed to Group undertakings	245	-
Amount due for settlement after 12 months:		
Amounts owed to Group undertakings	260	295

As at 31 August 2018, £245 million (2017: £295 million) amount owed to Group undertakings is unsecured debt and is a loan due for repayment on 28 February 2019. Management expect that this loan will either be rolled or replaced with a similar agreement. Interest is charged at LIBOR plus 0.53% per annum.

The £260 million amount owed to Group undertakings as at 31 August 2018 is unsecured debt and is a loan due for repayment on 30 September 2021. Interest is charged at 2.221% per annum.

24. Provisions

	2018 £million	2017 £million
Reorganisation	5	10
Vacant property	3	4
Deferred tax liabilities	131	104
	139	118
Current	6	12
Non-current	133	106
	139	118

	Reorganisation £million	Vacant property £million	Deferred tax £million	Total £million
At 1 September 2017	10	4	104	118
Provisions created during the year	-	1	27	28
Provisions utilised during the year	(5)	(1)	-	(6)
Provisions released during the year	-	(1)	-	(1)
At 31 August 2018	5	3	131	139

The reorganisation provision relates to supply chain and central support office reorganisations. The remaining costs are expected to be incurred over the next year.

The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties. The exact timing of utilisation of this provision will vary according to the individual properties concerned.

The deferred tax provision is further explained in note 25.

25. Deferred Tax

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

	Accelerated/ (decelerated) tax depreciation £million	Intangible assets £million	Pension £million	Other temporary differences £million	Total £million
At 1 September 2016	18	69	16	(3)	100
Charge/(credit) to profit or loss	(2)	13	1	2	14
Credit to other comprehensive income	-	-	(10)	-	(10)
At 31 August 2017	16	82	7	(1)	104
Charge/(credit) to profit or loss	(5)	4	5	1	5
Charge to other comprehensive income	-	-	22	-	22
At 31 August 2018	11	86	34	-	131

Notes to the financial statements (continued)

for the year ended 31 August 2018

26. Retirement benefit schemes

Defined benefit schemes

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

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

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

In 2018 a surplus of £205 million (2017: a surplus of £60 million) has been recognised in respect of the defined benefit pension plan. In the event of a funding surplus, the Company will aim to reduce future funding requirements to reflect such a surplus.

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

	2018 £million	2017 £million
Scheme assets at fair value:		
Equities	794	742
Bonds ¹	4,896	5,792
Properties	386	363
Derivatives	341	-
Cash and cash equivalents	49	48
Other	193	-
Fair value of scheme assets	6,659	6,945
Present value of scheme liabilities	(6,454)	(6,885)
Defined benefit pension plan surplus	205	60

¹ Including repurchase agreement liabilities.

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

The Scheme's assets consist of £49 million (2017: £48 million) of assets with quoted prices in active markets, and £6,610 million (2017: £6,897 million) of assets for which quoted prices in active markets are not available. The 'other' asset category in the table above includes £60 million (2017: £nil) of cash liabilities in relation to the purchase of private debt placements or privately placed fixed income securities.

To reduce volatility risk a liability driven investment strategy forms part of the Trustee's management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The government bond assets category in the table above includes gross assets of £5,153 million (2017: £5,792 million) and associated repurchase agreement liabilities of £257 million (2017: £nil). Repurchase agreements are entered into with counterparties to better offset the scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Interest rate and inflation rate derivatives are also employed to complement the use of fixed and index-linked bonds in matching the profile of the scheme's liabilities.

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

	2018 £million	2017 £million
Recognised in the Income Statement		
Administration costs	(2)	(2)
Recognised in arriving at operating profit	(2)	(2)
Net interest income/(expense) on defined benefit asset	2	(2)
Total expense recognised in the income statement	-	(4)

The amounts recognised in the Statement of Comprehensive Income for the year are analysed as follows:

	2018 £million	2017 £million
Taken to the Statement of Comprehensive Income		
Return on plan assets (excluding amounts included in net interest expense)	(194)	(206)
Actuarial (losses)/gains arising from changes in experience adjustments	(57)	51
Actuarial gains arising from changes in demographic assumptions	43	166
Actuarial gains arising from changes in financial assumptions	311	137
	103	148
Contributions paid by fellow Group undertakings	22	22
Gain recognised in the Statement of Comprehensive Income	125	170

Notes to the financial statements (continued)
for the year ended 31 August 2018

26. Retirement benefit schemes (continued)

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

	2018 £million	2017 £million
Defined benefit obligation at the beginning of the year	6,885	7,324
Interest on benefit obligation	155	144
Administration costs	2	2
Actuarial gains and losses	(297)	(354)
Disbursements	(291)	(231)
Defined benefit obligation at 31 August	6,454	6,885

The defined benefit obligation is wholly funded.

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

	2018 £million	2017 £million
Fair value of plan assets at the beginning of the year	6,945	7,193
Interest income on plan assets	157	142
Contributions by employer	42	47
Actuarial gains and losses	(194)	(206)
Disbursements	(291)	(231)
Fair value of plan assets at 31 August	6,659	6,945

As the Scheme is closed to future accrual, there are no employee contributions. The contributions by the employer reflect the Recovery Plan and Contribution Schedule agreed with the Trustee following each triennial actuarial valuation, which is carried out by the Scheme Actuary at AON Hewitt, who is appointed by the Trustee. Actuaries at Willis Towers Watson provide independent advice and verification of final figures required for accounting purposes, including the appropriate discount rates and expected asset returns. Scheme assets are stated at their market values at the respective balance sheet dates.

	2018 %	2017 %
Main assumptions:		
Rate of salary increases	N/A	N/A
Rate of increase in pensions payments	2.85%	2.90%
Discount rate	2.50%	2.30%
Inflation assumption	3.05%	3.10%
Post-retirement mortality (in years)		
- Current pensioners at 60 – male	26.7	27.0
- Current pensioners at 60 – female	28.7	28.6
- Future pensioners at 60 – male	27.8	27.7
- Future pensioners at 60 – female	29.9	30.1

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

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

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase by 0.25%	Decrease by £277 million
Inflation assumption	Increase by 0.25%	Increase by £209 million
Rate of increase to pension payments	Increase by 0.25%	Increase by £206 million
Rate of deferred increases	Increase by 0.25%	Increase by £66 million
Post retirement mortality	Increase by 1 year	Increase by £234 million

The most recently completed actuarial valuation of the Company's defined benefits scheme was carried out as at 1st April 2016. Following the valuation, a revised Recovery Plan and Schedule of Contributions was agreed with the Trustee to address the funding deficit of £148 million in the scheme. The Company continues to monitor funding levels on an annual basis. The next valuation is as at 1 April 2019 and due to be completed by 30 June 2020. Under the current Recovery Plan, the funding shortfall should be eliminated by 31st March 2023 providing the assumptions made for the last actuarial valuation are borne out in practice. The Recovery Plan and Contribution Schedule will be re-assessed as part of the actuarial valuation as at 1 April 2019.

Under the existing Contribution Schedule, the total contributions to the defined benefit scheme in 2018 will be £22 million (2017: £42 million).

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2018

27. Share capital

	2018 £million	2017 £million
Authorised		
709,750,000 ordinary shares of £1 each (2017: 709,750,000 shares)	710	710
Issued and fully paid		
709,750,000 ordinary shares of £1 each (2017: 709,750,000 shares)	710	710

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

28. Actuarial reserve

	Actuarial reserve £million
At 1 September 2016	(166)
Remeasurement gain on defined benefit pension plans	170
Tax on remeasurement gain on defined benefit pension plans	10
At 31 August 2017	14
Remeasurement gain on defined benefit pension plans	125
Tax on remeasurement gain on defined benefit pension plans	(22)
At 31 August 2018	117

29. Retained earnings

	Retained earnings £million
At 1 September 2016	660
Profit for the year	388
At 31 August 2017	1,048
Profit for the year	317
Dividends paid	(320)
At 31 August 2018	1,045

30. Financial instruments

The Company enters into derivative transactions that are not designated as accounting hedges to manage its exposure to foreign exchange rate risk through foreign exchange forward contracts.

	2018 £million	2017 £million
Derivatives not designated as hedges		
At fair value through profit or loss	1	-
Available for sale investments carried at fair value		
Available for sale investments	195	-

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates matching maturities of the contracts.

The shares included within available for sale investments represent investments in unlisted equities. For such investments, the fair value has been derived using the discounted cash flow method to determine the present value of the expected future economic benefits to be derived from the ownership of these shares.

Notes to the financial statements (continued)

for the year ended 31 August 2018

31. Operating lease arrangements

The Company as lessee

Lease payments under operating leases recognised as an expense in the period were £363 million (2017: £356 million)

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:

	2018 Land and buildings £million	Restated* 2017 Land and buildings £million
Less than one year	294	292
Between one and five years inclusive	838	864
More than five years	838	940
	1,970	2,096

*The prior year outstanding commitment has been restated to include future minimum lease payments under non-cancellable operating leases with fellow Group undertakings. The impact on the total is £781 million.

Operating lease payments represent rentals payable by the Company for certain stores and office properties. Leases are negotiated for an average term of 5 to 10 years (2017: 5 to 10 years) and rentals are fixed for an average of 5 years (2017: 5 years).

The Company as lessor

Property rental income earned during the year was £20 million (2017: £25 million).

At the balance sheet date, the Company had contracted with tenants for the following future minimum lease payments:

	2018 Land and buildings £million	2017 Land and buildings £million
Less than one year	5	5
Between one and five years	6	7
More than five years	1	2
	12	14

32. Financial commitments

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

	2018 £million	2017 £million
Contracted		
- finance leases entered into	2	3
- property, plant and equipment	111	105
	113	108

33. Events after the balance sheet date

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

Boots UK Limited

Notes to the financial statements (continued)

for the year ended 31 August 2018

34. Related parties

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

	Sale of goods		Purchase of goods	
	2018 £million	2017 £million	2018 £million	2017 £million
Related party				
Associates – Boots Hearingcare Limited	16	13	-	-
Non-wholly owned subsidiaries – Boots Opticians Professional Services Limited	2	2	-	-

	Amounts owed by related parties		Amounts owed to related parties	
	2018 £million	2017 £million	2018 £million	2017 £million
Related party				
Associates – Boots Hearingcare Limited	-	2	-	-
Non-wholly owned subsidiaries – Boots Opticians Professional Services Limited	3	2	-	-

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

35. Ultimate parent undertaking

At 31 August 2018, the Company's immediate parent company was Alliance Boots Holdings Limited and its ultimate parent company and controlling party was Walgreens Boots Alliance, Inc. Walgreens Boots Alliance, Inc. is also the parent undertaking of the largest and smallest group in which the Company is consolidated. The consolidated financial statements of this Group are available from the Walgreens Boots Alliance, Inc. 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.

Boots UK Limited

Appendix

for the year ended 31 August 2018

Registered addresses of investments

Investment	Registered address
Beccles H.C.C. Limited	The Pharmacy, Beccles & District War Memorial Hospital, St Marys Road, Beccles, Suffolk, NR34 9NQ, UK
Blyth Pharmacy Limited	1 Thane Road West, Nottingham, NG2 3AA, UK
Boots Hearingcare Limited	18 Trinity Square, Llandudno, Conwy, LL30 2RH, UK
Clarepharm Limited	Thompson Jenner, 28 Alexandra Terrace, Exmouth, Devon, EX8 1BD, UK
Colne (HCC) Limited	21 St James Row, Burnley, Lancashire, BB11 1EZ, UK
Company Chemists' Association Limited	4 Kingston Hall, Kingston on Soar, Nottinghamshire, NG11 0DJ, UK
Govanhill Pharmacy Limited	Hardie Caldwell LLP, Citypoint 2, 25 Tyndrum Street, Glasgow, G4 0JY, UK
Health Team Limited	1 Thane Road West, Nottingham, England, NG2 3AA, UK
Holmscroft H.C. Limited	73 Union Street, Greenock, PA16 8BG, UK
Keighley Health Centre Limited	29 Devonshire Street, Keighley, West Yorkshire, BD21 2BH, UK
Maryhill Dispensary Limited	51 Gairbraid Avenue, Maryhill, Glasgow, G20 8FB, UK
Nelson (H.C.C.) Limited	Yarnspinner's Primary Healthcare Centre, Yarnspinner's Wharf, Carr Road, Nelson, Lancashire, BB9 7SR, UK
Octapharm Limited	c/o L Rowland & Co Limited, Whitehouse Industrial Estate, Rivington Road, Preston Brook, Runcorn, Cheshire, WA7 3DJ, UK
Swindon Health Centre (PD) Limited	Swindon NHS Health Centre, 1 Islington Street, Swindon, SN1 2DQ, UK
Torrington Park H.C.C. Limited	Aragon House, 1a Beechwood Park, Hemel Hempstead, HP3 0DY, UK
Tuschem Limited	Workington Community Hospital, Park Lane, Workington, Cumbria, CA14 2RW, UK
Victoria Pharmacy Limited	The Health Centre, Victoria Road, Hartlepool, TS26 8DB, UK.
W.H.C.P (Dundee) Limited	Wallacetown Health Centre, Lyon Street, Dundee, DD4 6RB, UK
WBAD Holdings 2 Limited	Sedley Place, 361 Oxford Street, London, United Kingdom, W1C 2JL, UK
Woodside Pharmacy (Glasgow) Limited	Woodside Health Centre, Barr Street, Glasgow, G20 7LR, UK