

COMPANY REGISTRATION NUMBER: 00758153

Lloyds Pharmacy Limited

Financial Statements

31 March 2020

Lloyds Pharmacy Limited

Financial Statements

Year ended 31 March 2020

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Lloyds Pharmacy Limited

Strategic Report

Year ended 31 March 2020

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 2020 was a challenging year as is reflected in the results. However, our strategy of transforming our business into an omnichannel platform continues to resonate with the patients and customers we serve. The novel coronavirus (or “Covid-19”) pandemic has validated our digital strategy as we realized significant revenue growth across our online offerings, including Metabolic Healthcare Limited, our online pharmacy business which we acquired in June 2019. We continue to invest in our online platforms to drive future growth. While the government funding model for care delivered through pharmacies remains challenging, we are rationalizing our store portfolio, increasing efficiencies in our retail pharmacies and reducing administrative costs. McKesson Corporation continues to financially support our multi-year transformation that will enable us to deliver sustainable long-term profit growth.

Key performance indicators (KPIs)

The board monitors the company's progress in implementing its strategy by reference to a suite of key performance indicators.

The Company's turnover is impacted by seasonality, and the proportion of turnover between pharmacy and retail during certain periods. The components of the Company's fiscal year turnover were as follows:

	2020	2019
	%	%
Pharmacy	91.6	92.9
Retail	8.4	7.1
Total	100	100

The key financial metrics for the Company are provided in the table below:

	2020	2020	2019 (restated)
	£000	% Change	£000
Turnover	1,948,476	(1.6)	1,979,291
Operating loss	118,363	(26.7)	161,409
Loss for the year	175,482	9.7	159,967
Shareholders' deficit	428,784	69.6	252,787

The reduction in turnover can largely be attributed to the reduction of the Lloyds Pharmacy store portfolio in England as announced in the prior financial year. Our results reflect reductions in government reimbursement, the ongoing impact of the Company's multi-year transformation initiative and impairments of certain of our investments. 2019 was restated for a goodwill impairment charge based on impairment indicators in that year.

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. The deficit in the shareholders fund indicates a degree of risk around the company's solvency but management consider that this has been satisfactorily addressed by commitments to support as necessary from elsewhere within the group.

Regulation and government

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, we may be non-compliant with existing regulations and the regulations themselves may change, or further changes to the control of entry regulations could adversely impact the company's profitability.

Lloyds Pharmacy Limited

Strategic Report *(continued)*

Year ended 31 March 2020

United Kingdom trading relationship with the European Union

The United Kingdom (“UK”) entered into a trading arrangement with the European Union (“EU”) on December 31st, 2020. Under this arrangement, goods trade costs are likely to increase due to customs compliance requirements, potential border delays, rules of origin requirements and the need for products to satisfy different regulations and standards in the UK than the EU. The principal risks we face are around ensuring uninterrupted supply of pharmaceutical and medical products to patients and customers under a changed legal and regulatory environment as the EU medicine approval regime is now no longer recognized by the UK.

In addition, Northern Ireland (“NI”) remains aligned to EU regulatory frameworks. We continue to explore the ways in which the UK will be required to apply EU regulations in NI through discussions with the UK Government and relevant trade associations, as certain derogations expire at the end of 2021.

The agreement does not guarantee mutual recognition of professional and sector-specific qualifications which will restrict labour mobility, including, but limited to, pharmacists and nurses that we, or our customers, employ. The company celebrates its diverse workforce and recognises a number of its employees are non-UK nationals. The agreement, and how people react to it, may impact employee retention as well as future recruitment and raise costs. Effects on the workforce are expected to play out over a longer time period which will allow the business to react as appropriate.

The risk of fluctuations in exchange rates have the potential to cause business disruption and profitability impacts.

The company continues to seek advice and clarification from the Government regarding ongoing negotiations to enhance the trading agreement and mitigate the above risks. Mitigating actions have been implemented to secure supply and minimise business disruption.

Competition

Government reductions in pharmacy reimbursement and remuneration have served to increase competition. Additionally, the aggressive targeting of patients by competitors, including mail order pharmacies, means that we have to strive ever harder in order to retain patients and customers. We have seen some loss of market share as a result of our store rationalization program.

Changes and trends in patient and consumer behaviour

Changes in consumer confidence, consumer spending levels, shopping habits, seasonality and preferences, including attitudes to retail and product brands could adversely impact our business, in particular as a result of the novel coronavirus which is discussed in more detail below. We continue to adapt to new emerging behaviours and strive to differentiate ourselves by providing expert advice and care to our customers and patients.

People

The company recognises that its success is underpinned 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.

Lloyds Pharmacy Limited

Strategic Report *(continued)*

Year ended 31 March 2020

Financial risk management *(continued)*

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.

Credit Risk: the company has implemented policies that require appropriate credit checks on potential customers before sales are made. The finance and sales teams also liaise with customers on a regular basis to ensure that key issues are identified at an early stage.

Liquidity Risk: 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.

Novel Coronavirus

On the 11th March 2020 the World Health Organisation declared novel coronavirus a pandemic. The UK Government announced strict lockdown measures across the UK.

Lloyds Pharmacy provides a pivotal role in delivering healthcare services to communities around the country. The uncompromising priority of Lloyds Pharmacy is the safety of its employees and customers. Lloyds Pharmacy reacted swiftly to the UK Government's advice to ensure safety measures were put in place and continues to follow its advice in order to remain open to patients as access to other healthcare (e.g. GPs, clinics and hospitals) has been restricted.

Metabolic Healthcare Limited, an investment Lloyds Pharmacy made in fiscal 2020, saw significant growth throughout the pandemic in its mail order prescription service. Additionally, Lloyds Pharmacy rapidly expanded its online offering to ensure customers could safely continue to enjoy the products offered.

Whilst the future duration and impact of the novel coronavirus are unknown Lloyds Pharmacy will continue to support its communities whilst following the advice of the UK Government. The Company participated in several government schemes when they became effective, including funding for certain services provided to patients, a waiver of retail business rates, and the furlough program for certain non-critical employees. These schemes helped to mitigate the reduction in footfall and associated revenue in our stores as well as restructuring costs incurred to improve long-term profitability.

Statement by the directors on performance of their statutory duties in accordance with section 172(1) of the Companies Act 2006

This statement describes how the Directors complied with section 172(1) (a)-(f) of the Companies Act 2006 to promote the success of the company for the benefit of its stakeholders.

The nature of our highly regulated business requires that we consider the long-term consequences of our decisions. Our shareholders have invested capital to drive sustainable long-term profit growth. The Directors' report describes the Board's role in managing the business, our reputation, risks and balancing stakeholder needs for the long-term. The Board's other key stakeholders are as follows:

Customers and Suppliers

We build strong relationships with our customers and suppliers to promote mutually beneficial sustainable long-term profit growth. Engagement with customers and suppliers is primarily through formal reviews as well as regular conferences that bring suppliers and customers together to discuss shared concerns. Key areas of focus include close coordination to ensure availability of product in a safe and secure supply chain (refer to Principal risks and uncertainties that discusses the coronavirus and Brexit), innovation by introducing e-commerce to automate the supply chain and supporting prompt payment. The Board is briefed on customer and supplier metrics and feedback, opportunities and issues through regular board and management meeting reporting.

Lloyds Pharmacy Limited

Strategic Report *(continued)*

Year ended 31 March 2020

Statement by the directors on performance of their statutory duties in accordance with section 172(1) of the Companies Act 2006 *(continued)*

Colleagues

Our people are the key to enable us to execute our strategy and many of whom serve our customers, suppliers and patients, all living by our ICARE and ILEAD core values.

There are many ways we engage with and listen to our people including pulse surveys, conferences, forums including town hall meetings where colleagues can interact with our Chief Executive Officer and receive updates on strategic initiatives and our business and recognize great performance. We also promote a diverse and inclusive workforce through robust hiring processes, manager training, network groups to foster a sense of community, awareness and celebrations. We also provide opportunities for our colleagues to provide feedback on our policies and processes. The Board reviews, and approves, changes to our talent strategy.

Key areas of focus for our colleagues include reinforcement of our culture through our values, code of conduct, career pathways and development plans. We foster a performance-based culture based on regular and transparent feedback, along with regular performance reviews that are linked to compensation. There are numerous development opportunities, including sponsorship for our top talent to attend our European Talent programmes.

The health and wellness of our colleagues and patients are a key priority, and we provide a robust employee assistance program which includes mental health support and free annual flu vaccinations. In the novel coronavirus environment, the Board has taken appropriate steps to ensure the safety of our colleagues including social distancing, regular cleaning across all sites, screens where appropriate, temperature checking and personal protective equipment. Appropriate measures and protocols are informed by Government guidance.

Colleagues are encouraged to speak up with any concerns they may have. We have in place a Whistleblowing Policy and confidential reporting line, enabling colleagues to raise concerns without fear of retaliation.

The Board receives reports on opportunities and concerns raised by colleagues through regular board, committee and management meeting reporting.

Communities and the Environment

We engage with local communities to build trust and understand the issues that are important to them. Key areas of focus include how we can support local causes and issues, create opportunities to recruit, help to look after the environment (refer to the Directors' report) and engage with communities through social media.

We have an established partnership with the Alzheimer's Society and raise awareness and funds through corporate events. The Board receives updates through appropriate board and management meeting reporting.

Lloyds Pharmacy Limited

Strategic Report *(continued)*

Year ended 31 March 2020

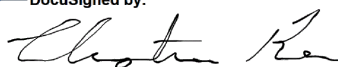
Statement by the directors on performance of their statutory duties in accordance with section 172(1) of the Companies Act 2006 *(continued)*

Government and regulators

We operate in a highly regulated industry, and patient safety is critical. Government entities, including the Department of Health, determine tariff reimbursement levels and service fees that impact the supply chain, including ourselves, our customers and our suppliers. We engage with the government and regulators through a range of sector organisations such as the Pharmaceutical Services Negotiating Committee. We also independently engage with stakeholders by responding to consultations, and participating in forums, meetings and conferences to inform about, educate on and discuss changes to the sector with policy makers relevant to our business.

Key areas of engagement include compliance with laws and regulations, health and safety, evolving how we support stakeholders under novel coronavirus and Brexit negotiations. The Board is updated on developments through regular board and management meeting reporting and takes these into account when making decisions.

This report was approved by the board of directors on 2 June 2021 and signed on behalf of the board by:

DocuSigned by:

BDB7F99981984A8...

C Keen
Director

Registered office:
Sapphire Court
Walsgrave Triangle
Coventry
CV2 2TX

Lloyds Pharmacy Limited

Directors' Report

Year ended 31 March 2020

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2020.

Directors

The directors who served the company during the year and up to the date of the financial statements were as follows:

J Davies	
T M Anderson	
N Swift	(Resigned 16 August 2019)
C McDermott	(Resigned 16 October 2019)
M Hilger	(Resigned 25 November 2019)
C Keen	(Served from 25 November 2019 to 30 January 2020, reappointed on 7 December 2020)

Dividends

The directors do not recommend the payment of a dividend and there was no dividend payment in the prior year.

Future developments

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

Statement of Corporate Governance Arrangements

The Statutory Board of Directors ("the Board") is responsible for driving the strategy of all subsidiaries of Admenta UK Limited, within a framework of effective governance, accountability and transparency. The Board must have regard to the interests of its shareholders, colleagues, patients and customers, suppliers and also the wider community, in the way in which decisions are considered, made and executed.

The Board has put in place a robust governance framework to support appropriate and transparent management and decision-making processes that meets the governance requirements of our U.S.-based publicly listed parent company, and therefore did not apply a U.K.-based governance code within this framework during the financial year. This framework enables the Board to be assured of the quality of its services, and of the effectiveness with which the Board is alerted to risks to the achievement of its overall purpose and priorities. This understanding is underpinned by our internal global policy framework which ensures that the way in which we operate is fully aligned with the expectations of our shareholders. The oversight function of corporate governance is performed by the Board and its designated committees. The Board has established a committee structure as part of its governance framework, listed below. Each committee has clear authorities delegated to it by the Board. Those delegations and authorities are set out in their respective terms of reference.

Advice and oversight are provided through well-structured, planned, and authorised board committees, that provide a platform to deal with specific issues requiring specialised areas of expertise. Committees also provide the benefit of strong accountability. Committee members have specific assigned tasks and are directly accountable to the Board for completing them. Each committee has a regular, structured reporting cadence directly into the Board. The following committees support the Board:

1. Investment Committee
2. Compliance & Governance Committee
3. Quality & Clinical Standards Committee
4. HR Committee
5. Health, Safety & Environment Committee
6. Internal Audit Committee

Underpinning the committee structure, the corporate governance framework is supported by other internal and external sources of assurance. These include our internal global policy framework implemented through our parent companies, clear delegations of authority, risk management and compliance programs, standard operating procedures and internal assurance functions.

Lloyds Pharmacy Limited

Directors' Report *(continued)*

Year ended 31 March 2020

Statement of Corporate Governance Arrangements (continued)

The success of our business is dependent on the support of all of our stakeholders. Building positive relationships with stakeholders that share our values is important to us. Working together towards shared goals assists us in delivering long-term sustainable success supporting the UK health care system. Further detail on how the Board has considered and has regard to the interests of its stakeholders, including shareholders, colleagues, customers, suppliers, customers, communities and government and regulators is set out in the Section 172 statement in the strategic report.

Shareholders

As a subsidiary of McKesson Corporation an internal global policy framework ensures that our strategy and long-range financial and operating plans are fully aligned with the expectations of our shareholders. These plans are reviewed at least annually, adjusted as required, and approved by the relevant board committees of McKesson Corporation. McKesson Corporation manages external shareholder relationships on behalf of the Company.

The Directors welcome the requirements under Section 172 and Sch. 7.11B(1) to Companies Act 2006. Comments on how the Directors have had a regard for the interests of various stakeholders whilst making key decisions are contained on pages 3-4 in the Strategic Report.

Energy and Carbon Reporting

	Year ended March 2020
Emission resulting from activities including combustion of gas or consumption of fuel for transport (tCO ₂ e)	3,448
Emissions resulting from the purchase of electricity, including for transport (tCO ₂ e)	9,619
Energy consumed from activities involving the combustion of gas or the consumption of fuel for transport and the purchase of electricity for its own use, including for transport (kWh)	73,255,639
Intensity ratio (kWh/revenue £m)	37,652

Methodology used to calculate the information disclosed above:

Calculation method: activity data x emission factor = greenhouse gas emission Emissions factor source: DEFRA, 2019 for all emissions factors- https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/424242/2019-2020-emissions-factors-and-activity-data-tables-01-2020.pdf: Intensity ratio is based on revenue (in £m) for the year ended 31 March, 2020.

Energy efficiency measures taken

Energy efficiency actions taken during the year ended 31 March, 2020 included operational improvements across the portfolio to improve energy management and increase how much we recycle.

Lloyds Pharmacy Limited

Directors' Report *(continued)*

Year ended 31 March 2020

Going concern

The directors have received confirmation from the ultimate parent company that intergroup debt will continue to be made available at levels sufficient to allow the company to meet its liabilities as they fall due for a period not less than 12 months. The directors have satisfied themselves that the ultimate parent company has the necessary financial resources to provide this support during this period, should it be required. Therefore, the directors have a reasonable expectation that the company has adequate resources internally and through its association with the McKesson Corporation, to continue in operational existence for the foreseeable future. As such, the going concern basis has been adopted in preparing the annual report and financial statements.

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.

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. Information in relation suppliers, customers and colleagues with the Company have been included in the Strategic Report on pages 3 and 4 respectively.

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 and documented in the Strategic Report on page 2.

Events after the end of the reporting period

The challenges of the Covid-19 pandemic continue to impact the business, although the directors believe that the long-term impact of this virus are not yet clear.

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.

Lloyds Pharmacy Limited_

Directors' Report *(continued)*

Year ended 31 March 2020

Directors' responsibilities statement

The directors are responsible for preparing 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 of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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

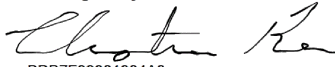
Each of the persons who is a director at the date of approval of this report confirms that:

- 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 2006.

The auditor is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on 2 June 2021 and signed on behalf of the board by:

DocuSigned by:

BDB7F99981984A8...
C Keen
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 2020

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Lloyds Pharmacy Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Lloyds Pharmacy Limited

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

Year ended 31 March 2020

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on other legal and regulatory requirements

Opinions on other matters 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 or the directors' report.

Lloyds Pharmacy Limited

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

Year ended 31 March 2020

Matters on which we are required to report by exception

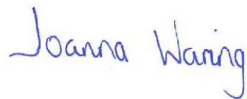
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

Use of our report

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.



Joanna Waring FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

02 June 2021

Lloyds Pharmacy Limited

Statement of Comprehensive Income

Year ended 31 March 2020

	Note	2020 £000	2019 (restated) £000
Turnover	5	1,948,476	1,979,291
Cost of sales		<u>(1,533,348)</u>	<u>(1,554,701)</u>
Gross profit		415,128	424,590
Distribution costs		(457,735)	(460,821)
Administrative expenses		(98,328)	(140,030)
Other operating income	6	<u>22,572</u>	<u>14,852</u>
Operating loss	7	(118,363)	(161,409)
Amounts written off investments	17	(30,850)	(4,986)
Loss on financial assets at fair value through profit or loss		(2,000)	–
Income from other fixed asset investments	11	144	277
Other interest receivable and similar income	12	5	–
Interest payable and similar expenses	13	<u>(36,605)</u>	<u>(29,626)</u>
Loss before taxation		(187,669)	(195,744)
Tax on loss	14	<u>12,187</u>	<u>35,777</u>
Loss for the financial year		<u>(175,482)</u>	<u>(159,967)</u>
Remeasurement of the net defined benefit plan		(636)	(4,967)
Tax relating to components of other comprehensive income		<u>121</u>	<u>836</u>
Other comprehensive expense for the year		<u>(515)</u>	<u>(4,131)</u>
Total comprehensive loss for the year		<u>(175,997)</u>	<u>(164,098)</u>

Please refer to note 30 for information on the restatement of the comparatives.

All the activities of the company are from continuing operations.

The notes on pages 16 to 38 form part of these financial statements.

Lloyds Pharmacy Limited

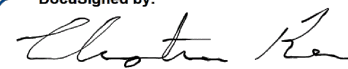
Statement of Financial Position

31 March 2020

	Note	£000	2020 £000	2019 (restated) £000
Fixed assets				
Intangible assets	15	–	–	17,739
Tangible assets	16	98,081	98,081	92,992
Investments	17	58,184	58,184	53,015
			<u>156,265</u>	<u>163,746</u>
Current assets				
Stocks	18	155,534	155,534	150,609
Debtors	19	479,930	479,930	483,310
Cash at bank and in hand		12,030	12,030	36,623
		<u>647,494</u>	<u>647,494</u>	<u>670,542</u>
Creditors: amounts falling due within one year	20	(1,128,547)	(1,128,547)	(973,754)
Net current liabilities			<u>(481,053)</u>	<u>(303,212)</u>
Total assets less current liabilities			<u>(324,788)</u>	<u>(139,466)</u>
Creditors: amounts falling due after more than one year				
Provisions for liabilities	21 22		(4,800) (95,209)	– (104,647)
Net liabilities excluding defined benefit pension plan liability			<u>(424,797)</u>	<u>(244,113)</u>
Defined benefit pension plan liability	24		<u>(3,987)</u>	<u>(8,674)</u>
Net liabilities including defined benefit pension plan liability			<u>(428,784)</u>	<u>(252,787)</u>
Capital and reserves				
Called up share capital	25		125,242	125,242
Share premium account	26		63	63
Profit and loss account	26		(554,089)	(378,092)
Shareholders' deficit			<u>(428,784)</u>	<u>(252,787)</u>

Please refer to note 30 for information on the restatement of the comparatives.

These financial statements of Lloyds Pharmacy Limited, Company registered number 00758153, were approved by the board of directors and authorised for issue on 2 June 2021, and are signed on behalf of the board by:

DocuSigned by:

 BDB7F99981984A8...
 C Keen
 Director

Company registration number: 00758153

The notes on pages 16 to 38 form part of these financial statements.

Lloyds Pharmacy Limited

Statement of Changes in Equity

Year ended 31 March 2020

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 1 April 2018 (as previously reported)	125,242	63	(178,772)	(53,467)
Prior period adjustments	—	—	(35,222)	(35,222)
At 1 April 2018 (restated)	<u>125,242</u>	<u>63</u>	<u>(213,994)</u>	<u>(88,689)</u>
Loss for the year			(159,967)	(159,967)
Other comprehensive expense for the year:				
Remeasurement of the net defined benefit plan	24	—	(4,967)	(4,967)
Tax relating to components of other comprehensive income	23	—	836	836
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>(164,098)</u>	<u>(164,098)</u>
At 31 March 2019 (restated)	<u>125,242</u>	<u>63</u>	<u>(378,092)</u>	<u>(252,787)</u>
Loss for the year			(175,482)	(175,482)
Other comprehensive expense for the year:				
Remeasurement of the net defined benefit plan	24	—	(636)	(636)
Tax relating to components of other comprehensive income	23	—	121	121
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>(175,997)</u>	<u>(175,997)</u>
At 31 March 2020	<u>125,242</u>	<u>63</u>	<u>(554,089)</u>	<u>(428,784)</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements

Year ended 31 March 2020

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.

The nature of the company's operations and its principal activities are set out in the strategic report.

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

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 basis except for financial instruments classified at fair value through the profit or loss 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 directors have received confirmation from the ultimate parent company that intergroup debt will continue to be made available at levels sufficient to allow the company to meet its liabilities as they fall due for a period not less than 12 months. The directors have satisfied themselves that the ultimate parent company has the necessary financial resources to provide this support during this period, should it be required. Therefore, the directors have a reasonable expectation that the company has adequate resources internally and through its association with the McKesson Corporation, to continue in operational existence for the foreseeable future. As such, the going concern basis has been adopted in preparing the annual report and financial statements.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

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, 6555 State Hwy 161, Irving, TX 75039, 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.

Finance cost/income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the company and the amounts of revenue can be measured reliably).

Interest expense is recognised when it is probable that the economic benefits will flow from the group. Interest expense is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Exceptional items

When items of income and expense are material, their nature and amount are disclosed separately. Impairment of fixed assets (tangible and intangible) and investments are considered to be exceptional and disclosed on the face of the statement of comprehensive income and in the notes to the financials statements. Provisions arising from restructuring activities are considered to be exceptional and disclosed in the notes to the financial statements.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

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 company'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.

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.

Intangible assets - 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 and is carried net of amortisation and impairment.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

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

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

3. Accounting policies *(continued)*

Depreciation *(continued)*

Impairment of fixed assets and goodwill

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis.

Where indicators exist for a decrease in impairment loss previously recognised for assets other than goodwill, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets of the CGU, except for goodwill, on a pro-rata basis. Impairment of goodwill is never reversed.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

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 2020

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 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.

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.

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.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

3. Accounting policies *(continued)*

Financial instruments *(continued)*

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.

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 plans. The defined benefit scheme is funded and constituted as an independently administered fund with their assets being held separately from those of the company. The net liabilities under the defined benefit pension scheme are included in the balance sheet, the expected return on pension scheme assets and interest costs are included within interest payable and similar charges in the profit and loss account and actuarial gains and losses are included within the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

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 and associates are shown at historic cost less any write down for impairment.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

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.

The following are the critical judgements and key sources of estimation uncertainty 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 - Key source of estimation uncertainty

The Company revenue is set out in Note 5. 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.

Provisions - Critical accounting judgment

The Company provision for onerous leases is £51,964,000 which is included within 'Property provisions' in Note 22. The recognition of a provision for loss making stores is made if the store is expected to remain loss making and if no net realisable value is expected. Management assess each lease according to FRS 102, section 21 'Provisions and Contingencies' criteria throughout the lease period. Judgement is required to whether the criteria is met, in particular, whether it's probable that the Company will be required to pay out the remaining lease.

Stock provisioning - Key source of estimation uncertainty

The Company stock provision is £9,508,000. 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.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

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

Impairment – Key source of estimation uncertainty

The Company investments are set out in Note 17. The basis for any impairment write down of investments 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 basis for any impairment write down of fixed assets is by reference to the higher of net realisable value and value in use at the asset group level which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

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.

5. Turnover

Turnover arises from:

	2020 £000	2019 £000
Sale of goods	1,449,577	1,455,119
Rendering of services	498,899	524,172
	<u>1,948,476</u>	<u>1,979,291</u>

All turnover derives from operations within the United Kingdom.

6. Other operating income

	2020 £000	2019 £000
Rental income	2,945	1,096
Other operating income	19,627	13,756
	<u>22,572</u>	<u>14,852</u>

7. Operating loss

Operating loss is stated after charging/(crediting):

	2020 £000	2019 <i>(restated)</i> £000
Amortisation of intangible assets (note 15)	2,472	3,436
Depreciation of tangible assets (note 16)	19,824	18,741
Loss/(gains) on disposal of tangible assets	343	(279)
Operating lease rentals	15,512	38,009
Foreign exchange differences	28	34
Reversal of impairment of tangible fixed assets (note 16)	(3,142)	–
Cost of inventories recognised within cost of sales	1,533,348	1,554,701
Impairment of tangible fixed assets (note 16)	1,287	20,439
Impairment of goodwill (note 15)	15,267	7,793
Impairment Loss on inventory	648	1,315
	<u>1,578,381</u>	<u>1,586,108</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

8. Auditor's remuneration

	2020	2019
	£000	£000
Fees payable for the audit of the financial statements	<u>98</u>	<u>98</u>

There were no fees for non-audit related services in either the current or previous years.

9. Staff costs

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

	2020	2019
	No.	No.
Distribution staff	14,495	15,862
Administrative staff	<u>952</u>	<u>1,043</u>
	<u>15,447</u>	<u>16,905</u>

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

	2020	2019
	£000	£000
Wages and salaries	286,841	303,970
Social security costs	22,211	22,602
Other pension costs	<u>6,279</u>	<u>6,183</u>
	<u>315,331</u>	<u>332,755</u>

Other pension costs includes 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:

	2020	2019
	£000	£000
Remuneration	3,082	2,625
Amount received under long term incentive schemes	29	–
Company contributions to defined contribution pension plans	30	82
Excess retirement benefits of directors and past directors	<u>103</u>	<u>–</u>
	<u>3,244</u>	<u>2,707</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

10. Directors' remuneration *(continued)*

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

	2020	2019
	£000	£000
Aggregate remuneration	1,092	832
Company contributions to defined contribution pension plans	10	–
	<u>1,102</u>	<u>832</u>

3 directors received pension contributions during the year (2019: 2).

1 director, who was also the highest paid director, exercised share options during the year (2019: Nil) in respect of qualifying services under a long term incentive scheme.

Total amount includes payment for loss of office of £242,000 paid to 2 directors.

11. Income from other fixed asset investments

	2020	2019
	£000	£000
Income from other fixed asset investments	144	277
	<u>144</u>	<u>277</u>

12. Other interest receivable and similar income

	2020	2019
	£000	£000
Other interest receivable and similar income	5	–
	<u>5</u>	<u>–</u>

13. Interest payable and similar expenses

	2020	2019
	£000	£000
Pension interest payable	377	(145)
Interest due to immediate parent	36,228	29,771
	<u>36,605</u>	<u>29,626</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

14. Tax on loss

Major components of tax income

	2020	2019 <i>(restated)</i>
	£000	£000
Current tax:		
UK current tax income	(21,053)	(34,773)
Adjustments in respect of prior periods	8,214	(13,980)
Total current tax	<u>(12,839)</u>	<u>(48,753)</u>
Deferred tax:		
Origination and reversal of timing differences	3,266	2,341
Adjustment in respect of previous periods	(2,614)	10,635
Total deferred tax	<u>652</u>	<u>12,976</u>
Tax on loss	<u>(12,187)</u>	<u>(35,777)</u>

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 £121,000 (2019: £836,000).

Reconciliation of tax income

The tax assessed on the loss for the year is higher than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%).

	2020	2019 <i>(restated)</i>
	£000	£000
Loss before taxation	(187,669)	(195,744)
Loss by rate of tax	(35,657)	(37,191)
Adjustment to tax charge in respect of prior periods	5,600	(3,342)
Effect of expenses not deductible for tax purposes	10,887	5,393
Other permanent differences	(206)	(637)
Group relief for no payment	7,189	–
Tax on loss	<u>(12,187)</u>	<u>(35,777)</u>

Factors that may affect future tax income

A change to the main UK corporation tax rate was announced in the Budget on 3 March 2021. Legislation will be introduced in Finance Bill 2021 to set the main rate at 25% for the year beginning 1 April 2023. The deferred tax rate applicable from 1st April 2020 is 19% (2019: 17%)

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

15. Intangible assets

	Goodwill £000
Cost	
At 1 April 2019 and 31 March 2020	447,848
Amortisation	
At 1 April 2019 (as restated)	430,109
Charge for the year	2,472
Impairment losses	15,267
At 31 March 2020	447,848
Carrying amount	
At 31 March 2020	–
At 31 March 2019 (as restated)	17,739

There was an impairment charge in the year of £15,267,000 (2019 (restated): £7,793,000) in respect of pharmacy carrying value. The goodwill in relation to these pharmacies have been written down to the higher of their net realisable value or discounted cash flow during an annual impairment test. The basis for any impairment write down of fixed assets is by reference to the higher of net realisable value and value in use at the asset group level which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. 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 goodwill has been fully impaired or amortised and recognised within administration expenses in the statement of comprehensive income for the year ended 31 March 2020.

16. Tangible assets

	Freehold property £000	Long leasehold property £000	Short leasehold property £000	Fixtures and fittings £000	Total £000
Cost					
At 1 April 2019	19,459	1,883	37,310	310,944	369,596
Additions	125	241	5,969	18,432	24,767
Disposals	(196)	–	(1,055)	(4,837)	(6,088)
At 31 March 2020	19,388	2,124	42,224	324,539	388,275
Depreciation					
At 1 April 2019	3,473	827	25,337	246,967	276,604
Charge for the year	44	46	3,024	16,710	19,824
Disposals	–	–	(208)	(4,171)	(4,379)
Impairment losses	411	71	230	575	1,287
Reversal of impairment losses	–	–	–	(3,142)	(3,142)
At 31 March 2020	3,928	944	28,383	256,939	290,194
Carrying amount					
At 31 March 2020	15,460	1,180	13,841	67,600	98,081
At 31 March 2019	15,986	1,056	11,973	63,977	92,992

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

16. Tangible assets *(continued)*

Impairment charge

There was an impairment charge in the year of £1,287,000 (2019: £20,439,000) in respect of store fixed asset impairment written down to their net realisable value during an annual impairment test.

There was an impairment reversal of £3,142,000 (2019: £Nil) in respect of an increase in the residual value of the assets.

17. Investments

	Shares in group undertakings £000
Cost	
At 1 April 2019	63,080
Additions	36,218
Disposals	(199)
At 31 March 2020	<u>99,099</u>
Impairment	
At 1 April 2019	10,065
Impairment losses	30,850
At 31 March 2020	<u>40,915</u>
Carrying amount	
At 31 March 2020	<u>58,184</u>
At 31 March 2019	<u>53,015</u>

The additions were made up of investments in Metabolic Healthcare Holding Ltd of £35,903,000 and Consortia Health Woods of £315,000. On June 19th, 2019 Lloyds Pharmacy Limited entered into a purchase and sale agreement to acquire 73.9% of the shares in Metabolic Healthcare Holdings Ltd (£33,103,000), with an option to acquire the remaining shares after a two-year period (2,800,000). The option has been recognised as a non-current financial liability as shown in note 21. Subsequent fair value movement of this option is shown on the face of the Statement of Comprehensive Income.

Impairment charges of £8,091,000, £4,110,000 and £4,930,000 is in respect of investments in Prescribing Support Services Limited, Optimed Health Limited and MY MHealth Limited respectively, all these investments have been written down to Nil. The remaining impairment charge of £13,719,000 was in respect of the company's investment in Metabolic Healthcare Holding Limited which has been written down to the higher of its net assets or value in use.

The total carrying value for associates is £327,000 (2019: £5,456,000). The movement relates to the disposal of certain associates (£199,000) and the impairment of MY MHealth Limited (£4,930,000) All other investments are in subsidiary undertakings.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

17. Investments *(continued)*

The company has investments in the following subsidiary undertakings, associates and other significant investments (both direct and indirect).

Subsidiary, associate or other significant investment	Nature of business	Class of capital	% held
28 CVR Limited		£0.10 Ordinary and A Ordinary shares	100
30 MC Limited*	Holding company	£1 Ordinary shares	100
AHLP Pharmacy Limited	Dormant	£1 A Ordinary shares	75
BetterlifeHealthcare Limited	Online retailer	£1 Ordinary shares	100
Baillieston Health Centre Pharmacy Limited		£1 Ordinary A shares and £1 Ordinary B shares	100
Company Chemists Association Limited	Health centre	£1 Ordinary shares	27
Escon (St Neots) Limited	Retail pharmacy	£1 Ordinary shares	100
Expert Health Limited*	Dormant	£1 Ordinary shares	100
Lloyds Pharmacy Clinical Homecare Limited	Online health	£1 Ordinary shares	100
MyMHealth Limited	Healthcare services	£1 Ordinary shares	100
Optimed Health Limited	Online healthcare	£0.001 Ordinary Shares	8
Prescribing Support Services Limited	Consulting	£1 Ordinary Shares	100
Metabolic Healthcare Holding Limited	Consulting	£1 Ordinary Shares	100
Metabolic Healthcare Ltd*	Holding	£1 Ordinary Shares	74
	Online healthcare services	£1 Ordinary shares	74

* Held indirectly

The company also holds investments in unlisted companies which operate health centres.

All investments are in UK companies and have the same registered address as Lloyds Pharmacy Limited. The only exceptions to this are those companies are stated below.

Name	Registered office
Company Chemists Association Limited	4 Kingston Hall, Kingston On Soar, Nottingham, NG11 0DJ
My MHealth Limited	161 8 Trinity, 161 Old Christchurch Road, Bournemouth, England, BH1 1JU

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.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

18. Stocks

	2020	2019
	£000	£000
Finished goods and goods for resale	<u>155,534</u>	<u>150,609</u>

19. Debtors due within one year

	2020	2019
	£000	£000 <i>(restated)</i>
Trade debtors	284,798	291,885
Amounts owed by immediate parent	165	288
Amounts owed by fellow subsidiaries	22,784	22,862
Amounts owed by other group companies	79	–
Amounts owed by subsidiaries	42,029	14,304
Deferred tax asset	16,575	17,106
Prepayments and accrued income	7,624	23,061
Corporation tax repayable	47,041	71,303
Other debtors	58,835	42,501
	<u>479,930</u>	<u>483,310</u>

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

20. Creditors: amounts falling due within one year

	2020	2019
	£000	£000 <i>(restated)</i>
Bank loans and overdrafts	146,319	214,232
Trade creditors	118,665	136,758
Amounts owed to other group companies	2,566	–
Amounts owed to fellow subsidiaries	184,761	200,742
Amounts owed to subsidiaries	400	593
Amounts owed to immediate parent	555,323	352,663
Accruals and deferred income	112,311	51,942
Social security and other taxes	8,138	9,667
Other creditors	64	7,158
	<u>1,128,547</u>	<u>973,754</u>

The balances due to fellow subsidiaries, subsidiaries and other group companies are unsecured, repayable on demand and interest free. Amounts owed under the overdraft are secured on the cash assets of all McKesson Europe AG participants bearing interest at 0.725% (2019: 1.3125%) and is repayable on demand.

Amounts owed to the immediate parent are interest bearing and repayable on demand at 3.85% (2019: 3.85%).

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

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

	2020	2019
	£000	£000
Derivative financial liability	<u>4,800</u>	<u>–</u>

22. Provisions

	Property Provisions £000	Restructuring Provisions £000	Other provisions £000	Total £000
At 1 April 2019	87,300	17,047	300	104,647
Additions	10,734	3,404	–	14,138
Utilisation	(13,509)	(7,057)	–	(20,566)
Unused amounts reversed	(14)	(2,996)	–	(3,010)
Transfers	(390)	390	–	–
At 31 March 2020	<u>84,121</u>	<u>10,788</u>	<u>300</u>	<u>95,209</u>

The property provisions represent an assessment of the costs to cover (a) rent and rates for loss making or 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 represents pension related costs and the balance is expected to be utilised within the next 5 years.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

23. Deferred tax

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

	2020	2019 <i>(restated)</i>
	£000	£000
Included in debtors (note 19)	<u>16,575</u>	<u>17,106</u>

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

	2020	2019 <i>(restated)</i>
	£000	£000
Accelerated capital allowances	17,786	17,157
Unused tax losses	963	1,299
Short term timing differences	3,338	4,162
Deferred gains in excess of capital losses	<u>(5,512)</u>	<u>(5,512)</u>
	<u>16,575</u>	<u>17,106</u>

The unused tax losses have no expiry date.

	2020	2019 <i>(restated)</i>
	£000	£000
At the beginning of the year	17,106	29,246
Deferred tax movement in income statement	(652)	(12,976)
Deferred tax movement in statement of other comprehensive income	<u>121</u>	<u>836</u>
	<u>16,575</u>	<u>17,106</u>

24. Employee benefits

Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £6,279,000 (2019: £6,183,000).

There were amounts of £476,000 accrued in respect of pension scheme contributions at the balance sheet date (2019: £895,000).

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 historic number of employees. The scheme is funded and constituted as an independently administered fund with assets being held separately from those of the company. The fund is 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 is borne by the fund. The company provides no other post-retirement benefits to its employees under defined benefit plans.

A full actuarial valuation was carried out as at 6 April 2020 and is updated to each accounting year end by a qualified independent actuary.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

24. Employee benefits *(continued)*

The company contributions during the year amounted to £5,700,000 (2019: £1,832,000) in respect of reducing the scheme's funding deficit (2019: £1,500,000) based on a funding agreement between Admenta UK Limited and the Trustees. A contribution of £2,700,000 was made during the year ending 31 March 2021. The scheme closed to ongoing accrual in 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 is determined as follows:

	2020	2019
	£000	£000
Present value of defined benefit obligations	(111,006)	(123,029)
Fair value of plan assets	107,019	114,355
	<u>(3,987)</u>	<u>(8,674)</u>

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

	2020	2019
	£000	£000
At 1 April 2019	123,029	121,983
Current Service credit	-	(323)
Interest expense	2,823	3,230
Benefits paid	(5,810)	(5,329)
Remeasurements:		
Actuarial gains and losses	(9,036)	3,468
At 31 March 2020	<u>111,006</u>	<u>123,029</u>

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

	2020	2019
	£000	£000
At 1 April 2019	114,355	116,598
Interest income	2,446	3,085
Benefits paid	(5,810)	(5,329)
Contributions by plan participants	5,700	1,500
Remeasurements:		
Actuarial gains and losses	(9,672)	(1,499)
At 31 March 2020	<u>107,019</u>	<u>114,355</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

24. Employee benefits *(continued)*

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

	2020	2019
	£000	£000
Recognised in profit or loss:		
Current service credit	–	(323)
Net interest expense	<u>377</u>	<u>145</u>
	<u>377</u>	<u>(178)</u>
Recognised in other comprehensive income:		
Remeasurement of the liability:		
Actuarial gains and losses	<u>636</u>	<u>(4,967)</u>

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

	2020	2019
	£000	£000
Equity instruments	29,668	32,515
Debt instruments	71,987	79,927
Other	<u>5,364</u>	<u>1,911</u>
	<u>107,019</u>	<u>114,353</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:

	2020	2019
	£000	£000
Return on assets of benefit plan	<u>(7,227)</u>	<u>1,586</u>

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

	2020	2019
	%	%
Discount rate	2.30	2.35
Expected rate of salary increase	3.10	3.70
Expected rate of increase in pensions	2.70	3.20
Inflation assumption	2.70	3.30
Mortality rates:		
Current pensioners at 65 – male	86.70	87.40
Current pensioners at 65 – female	88.70	89.40
Future pensioners at 65 – male	88.10	89.10
Future pensioners at 65 – female	<u>90.30</u>	<u>91.20</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

25. Called up share capital

Issued, called up and fully paid

	2020		2019	
	No.	£000	No.	£000
Ordinary shares of £1 each	<u>125,242,450</u>	<u>125,242</u>	<u>125,242,450</u>	<u>125,242</u>

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:

	2020	2019
	£000	£000
Not later than 1 year	40,178	36,968
Later than 1 year and not later than 5 years	121,726	120,249
Later than 5 years	143,383	155,744
	<u>305,287</u>	<u>312,961</u>

28. 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".

29. Controlling party

The immediate parent undertaking is Admenta Holdings Limited, a company registered in the United Kingdom.

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 its registered address McKesson Corporation, 6555 State Hwy 161, Irving, TX 75039, United States.

Consolidated financial statements for the smallest group of companies are prepared by McKesson Europe AG and may be obtained from its registered address McKesson Europe AG, Stockholmer Platz 1, 70173 Stuttgart, Germany.

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

30. Prior year adjustment

After the finalisation of the financial statements for the year ended 31 March 2019, the directors identified there were impairment indicators in relation to the goodwill balances held by the company on its statement of financial position. An impairment review was undertaken which highlighted that these impairment indicators had existed in prior periods and as such, the carrying value of goodwill in prior years was overstated. An exercise was performed to adjust for impairment charges that should have been posted against the goodwill balance in prior periods. The directors have concluded that the amounts below are material and have therefore restated the results for the year ended 31 March 2019 within these financial statements.

It was noted that in relation to the brought forward balance at 1 April 2018, goodwill should have been written down by a total of £39,598,000. As a result of these adjustments, deferred tax was understated as at 31 March 2018, deferred tax should have been £29,246,000. As such, brought forward retained earnings in the statement of changes in equity have been adjusted to reflect both the write down of goodwill and the increase in deferred tax asset.

It was further noted that in the year ended 31 March 2019, a further impairment charge of £7,793,000 should have been booked against goodwill. It was further noted that as a result of the impairment charges booked, amortisation charged against goodwill should have been £3,436,000, rather than the £12,402,000 previously stated. The result of these adjustments would be to bring the closing position of goodwill down to £17,739,000 at 31st March 2019, rather than the £56,164,000 as previously stated. As a result of the write down adjustments to goodwill and the reduction of amortisation, deferred tax was understated as at 31 March 2019. Deferred tax should have been £17,106,000, rather than the £12,860,000 previously stated. Note 14, 15, 19 and 23 of the financial statements has been restated to show this new closing position.

A reconciliation of original to restated position of goodwill has been documented below.

	2020
	£000
At 31 March 2019 as previously stated	56,164
Impaired through statement of changes in equity	(39,598)
Impaired through statement of comprehensive income in 2019	(7,793)
Reduced amortisation through statement of comprehensive income in 2019	8,966
At 31 March 2019 restated	<u>17,739</u>

A reconciliation of original to restated position of deferred tax has been documented below.

	2020
	£000
At 31 March 2019 as previously stated	12,860
Increased through statement of changes in equity	4,376
Decreased through statement of comprehensive income in 2019	(130)
At 31 March 2019 restated	<u>17,106</u>

Lloyds Pharmacy Limited

Notes to the Financial Statements *(continued)*

Year ended 31 March 2020

30. Prior year adjustment *(continued)*

Furthermore, the directors have identified that impairments to goodwill and fixed assets were being incorrectly disclosed below Operating loss on the face of Statement of Comprehensive Income. As such, impairments to goodwill and fixed assets in the prior year have been reclassified to Admin expenses. As a result, Admin expense for the year end 31st March 2019 should have been 140,030,000, rather than the 120,764,000 previously stated. As a result of the reclassification, Operating loss has increased from £142,143,000 to £161,409,000. This reclassification had no effect on the loss for the financial year.

A reconciliation of original to restated position of Admin expenses has been documented below.

	2020
	£000
At 31 March 2019 as previously stated	120,764
Prior year goodwill impairment charge	7,793
Prior year goodwill amortisation reduction	(8,966)
Reclassification of impairment to fixed assets	20,439
At 31 March 2019 restated	<u>140,030</u>

The bank overdraft for 2019 has been restated by £34,251,040. This relates to a number of bank deposits held previously netted off against overdrafts with the same financial institution within 'Bank loans and overdrafts' in 'Creditors: amounts falling due within one year'. As the company had not demonstrated an intention to offset these accounts, the deposits should have been presented as an asset, separate from the overdraft. As a result the different accounts have been restated to be recognised gross in the balance sheet.

31. Events after the end of the reporting period

The challenges of the Covid-19 pandemic continue to impact the business, although the directors believe that the long-term impact of this virus are not yet clear.