

Walgreen Co. Post Audit Policy

This document defines the terms and procedures used during the Post Audit review of Accounts Payable activity by Walgreen Co. (“Walgreens”). This document was created to clarify the payables review process for all of our vendors. Our intent is to provide continued communication with all vendors for the successful long-term growth of our partnership. Walgreens' audit departments will operate under the following guidelines:

- Walgreens reserves the right to audit all transactions up to two and one-half years from the end of the calendar year that the transaction occurred.
- The allocation of future vendor promotional funds is **not** to be affected by the resolution of audit claims.
- The following table describes, based on the dollar value of the claim, the vendor notification method, vendor and Walgreens Merchandising review periods, and when the claim will be deducted from vendor’s account.

<u>Claim Amount</u>	<u>Vendor Preview Method</u>	<u>Vendor Review Period</u>	<u>Walgreens Merchandising Review Period</u>	<u>Comments</u>
<\$250	None	None	None	Post Audit will only collect claims under \$250 that are of this type: <ul style="list-style-type: none"> • Duplicates • Erroneous Payments • Freight • Cash Discount • Statement Credits
<=\$50,000	None	None	None	Claims will be automatically deducted from the vendor’s account
Between \$50,001 and \$500,000	Email	15 Days	None	Claims will be deducted after 15 days if no response from the vendor.
\$500,001 and over	Email	15 Days	5 Days	Claims will be deducted from the vendor’s account if no response from the vendor or buyer in 20 days.

- Post Audit claims will be reviewed by Walgreens prior to deduction.
- Walgreens Deal Contents Reports are electronically captured representations of negotiated promotions and are considered sufficient support for charge back deductions.
- Standard correspondence policy shall be to provide a written response within 5 working days. All vendor inquiries should be directed to the appropriate Post Audit department in writing. The address, phone, and email address of the Post Audit department can be found at the bottom of the claim.

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Walgreens' Post Audit Review will include (but not be limited to) the following:

Cash Discounts

- Terms of 3% or less offered for prompt payment will be considered cash discounts.
- Cash discount dating shall be calculated from the date of receipt of goods or from the date of Walgreens' receipt of correct invoices prepared in accordance with the terms of the purchase order, whichever is later, unless otherwise negotiated.
- The cash discount will be computed on the gross invoice amount.
- The standard invoice amount prior to allowances and/or discounts earned will be considered the gross invoice amount.
- No-cost invoices will not be subject to "earned" cash discount.

Trade Discounts

Terms in excess of 3% will be considered trade discounts. They are designed to affect the cost of goods and as such will be taken regardless of when an invoice is paid.

Anticipation

- Cash flow recovery will be pursued and considered as anticipation on occasions where remittance was made prior to the payment due date. The amount charged against the vendor shall be calculated from the comparison of the payment due date to the actual check payment date, utilizing a rate of 12% per annum.
- Anticipation will be written if payment was made at least 10 days prior to the due date. Walgreens' payment record of vendor's past payment history will be considered in claim preparation.
- Anticipation will be calculated on the net invoice amount (considering allowances, discounts, shortages, and damages).
- Anticipation will be considered on duplicate payments and written from the point the duplicate payment was made to the point of the claim.
- Products that qualified for extended dating, but were short shipped, will also receive the extended dating.
- Extended payment terms will be considered an allowance to which Walgreens is entitled.
- Back orders are entitled to the same extended terms whether shipped against the original Purchase Order or a subsequent Purchase Order.
- Cash flow recovery will be pursued on net vendor debit accounts where debit balance exceeds the open invoice balance.

Invoice Pricing

- Walgreens will charge back the difference between the lowest price offered to Walgreens on an item and the invoiced cost.
- All warehouses must be invoiced at the lowest cost offered to Walgreens either at the time of shipment or at the time of order placement.
- Where applicable, all warehouses are to receive the same cost for merchandise shipped during the same week. Exceptions, such as when freight is included in the cost of goods or for orders that qualified for early order discounts, are to be agreed upon in writing between the vendor and Walgreens' Category Manager.

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Bracket Pricing

- For purchases qualifying for a tiered pricing structure based on quantity or truckload brackets, Walgreens will review the difference between the invoice price charged and the appropriate tier price for the shipment.
- Orders will qualify for a bracket price if the order meets at least 95% of the tier criteria.
- All merchandise shipped from a single vendor DC to a single Walgreens destination within a 48-hour window will be combined to determine the best bracket price.

Returns to Vendor

- Damaged and recalled product that is returned to the vendor or destroyed in the field will be audited for the correct return cost, handling charges, and freight.
- Returns will be charged back at either the gross purchase price or replacement cost.
- When damaged product is returned, vendor will be charged both the inbound (if collect) and outbound freight charges.
- Most vendors request that the customer not return defective or substandard product, but rather destroy the product in the field. If the product was shipped collect, the inbound freight will be charged back.

Defective Allowances

- If allowances for defective goods are offered in lieu of returning product back to the vendor, Walgreens will then audit the a/p history, invoices, and actual returns to insure that an appropriate adjustment has been made for this allowance.
- Defective allowances will be calculated on the gross invoice amount after any adjustment for shortages.
- If the true value of the defective merchandise destroyed exceeds the designated allowance, the difference will be claimed with the Category Manager's approval.
- Recall products due to their nature are not considered a part of the normal defective allowance. These will be deducted separately as noted above following the guidelines established in the Unsaleables Policy: Recall & Withdrawal Plan & Procedures.

Allowances

Allowances are financial considerations given by the vendor in exchange for meeting performance requirements. Walgreens will assure that all allowances offered are correctly calculated and deducted in full. Unless previously agreed to in writing, each allowance shall be computed on gross amount of purchases.

Advertising Allowances

If allowances are offered as a result of a specified advertising event and collected through off-invoice deductions (considered a reduction to the invoice cost):

- The allowance shall be based on 100% of all qualifying gross purchases or promotional orders.
- Proof of performance shall not be required.
- Allowances will be calculated on the gross invoice cost before any adjustments for line item allowances.
- The allowance shall not be applied only to the original orders but also to back orders and shortages, whether shipped against the original Purchase Order or a subsequent Purchase Order.
- There will be no cap on the allowances, unless agreed to by both parties in writing.

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- If the vendor does not specify how to determine the order period to which the advertising period will apply, Walgreens shall include all purchases during the promotion in addition to 30 days of purchases prior to the start of the promotion.

If the advertising allowances are offered in the form of a bill back (separately invoiced):

- The allowance shall be based on 100% of all qualifying gross purchases.
- The allowance shall not only be applied to the original orders but also to back orders and shortages, whether shipped against the original Purchase Order or a subsequent Purchase Order.
- The bill back allowance will be calculated on the gross invoice cost before any adjustments for line level allowances unless otherwise specified in writing and agreed to by both parties.
- Proof of performance may or may not be required.

Co-op Advertising Allowances

- Advertising allowances offered and not specifically tied to an advertised event are considered Co-op advertising allowances. Walgreens shall review Co-op advertising programs to confirm all available funds have been collected.
- Co-op deals shall be reconciled and applied annually. There shall be no carryover from year to year unless agreed to by both parties in writing.
- Volume will be based on the gross purchase price unless otherwise specified in writing and agreed upon by both parties.
- Other promotional programs will not reduce purchases for Co-op computation, unless agreed to by both parties in writing.
- Co-op accruals will not be reduced by in-store promotions, MDF funds, cash discounts, volume rebates, new store/new warehouse/new items allowances, photographic fees, or Post Audit claims unless they are clearly defined in the vendor's co-op program and accepted by Walgreens in writing.
- Walgreens shall receive all unpaid accrued Co-op allowances.

New Store and New Warehouse Allowances

- It is Walgreens policy that all vendors provide new store and new warehouse allowances as a general practice.
- New store and new warehouse allowances will be based on the gross invoice cost.
- If free goods are offered as the promotional allowance, the account will be audited for the correct case quantity and value.
- Allowances will be based on gross new stores opened, and will include replacement stores.
- We will review and apply new store allowances on all direct store shipments up to 60 days past the grand opening date.

Product Introduction/New Item Allowance

- Intro/slotting New Item Allowances.
- These allowances are offered for items carried on Walgreens store planogram.
- The first purchase of a new item shall be subjected to an introductory allowance and extended dating.
- New Item Tags are a separate charge and may be in addition to earned initial purchase allowances.

Promotional Allowances

- Notification of upcoming deals and revisions to deals will be reviewed for the appropriate lead-time in order that Walgreens may maintain its competitive position within the retail industry.
- Merchandise ordered and/or shipped within the promotional period, including a five-day before and after grace period, shall qualify for the promotional allowance.

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- Vendors must provide ample notice of an upcoming promotional event to allow the Category Manager to adjust inventory levels. Unless otherwise agreed, allowances will be taken where 30 days prior notice of promotion is not given.
- Short shipments will be monitored to insure that the promotional allowance is received on the back order or on the subsequent order.
- If the promotional deal dates must be revised by the vendor, it is expected that neither the length of the promotional period nor the number of buys originally offered shall be reduced.
- All orders placed before receipt of the deal cancellation notice shall qualify for the promotional allowance.

Volume rebates and growth incentives

- Volume rebates and incentives offered as a result of volume growth shall be calculated on gross purchases less returns and invoice adjustments.
- Gross purchases are defined as merchandise that has been shipped or invoiced within the calendar year, unless otherwise specified in writing and agreed upon by both parties.
- Gross purchases will include products purchased directly from the vendor and those purchased from an authorized third party distributor.
- Walgreens shall deduct for tiered volume rebate allowances if total purchases meet 95% of the purchases required as defined by the vendor.

Quantity/Truckload Allowances

- Allowances offered as result of quantity and truckload parameters are considered quantity/truckload allowances.
- Shipments made within 48 hours from the same location to the same location will be considered as the same shipment. Merchandise not shipped from the same vendor location due to "out of stock" situations will be considered a qualifying shipment.
- Walgreens will deduct for a truckload allowance if total purchases meet 95% of the truckload parameters as defined by the vendor.
- Vendor shipments will also be reviewed for compliance with consolidation and routing guidelines.

Scanning Allowances

- Allowances based on store sales are considered scanning allowances.
- All fragrances/colors/flavors of a product will be included in a sale event unless otherwise specified and agreed to in writing.
- Walgreen's Item Code (WIC) numbers will be expanded to include older or alternative packaging of the same product.
- Scan allowances will include all markets unless specified and agreed to in writing.
- Walgreens standard scan report runs from Wednesday to Tuesday. Therefore, the standard scan back charge for a seven-day event shall be calculated using the two calendar weeks that include the above scan week.
- A store handling charge will be imposed for all scanning promotions.

Price Protection

As a result of a non-event price reduction, Walgreens will be credited the difference of the amount charged vs. the reduced item value for inventory on hand at the time of the permanent price decrease.

A permanent price drop is defined as a reduction in cost for 90 days or longer.

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Walgreens requires vendors, and vendors hereby agree, to provide Walgreens with no less than 60 days' advance notice before any effective price increases on general merchandise and branded pharmaceutical items/products sold to Walgreens, unless otherwise set forth in a business agreement between the parties. For generic pharmaceutical items/products, Walgreens requires vendors, and vendors hereby agree, to provide no less than 180 days' advance notice before any effective price increases, unless otherwise set forth in a business agreement between the parties.

It is Walgreens' policy that price protection will be allowed on both warehouse and store inventory.

Any questions regarding the Walgreen Post Audit Policy can be directed to PostAudit@walgreens.com.