COMPANY REGISTRATION NUMBER 758153

LLOYDS PHARMACY LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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LLOYDS PHARMACY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

The directors have pleasure in presenting their annual report and the audited financial statements of the company for the year ended 31 December 2011

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW
The principal activity of the company throughout the year was the operation and management of a chain of retail pharmacies, located primarily in the centre of communities as well as health centres

Review of business and future developments

Lloyds Pharmacy Limited had another profitable year in 2011 and built on its position as the largest community pharmacy operator in the UK The company continues to engage in the health policy debate and is shaping the future landscape of health policy whilst continually working to improve the health of the communities it serves and also continued its focus on individuals' changing health needs It expanded its role as a healthcare service provider, working with Primary Care Trusts and other NHS commissioning bodies in the provision of services such as smoking cessation and healthy heart checks and also developing its offer of business to business services

During the year the company acquired the remaining shareholding in 28 CVR Limited, the parent company of Expert Health Limited trading as Dr Thom, an online doctor service This follows the previous year's acquisition of Betterlifehealthcare Limited, the UK's largest internet and mail order retailer of mobility and disability living aids and products The acquisitions have further enhanced the range of services the company can offer to its customers

Gross margins continued to be significantly impacted by reductions in the tariff at which drugs are reimbursed by the NHS The company has sought to mitigate this by working with suppliers to reduce costs and implementing other initiatives to improve margins Costs throughout both the pharmacy network and support functions are also tightly controlled

During the year the company's intermediate parent company, Celesio AG, announced the launch of a multi-year Operational Excellence Program to improve the company's competitive position and operating performance in the long term As part of this program Lloyds Pharmacy Limited announced its intention to close a number of pharmacies and two warehouses in order to enhance the long term profitability of the business These announcements led to expenses of £7 7 million in the reporting period, which are detailed in note 4 of these financial statements

In addition to the above, 2012 will bring further changes as a result of the Celesio AG 'One Celesio' strategy of integrating the wholesale and retail divisions to allow Celesio AG to become an international logistics and service specialist which covers and optimises the entire supply chain from end to end – from the pharmaceutical manufacturer through to the patient

The company has put in place a number of forums for communicating with staff at all levels in the pharmacy network and support functions These include regular meetings of area managers, pharmacy managers, supervisors and support staff, pharmacy and head office partnership groups and national pharmacy managers' conferences

The company is committed to a responsible approach to business and has been working on a number of programmes that seek to manage the impact of business activities and, in doing so, make a positive contribution to the well-being of customers, employees, communities and the environment Lloyds Pharmacy Limited recognises that the achievement of success should include environmental responsibility as well as profitable growth The increasing evidence that the environment plays a significant role in the health and well being of the nation was reflected in the company's commitment to a sustained and robust approach to environmental management activity Lloyds Pharmacy Limited has also continued to work with organisations such as the Carbon Trust to understand opportunities to improve energy management and with the Energy Savings Trust to manage the environmental impact of our fleet activities

Review of business and future developments *(continued)*

Looking forward to 2012, the company will continue to focus on health, building on its achievements in 2011 in sales and service growth as well as operational efficiency It continues to be at the forefront of community healthcare service provision throughout the UK Opportunities for opening or acquiring pharmacies will continue to be pursued where appropriate

Key performance indicators (KPIs)

The board monitors the company's progress in implementing its strategy by reference to a suite of key performance indicators Progress in the year on summary KPIs is as follows -

Turnover growth 0 1% (2010 1%) growth year on year This has been driven by like for like growth in the number of prescriptions dispensed, over the counter sales and professional services and change in pharmacy numbers Turnover growth has been slowed by the continuing reductions in the drugs tariff directly affecting NHS sales income

Gross profit as a percentage of turnover 0 6% decrease (2010 0 1% increase) year on year The margin has been significantly affected by the continuing reductions in the drugs tariff

Principal risks and uncertainties

The management of the company is subject to a number of key risks Risks are formally reviewed by the board and appropriate processes are put in place to monitor and mitigate them, within a risk management framework developed by the company's intermediate parent, Celesio AG

Regulation

Lloyds Pharmacy Limited operates in highly regulated markets, any changes to which could have a negative impact on business performance The Department of Health could take further action and again reduce drug tariff reimbursement levels or further changes to the control of entry regulations could adversely impact the company's profitability

Competition

The change in the control of entry regulations in England during 2005 has meant that the number of new entrants into the pharmacy market has continued to increase There has also been further consolidation within the market continuing the move from independent pharmacies to multiples and a consolidation of multiple chains including the merger of Alliance Unichem and Boots Lloyds Pharmacy Limited has continued to expand its pharmacy portfolio through acquisitions and new openings to match the change in the competitive arena and will continue to focus its location strategy on being within the community, meeting local needs and being close to the source of prescriptions

People

The company recognises that its success is dependent almost entirely upon the efforts of its staff There are a number of training and development programmes in place, with particular focus on health and safety and customer service Staff retention is monitored by the board of directors and a series of initiatives has been put in place to aid in recruitment and retention, particularly of qualified pharmacists

Financial risk management

The company is exposed to a variety of financial risks, which include foreign currency, liquidity and interest rate risks The company has employed a programme that seeks to manage and limit any adverse effects of these risks in the financial performance of the company, which are described in more detail below

The directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board, although use is made of a central treasury function which arranges the overall funding requirements of the UK group of companies of which Lloyds Pharmacy Limited is a member This central function operates within a framework of clearly defined policies and procedures which have been approved by the directors of the company

The policies approved by the board of directors are implemented by the company's finance department and the central treasury function The policies for the UK group, which are documented in departmental manuals, cover funding and hedging instruments, exposure limits and a system of authority for the approval and execution of transactions

Lloyds Pharmacy Limited participates in the banking arrangements of the UK group, which are arranged with the assistance of the central treasury function The UK group funds its operations though a mix of retained earnings, borrowings and leasing that is designed to ensure that the company has sufficient funds for its day to day operations and other activities Cash flow requirements are monitored through rolling projections which are compiled across the group

RESULTS AND DIVIDENDS
The profit for the year, after taxation, amounted to £41,795,000 (2010 £73,261,000) Particulars of dividends paid are detailed in note 13 to the financial statements

DIRECTORS
The directors who served the company during the year and up to the date of this report are as follows·

A J Willetts	
A M Murdock	
S Gray	(Resigned 30 April 2012)
S Anderson	(Appointed 22 March 2012)
T Beer	(Appointed 22 March 2012)
M James	(Appointed 22 March 2012)
P Streatfield	(Appointed 3 October 2011 and resigned 30 April 2012)
A Page	(Appointed 21 February 2011 and resigned 24 January 2012)
P J O'Hanlon	(Resigned 1 June 2011)
F Morgan	(Resigned 31 July 2011)

QUALIFYING THIRD PARTY INDEMNITY PROVISION
Liability insurance, a qualifying third party indemnity provision for the purposes of the Companies Act 2006, is provided for the UK directors by Franz Haniel & Cie GmbH, the ultimate controlling party This was in force during the year and also on the date of approval of these financial statements

POLICY ON THE PAYMENT OF CREDITORS

The policy of the company regarding the payment of trade creditors is determined internally rather than drawing upon any published supplier payment code For the company, the policy is to

(a) settle the terms of payment with suppliers when agreeing the terms of each transaction,

(b) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and

(c) pay in accordance with contractual and other legal obligations

The payment policy applies to all creditors for revenue and capital supplies of goods and services, without exception

The company had 65 days purchases outstanding at 31 December 2011 based on the average daily amount invoiced by suppliers during the year (2010 65 days)

DISABLED EMPLOYEES

Wherever possible, disabled persons are given the same consideration for employment opportunities as other applicants and training and promotion prospects are identical In particular, special consideration is given to continuity of employment in the case of an employee who becomes disabled, with suitable retraining for alternative employment, if practicable

EMPLOYEE INVOLVEMENT

The directors pursue a policy of promoting equality of opportunity to all employees and of fostering and developing their involvement and interest in the company Both formal and informal systems of communication are used and managers have a specific responsibility to communicate effectively with the employees Copies of the group's annual report and news releases are distributed and other matters of importance or interest are featured in regular issues of the group's in-house magazine which seeks to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance

Training is regarded as a fundamental requirement and appropriate programmes exist at group, divisional and subsidiary company level

The company recognises the high standards required to ensure the health, safety and welfare of its employees at work, its customers and the general public The policies in this regard are regularly reviewed with the objective of ensuring that these standards are maintained

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the directors' report is approved under Section 418 of the Companies Act 2006, the following applies

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

On behalf of the board

A J Willetts
Director

Approved by the directors on 14 June 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LLOYDS PHARMACY LIMITED

We have audited the financial statements of Lloyds Pharmacy Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LLOYDS PHARMACY LIMITED *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Mike Robinson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes

29 June 2012

LLOYDS PHARMACY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	£000	2011 £000	2010 £000
TURNOVER				
Continuing operations		1,759,614		1,757,595
Acquisitions		674		934
			1,760,288	1,758,529
Cost of sales	3		(1,197,933)	(1,185,664)
GROSS PROFIT			562,355	572,865
Net operating expenses	3		(485,768)	(451,054)
OPERATING PROFIT:	5			
Continuing operations		76,560		121,752
Acquisitions		27		59
			76,587	121,811
Income from shares in group undertakings	8		264	–
Interest receivable and similar income	9		5	4
Amounts written off investments	10		(3,801)	(1,080)
Interest payable and similar charges	11		(15,874)	(16,036)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			57,181	104,699
Tax on profit on ordinary activities	12		(15,386)	(31,438)
PROFIT FOR THE FINANCIAL YEAR			41,795	73,261

All of the activities of the company are classed as continuing

There is no material difference between the results above and the results on an unmodified historical cost basis

The notes on pages 11 to 31 form part of these financial statements

LLOYDS PHARMACY LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	£000	£000
Profit for the financial year attributable to the shareholders	**41,795**	73,261
Actuarial (loss)/gain in respect of defined benefit pension scheme (Note 24)	**(5,818)**	444
Deferred tax in respect of defined benefit pension scheme (Note 19)	**1,454**	(120)
Total gains and losses recognised since the last annual report	**37,431**	73,585

The notes on pages 11 to 31 form part of these financial statements

LLOYDS PHARMACY LIMITED

BALANCE SHEET

31 DECEMBER 2011

	Note	£000	2011 £000	2010 £000
FIXED ASSETS				
Intangible assets	14		163,444	178,301
Tangible assets	15		157,359	144,919
Investments	16		17,197	17,648
			338,000	340,868
CURRENT ASSETS				
Stocks	17	91,986		100,076
Debtors	18	169,259		268,225
Cash at bank and in hand		55,608		124,135
		316,853		492,436
CREDITORS: Amounts falling due within one year	20	(409,025)		(562,567)
NET CURRENT LIABILITIES			(92,172)	(70,131)
TOTAL ASSETS LESS CURRENT LIABILITIES			245,828	270,737
CREDITORS: Amounts falling due after more than one year	21		(776)	(985)
PROVISIONS FOR LIABILITIES				
Deferred taxation	19		-	(6,672)
Other provisions	23		(11,710)	(9,179)
NET ASSETS EXCLUDING PENSION LIABILITY			233,342	253,901
Defined benefit pension scheme liability	24		(11,397)	(9,387)
NET ASSETS INCLUDING PENSION LIABILITY			221,945	244,514
CAPITAL AND RESERVES				
Called up share capital	27		125,242	125,242
Share premium account	28		63	63
Profit and loss account	28		96,640	119,209
TOTAL SHAREHOLDERS' FUNDS	29		221,945	244,514

These financial statements on pages 8 to 31 were approved by the board of directors and authorised for issue on 14 June 2012, and were signed on its behalf by

A J Willetts
Director

Company Registration Number 758153

The notes on pages 11 to 31 form part of these financial statements.

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006

Set out below is a summary of the more important accounting policies, which have been applied consistently except where stated otherwise

Going concern

The financial statements of Lloyds Pharmacy Limited have been prepared on a going concern basis which assumes that the company will continue in existence for the foreseeable future

The company relies on its parent company, Admenta UK plc, for financial support A facility of £700m (2010 £700m) is made available to Admenta UK plc by another group company, Celesio Finance B V The intermediate parent company, Celesio AG continues to instruct Celesio Finance B V to provide this on-going support and as such the intra group funding agreement between Celesio AG, Celesio Finance B V and Admenta UK plc was renewed during December 2011 with the facility end date of 25 April 2017

The directors of Lloyds Pharmacy Limited have received written confirmation from the directors of Admenta UK plc that the support provided to Lloyds Pharmacy Limited remains in place

Consolidated financial statements

The financial statements contain information about Lloyds Pharmacy Limited as an individual company, rather than consolidated information as the parent of a group The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as its results and the results of its subsidiaries are included by full consolidation in the financial statements of its ultimate parent, Franz Haniel & Cie GmbH, a company incorporated in Germany

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard 1 - "Cash flow statements" from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its ultimate parent publishes a consolidated cash flow statement

Turnover

Turnover comprises sales of goods and services at invoice value excluding value added tax Turnover from the provision of goods and services is recognised when the risks and rewards of ownership of goods and services have been transferred to the customer The risks and rewards of ownership of goods and services are deemed to have been transferred when the goods or services are delivered to, or are picked up by the customer Turnover from the provision of goods and all services is only recognised when the amounts to be recognised are fixed or determinable and collectability is reasonably assured Income relating to the period that has not been invoiced at the year end is accrued as required by FRS 18

1. ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill represents the excess of the fair value of consideration given to acquire new businesses over the fair value of the separable net assets at the date of the acquisition Goodwill is capitalised as an intangible asset on the balance sheet

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Goodwill- straight line basis over 20 years

Fixed assets

Tangible fixed assets are stated at cost less provision for depreciation Cost comprises the purchase cost together with any incidental expenses of acquisition

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Freehold buildings- 2% on a straight line basis
Leasehold property- 2% on a straight line basis / over the period of the lease if less than 50 years
Fixtures, fittings, plant and equipment- 10% - 33 3% on a straight line basis
Motor vehicles- 25% on a straight line basis

Impairment of fixed assets and goodwill

The basis for any impairment write down of fixed assets and goodwill is by reference to the higher of the post tax net realisable value and the value in use of those assets For the purposes of determining any impairment, the income generating unit takes account of associated cash flows within the Admenta UK plc group

The value in use is determined through discounting all future cash flows using a risk adjusted rate The risk adjusted rate is based upon the weighted average cost of capital of the parent company, Celesio AG, as used within internal investment appraisal mechanisms

The company evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account

Stocks

Stocks are valued at the lower of cost and net realisable value Cost is determined on a first in first out basis Where necessary, provision is made for obsolete, slow moving and defective stocks

1. ACCOUNTING POLICIES *(continued)*

Finance lease agreements

Assets acquired under finance leases are capitalised and depreciated over the shorter of the lease term and the useful economic lives of equivalent owned assets The capital element of future payments is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases

Operating lease agreements

The cost of assets used in respect of all operating leases is charged to the profit and loss account on a straight line basis over the lease term

Rental income is recognised in the profit and loss account on a straight line basis over the lease term

Pension costs and other post-retirement benefits

The company participates in group pension schemes operated by Admenta UK plc, one of which is a defined benefit and two defined contribution All schemes are funded and constituted as independently administered funds with their assets being held separately from those of the company The net liabilities under the defined benefit pension scheme are included in the balance sheet, the expected return on pension scheme assets and interest costs are included within interest payable and similar charges in the profit and loss account and actuarial gains and losses are included within the statement of total recognised gains and losses

Provisions for liabilities

Provision is made in the financial statements for present obligations arising from past events, where there is a high degree of certainty as to their amount and date of settlement Where there is a potential obligation based on a past event which will probably result in the company's assets being utilised, or amounts due upon the realisation of the obligation cannot be estimated with sufficient reliability, no provision is made, but a contingent liability is disclosed in the financial statements Where utilisation of assets is deemed to be remote, no provision or disclosure is made

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

1. ACCOUNTING POLICIES *(continued)*

Trade debtor estimation technique

Income receivable from health authorities relating to prescriptions dispensed is calculated by the prescription pricing authority rather than by the company As a result of this evaluation process being complex and the lack of currently available commercial systems to provide a timely quantification of the NHS debtor there is a degree of estimation involved in determining the amounts to include within the financial statements The process looks at the number of prescriptions dispensed together with history on the average value, adjusted for known tariff changes, and mix of those prescriptions on a store by store basis This information is input into a model to provide an estimation of the NHS debtor at any given point in time If there is a material difference between the estimate and actual debtor confirmed after the year end, the financial statements are adjusted accordingly

Investments

Shares in group companies are shown at historic cost less any write down for impairment The basis for any impairment is by reference to the net asset value of the investment

2. TURNOVER

All turnover derives from operations within the United Kingdom

3. ANALYSIS OF COST OF SALES AND NET OPERATING EXPENSES

	Continuing operations £000	Acquired operations £000	Total £000
YEAR ENDED 31 DECEMBER 2011			
Cost of sales	**1,197,408**	**525**	**1,197,933**
Distribution costs	**403,029**	**122**	**403,151**
Administrative expenses	**95,349**	**-**	**95,349**
Other operating income (Note 4)	**(12,732)**	**-**	**(12,732)**
Net operating expenses	**485,646**	**122**	**485,768**
YEAR ENDED 31 DECEMBER 2010			
Cost of sales	1,185,001	663	1,185,664
Distribution costs	380,003	216	380,219
Administrative expenses	85,143	-	85,143
Other operating income (Note 4)	(14,304)	(4)	(14,308)
Net operating expenses	450,842	212	451,054

4. OTHER OPERATING INCOME

	2011 £000	2010 £000
Rent receivable	**1,654**	1,708
Other operating income	**11,078**	12,600
	12,732	14,308

5. OPERATING PROFIT

Operating profit is stated after charging/(crediting)

	2011 £000	2010 £000
Amortisation of intangible assets	**15,597**	15,530
Depreciation of owned fixed assets	**31,925**	30,484
Depreciation of assets held under finance lease agreements	**223**	300
Operational Excellence Program costs (see below)	**7,711**	-
Profit on disposal of fixed assets	**(86)**	(392)
Operating lease costs		
- Plant and equipment	**3,902**	2,973
- Land and buildings	**34,906**	33,812
Net exchange differences on foreign currency translation	**(45)**	27
Auditor's remuneration	**262**	280

Included within the operating profit are expenses totalling £7,711,000 in relation to the Operational Excellence Program The expenses are made up of cost of materials £1,747,000, fixed assets impairment £1,288,000 and property related costs of £4,676,000

	2011 £000	2010 £000
Services provided by the company's auditor		
Fees paid for the audit of the financial statements	**186**	185
Fees payable for other services		
Tax services	**14**	13
Other services pursuant to legislation	**62**	82
	262	280

Included within fees paid for the audit of the financial statements is £16,000 (2010 £16,000) relating to the audit fee of fellow subsidiaries and other group companies.

6. PARTICULARS OF EMPLOYEES

The monthly average number of staff employed by the company (including directors) during the financial year amounted to

	2011	2010
	No	No
Number of distribution staff	**17,033**	16,517
Number of administrative staff	**852**	792
	17,885	17,309

The aggregate payroll costs of the above were

	2011	2010
	£000	£000
Wages and salaries	**259,036**	247,309
Social security costs	**18,932**	18,073
Other pension costs	**3,137**	2,984
	281,105	268,366

7. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services was

	2011	2010
	£000	£000
Remuneration receivable	**1,949**	1,976
Value of company pension contributions to money purchase schemes	**117**	124
Value of company pension contributions to defined benefit schemes	**25**	25
	2,091	2,125

Remuneration of highest paid director:

	2011	2010
	£000	£000
Total remuneration (excluding pension contributions)	**659**	641
Value of company pension contributions to money purchase schemes	**57**	34
	716	675

The number of directors who accrued benefits under company pension schemes was as follows

	2011	2010
	No	No
Money purchase schemes	**6**	5
Defined benefit schemes	**1**	1

8. INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2011 £000	2010 £000
Income from group undertakings	**264**	–

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £000	2010 £000
Bank interest receivable	**5**	4

10. AMOUNTS WRITTEN OFF INVESTMENTS

	2011 £000	2010 £000
Amount written off investments (Note 16)	**3,801**	1,080

11. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £000	2010 £000
Bank interest and other similar charges payable	**2,492**	1,917
Finance charges on finance leases	**65**	43
Group interest payable	**12,816**	13,489
Pension interest payable	**501**	587
	15,874	16,036

12. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2011 £000	2010 £000
Current tax		
UK Corporation tax based on the results for the year at 26 50% (2010 28%)	**20,295**	34,106
Under/(over) provision in prior years	**988**	(46)
Total current tax	**21,283**	34,060
Deferred tax		
Origination and reversal of timing differences	**(5,897)**	(2,622)
Tax on profit on ordinary activities	**15,386**	31,438

12. TAX ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

The deferred tax charge in the Profit and Loss Account is further analysed as follows

	2011	2010
	£000	£000
Movement in deferred tax relating to pension deficit	**(1,127)**	(839)
Other deferred tax movements	**7,024**	3,461
Deferred tax credited in Profit and Loss Account	**5,897**	2,622

The main rate of corporation tax reduced from 28% to 26% from 1 April 2011

The other deferred tax movements includes an amount of £237,000 (2010 £203,604) relating to the change in rate used to provide for deferred tax in the year The rate used in 2011 was 25% (2010 27%)

No provision has been made for deferred tax on the sale of assets where potentially taxable gains have been rolled over into replacement assets Such tax would become payable only if the assets were sold without it being possible to claim rollover relief The total unprovided for is £8,614,000 (2010 £9,324,000) At present it is not envisaged that any tax will be payable in respect of these items in the foreseeable future

(b) Tax included in statement of total recognised gains and losses

Included within the statement of recognised gains and losses is the movement on deferred taxation in respect of the defined benefit pension scheme of £(1,454,000) (2010 £120,000)

(c) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than (2010 higher than) the standard rate of corporation tax in the UK of 26 5% (2010 28%) The differences are explained below

	2011	2010
	£000	£000
Profit on ordinary activities before taxation	**57,181**	104,699
Profit on ordinary activities before taxation multiplied by the standard rate of tax	**15,153**	29,316
Effects of		
Expenses not deductible for tax purposes		
timing differences	**(1,132)**	(962)
permanent differences	**1,169**	370
Capital allowances in excess of depreciation	**2,574**	3,185
Adjustments to tax charge in respect of previous periods	**988**	(46)
Amortisation of goodwill	**3,214**	3,345
Loss on sale of fixed assets to the extent it differs from chargeable gains	**(683)**	(1,148)
Total current tax (note 12(a))	**21,283**	34,060

12. TAX ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

(d) Changes to the UK corporation tax system

Changes to the UK corporation tax system were announced in the March 2012 Budget statement A resolution passed by parliament on 26th March 2012 has now reduced the main rate of corporation tax from 26% to 24% from 1 April 2012 Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012 Further reductions to the main rate are proposed to reduce the rate to 22% by 1 April 2014 The proposed reductions of the main rate of corporation tax to 22% by 1 April 2014 are expected to be enacted separately each year The impact of these reductions on the deferred tax balance will be reflected in future years' financial statements as the reductions become substantively enacted The effect of the change of rate enacted on 26 March 2012 is not expected to have a material effect on the balance sheet of the company

13. DIVIDENDS

	2011	2010
	£000	£000
Paid during the year		
Interim paid 2011 £0 48 (2010 £0 40)	**60,000**	50,000

14. INTANGIBLE ASSETS

	Goodwill
	£000
COST	
At 1 January 2011	328,015
Additions (note 32)	1,040
Disposals (note 32)	(300)
At 31 December 2011	**328,755**
AMORTISATION	
At 1 January 2011	149,714
Charge for the year	15,597
At 31 December 2011	**165,311**
NET BOOK VALUE	
At 31 December 2011	**163,444**
At 31 December 2010	178,301

15. TANGIBLE FIXED ASSETS

	Freehold property	Long leasehold property	Short leasehold property	Fixtures, fittings, plant & equipment	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
COST						
At 1 Jan 2011	12,499	2,322	54,820	283,379	437	353,457
Additions	222	–	4,804	41,388	–	46,414
Disposals	(513)	–	(532)	(4,022)	(9)	(5,076)
At 31 Dec 2011	**12,208**	**2,322**	**59,092**	**320,745**	**428**	**394,795**
DEPRECIATION						
At 1 Jan 2011	2,064	509	19,344	186,190	431	208,538
Charge for the year	233	69	3,136	29,995	3	33,436
On disposals	(45)	–	(523)	(3,961)	(9)	(4,538)
At 31 Dec 2011	**2,252**	**578**	**21,957**	**212,224**	**425**	**237,436**
NET BOOK VALUE						
At 31 Dec 2011	**9,956**	**1,744**	**37,135**	**108,521**	**3**	**157,359**
At 31 Dec 2010	10,435	1,813	35,476	97,189	6	144,919

Finance lease agreements

Included within the net book value of £157,359,000 (2010 £144,919,000) is £1,388,000 (2010 £1,322,637) relating to assets held under finance lease agreements The depreciation charged to the financial statements in the year in respect of such assets amounted to £223,000 (2010 £299,673)

Impairment charge

The depreciation charge for the year includes an impairment provision of £1,288,000 relating to the Operational Excellence Program (see note 5)

16. INVESTMENTS

	Total
	£000
COST	
At 1 January 2011	18,728
Additions	3,350
Disposals	(3,801)
At 31 December 2011	**18,277**
AMOUNTS WRITTEN OFF	
At 1 January 2011 and 31 December 2011	**1,080**
NET BOOK VALUE	
At 31 December 2011	**17,197**
At 31 December 2010	17,648

The company acquired a further 67% holding in 28 CVR Limited on 25 March 2011 for a consideration of £3,349,000, increasing its shareholding to 100% The remaining addition in the year of £1,000 represents assets contributed by Lloyds Pharmacy Limited into AHLP Pharmacy Limited

A number of dormant companies which the company held as investments in subsidiaries were struck off during the year resulting in disposals of investments of £3,801,000

16. INVESTMENTS *(continued)*

The principal subsidiaries included in the financial statements at 31 December 2011 are listed below

Subsidiary	Nature of business	Country of incorporation	% held
A Miller (Chemists) Limited	Dormant	Scotland	100
Fullpad Limited	Dormant	England & Wales	100
Rose and Boyle Limited	Dormant	Scotland	100
Silver Street Pharmacy Limited	Dormant	England & Wales	100
S & J Hallett Limited	Dormant	England & Wales	100
AHLP Pharmacy Limited	Retail pharmacy	England & Wales	75
Betterlifehealthcare Limited	Online retailer	England & Wales	80
28 CVR Limited	Holding company	England & Wales	100
30 MC Limited*	Dormant	England & Wales	100
Expert Health Limited*	Online Health	England & Wales	100
DrThom Billing Limited*	Dormant	England & Wales	100

* Held indirectly through 28 CVR Limited

The company also holds investments in unlisted companies which operate health centres The directors consider the aggregate value of the company's shares in its subsidiaries, associates and unlisted investments is not less than the aggregate of the amounts at which those shares are included in the company's balance sheet

17. STOCKS

	2011 £000	2010 £000
Finished goods	**91,986**	100,076

18. DEBTORS

	2011	2010
	£000	£000
Trade debtors	34,404	19,528
Amounts owed by immediate parent	88,093	24,344
Amounts owed by fellow subsidiaries	4,134	173,681
Amounts owed by other group companies	62	5,370
Amounts owed by subsidiaries	1,136	250
Other debtors	28,426	32,737
Other prepayments and accrued income	12,652	12,315
Deferred taxation (note 19)	352	–
	169,259	268,225

Amounts owed by immediate parent, fellow subsidiaries and other group companies are repayable on demand and do not attract any interest Amounts owed by subsidiaries of £1,136,000 (2010 £250,000) are repayable on demand

19. DEFERRED TAXATION

The deferred tax included in the Balance sheet is as follows

	2011	2010
	£000	£000
Included in debtors (note 18)	352	-
Included in provisions	-	(6,672)
	352	(6,672)

The movement in the deferred taxation account during the year was

	2011	2010
	£000	£000
Balance brought forward	(6,672)	(10,133)
Profit and loss account movement arising during the year (note 12)	7,024	3,461
Balance carried forward	352	(6,672)

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	2011	2010
	£000	£000
Excess of taxation allowances over depreciation on fixed assets	1,447	405
Short term timing difference	3,582	2,696
Other timing differences	(4,677)	(9,773)
	352	(6,672)

Deferred tax has been provided in 2011 at 25% (2010 27%)

19. DEFERRED TAXATION *(continued)*

The movement in the deferred tax asset relating to the pension deficit during the year was

	2011	2010
	£000	£000
Provision brought forward at 1 January	**3,472**	4,431
Deferred tax charge in profit and loss account (note 12)	**(1,127)**	(839)
Deferred tax credited/(charged) to the statement of total recognised gains and losses		
- on actuarial loss/(gain)	**1,454**	(120)
Provision carried forward at 31 December	**3,799**	3,472

The deferred tax asset relating to the pension deficit has been deducted from the gross pension liability in arriving at the net pension liability (see note 24)

20. CREDITORS: Amounts falling due within one year

	2011	2010
	£000	£000
Bank overdrafts	**25,439**	25,976
Trade creditors	**79,392**	73,076
Amounts owed to other group companies	**2,674**	4,538
Amounts owed to fellow subsidiaries	**242,860**	395,258
Amounts owed to subsidiaries	–	4,493
Corporation tax	**4,973**	14,485
Other taxation and social security	**6,385**	5,932
Finance lease agreements	**457**	390
Other creditors	**301**	1,533
Accruals and deferred income	**46,544**	36,886
	409,025	562,567

The bank overdrafts are secured by an inter-company composite guarantee.

Of the amounts owed to fellow subsidiaries £70,000,000 (2010 £70,000,000) is due by the end of 2012 with interest charged on these balances at market rates The remaining balances due to the immediate parent, fellow subsidiaries, other group companies and subsidiaries are on demand and are interest free

21. CREDITORS: Amounts falling due after more than one year

	2011 £000	2010 £000
Finance lease agreements	776	985

Finance lease agreements are analysed as follows

Current obligations	457	390
Non-current obligations	776	985
	1,233	1,375

22. COMMITMENTS UNDER FINANCE LEASE AGREEMENTS

Future commitments under finance lease agreements are as follows

	2011 £000	2010 £000
Amounts payable within 1 year	457	390
Amounts payable between 2 to 5 years	776	408
Amounts payable after more than 5 years	-	577
Future finance charges on finance leases	91	101
	1,324	1,476

23. OTHER PROVISIONS

	Property provisions £000
Balance at 1 January 2011	9,179
Charged to Profit and Loss Account	7,146
Utilised in the year	(4,615)
Balance at 31 December 2011	11,710

The property provisions represent an assessment of the costs to cover (a) rent and rates for vacant leasehold premises, taking account of the anticipated period until the leases are assigned or disposed of, (b) rent increases accrued following rent reviews, (c) dilapidations The assessment, which is undertaken at the end of each accounting period, is made on a property by property basis in conjunction with Admenta UK plc's property services department

Included within the property provisions profit and loss charge for the year is £4,676,000 of charges in relation to the Operational Excellence Program referred to in note 5

It is expected that the property provision will be will be used during the remainder of the dilapidations and repair programme or until the assignment or disposal of the premises, over a maximum remaining period of 100 years

24. PENSIONS AND OTHER POST RETIREMENT BENEFITS

The company participates in group pension schemes operated by Admenta UK plc, one of which is a defined benefit and two are defined contribution The defined benefit scheme is a joint scheme with fellow subsidiary AAH Pharmaceuticals Limited and is divided by reference to the number of employees All of the schemes are funded and constituted as independently administered funds with their assets being held separately from those of the company The funds are valued every three years by a professionally qualified, independent actuary, the rates of contribution payable being determined by the actuary Particulars of the valuations are contained in the financial statements of Admenta UK plc

Surpluses and deficiencies are dealt with over the expected working lifetime of the members by appropriate adjustments to the contribution rates

The pension cost for all schemes were borne by each fund The pension charge in respect of the company was £3,137,000 (2010 £2,984,000)

There were amounts of £500,000 accrued in respect of pension scheme contributions at the balance sheet date (2010 £504,000)

The company provides no other post-retirement benefits to its employees

The Company operates defined benefit pension schemes in the UK An actuarial valuation was carried out as at 6 April 2011 and updated to 31 December 2011 by a qualified independent actuary The major assumptions used by the actuary were

	2011	2010	2009
	%	%	%
Rate of increase in salaries	**3.8**	4 4	4 5
Discount rate	**4.7**	5 4	5 7
Inflation assumption	**2.8**	3 4	3 5
Expected return on scheme assets	**4.99**	5 57	6 02
Pension increases linked to price inflation subject to a maximum of 5% p a	**2.7**	3 3	3 5

The assumed life expectancies on retirement at age 65 are			
Current pensioners			
Male aged 65	**87.2**	86 6	86 5
Female aged 65	**88.1**	89 0	88 9
Future pensioners			
Male aged 45	**89.0**	88 5	88 4
Female aged 45	**90.7**	90 8	90 7

The scheme has a range of different pension increases for different benefit categories, not all of which are detailed above Further details of the various rates of pension increases can be found in the scheme documentation

24. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

The company contributions during the year amounted to £4,347,000 (2010 £3,469,000) and the agreed company contribution rate for the coming year is 18 2% pa of pensionable salaries plus £4,181,000 The estimated contributions to be paid to the scheme by the company next year is £4,347,000 Expenses and levies to the Pension Protection Fund are payable in addition to this rate

The scheme is closed to new entrants so the average age of the membership is expected to increase over time The projected unit method is used to calculate the current service cost This calculates the value of the following years' pension accrual and expresses it as a percentage of pensionable pay This percentage increases as the members of the scheme approach retirement

The fair value of the scheme assets, the present value of the scheme liabilities and the resulting deficit are

	2011	2010	2009
	£000	£000	£000
Equities	**12,376**	11,372	15,190
Bonds	**51,262**	49,117	35,733
Property	**1,400**	3,300	4,096
Absolute return fund	**3,485**	10,368	13,318
Others	**10,793**	1,640	240
Total market value of assets	**79,316**	75,797	68,577
Present value of funded scheme liabilities	**(94,512)**	(88,656)	(84,403)
Deficit in the scheme	**(15,196)**	(12,859)	(15,826)
Related deferred tax asset (Note 19)	**3,799**	3,472	4,431
Net pension liability	**(11,397)**	(9,387)	(11,395)

There are no company related investments included in the fair value of assets

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class The expected returns for each asset class have been set with reference to market yields and include an allowance for expenses

The actual return on scheme assets is

	2011	2010
	£000	£000
Actual return on scheme assets	**3,637**	8,252

24. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Reconciliation of the present value of the scheme liabilities is shown below

	2011 £000	2010 £000
At 1 January	**88,656**	84,403
Service cost	**365**	359
Interest cost	**4,787**	4,713
Members' contributions	**64**	65
Actuarial loss on scheme liabilities	**5,169**	3,682
Benefits paid	**(4,529)**	(4,566)
At 31 December	**94,512**	88,656

Reconciliation of the fair value of scheme assets is shown below

	2011 £000	2010 £000
At 1 January	**75,797**	68,577
Expected return on scheme assets	**4,286**	4,126
Actuarial (loss)/gain on scheme assets	**(649)**	4,126
Contributions by the company	**4,347**	3,469
Members' contributions	**64**	65
Benefits paid	**(4,529)**	(4,566)
At 31 December	**79,316**	75,797

Amounts to be recognised in the income statement are as follows

	2011 £000	2010 £000
Current service cost	**365**	359
Interest cost	**4,787**	4,713
Expected return on pension scheme assets	**(4,286)**	(4,126)
Total expense	**866**	946

The amounts recognised in the statement of total recognised gains and losses (STRGL) are as follows

	2011 £000	2010 £000
Actuarial (loss)/gain recognised in STRGL	**(5,818)**	444
Cumulative loss recognised in STRGL	**(34,257)**	(28,439)

24. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

A history of assets, liabilities and actuarial gains and losses is shown below

	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Present value of scheme liabilities	**(94,512)**	(88,656)	(84,403)	(74,657)	(82,692)
Fair value of scheme assets	**79,316**	75,797	68,577	63,249	80,374
Deficit	**(15,196)**	(12,859)	(15,826)	(11,408)	(2,318)
Difference between the expected and actual return on scheme assets					
- amount (£000)	**(649)**	4,126	5,174	(18,608)	(4,947)
- % of scheme assets	**(1)**	5	8	(29)	(6)
Experience (losses)/gains on scheme liabilities					
- amount (£000)	**479**	(644)	884	(475)	(43)
- % of the present value of scheme liabilities	**1**	(1)	1	(1)	–
Total amount recognised in statement of total recognised gains and losses					
- amount (£000)	**(5,818)**	444	(4,039)	(9,421)	(4,132)
- % of the present value of scheme liabilities	**6**	1	(5)	(13)	(5)

The value of the assets at 31 December 2011 and earlier has been taken at mid-value Corresponding amounts have not been restated at bid value

25. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2011 the company had annual commitments under non-cancellable operating leases as set out below

	2011		2010	
	Land and buildings	**Plant and equipment**	Land and buildings	Plant and equipment
	£000	**£000**	£000	£000
Operating leases which expire				
Within 1 year	**1,267**	**684**	1,188	607
Within 2 to 5 years	**10,290**	**2,206**	11,551	1,913
After more than 5 years	**21,123**	**-**	20,453	-
	32,680	**2,890**	33,192	2,520

26. RELATED PARTY TRANSACTIONS

The company has not disclosed transactions with fellow group companies which are 100% owned, in accordance with the exemption under the terms of Financial Reporting Standard 8 - "Related party disclosures"

During the year the company purchased goods from Betterlifehealthcare Limited totalling £1,296,000 At the year end the company owed Betterlifehealthcare Limited £114,000 Lloyds Pharmacy Limited also had an outstanding balance receivable from Betterlifehealthcare Limited of £1,132,000 (2010 £250,000)

At 31 December 2011 the company owed AHLP Pharmacy Limited £60,001 (2010 £10,314)

27. CALLED UP SHARE CAPITAL

Authorised share capital:

	2011 £000	2010 £000
300,250,000 Ordinary shares of £1 each	**300,250**	300,250

Allotted, called up and fully paid:

	2011 No	2011 £000	2010 No	2010 £000
Ordinary shares of £1 each	**125,242,450**	**125,242**	125,242,450	125,242

28. RESERVES

	Share premium account £000	Profit and loss account £000
Balance brought forward	63	119,209
Profit for the year	–	41,795
Dividends paid	–	(60,000)
Actuarial loss in respect of defined benefit pension scheme	–	(4,364)
Balance carried forward	63	96,640

29. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £000	2010 £000
Profit for the financial year	**41,795**	73,261
Dividends paid	**(60,000)**	(50,000)
Actuarial (loss)/gain in respect of defined benefit pension scheme	**(4,364)**	324
Net (reduction)/addition to shareholders' funds	**(22,569)**	23,585
Opening shareholders' funds	**244,514**	220,929
Closing shareholders' funds	**221,945**	244,514

30. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the financial statements amounted to £Nil (2010 - £1,104,749)

31. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is Admenta Holdings Limited The company's ultimate parent undertaking and controlling party is Franz Haniel & Cie GmbH, a company registered in Germany, by virtue of its majority shareholding in the intermediate parent Celesio AG and its consolidation of the Celesio AG Group results into its own consolidated financial statements

Consolidated financial statements for the largest group of undertakings are prepared by Franz Haniel & Cie GmbH and may be obtained from Franz Haniel Platz 1, D-47119 Duisburg, Ruhrort, Germany

Consolidated financial statements for the smallest group of companies are prepared by Celesio AG and may be obtained from Celesio AG, Neckartalstrasse 155, D-70376 Stuttgart, Germany

32. ACQUISITIONS AND DISPOSALS

Summarised below are the fair values of the assets acquired by the company during the year on acquisition of unincorporated businesses The goodwill arising on these acquisitions is detailed in note 14

	Fair value and book value £000
Stock	94
Goodwill acquired	1,040
	1,134
Satisfied by	
Consideration paid - Cash	**1,134**

During the year a branch was disposed of with an associated reduction in goodwill of £300,000 (2010 £2,708)