

Superdrug Stores plc

Annual Report and Financial Statements

For the 52 Weeks ended 31 December 2022



Superdrug Stores plc
Annual Report and Financial Statements
For the 52 Weeks ended 31 December 2022

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Superdrug Stores plc

Strategic Report

For the 52 Weeks ended 31 December 2022

The directors present their Strategic Report for the 52 Weeks ended 31 December 2022.

General Information

The Company is a public company, limited by shares and is incorporated and domiciled in England, in the United Kingdom. The registered number of the Company is 00807043. The address of its registered office is 51 Sydenham Road, Croydon, Surrey CR0 2EU. The Company is an indirect wholly-owned subsidiary of A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands, with its principal place of business in Hong Kong.

Principal Activity

The principal activity of the Company is a health and beauty retailer in the United Kingdom.

Results and Business Review

The Company continued to recover from the effects of the Covid-19 pandemic, which negatively affected the business in the prior year. 2022 commenced with the United Kingdom under Plan B Omicron restrictions, but once those were lifted a recovery was seen across all retail destinations culminating in a strong Christmas trading which combined to deliver a 17.0% increase in sales to £1.4 billion (2021: £1.2 billion).

Profit before tax was £77.8 million (2021: £45.3 million), an increase of 71.7% compared to the prior period driven by the easing of Covid-19 restrictions and the subsequent increase in footfall on the high street. In addition, the Company's drive for operating efficiencies continued at pace which enabled an increase in operating margin from 5.1% to 6.5%.

Right-of-use assets decreased by 10.2% to £290.5 million (2021: £323.6 million) driven by an £80.8 million depreciation charge during the period (2021: £83.8 million). Cash and cash equivalents increased by £4.1 million to stand at £173.8 million at the period end. The strong cash position was underpinned by positive trade during the period. The Company increased capital expenditure on property, plant and equipment during the period by 36.5% to £24.9 million with 11 new stores being opened during the period.

Business Environment

With the easing of Covid-19 restrictions in the early months of 2022 the UK retail market and wider economy benefitted from improving levels of footfall with physical store estate performance strengthening. Inflationary pressure has been increasingly evident as the year progressed, with the Ukraine crisis one of the macro factors contributing to concerns about a growing cost of living crisis in the UK. Food and energy cost increases has exacerbated pressure on household incomes and commensurate pressure for wage increases.

Strategy

The Company continues to strive to be the best in everyday accessible beauty and health. 2022 saw the opening of 11 new stores as the Company continues to actively manage its store estate. This focus has extended to ongoing investment in the refurbishment and extension of existing sites. Of the new stores opened in 2022 the majority were in Retail Parks which is a segment of the Company's estate which continues to perform ahead of expectations.

Superdrug.com was re-platformed in the year as a central pillar of the Company's strategic investment into "Offline plus Online" retail. While the shift back from online to physical stores with the end of Covid-19 restrictions has been evident in the online channel (consistent with the wider market) sales volumes continue to track significantly ahead of pre-pandemic levels.

The Company's Online Doctor channel once again enjoyed strong year on year sales growth, launching five new services and expanding seven others in the year. Three new Health Clinics were opened, bringing the total number to 87, with 18 new blood test products added to the existing range of services.

The Company's Health & Beautycard customer loyalty programme remains pivotal to the Company's engagement with its customers. Sales from members increased significantly year on year, supported by the introduction of "Member Only" prices.

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Strategy (continued)

The proportion of Company sales from Own Brand products (and products exclusive to Superdrug) grew once again in 2022. These products provide the company with a significant point of difference and a means to showcase its innovation in the health and beauty market. "Studio London" by Superdrug cosmetics launched as the Company's latest own brand range in 2022, with three further exclusive brands also successfully added to the range in the year.

2022 also saw the successful launch of an expanded range of Premium Fragrance, with brands such as Yves Saint Laurent, Prada and Armani trading strongly.

The Company's focus on its cost base and in driving efficiencies that can be invested in improving the customer offer has persisted throughout 2022. This included significant reductions in store rents on lease renewals, further strengthening the economics of physical stores.

Principal Risks and Uncertainties

The management of the Company and the execution of the Company's strategy are subject to a number of risks. These are reviewed formally by the board of directors of the Company (the "Board") and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects. The key business risks are as follows:

- **Competition:** The Company operates in a highly competitive market particularly concerning price, product availability and quality. This can result in downward pressures on volumes and margins. In order to mitigate this risk, market research is carried out, prices are monitored on a regular basis, pricing is adjusted accordingly and the Company carries out planned promotional activities.
- **Operating costs:** The Company is exposed to market movements across a significant part of its cost base. Energy and fuel costs have risen considerably as a result of the Ukraine crisis. These place considerable pressure on both the direct commodity costs the Company pays in its operations and also on manufacturing costs which drives up the cost of goods for resale. The Company constantly focuses on its cost base and seeks to drive cost reductions through procurement activities and operational efficiencies to ensure that price rises are minimised.
- **Data and IT security:** The Company relies upon its IT infrastructure to deliver its operations and through which it handles significant volumes of data. The security, resilience and control of these key assets are of significant importance to and focus of management. The Company works closely with experts within the wider A.S. Watson Group to leverage capability and technology to constantly monitor and improve this area.
- **Employees:** The Company's performance depends largely on its staff. The loss of key individuals and the inability to recruit people with the right experience and skills could adversely impact the Company's results. To mitigate these issues, the Company continues to run programmes to improve staff retention, for example its Aspire management development programme.

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Key Performance Indicators (“KPIs”)

The directors monitor progress of the Company’s performance by reference to the following KPIs:

	52 weeks ended 31 December 2022	53 weeks ended 1 January 2022
Revenue	£1,367m	£1,168m
Operating profit	£88.4m	£59.6m
Operating margin	6.5%	5.1%

The directors are confident that the Company is well-positioned to meet its short term aspirations and that its longer term prospects are considerable.

Financial Risk Management

The Company is funded by operationally generated cash flow, group loans and external short term bank overdraft facilities if required. The Company sets financial risk management policies in accordance with A.S. Watson Group’s policies and procedures. The A.S. Watson Group is part of the CK Hutchison Holdings Limited group. Treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates and to minimise the Company’s financial risk.

a) Credit risk

Short-term surplus bank funds are placed with high quality financial institutions. As the Company’s retail sales are usually in cash or by credit or debit card, credit risk is to a great extent short-term and limited to the recovery of supplier income.

b) Liquidity risk

The Company’s liquidity risk is mitigated by internal funding primarily from the immediate holding company, A.S. Watson (Health & Beauty UK) Limited, in order to meet the Company’s funding requirements.

c) Foreign exchange risk

The Company’s direct foreign exchange exposure is minimal, with most purchases contracted and paid for in sterling. The Company has a greater exposure to indirect foreign exchange currency risk from stock purchases which it manages through ongoing planning and review with key suppliers.

The Company’s financial instruments consist of cash, bank overdrafts, intercompany balances with A.S. Watson group companies, trade receivables and trade payables. The carrying value of these are all recorded at amortised cost. Their contractual maturities are less than one year, with the exception of the group borrowings disclosed in notes 15 and 16.

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Strategic Report (continued)
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Companies Act 2006 Section 172 (1) Statement

Under section 172 of the Companies Act 2006, directors of a company are required to act in a way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, having regard to a range of different matters as stated therein.

The duty emphasises that the board of directors must consider the wider impact of its decisions, rather than just the financial and strategic elements. The board should also create a culture whereby the long-term consequences of its actions and the long-term success of the company are given due consideration.

(i) The likely consequences of any decision in the long term

It is essential that the Board makes decisions which are best for the Company in the long term. These decisions are focussed on long-term success, not short-term gains, which will stand the Company in good stead for the future. This has been a major focus for a number of years, particularly in light of the pressure on the high street as a result of the struggling retail market.

The Company works closely with its shareholder and stakeholders to review, update and agree its five-year strategy each year. Consideration is given to the changing retail landscape and investments that may be needed to support future growth as well as financial projections. The strategy is formally signed off by the Board each year, which then forms the basis for the operating plans to deliver against the agreed targets.

The Investment Committee of the Company, chaired by the Chief Executive and supported by the Finance Director, holds regular meetings to ensure all significant spend decisions have a comprehensive review before decisions are taken and contracts are signed. This also ensures, to the extent possible, commitments with sufficient flexibility or otherwise only minimum commitments will be entered into by the Company, so as to allow the Company to remain agile in an ever changing environment at a time where the nature of the high street is changing rapidly across various town centres.

(ii) The interest of the employees of the Company

The relationship with the employees of the Company is paramount. The Company actively engages with its employees to ensure that their opinions and ideas are always considered, and that employees are kept up to date and informed. The Company holds an annual conference for Store Managers and Assistant Store Managers to provide an update on the current performance and future plans of the Company. Regular conferences are also held for Head Office employees, and equivalent 'all hands' meetings also take place at its Distribution Centres.

All employees have access to a social networking platform, which is used for Company communication, as well as sharing less formal messages with each other on store events, like charity fundraising. Access to this collaborative network helps to drive employee engagement. Throughout the year employees receive regular communication and updates from the Chief Executive and other members of the Executive team so that they are kept up to date and informed of business action, and of the impact of the situation on business performance.

The Company has been recognised in the Financial Times Diversity Leaders awards for four years running. The award recognises the good work that has been delivered through the "Everyone Matters" Company-wide diversity and inclusion strategy, which remains a key priority across the business. The company also has an employee engagement survey which allows the business to gain feedback to improve the things that matter most to employees, launching new policies, toolkits, and benefits to enhance its wellbeing and inclusion offering.

Employees wellbeing is very important to the Company and strives to create a positive environment that empowers and takes care of employees' overall wellbeing. Benefits are offered across financial, social, physical and mental wellbeing. During the year, mental health training and free period products were launched for all employees.

The Company is also a strong supporter of its defined benefit pension scheme, taking seriously its responsibilities to ensure the retirement obligations are funded and secured appropriately for its employees. The Finance Director and the Customer & People Director meet with the Trustees of the scheme on a quarterly basis to this end.

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Strategic Report (continued)
For the 52 Weeks ended 31 December 2022

Companies Act 2006 Section 172 (1) Statement (continued)

(iii) The need to foster the business relationships of the Company with suppliers, customers and others

In all instances the Company aims to create and maintain open and transparent business relationships, which are paramount to ensuring high quality products can be obtained on terms that can meet customer demand. The directors are also mindful of the need to maintain, and enhance, good supplier relationships in the strategy they deliver for the Company.

The Company participates in regular independent surveys across its key suppliers, seeking feedback on matters such as clarity of strategy, business practices and payment performance. Both the Chief Commercial Officer and Healthcare Director also hold regular "top to top" meetings with major suppliers to ensure that open communication channels and positive business relationships are maintained.

The Company acknowledges the importance of its customers to the continued and long term success of the business, and places great emphasis on customer experience whilst shopping. Through the Company's loyalty scheme, store level surveys are undertaken on a weekly basis with customers to gain real-time feedback with a view to improving customer service.

(iv) The impact of the operations of the Company on the community and the environment

The Company recognises the importance of managing the social impact of the business and minimising any adverse impact of its operations on the environment. The Corporate Social Responsibility ("CSR") agenda of the Company is led by the Property Director and the People Director under the banner of "Doing good feels Super" which provides central oversight to all the activities of the Company in this aspect. Additionally, the Chief Executive represents the Company on the global A.S. Watson Group CSR Committee ensuring that the Company benefits from group-wide expertise and resources in this important area.

The Company received a bronze award for most effective long-term partnership at the Marie Curie corporate engagement awards. The award is testament to the strength of the Superdrug and Marie Curie charity partnership, and highlights the strong employee engagement partnership, centred on fundraising.

(v) The desirability of the Company maintaining a reputation for high standards of business conduct

The Company expects the highest standard of business conduct from its employees. They receive regular regulatory and compliance updates, and the Company also has in place policies, procedures and processes in respect of modern slavery, anti-bribery and corruption, as well as tax strategy.

All employees sign up to the A.S. Watson Code of Conduct upon joining the Company, which sets out the minimum standards for all employees of the A.S. Watson Group of companies. The Code aims to promote honest and ethical conduct and encourage trust, fair dealing and integrity in all interactions with customers, suppliers, colleagues and stakeholders.

(vi) The need to act fairly as between members of the Company

The Company works closely with its shareholder; agreeing the strategic direction, reviewing financial performance and major investment decisions, and maintaining an open communication on matters of importance. Such approach drives benefits for both the Company and its shareholder.

Superdrug Stores plc
Strategic Report (continued)
For the 52 Weeks ended 31 December 2022

Companies Act 2006 Section 172 (1) Statement (continued)

Corporate Governance

The Company is part of the A.S. Watson Group of companies ("ASW Group"), and ultimately part of CK Hutchison Holdings Limited ("CKHH", and together with its subsidiaries, the "CKHH Group"), a company whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited.

The Company adopts and applies high standards of corporate governance best suited to the needs and interests of the CKHH Group as it believes that an effective corporate governance framework is fundamental to promoting and safeguarding interests of the shareholder and other stakeholders and enhancing shareholder value.

For period ended 31 December 2022, under The Companies (Miscellaneous Reporting) Regulations 2018 the Company has continued to follow the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") which are available on the Financial Reporting Council website as an appropriate framework when making a disclosure about its corporate governance arrangements. The Company's reporting against the Wates Principles is set out below.

Principle 1: Purpose and Leadership

The Company's principal objective is to be the best for everyday and accessible beauty and health, both on the High Street and Online. This business purpose is clearly cascaded and communicated throughout the Company as it focusses on delivering this objective consistently for its customers. This in turn ensures financial returns for its shareholder, stability and progression for its employees and continued investment in the business and the communities which it serves.

Whilst the Board is responsible for the overall direction and management of the Company, the effective day-to-day management of the Company is overseen by the Company's executive management team (the "Exec"), supported by delegated authorities to certain senior officers and employees which are generally based on financial thresholds. The Board regularly reviews these authorities to ensure they are appropriate and relevant.

The Exec and members of the Board meet regularly to discuss and review strategies, performance, business plans, budgets and risk profiles of the Company. Whilst the Board is charged with the task of promoting the long-term success of the Company and making decisions in the best interests of the Company, the Exec is accountable for the conduct and performance of the Company within the agreed strategies. The Board together with the Exec instil and uphold the Company's objectives and strategies through the day-to-day operations and management of the Company.

Principle 2: Board Composition

The Board is comprised of four directors which provides for representation of both the Exec and also the Company's shareholder. The Exec is represented by the Chief Executive and the Finance Director, with the Company's shareholder represented by the A.S. Watson Group Managing Director and A.S. Watson Group Finance Director. The Board considers its current size and composition constitutes an effective board appropriate to meet the strategic needs and challenges of the Company and ensure effective decision-making.

The Exec comprises of twelve senior executives, led by the Chief Executive. Collectively the Exec possesses extensive retail leadership experience, gained across several different organisations and countries. It includes executives with specialist professional qualifications, most notably in relation to the Company's pharmacy operations.

Diversity and inclusion is a key part of the Company's culture. The Company is committed to developing a more diverse workforce, including at the most senior levels. It recognises the benefits of a Board and Exec that possesses a balance of skill sets, experience, expertise and diversity of perspectives appropriate for the strategies of the Company. The Company believes that board diversity enhances decision-making capability and thus the overall effectiveness of the Board and the Exec in achieving sustainable business operation and enhancing shareholder value.

Superdrug Stores plc
Strategic Report (continued)
For the 52 Weeks ended 31 December 2022

Corporate Governance (continued)

Principle 3: Directors' Responsibilities

The Board and each director have a clear understanding of their accountability and responsibilities. The Board is committed to achieving and maintaining the high standards of corporate governance structure, policies and practices of the ASW Group, taking into account the business and regulatory frameworks within which the Company operates. Business plans and budgets are prepared annually by management of the Company and are subject to review and approval by the Board and the executive management team of ASW Group as part of the ASW Group's five-year corporate planning cycle. Management of the Company is also responsible for preparing monthly management reports on the financial results and key operating statistics of the Company. Monthly meetings are held with the executive management team of ASW Group to review these reports, business performance against budgets, forecasts, significant business risks sensitivities and strategies of the Company.

The Board as a whole is responsible for promoting the long-term success of the Company and making decisions in the best interests of the Company in line with the agreed business plans and strategies. Throughout the year, the management of the Company provides to the directors updates and other information with respect to the performance, business activities and development of the Company. The Company also has in place a formal structure of the Board approved delegated authorities to ensure that there are appropriate controls surrounding decisions and commitments that may bind the Company.

The Board considers that all of these robust corporate governance and internal control frameworks and company leadership, working together, promote effective stewardship to deliver long-term value for the Company and its shareholder as a whole.

Principle 4: Opportunity and Risk

The Company is committed to the long-term sustainability of its business by regularly reviewing its business model and practices to identify opportunities for improving its performance and creating value for stakeholders. The Exec meets regularly to discuss and consider these opportunities and conducts an annual strategic review and quarterly forecasting exercise to embed decisions and allocate resources accordingly.

The Board seeks to instil risk awareness across the Company's business operation and has put in place policies and procedures which provide a framework for the identification, reporting and management of risks. The Company adopts an Enterprise Risk Management framework to manage its risk exposure and appetite. The framework facilitates a systematic approach in identifying, assessing and managing risks within the Company, be they of strategic, financial, operational or compliance nature. There is ongoing dialogue amongst the Exec about current and emerging risks, their plausible impact and mitigation measures. On a half-yearly basis, the Company is required to formally identify and assess the control framework that supports the management of business risk.

Principle 5: Remuneration

The remuneration of the directors and senior executives of the Company is determined with reference to their expertise and experience in the industry, the performance and profitability of the Company as well as remuneration benchmarks from other local and international companies and prevailing market conditions.

Remuneration arrangements are also subject to oversight and approval from the Company's shareholder. Employees also participate in bonus arrangements which are determined in accordance with the performance of the Company and the individual's performance. The Board considers that the remuneration structure of the Company aligns with the Company's objectives, values and strategies to support long-term sustainable success.

The Gender Pay Gap is reviewed by the Exec, and an action plan is formulated for improvements across the whole organisation. The Exec is committed to developing a more diverse senior leadership team across the Company and has introduced balanced shortlists for all senior management and director appointments covering gender and ethnicity to bolster its leadership team and future progression potential.

Superdrug Stores plc
Strategic Report (continued)
For the 52 Weeks ended 31 December 2022

Corporate Governance (continued)

Principle 6: Stakeholder Relationships and Engagement

The Board actively promotes engagement and communications with stakeholders, including employees, shareholder, customers, business partners, suppliers, its Pension Scheme, regulators, government, community groups and media partners. The Company actively encourages employees to express their views and has established various channels including a social platform 'The Hub' allowing two way communication between colleagues at all levels of the organisation. The Hub is used regularly by over 75% of employees to engage with the culture, share views, ask questions and learn about the business. The Company also regularly collects views from other stakeholders through a variety of channels, such as independently sourced feedback and assessment reports by the Company's key suppliers on its performance across a range of measures such as business relationships, supply chain management and payment processes.

The Company is committed to achieving and maintaining high standards of openness, probity and accountability. There are established whistle-blowing policy and mechanisms which allow the employees of the Company and those who deal with the Company to report any suspected impropriety, misconduct or malpractice concerning the Company with confidence.

The Company has adopted a proactive approach to its social, economic and environmental responsibilities as outlined in its section 172 disclosures.

Future Outlook and Prospects

The directors expect that the UK retail environment will remain strongly competitive in 2023. The outlook for UK retail is more upbeat than anticipated in the middle of 2022, despite the erosive effect of heightened inflation on disposable income and upwards pressure on business costs. Christmas 2022 was positive for UK retail and this momentum has carried over into the early part of 2023 with customer footfall steadily improving. Economists' expectations for the wider economy have also evolved. The United Kingdom is now forecast to avoid a recession in 2023 and inflation is predicted to decline as the year progresses. Challenges do persist, in particular subdued consumer confidence amidst concerns about the cost of living. The Company's strategies are designed to ensure its success in the UK market, maintaining its strong price perception on the High Street and attracting footfall with its broad beauty and healthcare products and services offering, both in-store and online. The robust trading performance since the easing of Covid-19 restrictions coupled with a clear future strategy, and cash flows that can support investment, leaves the Company well positioned to grow successfully in 2023 and beyond.

On behalf of the Board



R A Fleming
Director
21 June 2023

Superdrug Stores plc

Directors' Report

For the 52 Weeks ended 31 December 2022

The directors present their report and the audited Financial Statements of the Company for the 52 Weeks ended 31 December 2022.

Future Developments

The directors' opinion on the outlook and prospects of the Company has been included in the Strategic Report.

Dividends

During the period dividends of £45.0m were paid (2021: £35.0m).

Directors

The directors have access to the advice and services of the company secretary and board members are able to take independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors.

The directors possess an appropriate balance of skills and experience for the requirements of the business. The Board and its committees operate within a framework of scheduled meetings, with additional ad hoc meetings being held, as required.

The directors of the company who were in office during the period and up to the date of signing the financial statements were:

D K M Lai
A J Heaton (resigned on 11 May 2022)
S J Blakemore (appointed on 11 May 2022)
P W Macnab
R A Fleming

As permitted by s234 of the Companies Act 2006, the Company maintains directors' and officers' liability insurance which provides insurance cover against liabilities which directors and other officers of the Company may incur personally as a consequence of claims made against them alleging breach of duty or other unlawful acts or omissions in their capacity as directors and officers. The qualifying third party indemnity provision was in force during the financial period and also at the date of approval of the financial statements.

Information included in the Strategic Report

Details regarding corporate governance, stakeholder and employee engagement, and the directors' opinion on financial risk management have been included in the Strategic Report.

Employment of Disabled Persons

It is the Company's policy to give full consideration to the possibility of employing disabled persons wherever suitable opportunities exist. Employees who have become disabled are given every opportunity and assistance to continue in their employment or to be trained for other suitable positions. It is the policy of the Company that the training, career development and promotion of disabled persons should be identical to that of other employees.

Independent Auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

Superdrug Stores plc
Directors' Report (continued)
For the 52 Weeks ended 31 December 2022

Streamlined Energy and Carbon Reporting (SECR) disclosure

The Company's environmental reporting accords with SECR requirements, with the reporting period being for the calendar year 2022. The Company's SECR disclosure presents the carbon footprint, together with appropriate intensity metric and total use of electricity, gas and transport fuels.

Methodology

The Company has employed the service of a specialist external advisor to quantify the Greenhouse Gas ("GHG") emissions associated with the Company's operations.

The report follows the GHG Reporting Protocol – Corporate Standard as the accepted methodology to meet the mandatory SECR requirements. The UK government's greenhouse gas conversion factors have been applied to calculate the carbon emissions to the following reporting standards:

- Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard (WBCSD & WRI, 2004)
- Greenhouse Gas Protocol – Scope 2 guidance, amendment to the GHG Protocol Corporate Standard (WNCSD & WRI, 2015). Application of location-based and market-based emission factors for electricity supplies
- Greenhouse Gas Protocol – Corporate Value Chain (scope 3) Accounting and Reporting Standard (WBCSD & WRI, 2011)
- Where data was missing, values were estimated using an extrapolation of available data

An operational control approach has been used in order to define the Company's organisational boundary. This is the basis for determining Scope 1 and Scope 2 emissions for which the Company is responsible. The Company has provided disclosure regarding scope 3 emissions as these areas are fundamental to the operations of the Company.

The Company has set a benchmark of the 2019 year for comparisons against future emissions, as this represents the best baseline year prior to Covid-19 impacting operations and emissions. The intensity metrics for the year ended 31 December 2021 have been re-stated for minor calculation errors. The total gross and net emissions remain unchanged.

Energy efficiency action

In the 2022 reporting period, the Company has continued its LED upgrade programme across a further 26 stores, which is estimated to deliver an annual energy reduction of 280,000 kWh. Additionally, energy efficient heating, ventilation and air-conditioning systems were installed in a further 14 stores. In the Company's northern distribution centre an upgrade was carried out to the heating system which reduced the consumption and emissions from natural gas by 68%. Ongoing monitoring and targeting of high consuming stores continued to reduce excess energy consumption.

GHG emissions and energy use report

Baseline

	Units	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2019
Energy consumption used to calculate emissions	kWh	76,847,227	77,650,964	84,400,418
Emissions from gas & transport (Scope 1)	tCO ₂ e	5,217	4,939	5,571
Emissions from purchased electricity (Scope 2)	tCO ₂ e	10,276	11,554	14,893
Emissions from 3 rd party logistics & business travel in cars (Scope 3)	tCO ₂ e	931	928	1,176
Total gross emissions	tCO₂ e	16,424	17,421	21,640
<i>Total gross emissions per £'m of revenue</i>		<i>12.0</i>	<i>14.9</i>	<i>16.6</i>
Carbon offsets procured via Green Electricity Tariff	tCO ₂ e	(10,001)	(11,241)	(14,221)
Total net emissions	tCO₂ e	6,422	6,180	7,418
<i>Total net emissions per £'m of revenue</i>		<i>4.7</i>	<i>5.3</i>	<i>5.7</i>
<i>Total net emissions per '000 square foot</i>		<i>2.2</i>	<i>2.1</i>	<i>2.5</i>

Superdrug Stores plc
Directors' Report (continued)
For the 52 Weeks ended 31 December 2022

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



R A Fleming
Director

21 June 2023

Superdrug Stores plc
Independent Auditors' Report to the member of Superdrug Stores plc
For the 52 Weeks ended 31 December 2022

Report on the audit of the financial statements

Opinion

In our opinion, Superdrug Stores plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit and cash flows for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2022; the Statement of Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- agreeing the underlying cash flow projections to management approved forecasts, assessing how these forecasts are compiled and assessing the accuracy of management's forecasts;
- evaluating the key assumptions used by management within these forecasts including revenue growth;
- considering liquidity and available financial resources;
- assessing whether the stress testing performed by management appropriately considered the risks facing the business; and
- reviewing adequacy of management's disclosure on going concern and consistency with our knowledge obtained through the audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Superdrug Stores plc
Independent Auditors' Report to the member of Superdrug Stores plc (continued)
For the 52 Weeks ended 31 December 2022

Conclusions relating to going concern (continued)

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the period ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Superdrug Stores plc
Independent Auditors' Report to the member of Superdrug Stores plc (continued)
For the 52 Weeks ended 31 December 2022

Responsibilities for the financial statements and the audit (continued)

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation (including VAT, payroll taxes, and corporation taxes). We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates and judgements.. Audit procedures performed by the engagement team included:

- Discussions with management and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud and actual and potential litigation and claims;
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulation;
- Review of key correspondence with tax regulatory authorities in relation to compliance with laws and regulations;
- Review of whistleblowing helpline log and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of right-of-use assets and property, plant and equipment, including the disclosure of such matters in the financial statements; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, or posted by members of senior management with a financial reporting oversight role.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Superdrug Stores plc
Independent Auditors' Report to the member of Superdrug Stores plc (continued)
For the 52 Weeks ended 31 December 2022

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Craig Skelton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 June 2023

Superdrug Stores plc
Statement of Comprehensive Income
For the 52 Weeks ended 31 December 2022

	Note	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Revenue		1,366,924	1,167,828
Cost of Sales		(1,208,105)	(1,058,912)
Gross Profit		158,819	108,916
Administrative expenses		(79,210)	(61,995)
Other operating income	3	8,773	12,654
Operating profit	3	88,382	59,575
Finance income	6	1,742	272
Finance costs	6	(12,361)	(14,565)
Profit before taxation		77,763	45,282
Income tax expense	7	(17,219)	(5,482)
Profit for the financial period		60,544	39,800
Other Comprehensive (Expense)/Income			
<i>Items that will not be reclassified subsequently to profit and loss</i>			
Actuarial (losses)/gains recognised in pension scheme	17	(9,845)	23,423
Movement on deferred tax relating to pension surplus	7	1,060	(4,451)
		(8,785)	18,972
Total comprehensive income for the period		51,759	58,772

Revenue and operating profit arise from the Company's continuing operations.

Superdrug Stores plc
Balance Sheet
As at 31 December 2022

Registered Number: 00807043

	Note	At 31 December 2022 £'000	At 1 January 2022 £'000
Fixed assets			
Intangible assets	8	141,921	141,410
Property, plant and equipment	9	92,456	92,880
Right-of-use assets	10	290,456	323,626
		524,833	557,916
Current assets			
Inventories	13	254,204	243,620
Trade and other receivables	14	149,298	122,576
Retirement benefit surplus	17	23,676	23,381
Cash and cash equivalents		173,771	169,629
		600,949	559,206
Creditors – amounts falling due within one year			
Trade and other payables	15	(350,290)	(318,181)
Lease liabilities	10	(135,142)	(64,237)
		(485,432)	(382,418)
		115,517	176,788
Net current assets			
		640,350	734,704
Total assets less current liabilities			
Creditors – amounts falling due after more than one year			
Borrowings	16	(85,000)	(85,000)
Lease liabilities	10	(196,393)	(299,152)
		(281,393)	(384,152)
Provisions for liabilities	18	(6,791)	(5,145)
		352,166	345,407
Net assets			
Equity			
Called up share capital	20	22,000	22,000
Share premium account		103,400	103,400
Retained earnings		226,766	220,007
		352,166	345,407
Total shareholder's funds			

The notes on pages 21 to 41 form part of these financial statements.

These financial statements on pages 17 to 41 were authorised for issue by the Board on 21 June 2023 and signed on its behalf by:


R A Fleming
Director

Superdrug Stores plc
Statement of Changes in Equity
For the 52 Weeks ended 31 December 2022

	Called up Share Capital £'000	Share premium account £'000	Retained Earnings £'000	Total Shareholder's funds £'000
At 27 December 2020	22,000	103,400	196,235	321,635
Profit for the financial period	-	-	39,800	39,800
Other Comprehensive Income for the period				
Actuarial gains on pension scheme	-	-	23,423	23,423
Movement on deferred tax relating to pension surplus	-	-	(4,451)	(4,451)
Total Comprehensive Income for the period	-	-	58,772	58,772
Transactions with shareholder recognised directly in equity				
Dividend Paid (note 19)	-	-	(35,000)	(35,000)
Total Transactions with shareholder recognised directly in equity	-	-	(35,000)	(35,000)
At 1 January 2022	22,000	103,400	220,007	345,407
Profit for the financial period	-	-	60,544	60,544
Other Comprehensive Income for the period				
Actuarial (losses) on pension scheme (note 17)	-	-	(9,845)	(9,845)
Movement on deferred tax relating to pension surplus (note 11)	-	-	1,060	1,060
Total Comprehensive Income for the period	-	-	51,759	51,759
Transactions with shareholder recognised directly in equity				
Dividend Paid (note 19)	-	-	(45,000)	(45,000)
Total Transactions with shareholder recognised directly in equity	-	-	(45,000)	(45,000)
At 31 December 2022	22,000	103,400	226,766	352,166

Superdrug Stores plc
Cash Flow Statement
For the 52 Weeks ended 31 December 2022

		52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
	Note		
Cash flow from operating activities			
Company operating profit		88,382	59,575
Adjustments for:			
Depreciation, amortisation and impairment charge	3	107,262	109,492
Loss on disposal of intangible assets	8	7	-
Loss on disposal of tangible assets	9	964	853
Gain on early termination of leases		(711)	(240)
Defined benefit pension contributions	17	(10,000)	(10,375)
Operating cash flow before movement in working capital		185,904	159,305
(Increase)/decrease in inventory	13	(10,584)	19,459
Increase in trade and other receivables	14	(29,285)	(36)
Increase/(decrease) in trade and other payables		16,269	(39,947)
Operational cash flow after movement in working capital		162,304	138,781
Interest paid		(12,315)	(13,756)
Taxation received/(paid)		1,311	(5,583)
Net cash inflow from operating activities		151,300	119,442
Cash flow from investing activities			
Purchase of property, plant and equipment		(21,981)	(16,563)
Purchase of intangible fixed assets	8	(2,631)	(1,599)
Interest received		1,207	272
Net cash outflow from investing activities		(23,405)	(17,890)
Cash flow from financing activities			
Lease payments		(78,753)	(85,694)
Dividends paid	19	(45,000)	(35,000)
Net cash outflow from financing activities		(123,753)	(120,694)
Net increase/(decrease) in cash and cash equivalents		4,142	(19,142)
Cash and cash equivalents at beginning of period		169,629	188,771
Cash and cash equivalents at end of period		173,771	169,629

Superdrug Stores plc
Notes to the Financial Statements
For the 52 Weeks ended 31 December 2022

1. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of Preparation

The financial statements of Superdrug Stores plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006, as applicable for companies using FRS 101. There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022, or future periods, that have a material impact on the company's financial statements.

The preparation of financial statements in conformity with FRS 101 requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - Paragraph 79(a) (iv) of IAS 1
 - Paragraph 73(e) of IAS 16 Property, plant and equipment
 - Paragraph 130(i) of IAS 38 Intangible assets
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information); and
 - 134-136 (capital management disclosures)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- Paragraph 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets'; and
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

1. Summary of Significant Accounting Policies (continued)

Going Concern

The Company meets its day-to-day working capital requirements through its cash reserves and group loans. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and group loans for a period of a least 12 months from the date of signing these financial statements.

Forecasts have been produced to reflect severe but plausible scenarios. These scenarios consider the impact of increasing fuel and energy costs and reduction in sales driven by cost-of-living increases. This still results in a sufficient cash position before taking into consideration additional cost saving actions including reducing investment capital spend and other discretionary costs. The Company has sufficient cash reserves to enable it to meet its obligations as they fall due for a period of a least 12 months from the date of signing these financial statements.

The Company has no external debt and has access to group borrowings via a credit agreement with A. S. Watson Group (HK) Limited. Under the agreement, A. S. Watson Group (HK) Limited has agreed to make available a credit facility of £125,000,000, charging interest at 3.5%, maturing on 15 June 2025. The Company has a pooled bank overdraft facility of £20,000,000, which is provided by National Westminster Bank plc and which is unsecured and repayable on demand. Further information on the Company's borrowings is given in note 15 and 16.

Having assessed the principal risks, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Consolidation

The Company is a wholly owned subsidiary of A.S. Watson (Health & Beauty UK) Limited, its immediate parent company. The smallest group into which the results of the Company are consolidated is A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands with its principal place of business in Hong Kong. The Company's ultimate parent undertaking and controlling party and the largest group to consolidate these financial statements is CK Hutchison Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and incorporated in the Cayman Islands. The registered office of CK Hutchison Holdings Limited is PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands. The financial statements of CK Hutchison Holdings Limited can be obtained from 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong. The Company is exempt by virtue of compliance of all conditions in section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Investments in Subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

Revenue

Revenue represents retail sales to customers and commission income from retail goods and services provided by third parties in the United Kingdom. It is measured at the fair value of the consideration received or receivable and is recognised on the day that the store sale is made. Revenue through internet sites is recognised once an order has been fulfilled and despatched.

Revenue is shown net of returns, loyalty card points, colleague discounts and sales made on an agency basis, and is stated net of value added tax. Commission income, arising from goods and services provided by third parties, is recognised in revenue based on the terms of the contract.

In respect of loyalty schemes, as points are issued to customers the retail value of those points is deferred. When the points are used by customers they are recorded as revenue. Liabilities are recorded to estimate the proportion of the points issued which are expected to be redeemed by the customers.

In the opinion of the directors there is only one class of business which is that of a health and beauty retailer.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

1. Summary of Significant Accounting Policies (continued)

Cost of Sales

Cost of sales consists of expenses incurred in bringing products to a saleable position and condition. Such costs principally include purchasing of products from suppliers, packaging and distribution costs, direct staff costs and store costs, including depreciation of store and warehouse right-of-use assets and property, plant and equipment.

Supplier Income

Supplier incentives, promotional funding, volume related rebates and discounts, collectively known as 'supplier income', are deducted from cost of sales and are recognised in accordance with supplier agreements on an accrual basis as they are earned for each relevant supplier contract. Amounts due relating to supplier income are recognised within trade receivables, except in cases where the Company currently has a legally enforceable right to set-off and intends to offset amounts due from suppliers, in which case only the net amount receivable or payable is recognised. Accrued supplier income is recognised within accrued income when earned and not invoiced at the balance sheet date.

Other Operating Income

Other operating income relates to government grants, rental income receivable and logistics backhaul income. The income is recognised on an accruals basis.

Government Grants

Government grants are accounted for under the accruals model as permitted by FRS101. Grants of a revenue nature are recognised in other operating income in the same period as the related expenditure. This includes the Government Coronavirus Job Retention (Furlough) Scheme.

Foreign Currency

Foreign currency transactions including purchases are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of comprehensive income.

Intangible Assets

a) Pharmacy licences

An intangible asset arising on the purchase of a pharmacy licence is recognised at cost and is capitalised as an intangible asset. The licences are not amortised, as they are deemed to have an indefinite useful economic life. Impairment reviews are carried out on an annual basis to ensure that the carrying value of each individual licence is still appropriate.

b) Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of between five to seven years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of between five to seven years. All amortisation is included within administrative expenses within the statement of comprehensive income.

c) Brands

Brands and trademarks are recognised at fair value at the acquisition date. They are not amortised as they are deemed to have an indefinite useful life. The assets are tested for impairment on an annual basis and are carried at cost less any provision for impairment, and any impairment that is identified is recognised in the statement of comprehensive income.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

1. Summary of Significant Accounting Policies (continued)

Intangible Assets (continued)

c) Brands (continued)

The non-amortisation of intangible assets diverges from paragraph 22 of Schedule 1 to "The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008" (S1 2008/410), which requires intangible assets to be written off over their useful economic life. As such, the non-amortisation of the pharmacy licences and the Brands is a departure, for the purposes of giving a true and fair view, from the requirements of paragraph 22 of Schedule 1 to the Regulations. It is not possible to quantify the effect of the departure because the pharmacy licences and the Brand are deemed to have an indefinite useful life.

Property, Plant and Equipment

Tangible assets are stated at historic cost, net of accumulated depreciation. The cost of fixed assets is their historic purchase price, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of the tangible fixed assets less their estimated residual values, using the straight-line method, over the following expected useful economic lives of the assets concerned. Leaseholds with an unexpired term of greater than 50 years are treated as long leaseholds.

Long leasehold improvements	length of the lease
Short leasehold improvements	shorter of 6 $\frac{2}{3}$ years or length of the lease
Fixtures, fittings and equipment	5 to 10 years

The useful economic lives of assets are reviewed annually.

Impairment of Non-Financial Assets

Non-financial assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment. All other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Inventory

Inventory is valued at the lower of cost and net realisable value, at weighted average cost and consists of finished goods purchased for resale. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made as appropriate for shrinkage and slow moving items.

Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced and any impairment loss is recognised in the statement of comprehensive income. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, credit card receipts and bank overdrafts.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

1. Summary of Significant Accounting Policies (continued)

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is the amount of income tax payable in respect of taxable profit for the period or prior periods. Tax is calculated at the rate relevant to the financial period.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and where the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee Benefits

The Company operates both a defined benefit pension scheme and a defined contribution pension scheme for its employees. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension plan under which the Company pays fixed contributions into a separate entity.

The Company's defined benefit pension scheme is closed with employees making no further contributions. The pension scheme surplus recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method. Plan assets are recorded at fair value.

The statement of comprehensive income charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses. The financing charge is determined by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets. The cost is included in the statement of comprehensive income.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

1. Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Contracts may contain both lease and non-lease components. However, the Company has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Extension and termination options are included in a number of leases across the Company. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term and measurement of the liability if the lease is reasonably certain to be extended (or not terminated).

A lease re-measurement includes a change in scope of the lease, or the consideration of a lease, that was not part of the original terms and conditions of use. A lease re-measurement includes adding or terminating the right to use or extending or shortening the contractual lease term.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- uses recent third party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing were received.
- makes adjustments specific to the lease (e.g. lease term, country, currency and security).

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

1. Summary of Significant Accounting Policies (continued)

Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

Financial assets

Financial assets are classified as financial assets at amortised cost, fair value through other comprehensive income, and fair value through income statement as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value. Purchases and sales of financial assets are recognised on the date the Company commits to purchase or sell the item.

The Company's financial assets include trade and other receivables, cash and cash equivalents and amounts owed by group undertakings. These are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment.

Financial liabilities

Financial liabilities are classified as financial liabilities at amortised cost, fair value through other comprehensive income, and fair value through income statement as appropriate. The Company determines the classification of its financial liability at initial recognition. All financial liabilities are recognised initially at fair value.

The Company's financial liabilities include trade and other payables, accrued expenses and amounts owed to group undertakings. These are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Critical Accounting Estimates and Judgments

The Company makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events.

The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

2. Critical Accounting Estimates and Judgments (continued)

Significant estimates and assumptions

a) Impairment

Financial assets and non-financial assets, right-of-use assets and property, plant and equipment are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose.

Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Trade receivables are impaired on expected credit loss basis.

The Company tests whether assets have suffered any impairment on an annual basis. The impact of the cost of living crisis on expected future cash flows and the current trading performance represents the trigger for impairment assessment. For the reporting periods the recoverable amount of the cash-generating units (CGUs), being individual stores that have indicated signs of impairment, was determined based on value-in-use calculations.

The value in use has been calculated using the cash flow performance from the current period adjusted for the next five years based on the Board approved five year plan. Sales forecasts for 2023 have been based on current performance versus 2019 results and sales growth of 0.1-0.3% for 2024 until 2027, has been applied. The assumptions include estimated gross margin based on market segment and location. Operating costs are based on the current structure of the business, adjusting for inflationary increases but not reflecting any future cost-saving measures.

The resulting cash flows are discounted using a pre-tax discount rate of 8.8% and compared to the carrying value of property, plant, and equipment and right-of-use assets.

No impairment charge (2021: nil) has been recognised in property plant and equipment and right-of-use assets in the current year.

The following sensitivities have been applied to the calculation of impairments on assets at store level:

- Sales reduction of 5.0% for 2023 to 2027
- Sales increase of 5.0% for 2023 to 2027
- Pre-tax discount rate was 1.0% higher

These sensitivities have the following impact to the impairment of assets:

	Current impairment	Increase/(decrease) in impairment £'000		
		5.0% lower sales growth	5.0% higher sales growth	1.0% higher discount rate
Property, plant and equipment	-	540	(468)	10
Right-of-use assets	-	1,798	(1,562)	34
Total	-	2,338	(2,030)	44

b) Retirement benefit surplus /(obligation)

The Company operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the statement of comprehensive income are dependent on interest rates of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 17. Any changes to assumptions used will impact the carrying value of the retirement benefit obligation. As detailed in note 17, the retirement benefit surplus/(obligation) is most sensitive to changes in the discount rate and inflation.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

2. Critical Accounting Estimates and Judgments (continued)

Significant judgements

In order to assess whether it is appropriate for the Company to be reported as a going concern, the directors apply judgement having undertaken appropriate enquiries and having considered the business activities and the Company's principal risks and uncertainties as set out on pages 3-4.

3. Operating Profit

Operating profit is stated after charging/(crediting):

	Note	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Variable lease payments not included in lease liabilities		1,713	(244)
Expenses relating to short-term leases		2,056	710
Loss on disposal of intangible assets		7	-
Loss on disposal of property, plant and equipment	9	964	853
Amortisation of intangible assets	8	1,288	1,014
Impairment of pharmacy licences	8	825	-
Depreciation of property, plant and equipment	9	24,369	24,659
Right-of-use asset depreciation	10	80,780	83,819
Amounts payable to the Company's auditors:			
- audit fees		381	289
- audit related assurance services		13	13
- non-audit related assurance services		10	14
Other operating income			
- Government grants		-	(5,468)
- Rental income		(2,290)	(2,248)
- Other income		(6,483)	(4,938)

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

4. Employees

The total aggregate remuneration comprises:

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Wages and salaries (including directors)	234,461	205,736
Social security costs	15,936	14,087
Other pension costs	5,489	5,274
Total staff costs	255,886	225,097

The average monthly number of persons (including directors) employed by the Company during the period was:

	52 weeks ended 31 December 2022	53 weeks ended 1 January 2022
By activity:		
Selling	12,723	12,507
Administration	707	693
	13,430	13,200

5. Directors

The directors' emoluments were as follows:

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Remuneration	2,522	1,873
Long term incentive plan	-	82
	2,522	1,955

The Company has no share based schemes and all remuneration is settled in cash.

There are no post-employment benefits accruing under the Company's defined benefit scheme.

The remaining directors are remunerated by other group entities which do not recharge the Company. These directors do not receive any remuneration for their services to the Company.

The highest paid director's emoluments were as follows:

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Remuneration	1,882	1,397
Long term incentive plan	-	55
	1,882	1,452

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

6. Finance income and costs

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Bank interest	1,207	272
Pension financing income	535	-
Total finance income	1,742	272
Pension financing charge	-	(74)
Interest payable on loans from group undertakings	(5,194)	(6,060)
Interest expense on lease liabilities	(7,165)	(8,421)
Other Interest expense	(2)	(10)
Total finance costs	(12,361)	(14,565)
Net finance costs	(10,619)	(14,293)

7. Income tax expense

Tax expense included in the statement of comprehensive income

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
UK corporation tax on profits for the period	13,681	7,063
Adjustment in respect of prior periods	(133)	(887)
Total current tax charge	13,548	6,176
Origination and reversal of timing differences	3,671	(694)
Total deferred tax	3,671	(694)
Tax on profit	17,219	5,482

Tax (credit)/charge included in Other Comprehensive Income

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Deferred tax:		
Origination and reversal of temporary differences	(1,060)	4,451
Total tax (credit)/charge included in Other Comprehensive Income	(1,060)	4,451

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

7. Income tax expense (continued)

The effective rate of 22.1% (2021: 12.1%) is higher than (2021: lower than) the standard UK corporation tax rate of 19.0% (2021: 19.0%). The differences are:

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Profit before taxation	77,763	45,282
Profit before taxation at standard UK corporation tax rate of 19.0% (2021: 19.0%)	14,775	8,604
Effects of:		
Non-taxable expenses/(income)	2,577	(1,348)
Adjustment in respect of prior periods	(133)	(887)
Tax rate change	-	(887)
Tax on profit	17,219	5,482

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25.0%. This change had been substantively enacted at the balance sheet date and its impact has therefore been included in these financial statements.

8. Intangible assets

	Brands £'000	Pharmacy licences £'000	Computer software £'000	Total £'000
Cost				
At 2 January 2022	125,000	19,386	5,499	149,885
Additions	-	-	2,631	2,631
Disposals	-	(16)	(131)	(147)
At 31 December 2022	125,000	19,370	7,999	152,369
Accumulated amortisation and impairment				
At 2 January 2022	-	5,786	2,689	8,475
Amortisation	-	-	1,288	1,288
Disposals	-	(9)	(131)	(140)
Impairment	-	825	-	825
At 31 December 2022	-	6,602	3,846	10,448
Net book value				
At 31 December 2022	125,000	12,768	4,153	141,921
At 1 January 2022	125,000	13,600	2,810	141,410

Intangible assets amortisation of £410,000 (2021: £108,000) is recorded in cost of sales and £829,000 (2021: £906,000) is recorded in administrative expenses in the statement of comprehensive income.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

9. Property, plant and equipment

	Long leasehold improvements £'000	Short leasehold improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 2 January 2022	12,428	58,908	134,431	205,767
Additions	-	7,614	17,295	24,909
Disposals	(1)	(5,833)	(14,013)	(19,847)
At 31 December 2022	12,427	60,689	137,713	210,829
Accumulated depreciation				
At 2 January 2022	11,696	32,622	68,569	112,887
Charge for the period	20	8,214	16,135	24,369
Eliminated on disposals	(1)	(5,481)	(13,401)	(18,883)
At 31 December 2022	11,715	35,355	71,303	118,373
Net book value				
At 31 December 2022	712	25,334	66,410	92,456
At 1 January 2022	732	26,286	65,862	92,880

Depreciation of £21,636,000 (2021: £21,966,000) is recorded in cost of sales and £2,733,000 (2021: £2,693,000) is recorded in administrative expenses in the statement of comprehensive income.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

10. Right-of-use assets

	Retail Stores £'000	Warehouses £'000	Offices £'000	Other £'000	Total £'000
At 1 January 2022	274,413	33,559	9,910	5,744	323,626
Additions	26,437	-	-	5,247	31,684
Re-measurements	15,785	(256)	689	(292)	15,926
Depreciation	(73,751)	(3,634)	(1,080)	(2,315)	(80,780)
At 31 December 2022	242,884	29,669	9,519	8,384	290,456

Depreciation of £80,415,000 (2021: £82,472,000) is recorded in cost of sales and £365,000 (2021: £1,347,000) is recorded in administrative expenses in the statement of comprehensive income.

During the period, no impairment (2021: £nil) was charged to the statement of comprehensive income.

Re-measurements include a change in scope of the lease, or the consideration of a lease, that was not part of the original terms and conditions of use, including terminating the right-of-use, or extending or shortening the contractual lease term. A significant number of leases had a re-measurement during the period.

Lease liabilities

	At 31 December 2022 £'000	At 1 January 2022 £'000
Current	135,142	64,237
Non-current	196,393	299,152
	331,535	363,389

The current and future undiscounted cashflows for the lease liabilities are:

	At 31 December 2022 £'000	At 1 January 2022 £'000
Within 1 year	147,264	71,006
Between 1 and 2 years	64,045	82,022
Between 2 and 5 years	96,315	158,431
More than 5 years	53,962	82,082
	361,586	393,541

The total cash outflow for the period was £85,918,000 (2021: £94,114,000).

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

11. Deferred tax asset/(liability)

	Depreciation in excess of capital allowances £'000	Lease accounting IFRS 16 £'000	Other temporary differences £'000	Retirement benefit obligation £'000	Total £'000
At 27 December 2020	1,099	6,009	(2,647)	1,859	6,320
Credit/(charge) to income statement	3,177	777	(1,409)	(1,851)	694
Charge to other comprehensive income	-	-	-	(4,451)	(4,451)
At 1 January 2022	4,276	6,786	(4,056)	(4,443)	2,563
Charge to income statement	(269)	(654)	(212)	(2,536)	(3,671)
Credit to other comprehensive expense	-	-	-	1,060	1,060
At 31 December 2022	4,007	6,132	(4,268)	(5,919)	(48)

12. Investments

The net book value of investments at 31 December 2022 was £nil (2021: £nil).

The subsidiary, which is incorporated in the United Kingdom and is wholly owned, is as follows:

Subsidiary	Registered address	Status
Superdrug Pension Trustee Limited	51 Sydenham Road, Croydon, Surrey, CR0 2EU	Dormant

13. Inventories

	At 31 December 2022 £'000	At 1 January 2022 £'000
Finished goods and goods for resale	254,204	243,620

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks ended 31 December 2022 was £953,591,000 (2021: £831,533,000). Inventories are stated after provisions for impairment of £11,355,000 (2021: £20,607,000). There is no material difference between carrying amount and net realisable value of the inventory.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

14. Trade and other receivables

	At 31 December 2022 £'000	At 1 January 2022 £'000
Trade receivables	56,441	48,215
Amounts owed by group undertakings	36,597	34,134
Other receivables	27,930	15,708
Prepayments	28,330	21,956
Deferred tax asset (note 11)	-	2,563
	149,298	122,576

Trade receivables are stated after provisions for impairment of £1,445,000 (2021: £1,771,000). Amounts owed by group undertakings are unsecured, repayable on demand and are non-interest bearing.

15. Trade and other payables

	At 31 December 2022 £'000	At 1 January 2022 £'000
Trade creditors	65,691	54,384
Amounts owed to group undertakings	145,181	147,496
Corporation tax	20,611	5,751
Other taxation and social security	18,955	13,262
Accruals	63,942	47,518
Deferred income	7,663	7,266
Other creditors	28,199	42,504
Deferred tax liability (note 11)	48	-
	350,290	318,181

Amounts owed to group undertakings includes an unsecured loan from A.S. Watson (Health & Beauty UK) Limited totalling £110,000,000 (2021: £110,000,000). The interest rate on this loan is SONIA + 1.83% per annum from 1 January 2022 (2021: 12-month GBP LIBOR + 2.5%). The effective interest rate for the financial period is 2.0% (2021: 2.7%) and the loan is repayable on demand.

The Company has a pooled bank overdraft facility of £20,000,000, which is provided by National Westminster Bank plc, and which is unsecured and repayable on demand. Interest is payable at National Westminster Bank plc base rate plus 1.25%. During the period there were no drawings (2021: £nil) on this facility.

The Company has recognised the following liabilities related to contracts with customers for gift card and loyalty points These are included within other creditors.

	At 31 December 2022 £'000	At 1 January 2022 £'000
Contract liabilities	11,241	11,426

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

16. Borrowings

	At 31 December 2022 £'000	At 1 January 2022 £'000
Amounts owed to group undertakings	85,000	85,000

Borrowings relate to a credit agreement with A. S. Watson Group (HK) Limited. Under the agreement, A. S. Watson Group (HK) Limited has agreed to make available a credit facility of £125,000,000, charging interest at 3.5% per annum, maturing on 15 June 2025.

At the period end, the amount borrowed on this credit facility was £85,000,000 (2021: £85,000,000). No repayments were made during the financial period ended 31 December 2022 (2021: £nil).

17. Retirement benefit surplus

The retirement benefit surplus relates to a defined benefit scheme, the A.S. Watson (Health & Beauty UK) Pension Plan (the "Scheme"). The Scheme is governed by a Trustee board, and the assets of the Scheme are held separately from the Company's assets. The Scheme is closed, with employees making no further contributions, and members accruing no further defined benefits.

The Scheme was subject to a triennial actuarial valuation as at 31 March 2021, carried out by Barnett Waddingham on the projected unit basis. The results of this valuation were finalised in November 2021 and a recovery plan agreed, under which the Company would pay annual contributions from 1 January 2022 of £10.0m (which includes funding for Scheme expenses) until 31 December 2023, plus a final contribution of £0.3m in February 2024. The next valuation effective date is 31 March 2024.

The retirement benefit surplus at the year-end has been calculated by Isio Services Limited, as actuarial advisers to the Company, using the projected unit credit method.

The net retirement benefit surplus will be realised upon winding up of the scheme.

The amounts recognised in the balance sheet are as follows:

	At 31 December 2022 £'000	At 1 January 2022 £'000
Present value of funded obligation	(151,490)	(253,549)
Fair value of plan assets	175,166	276,930
Retirement benefit surplus	23,676	23,381
Deferred tax liability (note 11)	(5,919)	(4,443)
Net retirement benefit surplus	17,757	18,938

The retirement benefit surplus and the associated deferred tax liability are shown within different line items on the balance sheet.

Amounts recognised in the income statement are the pension financing income of £535,000 (2021: charge of £74,000), and the pension scheme expenses of £396,000 (2021: £557,000) included within administrative expenses.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

17. Retirement benefit surplus (continued)

a) Other comprehensive income

Re-measurement of the retirement benefit surplus has been recognised as follows:

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Return on plan assets, excluding amounts in interest	(112,361)	11,962
Actuarial gains/(losses) arising from changes in:		
Demographic assumptions	730	(7,009)
Financial assumptions	107,672	5,214
Experience	(5,886)	13,256
Total actuarial gains	102,516	11,461
Total re-measurement (losses)/gains	(9,845)	23,423

The movements in the retirement benefit surplus are as follows:

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
Changes in the present value of retirement benefit surplus:		
At start of financial period	253,549	266,482
Interest cost on the defined benefit surplus	4,776	3,958
Actuarial gain	(102,516)	(11,461)
Net transfer out liability	(101)	(1,636)
Benefits paid	(4,218)	(3,794)
At end of financial period	151,490	253,549
Changes in the fair value of plan assets:		
At start of financial period	276,930	256,697
Investment return on plan assets	(112,361)	11,962
Interest income on plan assets	5,312	3,883
Contributions by Company	10,000	10,375
Pension scheme expenses	(396)	(557)
Net transfer out liability	(101)	(1,636)
Benefits paid	(4,218)	(3,794)
At end of financial period	175,166	276,930

The Company's expected contributions (including expenses) to the defined benefit section for the next financial period ending 30 December 2023 are £10,000,000 (2022: £10,000,000).

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

17. Retirement benefit surplus (continued)

b) Valuations

The major categories of plan assets are as follows:

	At 31 December 2022 £'000	At 1 January 2022 £'000
Gilts	72,945	78,633
Corporate bonds	18,070	5,928
Debt securities	44,329	112,144
Cash	15,113	21,129
Equities	18,240	51,508
Other assets	6,469	7,588
	175,166	276,930

c) The principal actuarial assumptions used at the balance sheet date are as follows:

	At 31 December 2022	At 1 January 2022
Discount rate	4.75%	1.90%
Retail price index	3.15%	3.20%
Pension increases	2.85%	3.15%
Life expectancy at balance sheet date for a pensioner at normal retirement age (now 65 years):		
Male pensioner	20.7	20.9
Female pensioner	24.0	24.1
Life expectancy at balance sheet date for a future pensioner at normal retirement age:		
Male pensioner	22.0	22.2
Female pensioner	25.5	25.6

The discount rate is based on the yield of AA-rated sterling corporate bonds appropriate to the term of the Scheme's liabilities. The base mortality assumptions are based on the S3PXA_M tables, with future improvements based on the CMI 2021 projections with a smoothing factor of 7.0 and a long-term rate of improvement of 1.25% per annum.

The weighted average duration of the defined benefit obligation at the end of the period is 17 years (2021: 22 years).

d) Sensitivities:

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, with changes in more than one assumption more likely as these may be correlated.

An increase of 0.25% in the discount rate would decrease the retirement benefit obligation by £5.8 million. A decrease of 0.25% in the discount rate would increase the retirement benefit obligation by £6.2 million.

An increase of 0.25% in the inflation rate would increase the retirement benefit obligation by £4.2 million. A decrease of 0.25% in the inflation rate would decrease the retirement benefit obligation by £4.1 million.

The sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

17. Retirement benefit surplus (continued)

e) Other disclosures

The Scheme exposes the Company to actuarial risks such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Company is not exposed to any unusual entity specific or Scheme specific risks. The Trustee's investment strategy mitigates some of these risks. Market (investment) risk is addressed by diversification across asset classes and investment managers. The Trustee keeps investment performance under review and the Company is consulted before changes are made to the investment policy.

18. Provisions for liabilities

	52 weeks ended 31 December 2022	53 weeks ended 1 January 2022
Provisions		
At start of financial period	5,145	3,503
Charged to income statement	2,028	2,343
Utilised in the period	(382)	(701)
At end of financial period	6,791	5,145

Other provisions comprise estimates for store closure costs, including dilapidations, and store exit costs.

19. Dividends paid

	52 weeks ended 31 December 2022 £'000	53 weeks ended 1 January 2022 £'000
20.5p per ordinary share of 10p each (2021: 15.9p per ordinary share of 10p each)	45,000	35,000

20. Called up share capital

	52 weeks ended 31 December 2022	53 weeks ended 1 January 2022
Allotted and fully paid ordinary shares of 10p each (£'000)	22,000	22,000
Number of shares ('000 shares)	220,000	220,000

21. Contingent liabilities

The Company has issued guarantees in respect of property lease rentals for a fellow group undertaking, Kruidvat Real Estate UK Limited, to an annual value of £969,500 (2021: £1,184,250).

Superdrug Stores plc
Notes to the Financial Statements (continued)
For the 52 Weeks ended 31 December 2022

22. Capital and other commitments

At 31 December 2022 the Company had a duty deferment guarantee in favour of HM Customs & Excise to the value of £nil (2021: £3,000,000).

The Company has no capital commitments (2021: £nil).

23. Controlling parties

The Company's immediate parent undertaking is A.S. Watson (Health & Beauty UK) Limited, a company registered in England. The smallest group into which the results of the Company are consolidated is A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands with its principal place of business in Hong Kong. The registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The financial statements of A.S. Watson Holdings Limited are not publicly available.

The Company's ultimate parent undertaking and controlling party and the largest group to consolidate these financial statements is CK Hutchison Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and incorporated in the Cayman Islands. The registered office of CK Hutchison Holdings Limited is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The financial statements of CK Hutchison Holdings Limited can be obtained from 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.