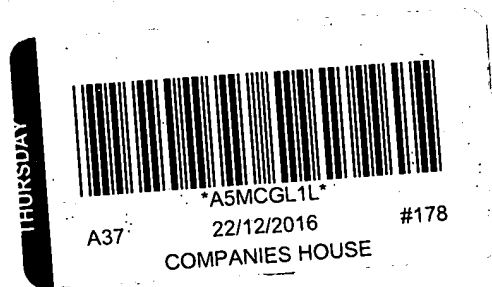


Lloyds Pharmacy Limited
Financial Statements
31 March 2016



Lloyds Pharmacy Limited

Financial Statements

Year ended 31 March 2016

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Lloyds Pharmacy Limited

Strategic Report

Year ended 31 March 2016

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company throughout the year was the operation of a chain of retail pharmacies, located primarily within local communities and health centres.

Review of business and future developments

The period to March 2016 demonstrated a return to growth for the company although significant cost and margin challenges remain in an industry affected by ongoing cost pressures within the National Health Service. Overall the company performed strongly in a challenging market.

Gross margins were again significantly impacted by reductions in drug reimbursement values to achieve pharmacy supply chain profit restrictions as set out by the Department of Health. This is a continuing feature of the pharmacy market and has continued throughout 2016. Additionally, within England, reductions in the overall level of fees being paid to the pharmacy sector are being implemented with effect from December 2016 and activities are ongoing to mitigate the expected effects of these cuts, both by looking at supplementary source of revenue and by implementation of cost and efficiency measures across the business.

During the period the company again expanded its activities in hospital outpatient dispensing contracts. These contracts have a high proportion of drug revenue which is passed through at cost and this also tends to reduce the reported gross margin percentage.

During the year the company started to reap the benefits of the ongoing 'One Celesio' strategy of integrating the wholesale and retail divisions. Primarily this is reflected within an improved overall cost structure for the business. This was supplemented by the ongoing roll out of the European Pharmacy Network refit programme which is focussed upon updating the pharmacy estate and demonstrating our strong healthcare credentials and retail proposition.

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 continues to work 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 measurement of success should allow for 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 is reflected in the company's commitment to a sustained and robust approach to environmental management activity. Lloyds Pharmacy Limited continues 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.

In 2016 and 2017, the company will continue to focus on health, building on its achievements in 2015/16 in sales and service growth as well as operational efficiency. A key facet of the future development will revolve around the successful integration of the Sainsbury pharmacy business operating both within supermarkets and in a number of hospitals. The acquisition of the Sainsbury pharmacy business was completed on 31 August 2016.

Lloyds Pharmacy Limited

Strategic Report *(continued)*

Year ended 31 March 2016

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 period on summary KPIs is as follows: -

Turnover growth: 8.0% growth (2015: 4.5% growth) on a prorata basis. Turnover growth was primarily driven by the increase in hospital outpatient dispensing contracts.

Gross profit as a percentage of turnover: 1.0% decrease (2015: 1.2% decrease) year on year. The margin has again been affected by the continuing reductions in the drugs tariff but also by the increased proportion of hospital outpatient dispensing business performed.

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

Lloyds Pharmacy Limited will continue to focus its portfolio strategy on being within the community, meeting local needs and being close to the source of prescriptions. Key activities during the period included the continuation of the roll out of the European Pharmacy Network concept when there was evidence that it would benefit underlying business performance. Normal portfolio management activity carried on during the year and subsequent to the period end the primary focus has been on preparation for the acquisition of the Sainsbury pharmacy estate, which was completed on 31 August 2016.

People

The company recognises that its success is secured almost entirely by 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.

Lloyds Pharmacy Limited

Strategic Report *(continued)*

Year ended 31 March 2016

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 through 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.

This report was approved by the board of directors on 20 December 2016 and signed on behalf of the board by:



T Beer
Director

Registered office:
Sapphire Court
Walsgrave Triangle
Coventry
CV2 2TX

Lloyds Pharmacy Limited

Directors' Report

Year ended 31 March 2016

The directors present their report and the financial statements of the company for the year ended 31 March 2016.

Directors

The directors who served the company during the year were as follows:

C Tobin	
T Beer	
N Swift	
S Anderson	(Resigned 31 March 2016)
H Stables	(Appointed 1 April 2016)
J R Poole	(Appointed 15 August 2016)
C McDermott	(Appointed 3 October 2016)
H M Lipp	(Appointed 6 December 2016)

Dividends

The directors do not recommend the payment of a dividend (15 month period ended 31 March 2015: £nil).

Future developments

Future developments of the business are detailed in the strategic report.

Financial risk management

Financial risk management of the business are detailed in the strategic report.

Going concern

The company relies on its parent company, Admenta UK Limited, for financial support. Admenta UK has the support of the parent company, Celesio AG, and for this reason the directors consider it to be a going concern.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

Employment of disabled persons

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 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.

Lloyds Pharmacy Limited

Directors' Report *(continued)*

Year ended 31 March 2016

Events after the end of the reporting period

Events after the end of the reporting period are detailed in note 28.

Qualifying indemnity provision

Liability insurance, a qualifying third party indemnity provision for the purposes of the Companies Act 2006 was provided for the UK directors by Celesio AG, an intermediate parent entity. On the date of approval of the financial statements liability insurance was also in force.

Disclosure of information in the strategic report

The company has chosen in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out in the company's strategic report information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 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 judgments 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Lloyds Pharmacy Limited

Directors' Report *(continued)*

Year ended 31 March 2016

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they 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 a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act.

Approval of reduced disclosures

The company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12. The company's shareholders have been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received.

This report was approved by the board of directors on 20 December 2016 and signed on behalf of the board by:



T Beer
Director

Registered office:
Sapphire Court
Walsgrave Triangle
Coventry
CV2 2TX

Lloyds Pharmacy Limited

Independent Auditor's Report to the Members of Lloyds Pharmacy Limited

Year ended 31 March 2016

We have audited the financial statements of Lloyds Pharmacy Limited for the year ended 31 March 2016 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes 1-31. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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.

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 strategic report and the directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 March 2016 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Lloyds Pharmacy Limited

Independent Auditor's Report to the Members of Lloyds Pharmacy Limited *(continued)*

Year ended 31 March 2016

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.

David Hall, FCA

David Hall FCA (Senior Statutory Auditor)

For and on behalf of
Deloitte LLP
Chartered accountant & statutory auditor
Nottingham, United Kingdom

20 December 2016

Lloyds Pharmacy Limited

Statement of Comprehensive Income

Year ended 31 March 2016

		Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Turnover	Note 4	2,015,036	2,332,635
Cost of sales		<u>(1,475,640)</u>	<u>(1,684,209)</u>
Gross profit		539,396	648,426
Distribution costs		(413,282)	(495,820)
Administrative expenses		(100,921)	(120,602)
Other operating income	5	<u>11,214</u>	<u>15,263</u>
Operating profit	6	36,407	47,267
Income from shares in group undertakings	10	1,077	–
Other interest receivable and similar income	11	10	78
Interest payable and similar charges	12	<u>(17,463)</u>	<u>(18,558)</u>
Profit on ordinary activities before taxation		20,031	28,787
Tax on profit on ordinary activities	13	<u>(7,257)</u>	<u>(10,391)</u>
Profit for the financial year		<u>12,774</u>	<u>18,396</u>
Remeasurement of the net defined benefit plan		4,255	(2,488)
Tax relating to components of other comprehensive income		<u>(851)</u>	<u>498</u>
Total comprehensive income for the year		<u>16,178</u>	<u>16,406</u>

All the activities of the company are from continuing operations.

Lloyds Pharmacy Limited

Statement of Financial Position

31 March 2016

	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	14	99,900	115,411
Tangible assets	15	135,577	130,521
Investments	16	15,836	15,840
		<u>251,313</u>	<u>261,772</u>
Current assets			
Stocks	17	122,886	105,610
Debtors	18	499,328	281,571
Cash at bank and in hand		31,215	18,906
		<u>653,429</u>	<u>406,087</u>
Creditors: amounts falling due within one year	19	<u>(649,052)</u>	<u>(425,279)</u>
Net current assets		<u>4,377</u>	<u>(19,192)</u>
Total assets less current liabilities		<u>255,690</u>	<u>242,580</u>
Creditors: amounts falling due after more than one year	20	–	(7)
Provisions			
Other provisions	23	<u>(18,458)</u>	<u>(14,704)</u>
Net assets excluding defined benefit pension plan asset/(liability)		<u>237,232</u>	<u>227,869</u>
Defined benefit pension plan asset/(liability)	24	<u>1,959</u>	<u>(4,856)</u>
Net assets including defined benefit pension plan asset/(liability)		<u>239,191</u>	<u>223,013</u>
Capital and reserves			
Called up share capital	25	125,242	125,242
Share premium account	26	63	63
Profit and loss account	26	113,886	97,708
Shareholders' funds		<u>239,191</u>	<u>223,013</u>

These financial statements were approved by the board of directors and authorised for issue on 20 December 2016, and are signed on behalf of the board by:



T Beer
Director

Company registration number: 00758153

Lloyds Pharmacy Limited

Statement of Changes in Equity

Year ended 31 March 2016

		Called up share capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 1 January 2014		125,242	63	81,302	206,607
Profit for the year		—	—	18,396	18,396
Other comprehensive income for the year:					
Remeasurement of the net defined benefit plan	24	—	—	(1,990)	(1,990)
Total comprehensive income for the year		—	—	16,406	16,406
At 31 March 2015		125,242	63	97,708	223,013
Profit for the year		—	—	12,774	12,774
Other comprehensive income for the year:					
Remeasurement of the net defined benefit plan	24	—	—	3,404	3,404
Total comprehensive income for the year		—	—	16,178	16,178
At 31 March 2016		<u>125,242</u>	<u>63</u>	<u>113,886</u>	<u>239,191</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements

Year ended 31 March 2016

1. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

2. Accounting policies

Basis of preparation

Lloyds Pharmacy Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 3. The nature of the Company's operations and its principal activities are set out in the strategic report on page 1. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding period.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

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, McKesson Corporation, a company incorporated in North America.

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 Limited, for financial support. Admenta UK has the support of the parent company, Celesio AG, and for this reason the directors consider it to be a going concern.

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

Transition to FRS 102

The entity transitioned from previous UK GAAP to FRS 102 as at 1 January 2014. Details of how FRS 102 has affected the reported financial position and financial performance is given in note 31.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

2. Accounting policies *(continued)*

Disclosure exemptions

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. Its financial statements are consolidated into the financial statements of McKesson Corporation which can be obtained from McKesson Corporation, One Post Street, San Francisco, CA 94104, United States. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

No cash flow statement has been presented for the company.

Disclosures in respect of financial instruments have not been presented.

No disclosure has been given for the aggregate remuneration of key management personnel.

Revenue recognition

Revenue comprises sales of goods and services at invoice or reimbursement value less discounts and excluding value added tax.

Revenue from the provision of goods and all services is only recognised when the amounts to be recognised are fixed and determinable and collectability is reasonably assured.

Revenue from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer. The risks and rewards of ownership of goods are deemed to have been transferred when the goods are delivered to, or are picked up by the customer.

Revenue from the rendering of services is measured by reference to the stage of completion of the service transaction at the end of the reporting period provided that the outcome can be reliably estimated. When the outcome cannot be reliably estimated, revenue is recognised only to the extent that expenses recognised are recoverable.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

2. Accounting policies *(continued)*

Income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 an 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. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Foreign currencies

Foreign currency transactions are initially recorded in the functional currency, by applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to the profit and loss account.

Operating leases

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.

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.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

2. Accounting policies *(continued)*

Amortisation

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

Goodwill - 20 years straight line

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

Tangible 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 or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

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

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 Limited 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.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

2. Accounting policies *(continued)*

Finance leases and hire purchase contracts

Assets held under finance leases and hire purchase contracts are recognised in the statement of financial position as assets and liabilities at the lower of the fair value of the assets and the present value of the minimum lease payments, which is determined at the inception of the lease term. Any initial direct costs of the lease are added to the amount recognised as an asset.

Lease payments are apportioned between the finance charges and reduction of the outstanding lease liability using the effective interest method. Finance charges are allocated to each period so as to produce a constant rate of interest on the remaining balance of the liability.

Provisions

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 not 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 accounts. Where utilisation of assets is deemed to be remote, no provision or disclosure is made.

Defined benefit plans

The company participates in group pension schemes operated by Admenta UK Limited, 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 asset/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 other comprehensive income.

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

2. 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. 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 period 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.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

2. Accounting policies *(continued)*

(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss. Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Company's accounting policies

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

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

3. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Revenue recognition

Revenue 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 quantification of the NHS revenue/ 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 and mix of those prescriptions. This information is input into a model to provide an estimation of the NHS revenue/debtor at any given point in time.

Revenue from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer. The risks and rewards of ownership of goods are deemed to have been transferred when the goods are delivered to, or are picked up by the customer.

Property provisions

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 Limited's property services department.

Key source of estimation uncertainty - Stock provisioning

The nature of the stock held consists of a high volume of relatively low value items, some with used by dates and some with seasonal characteristics. The obsolescence calculation is based on the stock holding, anticipated future sales, and whether the item has a route to sale through being included on the store plan. The provision estimation includes assumption relating to the provision percentage and the recovery of cost through discounted sales.

4. Turnover

Turnover arises from:

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Sale of goods	1,589,691	1,947,983
Rendering of services	425,345	384,652
	<u>2,015,036</u>	<u>2,332,635</u>

All turnover derives from operations within the United Kingdom.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

5. Other operating income

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Rental income	1,396	1,769
Other operating income	9,818	13,494
	<u>11,214</u>	<u>15,263</u>

6. Operating profit

Operating profit or loss is stated after charging:

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Amortisation of intangible assets	15,886	19,674
Depreciation of tangible assets	27,959	41,129
Loss on disposal of tangible assets	731	3,809
Gains on disposal of other investments	(465)	(876)
Operating lease rentals	40,829	48,676
Foreign exchange differences	85	95
Defined contribution plans expense	3,983	4,590
Defined benefit plans expense	274	(253)

7. Auditor's remuneration

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Fees payable for the audit of the financial statements	<u>66</u>	<u>178</u>
Fees payable to the company's auditor and its associates for other services: Other non-audit services	<u>100</u>	<u>177</u>

8. Staff costs

The average number of persons employed by the company during the year, including the directors, amounted to:

	2016 No.	2015 No.
Distribution staff	16,204	16,394
Administrative staff	842	814
	<u>17,046</u>	<u>17,208</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

8. Staff costs *(continued)*

The aggregate payroll costs incurred during the year, relating to the above, were:

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Wages and salaries	285,682	327,653
Social security costs	18,385	22,714
Other pension costs	3,983	4,590
	<u>308,050</u>	<u>354,957</u>

Other pension costs includes only those items included within operating costs. Items reported elsewhere have been excluded.

9. Directors' remuneration

The directors aggregate remuneration in respect of qualifying services was:

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Remuneration	1,271	1,212
Company contributions to defined contribution pension plans	99	146
	<u>1,370</u>	<u>1,358</u>

Remuneration of the highest paid director in respect of qualifying services:

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Aggregate remuneration	<u>877</u>	<u>809</u>

10. Income from shares in group undertakings

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Income from group undertakings	<u>1,077</u>	<u>—</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

11. Other interest receivable and similar income

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Interest from group undertakings	10	54
Other interest receivable and similar income	–	24
	<u>10</u>	<u>78</u>

12. Interest payable and similar charges

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Interest on banks loans and overdrafts	610	1,891
Interest on obligations under finance leases and hire purchase contracts	173	110
Pension interest payable	107	274
Other interest payable and similar charges	16,573	16,283
	<u>17,463</u>	<u>18,558</u>

13. Tax on profit on ordinary activities

Major components of tax expense

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Current tax:		
UK current tax expense	9,948	9,647
Adjustments in respect of prior periods	2,058	1,308
Total current tax	<u>12,006</u>	<u>10,955</u>
Deferred tax:		
Origination and reversal of timing differences	(2,121)	(564)
Impact of change in tax rate	760	–
Adjustment in respect of previous periods	(3,388)	–
Total deferred tax	<u>(4,749)</u>	<u>(564)</u>
Tax on profit on ordinary activities	<u>7,257</u>	<u>10,391</u>

Tax recognised as other comprehensive income or equity

Included within the Statement of changes in Equity is a deferred taxation charge in respect of the defined benefit pension scheme of £851,000 (2015: £498,000 credit).

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

13. Tax on profit on ordinary activities *(continued)*

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is higher than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 21.40%).

	Year to 31 Mar 16 £000	Period from 1 Jan 14 to 31 Mar 15 £000
Profit on ordinary activities before taxation	20,031	28,787
Profit on ordinary activities by rate of tax	4,006	6,388
Adjustment to tax charge in respect of prior periods	(1,330)	1,308
Effect of expenses not deductible for tax purposes	3,731	4,059
Effect of change in tax rate in the year	982	(40)
Dividend income not taxable	(241)	–
Other permanent differences	109	(1,324)
Tax on profit on ordinary activities	7,257	10,391

Factors that may affect future tax expense

In November 2015, reductions to the rate of corporation tax to 19% (effective 1 April 2017) and 18% (effective 1 April 2020) were enacted. In his budget of 2016, the Chancellor of the Exchequer proposed a further reduction to the rate of corporation tax to 17% (effective 1 April 2020) which was enacted in September 2016.

14. Intangible assets

	Goodwill £000
Cost	
At 1 April 2015	331,737
Additions	375
At 31 March 2016	332,112
Amortisation	
At 1 April 2015	216,326
Charge for the year	15,886
At 31 March 2016	232,212
Carrying amount	
At 31 March 2016	99,900
At 31 March 2015	115,411

The addition of £375,000 relates to the acquisition of one pharmacy which previously was a Lloyds Pharmacy franchise.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

15. Tangible assets

	Freehold property £000	Long leasehold property £000	Short leasehold property £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost						
At 1 Apr 2015	11,297	1,985	63,334	361,042	405	438,063
Additions	–	–	509	33,157	–	33,666
Disposals	–	–	(246)	(28,879)	(405)	(29,530)
At 31 Mar 2016	11,297	1,985	63,597	365,320	–	442,199
Depreciation						
At 1 Apr 2015	2,671	553	31,713	272,201	404	307,542
Charge for the year	124	53	3,571	24,211	–	27,959
Disposals	–	–	(244)	(28,231)	(404)	(28,879)
At 31 Mar 2016	2,795	606	35,040	268,181	–	306,622
Carrying amount						
At 31 Mar 2016	8,502	1,379	28,557	97,139	–	135,577
At 31 Mar 2015	8,626	1,432	31,621	88,841	1	130,521

Impairment charge

During the prior period an Electronic Point of Sale asset was fully impaired. The depreciation charge for that period includes an impairment charge of £4,107,000 relating to this asset. No such impairments were made in the current year.

Finance lease agreements

Included within the net book value of £135,577,000 (2015: £130,521,000) is £36,000 (2015: £288,000) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the period in respect of such assets amounted to £182,000 (2015: £547,000).

16. Investments

	Shares in group undertakings £000
Cost	
At 1 April 2015	16,920
Disposals	(4)
At 31 March 2016	16,916
Impairment	
At 1 Apr 2015 and 31 Mar 2016	1,080
Carrying amount	
At 31 March 2016	15,836
At 31 March 2015	15,840

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

16. Investments *(continued)*

In the year there were disposals of investments in companies which yielded a profit of £465,000 (2015: profit £876,000). During the prior period the company acquired additional holdings in companies operating health centres, of £417,000, and also made a capital contribution to AHLP Pharmacy Limited amounting to £51,000. There were no such acquisitions or contributions in the current year.

The company has investments in the following subsidiary undertakings, associates and other significant investments.

Subsidiary	Nature of business	Class of capital	% held
AHLP Pharmacy Limited	Dormant	England & Wales	75
BetterlifeHealthcare Limited	Online retailer	England & Wales	100
28 CVR Limited	Holding company	England & Wales	100
30 MC Limited*	Dormant	England & Wales	100
Expert Health Limited*	Online health	England & Wales	100
Bridgeton Health Centre Pharmacy Limited	Retail pharmacy	England & Wales	100
Company Chemists Association Limited	Retail pharmacy	England & Wales	27
Escon (St Neots) Limited	Dormant	England & Wales	100
Wrose Health Centre P.D. Limited	Health centre	England & Wales	43

* 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

	2016	2015
	£000	£000
Finished goods and goods for resale	<u>122,886</u>	<u>105,610</u>

18. Debtors

	2016	2015
	£000	£000
Trade debtors	301,884	170,570
Amounts owed by immediate parent	–	34,779
Amounts owed by fellow subsidiaries	16,092	8,995
Amounts owed by other group companies	586	328
Amounts owed by subsidiaries	2,703	2,028
Deferred tax asset (note 22)	11,804	7,906
Prepayments and accrued income	22,481	23,727
Other debtors	143,778	33,238
	<u>499,328</u>	<u>281,571</u>

Amounts owed by all group companies are repayable on demand and do not attract any interest.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

19. Creditors: amounts falling due within one year

	2016	2015
	£000	£000
Bank overdrafts	157,292	52,167
Trade creditors	127,228	99,387
Amounts owed to other group companies	95,460	2,450
Amounts owed to fellow subsidiaries	208,598	216,715
Accruals and deferred income	31,480	36,446
Corporation tax	22,945	11,012
Social security and other taxes	6,022	6,195
Obligations under finance leases and hire purchase contracts	—	17
Other creditors	27	890
	<u>649,052</u>	<u>425,279</u>

The bank overdrafts are secured by an inter-company composite guarantee and are repayable on demand.

The balances due to fellow subsidiaries and other group companies are unsecured, repayable on demand and interest free.

20. Creditors: amounts falling due after more than one year

	2016	2015
	£000	£000
Obligations under finance leases and hire purchase contracts	—	7
	<u>—</u>	<u>7</u>

21. Finance leases and hire purchase contracts

The total future minimum lease payments under finance leases and hire purchase contracts are as follows:

	2016	2015
	£000	£000
Not later than 1 year	—	19
Later than 1 year and not later than 5 years	—	8
	<u>—</u>	<u>27</u>
Less: future finance charges	—	(3)
Present value of minimum lease payments	<u>—</u>	<u>24</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

22. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2016	2015
	£000	£000
Included in debtors (note 18)	<u>11,804</u>	<u>7,906</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2016	2015
	£000	£000
Accelerated capital allowances	11,050	5,435
Short term timing differences	<u>754</u>	<u>2,471</u>
	<u>11,804</u>	<u>7,906</u>

Deferred tax has been provided at 19% (2015: 20%).

23. Provisions

	Property Provisions £000	Other Provisions £000	Restructuring Provisions £000	Total £000
At 1 April 2015	13,727	835	142	14,704
Additions	892	—	4,874	5,766
Charge against provision	<u>(1,599)</u>	<u>(268)</u>	<u>(145)</u>	<u>(2,012)</u>
At 31 March 2016	<u>13,020</u>	<u>567</u>	<u>4,871</u>	<u>18,458</u>

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 Limited's property services department.

It is expected that the property provision 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.

The other provisions represent an assessment of the costs to cover pension scheme alignment obligations. The pension scheme alignment forms part of the One Celesio Program. It is expected to be utilised in the next financial year.

The restructuring provision represents an assessment of the costs associated with the head office restructuring. It is expected to be utilised in the next financial year.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

24. Employee benefits

The company participates in group pension schemes operated by Admenta UK Limited, 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 Limited.

The pension cost for all schemes were borne by each fund. The amount recognised in profit or loss as an expense in relation to defined contribution plans was £3,983,000 (2015: £4,590,000). The company provides no other post-retirement benefits to its employees.

There were amounts of £767,000 accrued in respect of pension scheme contributions at the balance sheet date. (2015: £646,000).

The company operates a defined benefit pension scheme in the UK. An actuarial valuation was carried out as at 6 April 2014 and updated to 31 March 2016 by a qualified independent actuary.

The company contributions during the period amounted to £2,833,000 (2015: £4,739,000) and the agreed company contribution rate for the coming year is 29% pa of pensionable salaries plus £285,000. The estimated contributions to be paid to the scheme by the company next year is £129,000. 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 statement of financial position net defined benefit asset/liability is determined as follows:

	2016	2015
	£000	£000
Present value of defined benefit obligations	(108,066)	(117,407)
Fair value of plan assets	110,025	112,551
	<u>1,959</u>	<u>(4,856)</u>

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

	2016
	£000
At 1 April 2015	117,407
Current service cost	167
Interest expense	3,555
Benefits paid	(5,466)
Contributions by plan participants	20
Remeasurements:	
Actuarial gains and losses	(7,617)
At 31 March 2016	<u>108,066</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

24. Employee benefits *(continued)*

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

	2016 £000
At 1 April 2015	112,551
Interest income	3,449
Benefits paid	(5,466)
Contributions by employer	2,833
Contributions by plan participants	20
Remeasurements:	
Actuarial gains and losses	(3,362)
At 31 March 2016	<u>110,025</u>

The total costs for the year in relation to defined benefit plans are as follows:

	2016 £000	2015 £000
Recognised in profit or loss:		
Current service cost	167	191
Past service credit	–	(718)
Net interest expense	107	274
	<u>274</u>	<u>(253)</u>
Recognised in other comprehensive income:		
Remeasurement of the liability:		
Actuarial gains and losses	4,255	(2,488)

The fair value of the major categories of plan assets are as follows:

	2016 £000	2015 £000
Equity instruments	20,577	22,430
Debt instruments	66,935	68,340
Property	4,935	5,796
Diversified Growth Fund	16,888	15,332
Other	690	653
	<u>110,025</u>	<u>112,551</u>

None of the Scheme assets are invested in the company's financial instruments or in property occupied by, or other assets used by, the company.

The return on plan assets are as follows:

	2016 £000	2015 £000
Return on assets of benefit plan	<u>86</u>	<u>18,290</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

24. Employee benefits *(continued)*

The principal actuarial assumptions as at the statement of financial position date were:

	2016	2015
	%	%
Discount rate	3.40	3.10
Expected rate of salary increase	3.30	4.00
Expected rate of increase in pensions	2.90	3.00
Inflation assumption	2.90	3.00
Mortality rates:		
Current pensioners at 65 - male	87.70	87.60
Current pensioners at 65 - female	89.40	89.30
Future pensioners at 65 - male	89.40	89.30
Future pensioners at 65 - female	91.30	91.20

25. Called up share capital

Issued, called up and fully paid

	2016		2015	
	No.	£000	No.	£000
Ordinary shares of £1 each	125,242,450	125,242	125,242,450	125,242

26. Reserves

Share premium account - This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Profit and loss account - This reserve records retained earnings and accumulated losses.

27. Operating leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	£000	£000
Not later than 1 year	36,413	33,913
Later than 1 year and not later than 5 years	116,014	107,192
Later than 5 years	152,585	152,001
	305,012	293,106

28. Events after the end of the reporting period

On 28 July 2015, J Sainsbury Plc (Sainsbury's) and Celesio AG, the parent of Lloyds Pharmacy Limited, announced the formation of a strategic partnership that will see the company acquire Sainsbury's pharmacy business for £125m. Under the terms of the transaction the company agreed to acquire all 277 in-store pharmacies and 4 hospital pharmacies. The deal was completed on the 31 August 2016.

Also post year end, the company completed the acquisition of BUPA Home Healthcare, now known as LloydsPharmacy Clinical Homecare. The deal was completed on the 30 June 2016 for a sum of £27m.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

29. 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 FRS102.33.1A - "Related party disclosures".

30. Controlling party

The immediate parent undertaking is Admenta Holdings Limited.

The ultimate parent undertaking and controlling party of the Company is McKesson Corporation, a company registered in North America.

Consolidated financial statements for the largest group of undertakings are prepared by McKesson Corporation and may be obtained from McKesson Corporation, One Post Street, San Francisco, CA 94104, United States.

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

31. Transition to FRS 102

These are the first financial statements that comply with FRS 102. The company transitioned to FRS 102 on 1 January 2014.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

31. Transition to FRS 102 *(continued)*

Reconciliation of equity

	1 January 2014			31 March 2015		
	As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000	As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000
Fixed assets	277,602	–	277,602	261,772	–	261,772
Current assets	342,989	–	342,989	405,116	971	406,087
Creditors: amounts falling due within one year	(399,308)	–	(399,308)	(373,112)	–	(373,112)
Net current assets	(56,319)	–	(56,319)	32,004	971	32,975
Total assets less current liabilities	221,283	–	221,283	293,776	971	294,747
Creditors: amounts falling due after more than one year	(164)	–	(164)	(52,174)	–	(52,174)
Provisions	(8,624)	–	(8,624)	(14,704)	–	(14,704)
Defined benefit pension plan liability	(5,888)	–	(5,888)	(3,885)	(971)	(4,856)
Net assets including defined benefit pension plan asset/(liability)	206,607	–	206,607	223,013	–	223,013
Capital and reserves	206,607	–	206,607	223,013	–	223,013

Reconciliation of profit or loss for the year

	Year ended 31 March 2015		
	As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000
Turnover	2,332,635	–	2,332,635
Cost of sales	(1,684,209)	–	(1,684,209)
Gross profit	648,426	–	648,426
Distribution costs	(495,820)	–	(495,820)
Administrative expenses	(120,602)	–	(120,602)
Other operating income	15,263	–	15,263
Operating profit	47,267	–	47,267
Other interest receivable and similar income	869	(791)	78
Interest payable and similar charges	(18,284)	(274)	(18,558)
Tax on profit on ordinary activities	(10,604)	213	(10,391)
Profit for the financial year	19,248	(852)	18,396

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2016

31. Transition to FRS 102 *(continued)*

The company has restated the prior year comparative amounts.

Explanations

Changes for FRS102 adoption

Under previous UK GAAP the company recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at either 1 January 2014 or 31 March 2015. The effect of the change has been to reduce the credit to the profit and loss account in the period to 31 March 2015 by £1,065,000 and increase the credit in other comprehensive income by an equivalent amount, net of deferred tax at 20% of £213,000.

Under previous UK GAAP the pension asset/liability was recognised net of deferred tax. Under FRS102 the pension liability is disclosed gross of deferred tax. The deferred tax associated with the pension asset/liability is separately included within the deferred tax amount balance.