COMPANY REGISTRATION NUMBER: 00758153

Lloyds Pharmacy Limited

Annual Report and Financial Statements

For the year ended 31 March 2017

Lloyds Pharmacy Limited

Annual Report and Financial Statements

Year ended 31 March 2017

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Lloyds Pharmacy Limited

Strategic Report

Year ended 31 March 2017

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 year to March 2017 recorded further sales growth for the company which was significantly aided by acquisition of in store pharmacy operations from J Sainsbury plc. The deal to acquire 277 in store pharmacies from Sainsbury was concluded in July 2015 but was unable to complete until clearance had been obtained from the Competition and Markets Authority. This clearance was ultimately given with relatively modest remedial actions required and the deal completed at the end of August 2016.

The year was also marked by a decision of the UK government and the NHS to re-base fees and remuneration paid to pharmacies in England. This manifested itself in an overall reduction in the level of funding available to English pharmacies and was accompanied by the announcement of changes to the structure of that funding. As a result of these funding changes we have been reviewing the performance and prospects of the individual stores within our pharmacy portfolio and this necessitated an impairment review at the end of the financial year. Subsequent to the year-end date further reductions in pharmacy reimbursement have occurred which resulted in the announcement on 26 October 2017 of the decision to exit up to 190 pharmacies by way of closure or divestment.

During the year gross margins continued to be impacted by reductions in the tariff at which drugs are reimbursed by the NHS. The overall margin reduced from 26.8% to 24.9% with the reduction being driven by a combination of reductions in community pharmacy reimbursement and an increasing proportion of dispensing performed within hospital outpatient dispensing environments. Typically outpatient dispensing is performed on a service fee as opposed to a margin model and as the associated drugs tend to be high value this reduces the reported margin percentage. As in prior years the overall pressure on trading profit was partially mitigated by working with suppliers to reduce costs and implementing other initiatives to control costs and improve margins.

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 gatherings of area managers, pharmacy managers, supervisors and support staff, together with pharmacy and head office partnership meetings.

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 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 was reflected in the company's commitment to a sustained and robust approach to environmental management activity. Currently the company pays the charges for single use carrier bags over to various UK charities dedicated to support for Alzheimer's disease and additionally the company encourages its employees to train and register as dementia friends in order to provide additional support to dementia sufferers in the community.

In 2017 and 2018, the company will continue to focus on health, building on its achievements in the past year. Additionally, as a consequence of the constraints upon funding applied by the NHS there will be an even greater focus on operational efficiency. Detailed portfolio reviews are being performed to ensure that the estate continues to be profitable and supports the future performance of the business.

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: 6.8% growth (2016: 8.0% growth). Turnover continues to be affected by reductions in the drugs tariff directly affecting NHS sales income but these were more than compensated by the effects of the additional Sainsbury pharmacies and continued increases in outpatient dispensing activity.

Gross profit as a percentage of turnover: 1.9% decrease (2016: 1.0% 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, McKesson Europe 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 has continued to expand its pharmacy portfolio through acquisitions and will continue to focus its portfolio strategy on being within the community, meeting local needs and being close to the source of prescriptions. Lloyds Pharmacy also has an online doctor and pharmacy offering which continues to grow strongly. Within the wider market the number of internet pharmacies continues to increase and the growth of that sector is supported by the ongoing expansion of NHS electronic prescription volumes.

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.

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.

This report was approved by the board of directors on 13 December 2017 and signed on behalf of the board by:

M Lipp
Director

Registered office:
Sapphire Court
Walsgrave Triangle
Coventry
CV2 2TX

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2017.

Directors

The directors who served the company during the year and up to the date of signing this report were as follows:

C Tobin	(Resigned 2 November 2017)
N Swift	
H M Lipp	(Appointed 6 December 2016)
H Stables	(Appointed 1 April 2016)
J R Poole	(Appointed 15 August 2016)
C McDermott	(Appointed 3 October 2016)
T Beer	(Resigned 21 December 2016)
M Hilger	(Appointed 1 October 2017)

Dividends

The directors do not recommend the payment of a dividend (2016: nil).

Future developments

Future developments of the business have been detailed in the strategic report.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual financial statements. Although a significant impairment loss has been recorded in the period this is a non-cash item and has no significant bearing on the applicability of the going concern basis. The company continues to generate an operating profit and should interest costs continue to result in a pre-tax loss consideration will be given to increasing the share capital of the company.

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 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.

Financial risk management

The financial risks are managed by a fellow group company, Admenta UK Limited. The management of these risks are discussed in the Admenta UK Limited financial statements. These have also been discussed in the strategic report.

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 McKesson Europe 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 Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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.

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.

This report was approved by the board of directors on 13 December 2017 and signed on behalf of the board by:

M Lipp
Director

Registered office:
Sapphire Court
Walsgrave Triangle
Coventry
CV2 2TX

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

Year ended 31 March 2017

We have audited the financial statements of Lloyds Pharmacy Limited for the year ended 31 March 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and the 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 2017 and of its loss 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, based on the work undertaken in the course of the audit:

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

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

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.

R Duffy

Ryan Duffy (Senior Statutory Auditor)

For and on behalf of
Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

13 December 2017

Lloyds Pharmacy Limited

Statement of Comprehensive Income

Year ended 31 March 2017

	Note	2017 £000	2016 £000
Turnover	5	**2,152,130**	2,015,036
Cost of sales		**(1,616,567)**	(1,475,640)
Gross profit		**535,563**	539,396
Distribution costs		**(447,808)**	(413,282)
Administrative expenses		**(120,000)**	(100,921)
Other operating income	6	**43,983**	11,214
Operating profit	7	**11,738**	36,407
Exceptional item: Impairment of fixed assets	7	**(141,840)**	-
Income from shares in group undertakings	11	–	1,077
Income from other fixed asset investments	12	**343**	-
Other interest receivable and similar income	13	**74**	10
Interest payable and similar expenses	14	**(19,139)**	(17,463)
(Loss)/profit before taxation		**(148,824)**	20,031
Tax on (loss)/profit	15	**15,026**	(7,257)
(Loss)/profit for the financial year		**(133,798)**	12,774
Re-measurement of the net defined benefit plan		**(4,292)**	4,255
Tax relating to components of other comprehensive income		**730**	(851)
Other comprehensive (loss)/ income for the year		**(3,562)**	3,404
Total comprehensive (loss)/ income for the year		**(137,360)**	16,178

All the activities of the company are from continuing operations.

The notes on pages 12 to 30 form part of these financial statements.

Lloyds Pharmacy Limited

Statement of Financial Position

31 March 2017

	Note	2017 £000	2017 £000	2016 £000
Fixed assets				
Intangible assets	16		84,531	99,900
Tangible assets	17		111,799	135,577
Investments	18		44,872	15,836
			241,202	251,313
Current assets				
Stocks	19	149,547		122,886
Debtors	20	422,126		499,328
Cash at bank and in hand		85,494		31,215
		657,167		653,429
Creditors: amounts falling due within one year	21	(779,217)		(649,052)
Net current (liabilities)/assets			(122,050)	4,377
Total assets less current liabilities			119,152	255,690
Provisions				
Other provisions	22		(15,351)	(18,458)
Net assets excluding defined benefit pension plan (liability)/asset			103,801	237,232
Defined benefit pension plan (liability)/ surplus	24		(1,970)	1,959
Net assets including defined benefit pension plan (liability)/asset			101,831	239,191
Capital and reserves				
Called up share capital	25		125,242	125,242
Share premium account	26		63	63
Profit and loss account	26		(23,474)	113,886
Shareholders' funds			101,831	239,191

These financial statements were approved by the board of directors and authorised for issue on 13 December 2017, and are signed on behalf of the board by:

M Lipp
Director

Company registration number: 00758153

The notes on pages 12 to 30 form part of these financial statements.

Lloyds Pharmacy Limited

Statement of Changes in Equity

Year ended 31 March 2017

	Note	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total £'000
At 1 April 2015		125,242	63	97,708	223,013
Profit for the year				12,774	12,774
Other comprehensive income for the year:					
Re-measurement of the net defined benefit plan	**24**	–	–	4,255	4,255
Tax relating to components of other comprehensive income	**15**	–	–	(851)	(851)
Total comprehensive income for the year		–	–	16,178	16,178
At 31 March 2016		125,242	63	113,886	**239,191**
Loss for the year				(133,798)	**(133,798)**
Other comprehensive income for the year:					
Re-measurement of the net defined benefit plan	**24**	–	–	(4,292)	**(4,292)**
Tax relating to components of other comprehensive income	**15**	–	–	730	**730**
Total comprehensive income for the year		–	–	(137,360)	**(137,360)**
At 31 March 2017		125,242	63	(23,474)	**101,831**

The notes on pages 12 to 30 form part of these financial statements.

1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is Sapphire Court, Walsgrave Triangle, Coventry, CV2 2TX.

2. 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'.

3. 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, McKesson Europe 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.

3. 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.

3. 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

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.

3. **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	-	10-20 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 property	-	2% straight line
Long leasehold property	-	2% straight line or over the period of the lease if less than 50 years
Short leasehold property	-	Over the period of the lease
Fixtures and fittings	-	10% - 33% straight line

Impairment of tangible and intangible fixed assets

The basis for any impairment write down of tangible and intangible fixed assets 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, McKesson Europe 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.

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.

3. 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 providc 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.

Financial instruments

A financial asset or a financial liability is recognised only when the company becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Where investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in profit or loss. All other such investments are subsequently measured at cost less impairment.

Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

3. **Accounting policies** *(continued)*

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 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 in the profit and loss account and actuarial gains and losses are included within the statement of total recognised gains and losses.

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.

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.

Business combinations

Business combinations relating to acquiring control of trade and assets to form one or more businesses are accounted for using the purchase method.

The cost of a business combination is measured as the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed, and equity instruments issued plus any costs directly attributable to the business combination.

Where control is achieved in stages, the cost of the business combination is the aggregate of the fair values of the assets given, liabilities incurred or assumed, and equity instruments issued at the date of each transaction in the series.

Where the business combination requires an adjustment to the cost contingent on future events, the estimated amount of that adjustment is included in the cost of the combination at the acquisition date providing it is probable and can be measured reliably. Where it is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration is treated as an adjustment to the cost of the combination.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, 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.

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.

Impairment

The basis for any impairment write down of tangible and intangible fixed assets 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, McKesson Europe 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 Statement of Comprehensive Income

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 assumptions relating to the provision percentage and the recovery of cost through discounted sales.

5. Turnover

Turnover arises from:

	2017	2016
	£000	£000
Sale of goods	**1,650,182**	1,589,691
Rendering of services	**501,948**	425,345
	2,152,130	2,015,036

All turnover derives from operations within the United Kingdom.

6. Other operating income

	2017	2016
	£000	£000
Rental income	**1,419**	1,396
Other operating income	**42,564**	9,818
	43,983	11,214

7. Operating profit

Operating profit or loss is stated after charging:

	2017	2016
	£000	£000
Amortisation of intangible assets	**15,969**	15,886
Depreciation of tangible assets	**27,322**	27,959
Impairment of intangible assets recognised in:		
Administrative expenses	**115,136**	–
Impairment of tangible fixed assets recognised in:		
Administrative expenses	**26,704**	–
Loss on disposal of tangible assets	**91**	731
Profit/(loss) on disposal of investments	**–**	(465)
Operating lease rentals	**47,072**	40,829
Foreign exchange differences	**(13)**	85

8. Auditor's remuneration

	2017	2016
	£000	£000
Fees payable for the audit of the financial statements	**66**	66

Fees payable to the company's auditor and its associates for other services:		
Other non-audit services	**117**	100

9. Staff costs

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

	2017	2016
	No.	No.
Distribution staff	17,799	16,204
Administrative staff	994	842
	18,793	17,046

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

	2017	2016
	£000	£000
Wages and salaries	306,942	285,682
Social security costs	21,397	18,385
Other pension costs	4,659	3,983
	332,998	308,050

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

10. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

	2017	2016
	£000	£000
Remuneration	1,843	1,271
Company contributions to defined contribution pension plans	140	99
	1,983	1,370

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

	2017	2016
	£000	£000
Aggregate remuneration	742	877

6 Directors received pension contributions during the year (2016: 2)

11. Income from shares in group undertakings

	2017	2016
	£000	£000
Income from group undertakings	–	1,077

12. Income from other fixed asset investments

	2017	2016
	£000	£000
Income from other fixed asset investments	343	–

13. Other interest receivable and similar income

	2017 £000	2016 £000
Interest from group undertakings	–	10
Pension interest receivable	74	–
	74	10

14. Interest payable and similar expenses

	2017 £000	2016 £000
Interest on banks loans and overdrafts	–	610
Interest on obligations under finance leases and hire purchase contracts	–	173
Interest due to group undertakings	19,139	16,573
Pension interest payable	–	107
	19,139	17,463

15. Tax on (loss)/profit

Major components of tax (income)/expense

	2017 £000	2016 £000
Current tax:		
UK current tax (income)/expense	(16,842)	9,948
Adjustments in respect of prior periods	520	2,058
Total current tax	(16,322)	12,006
Deferred tax:		
Origination and reversal of timing differences	1,676	(2,121)
Impact of change in tax rate	–	760
Adjustment in respect of previous periods	(380)	(3,388)
Total deferred tax	1,292	(4,749)
Tax on (loss)/profit	(15,026)	7,257

Tax recognised as other comprehensive income or equity

Included within the Statement of changes in Equity is a deferred taxation credit in respect of the defined benefit pension scheme of £730,000 (2016: £851,000 charge).

15. Tax on (loss)/profit *(continued)*

Reconciliation of tax (income)/expense

The tax assessed on the loss on ordinary activities for the year is higher than (2016: higher than) the standard rate of corporation tax in the UK of 20% (2016: 20%).

	2017	2016
	£000	£000
(Loss)/profit on ordinary activities before taxation	(148,824)	20,031
(Loss)/profit on ordinary activities by rate of tax	(29,764)	4,006
Adjustment to tax charge in respect of prior periods	140	(1,330)
Effect of expenses not deductible for tax purposes	16,381	3,731
Effect of change in tax rate in the year	–	982
Dividend income not taxable	(47)	(241)
Other permanent differences	428	109
Other income not taxable	(2,164)	–
Tax on (loss)/profit	(15,026)	7,257

Factors that may affect future tax income

Reductions to the rate of corporation tax to 19% (effective 1 April 2017) and 17% (effective 1 April 2020) have now been enacted. The impact of any resulting changes to the valuation of any deferred tax assets and liabilities is reflected within the financial statements.

16. Intangible assets

	Intangible assets £000
Cost	
At 1 April 2016	332,112
Acquisitions through business combinations(*)	115,736
At 31 March 2017	447,848
Amortisation and impairment charges	
At 1 April 2016	232,212
Impairment charge in year	115,136
Charge for the year	15,969
At 31 March 2017	363,317
Carrying amount	
At 31 March 2017	84,531
At 31 March 2016	99,900

(*) Included within the £115,136,000 "Acquisitions through business combinations" are intangibles of £115,136,000 relating to the Sainsbury's acquisition, comprising pharmacy licenses and goodwill Both the pharmacy licenses and the related goodwill were subsequently fully impaired as noted hereinafter.

16. Intangible assets *(continued)*

On 28 July 2015, J Sainsbury Plc (Sainsbury's) and McKesson Europe AG, the parent of Lloyds Pharmacy Limited, announced the formation of a strategic partnership that saw the company acquire Sainsbury's pharmacy business for £125,562k. 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. This resulted in intangible assets of £115,136k. Details of this acquisition are included in more detail in note 28.

Primarily as a result of the reduction in pharmacy remuneration announced and implemented during the year the profitability of the Sainsbury pharmacies was significantly impacted. The Sainsbury pharmacies are regarded as a cash generating unit in their own right and need to be considered in aggregate rather than as individual stores due to the terms of the operating and co-operation agreements which are in place with J Sainsbury plc. Following the impairment review of the Sainsbury pharmacies it was determined that a full impairment of the associated intangible assets was required and accordingly the full value has been impaired in the period.

In May 2016, Lloyds Pharmacy also purchased the trade and assets of Dean Pharmacy for £600k with all of this being recognised as goodwill in the year.

17. Tangible assets

	Freehold property £000	Long leasehold property £000	Short leasehold property £000	Fixtures and fittings £000	**Total £000**
Cost					
At 1 April 2016	11,297	1,985	63,597	365,320	**442,199**
Additions	-	-	513	31,140	**31,653**
Disposals	-	-	(778)	(10,700)	**(11,478)**
At 31 March 2017	11,297	1,985	63,332	385,760	**462,374**
Depreciation					
At 1 April 2016	2,795	606	35,040	268,181	**306,622**
Charge for the year	124	54	3,578	23,566	**27,322**
Disposals	-	–	(637)	(9,436)	**(10,073)**
Impairment losses	–	–	–	26,704	**26,704**
At 31 March 2017	2,919	660	37,981	309,015	**350,575**
Carrying amount					
At 31 March 2017	8,378	1,325	25,351	76,745	**111,799**
At 31 March 2016	8,502	1,379	28,557	97,139	135,577

Impairment charge

Impairment losses in the year relate to fixed assets of loss making stores being written down to their value in use. No such impairments were made in the prior year.

Finance lease agreements

Included within the net book value of £111,799,000 (2016: £135,577,000) is £nil (2016: £36,000) 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 £36,000 (2016: £182,000).

18. Investments

	Shares in group undertakings £000
Cost	
At 1 April 2016	16,916
Additions	29,036
At 31 March 2017	**45,952**
Impairment	
At 1 Apr 2016 and 31 Mar 2017	**1,080**
Carrying amount	
At 31 March 2017	**44,872**
At 31 March 2016	15,836

The addition in the year relates to completion of the acquisition of BUPA Home Healthcare on the 30 June 2016, now known as LloydsPharmacy Clinical Homecare (LPCH) for a sum of £29,036,221. Lloyds Pharmacy now owns all 1,485,002 ordinary £1 shares of LPCH.

The principal activity of LPCH is the supply of clinical home healthcare services to patients in their homes.

The company also 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
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.

All the above subsidiaries are registered at the same address as Lloyds Pharmacy Limited with the exception of Company Chemists Association Limited which is registered at 4 Kingston Hall Kingston On Soar, Nottingham, Nottinghamshire, NG11 0DJ and Wrose Health Centre P.D. Limited which is registered at Rowlands Pharmacy Rivington Road, Whitehouse Industrial Estate, Runcorn, Cheshire, WA7 3DJ.

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.

19. Stocks

	2017 £000	2016 £000
Finished goods and goods for resale	**149,547**	122,886

20. Debtors

	2017	2016
	£000	£000
Trade debtors	**319,273**	301,884
Amounts owed by fellow subsidiaries	**17,498**	16,092
Amounts owed by other group companies	**115**	586
Amounts owed by subsidiaries	**2,448**	2,703
Deferred tax asset (note 23)	**11,238**	11,804
Prepayments and accrued income	**26,608**	22,481
Corporation tax repayable	**16,807**	–
Other debtors	**28,139**	143,778
	422,126	499,328

Amounts owed by subsidiaries, fellow subsidiaries and other group companies are repayable on demand and do not attract any interest.

21. Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Bank loans and overdrafts	–	157,292
Trade creditors	**160,582**	127,228
Amounts owed to other group companies	**4,544**	95,460
Amounts owed to fellow subsidiaries	**218,538**	208,598
Amounts owed to subsidiaries	**408**	–
Amounts owed to immediate parent	**348,972**	–
Accruals and deferred income	**38,104**	31,480
Corporation tax	–	22,945
Social security and other taxes	**7,615**	6,022
Other creditors	**454**	27
	779,217	649,052

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

Amounts owed to the immediate parent are interest bearing and repayable on demand.

22. Provisions

	Property Provisions	Restructuring Provisions	Other provisions	Total
	£000	£000	£000	**£000**
At 1 April 2016	13,020	4,871	567	**18,458**
Additions	1,808	1,798	–	**3,606**
Charge against provision	(1,370)	(4,543)	–	**(5,913)**
Unused amounts reversed	(533)	–	(267)	**(800)**
At 31 March 2017	12,925	2,126	300	**15,351**

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 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.

The other provisions represent pension related costs and are expected to be utilised within the next 5 years.

23. Deferred tax

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

	2017	2016
	£000	£000
Included in debtors (note 20)	**11,238**	11,804

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

	2017	2016
	£000	£000
Accelerated capital allowances	**(13,691)**	(11,050)
Short term timing differences	**(1,775)**	(754)
Deferred gains in excess of capital losses	**4,228**	–
	(11,238)	(11,804)

24. Employee benefits

Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £4,659,000 (2016: £3,983,000).

There were amounts of £776,000 accrued in respect of pension scheme contributions at the balance sheet date. (2016: £767,000).

24. Employee benefits *(continued)*

Defined benefit plans

The company participates in a defined benefit pension scheme operated by Admenta UK Limited. The defined benefit scheme is a joint scheme with fellow subsidiary AAH Pharmaceuticals Limited and is divided by reference to the number of employees. The scheme is funded and constituted as independently administered funds with 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.

The pension cost for all schemes were borne by each fund. The company provides no other post-retirement benefits to its employees.

A full actuarial valuation was carried out as at 6 April 2014 and was updated to each accounting year end by a qualified independent actuary.

The company contributions during the year amounted to £417,000 (2016: £2,833,000) and the agreed company contribution rate for the coming year is 29% pa of pensionable salaries plus £24,500 is payable per month to finance the expected expenses and levies incurred by the Scheme.

The pension plan 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 won't be applicable next year as the Scheme closed to future accrual on 28 February 2017. The level of benefits provided by the Scheme depends on a member's length of service and their salary at their date of leaving the Scheme.

The statement of financial position net defined benefit liability/asset is determined as follows:

	2017	2016
	£000	£000
Present value of defined benefit obligations	(119,156)	(108,066)
Fair value of plan assets	117,186	110,025
	(1,970)	1,959