

**Lloyds Pharmacy Limited**  
**Annual report and financial statements**  
**for the year ended 31 March 2021**

**Registered number: 00758153**

# **Lloyds Pharmacy Limited**

## **Annual report and financial statements**

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# Lloyds Pharmacy Limited

## Strategic Report for the year ended 31 March 2021

The directors present their strategic report for the year ended 31 March 2021.

### Principal Activities and Business Review

The principal activity of the company throughout the year was the operation of retail pharmacies, located primarily within local communities and health centres as well as LloydsPharmacy.com, our complementary online service.

### Review of business and future developments

As Directors of the business, we want to start by extending our sincere thanks to all our colleagues: first for their incredible efforts in the service of patients, as we have continued to be at the frontline of the Covid-19 pandemic, and also for their hard work in continuing to deliver our successful transformation strategy.

This transformation strategy, to turn Lloyds Pharmacy into an omnichannel business that provides choice in healthcare to patients and consumers, has continued to resonate well with our patients and customers and we are particularly pleased with our delivery in digital revenue this year. Our LloydsPharmacy.com site has been re-platformed to improve efficiency and customer experience which has led to 237% growth, Online Doctor, held through an investment Expert Health Limited, has increased by 10% and Lloyds Direct, held through an investment in Metabolic Health Limited, grew +731%.

Our bricks and mortar community pharmacy estate remains central to our omnichannel strategy. We have worked collaboratively with many landlords to regear our property costs and help ensure the longevity of the estate in the community. However, the government funding model for community pharmacy in England continues to be challenging and we have taken the decision to close and merge or sell individual sites as part of a rationalisation programme. We aim to do this with the interests of the community in mind. As of 31st March 2021 we have 1,351 pharmacies (2020: 1,427). The results of these actions are starting to be realised as, despite the reduction in turnover, operating loss has reduced by 69.6% to £35.1 million, representing a significant improvement over the prior fiscal year.

The year to 31st March 2021 was challenging for the whole country. The novel coronavirus (or “Covid-19”) and the associated national lockdowns placed great strain on the healthcare sector, while the associated national lockdowns led to reduced store footfall. This challenge along with a store rationalisation program reduced turnover by 9.6% to £1,762 million (2020: £1,948 million). However our colleagues in pharmacies and across the medicines supply chain responded to the challenge with resilience and tenacity, adapting to the new circumstances to maintain patient access to medicines and healthcare services.

The company remains a subsidiary of Admenta UK Limited and enjoys the support of this parent entity.

In November 2021, McKesson Corporation announced an agreement to sell its UK businesses to AURELIUS. The transaction is expected to close in the financial year ending 31 March 2022, subject to closing conditions, including receipt of required regulatory approvals.

### Covid-19 pandemic

The Covid-19 pandemic has created much volatility and uncertainty. Despite this, Lloyds Pharmacy continues to play a pivotal role in delivering healthcare services to communities around the country. The health and wellbeing of its employees, patients, and the communities it serves is Lloyds Pharmacy’s first priority. Lloyds Pharmacy worked hard to ensure provisions were in place that meant our community pharmacies could safely remain open to patients throughout the pandemic, while physical access to other healthcare settings (e.g. GPs, clinics, hospitals) has been restricted.

Metabolic Healthcare Limited, an investment Lloyds Pharmacy Limited made in the year ending 31 March 2020, saw significant growth throughout the pandemic in its mail order prescription service. Leveraging the increased demand in online shopping, Lloyds Pharmacy rapidly expanded its digital offering to ensure customers could safely continue to enjoy the wider range of products available.

Further developments caused by Covid-19 could include changes in demand patterns, governmental or business actions to mitigate risk or save costs, availability and effectiveness of vaccines, impacts on our supply chains, working remotely including reliance of applications that are subject to cybersecurity risks.

# Lloyds Pharmacy Limited

## Strategic Report for the year ended 31 March 2021 *(continued)*

### Covid-19 pandemic *(continued)*

Although the future duration and impact of Covid-19 variants 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, the furlough scheme, as well as NHS advance payments to alleviate cashflow challenges. To secure supply and minimise business disruption, mitigating actions have been applied including the introduction of new policies, ways of working, and training and monitoring.

We received NHS advanced funding from Scotland, Wales, Northern Ireland and England proportionate to the number of pharmacies in each domicile, which we used to mitigate the cashflow impact created by Covid-19. We began to repay the advances for Scotland and Wales during FY21 and all advances will be paid back by 31 March 2022.

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

	<b>2021</b>	<b>2020</b>	<b>2020</b>
	£000	% change	£000
Turnover	1,761,570	(9.6)%	1,948,476
Operating loss	(35,095)	69.6%	(115,474)
Loss for the year	(100,760)	42.4%	(174,815)
Shareholders' deficit	(540,406)	(20.5)%	(448,465)

### Turnover

The company's turnover is impacted by government agencies seeking to manage the cost of healthcare, including pharmaceutical drug reimbursement rates; 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:

	<b>2021</b>	<b>2020</b>
	%	%
Pharmacy	91.4	91.6
Retail	8.6	8.4
<b>Total</b>	<b>100</b>	<b>100</b>

Lloyds Pharmacy stores remained open during FY21 to provide patient care throughout Covid-19, while physical access to other healthcare settings was restricted. The fall in revenue was driven by reduced store footfall due to government lockdown restrictions; the reduction in the number of stores (as part of the rationalisation programme); as well as changes to government reimbursement.

### Operating loss

Our results reflect lower foot traffic caused by Covid-19, as well as the ongoing impact of the Company's multi-year transformation initiative. This was partially mitigated by the reduction of the Lloyds Pharmacy store portfolio and the adoption of government programmes including reimbursement for opening on bank holidays and business rates relief for retail businesses, which helped to alleviate the additional cost of the pandemic.

# Lloyds Pharmacy Limited

## Strategic Report for the year ended 31 March 2021 (*continued*)

### *Loss for the year*

Loss for the year has reduced significantly as a result of the improved operating result. There was an impairment charge in the year of £11.2 million (2020: £2.8 million) in respect of store fixed asset impairment written down to their net realisable value during an annual impairment test. Finance costs of £31.0 million (2020: £39.8 million) principally relate to interest payable to other group companies.

### *Shareholders deficit*

Shareholders deficit has increased to £540.4 million (2020: £448.5 million) as a result of the loss for the year offset by actuarial gains.

Within the wider group, in March 2021, McKesson Europe AG extinguished £600,000,000 owed to group undertakings due in 2035 in consideration for one ordinary share in Admenta UK Limited. In addition, McKesson Europe AG contributed £600,000,000 in cash in exchange for one ordinary share in Admenta UK Limited.

### **Transition to FRS 101**

These are the Company's first financial statements prepared in accordance with FRS 101 *Reduced Disclosure Framework*. As part of the transition to FRS 101 from FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, the Company has made measurement and recognition adjustments. An explanation of how the transition to FRS 101 has affected the financial position and performance of the Company can be found in note 2.2 of these financial statements.

### **Principal risks and uncertainties**

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 Admenta UK Limited.

### **Regulation and government**

Lloyds Pharmacy Limited operates in highly regulated markets; any changes to those requirements or noncompliance, could have a negative impact on business performance. For example, changes to drug reimbursement levels, pharmacy licensing arrangements, or prescription processing requirements, data or privacy regulations, and health, safety or environmental standards could adversely impact the company's profitability.

Further, the United Kingdom ("UK") entered into a trading arrangement with the European Union ("EU") on 31<sup>st</sup> December 2020. The principal risks we face as a result of this change to our trading relationship with the remaining EU members are around ensuring uninterrupted supply of pharmaceutical and medical products at competitive prices. The agreement does not guarantee mutual recognition of professional and sector-specific qualifications which will restrict labour mobility. It may also impact employee retention as well as future recruitment and raise cost. 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 ease the above risks and to enhance the trading agreement. Mitigating actions have been implemented including the introduction of policies, ways of working and training and monitoring to secure supply and minimise business disruption.

# Lloyds Pharmacy Limited

## Strategic Report for the year ended 31 March 2021 (*continued*)

### Competition

Government reductions in pharmacy reimbursement in England have increased competition, for example the targeting of patients by competitors, including mail order pharmacies. We have seen loss of market share as a result of our store rationalisation program, and we also face competition for preferred store locations. Another key challenge is the competition to attract talent, particularly pharmacists. This is a sector-wide issue, and we are working with relevant associations and the NHS to find a solution.

To mitigate risks, the company monitors the market to understand and anticipate trends and identify challenges and opportunities to evolve and enhance our value proposition to customers and vendors.

### Changes and trends in patient and consumer behaviour

There have been significant changes in consumer habits, accelerated by the Covid-19 pandemic. Consumer confidence, spending levels, shopping trends – particularly the migration online, and seasonality could adversely impact our business. We continue to adapt to new emerging behaviours and strive to differentiate ourselves by providing expert advice and care to our customers and patients.

### Cost management

The company may face increased costs through a number of ways including poor management of change programs, sub-optimal purchasing from vendors, failure of systems that impact our operations, hiring and retaining talent, including pharmacists. The company has implemented robust program and talent management, purchasing processes and controls, as well as oversight from our board on strategic matters.

### Financial risk management

The Company is exposed to a variety of financial risks, which include foreign currency, liquidity and interest rate risks. We have 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.

**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.

# Lloyds Pharmacy Limited

## Strategic Report for the year ended 31 March 2021 (*continued*)

### 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 expanding our digital customer channels and 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.

#### 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 shared principles. Our employees work every day to innovate and deliver opportunities that make our customers and partners more successful — all for the better health of patients.

There are many ways we engage with and listen to our people including pulse surveys, conferences, and forums including town hall meetings where colleagues can interact with our executive leadership team and receive updates on strategic initiatives, our business and recognise great performance. We 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 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 leadership 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 Covid-19 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.

# Lloyds Pharmacy Limited

## Strategic Report for the year ended 31 March 2021 (*continued*)

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

#### 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.

#### Government and regulators

We operate in a highly regulated industry, and patient safety is critical. Government entities across the four nations of the United Kingdom, including in England the Department of Health and Social Care, determine tariff reimbursement levels and service fees that impact the supply chain, including our Company, 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 Covid-19 and Brexit. 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 25 March 2022 and signed on behalf of the board by:

DocuSigned by:  
  
BDB7F99981984A8...

**C Keen**  
Director

Sapphire Court  
Walsgrave Triangle  
Coventry  
CV2 2TX



# Lloyds Pharmacy Limited

## Directors' Report

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2021.

The Company reported a loss attributable to the owners of the Company of £79.2 million in the financial year ending 31 March 2021 (2020: £174.8 million loss).

### 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

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 (2020: Nil).

### 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 local and 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 committee 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 Risk Committee
4. Human Resource Committee
5. Health, Safety & Environment Committee
6. Internal Audit Committee

# Lloyds Pharmacy Limited

## Directors' Report *(continued)*

### Statement of Corporate Governance Arrangements *(continued)*

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

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 considered 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 7-8 in the Strategic Report.

### Energy and Carbon Reporting

	<b>Year ended March 2021</b>	<b>Year ended March 2020</b>
Emission resulting from activities including combustion of gas or consumption of fuel for transport (tCO <sub>2</sub> e)	2,707	3,448
Emissions resulting from the purchase of electricity, including for transport (tCO <sub>2</sub> e)	5,626	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)	38,188,385	73,255,639
Intensity ratio (kWh/revenue £m)	21,466	37,652

Methodology used to calculate the information disclosed above:

Calculation method: activity data x emission factor = greenhouse gas emission

Emissions factor source: DEFRA, 2021 for all emissions factors -  
<https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021>

Intensity ratio is based on revenue (in £m) for the respective fiscal year.

### Energy efficiency measures taken

Energy efficiency actions taken during the year ended 31 March 2021 included operational improvements across the portfolio to improve energy management and increase how much we recycle, although we acknowledge reduced footfall into stores also contributed to the year over year reduction.

# Lloyds Pharmacy Limited

## Directors' Report *(continued)*

### Going concern

The directors have received confirmation from the UK parent Company, Admenta UK Limited, 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 Admenta UK Limited 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 Admenta UK Limited, 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.

### 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, colleagues, and financial risk management objectives and policies with the Company have been included in the Strategic Report on pages 7 and 8 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 is not yet clear.

In November 2021, McKesson Corporation announced an agreement to sell its UK businesses to AURELIUS. The transaction is expected to close in the financial year ending 31 March 2022, subject to closing conditions, including receipt of required regulatory approvals. In conjunction with the sale agreement, the Company contributed £15m to the group defined benefit scheme operated by Admenta UK Limited, an amount representing the entire funding deficit amount under a funding agreement between Admenta UK Limited and the Trustees.

### 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 statement's liability insurance was also in force.

# Lloyds Pharmacy Limited

## Directors' Report (*continued*)

### 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 101 "Reduced Disclosure Framework". 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

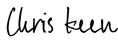
Each of the persons who is a director at the date of approval of this report confirms that:

- 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 25 March 2022 and signed on behalf of the board by:

DocuSigned by:  
  
BDB7F99981984A8...

**C Keen**  
Director

Sapphire Court  
Walsgrave Triangle  
Coventry  
CV2 2TX

# Lloyds Pharmacy Limited

## Independent auditor's report to the members of Lloyds Pharmacy Limited

### 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 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

# Lloyds Pharmacy Limited

## Independent auditor's report on the audit of the financial statements to the members of Lloyds Pharmacy Limited (*continued*)

### 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation etc and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included regulatory solvency requirements and environmental regulations.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, IT, forensic and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- material misstatement of revenue due to the estimated nature of journal entries made by management for NHS revenue in the financial quarter. We performed substantive testing on the estimates made by management, agreeing to actual cash receipts and receipt of 3rd party information post year end. We also performed a full reconciliation of NHS revenue recognised in the financial statements by agreeing to 3rd party information received.

## **Lloyds Pharmacy Limited**

### **Independent auditor's report on the audit of the financial statements to the members of Lloyds Pharmacy Limited (continued)**

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house / external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports and reviewing correspondence with HMRC.

#### **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.

##### **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.



Kate Hadley FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

25<sup>th</sup> March 2022

## Lloyds Pharmacy Limited

### Profit and loss account

For the year ended 31 March 2021

		<b>2021</b>	2020
		<b>£000</b>	£000
	<i>Note</i>		
Revenue	5	<b>1,761,570</b>	1,948,476
Cost of sales		<b>(1,345,033)</b>	(1,533,348)
<b>Gross profit</b>		<b>416,537</b>	415,128
Other operating income	6	<b>24,388</b>	22,572
Distribution costs		<b>(410,723)</b>	(447,810)
Administrative expenses		<b>(65,297)</b>	(105,364)
<b>Operating loss</b>	10	<b>(35,095)</b>	(115,474)
Income from other non-current asset investments		<b>865</b>	144
Impairment of investment in group undertakings	14	<b>(22,913)</b>	(30,850)
Impairment of fixed assets	13	<b>(11,218)</b>	2,857
Movement in fair value of derivatives	16	<b>(2,355)</b>	(2,000)
Finance costs	11	<b>(31,007)</b>	(39,835)
Finance income – interest income		<b>163</b>	5
<b>Loss before taxation</b>		<b>(101,560)</b>	(185,153)
Tax	12	<b>800</b>	10,338
<b>Loss for the financial year attributable to owners of the Company</b>		<b>(100,760)</b>	(174,815)

All of the activities of the company are classified as continuing.



## Lloyds Pharmacy Limited

### Statement of comprehensive income

for the year ended 31 March 2021

	Note	2021 £000	2020 £000
<b>Loss for the year</b>		<b>(100,760)</b>	(174,815)
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Actuarial gains/(loss) on post-employment benefit obligations	23	<b>11,282</b>	(636)
Deferred tax on actuarial (losses)/gains	12	<b>(2,463)</b>	121
<b>Other comprehensive income/(expense) for the year, net of tax</b>		<b>8,819</b>	(515)
<b>Total comprehensive expense for the year attributable to the owners of the Company</b>		<b>(91,941)</b>	(175,330)

# Lloyds Pharmacy Limited

## Statement of financial position

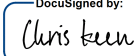
As at 31 March 2021

	Note	2021 £000	2020 (Restated) £000
<b>Non-current assets</b>			
Property, plant and equipment	13	254,768	297,637
Investments in subsidiaries	14	35,674	57,857
Interests in associates	15	-	327
Defined benefit pension scheme assets	23	10,760	-
Trade and other receivables	18	8,381	6,381
		<u>309,583</u>	<u>362,202</u>
<b>Current assets</b>			
Inventories	19	135,862	155,534
Trade and other receivables	18	347,301	452,616
Cash and bank balances		37,365	12,030
Deferred tax assets	17	8,473	14,090
Assets held for sale		9,654	-
		<u>538,655</u>	<u>634,270</u>
<b>Total assets</b>		<u><u>848,238</u></u>	<u><u>996,472</u></u>
<b>Current liabilities</b>			
Trade and other payables	20	(233,789)	(237,809)
Amounts owed to related parties	21	(740,738)	(766,110)
Bank loans and overdrafts	21	(159,446)	(146,319)
Lease liabilities	21	(33,664)	(32,567)
Derivative financial instruments	16	(2,445)	-
Provisions	22	(8,644)	-
		<u>(1,178,726)</u>	<u>(1,182,805)</u>
<b>Net current liabilities</b>		<u>(640,071)</u>	<u>(548,535)</u>
<b>Total assets less current liabilities</b>		<u>(330,488)</u>	<u>(186,333)</u>
<b>Non-current liabilities</b>			
Derivative financial instruments	16	-	(4,800)
Provisions	22	(23,277)	(31,764)
Pensions liability	23	-	(3,987)
Lease liabilities	21	(186,641)	(221,581)
		<u>(209,918)</u>	<u>(262,132)</u>
<b>Total liabilities</b>		<u><u>(1,388,644)</u></u>	<u><u>(1,444,937)</u></u>
<b>Net liabilities</b>		<u><u>(540,406)</u></u>	<u><u>(448,465)</u></u>
<b>Equity</b>			
Share capital	24	125,242	125,242
Share premium account	24	63	63
Retained earnings	24	(665,711)	(573,770)
<b>Equity attributable to owners of the Company</b>		<u><u>(540,406)</u></u>	<u><u>(448,465)</u></u>

Prior year comparative information has been restated as a result of a presentational adjustment as described in note 18.

These financial statements of Lloyds Pharmacy Limited, Company registered number 00758153, were approved by the board of directors, and authorised for issue on 25 March 2022, and are signed on behalf of the board by:

C Keen  
Director

DocuSigned by:  
  
BDB7F99981984A8...

Company registration number: 00758153

## Lloyds Pharmacy Limited

### Statement of changes in equity

For the year ended 31 March 2021

	Share capital £000	Share premium account £000	Retained earnings £000	Total £000
Balance at 1 April 2019 (restated – see note 2.2 & 2.3)	125,242	63	(398,440)	(273,135)
Loss for the year	-	-	(174,815)	(174,815)
Other comprehensive expense for the year	-	-	(515)	(515)
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	-	(175,330)	(175,330)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2020 (restated – see note 2.3)	125,242	63	(573,770)	(448,465)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 1 April 2020</b>	<b>125,242</b>	<b>63</b>	<b>(573,770)</b>	<b>(448,465)</b>
Loss for the year	-	-	(100,760)	(100,760)
Other comprehensive income for the year	-	-	8,819	8,819
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(91,941)</b>	<b>(91,941)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2021</b>	<b>125,242</b>	<b>63</b>	<b>(665,711)</b>	<b>(540,406)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# Lloyds Pharmacy Limited

## Notes to the Financial Statements

### 1. General information

Lloyds Pharmacy Limited (the Company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's 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.

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements. The Company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the group accounts of McKesson Europe AG. The group accounts of McKesson Europe AG are available to the public and can be obtained as set out in note 27.

### 2. Accounting policies

#### 2.1 Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 *Reduced Disclosure Framework* ('FRS 101') issued by the Financial Reporting Council.

Accordingly, in the year ended 31 March 2021, the Company has changed its accounting framework from FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ('FRS 102') to FRS 101 and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements have been prepared in accordance with FRS 101.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

#### 2.2 Explanation of transition to FRS 101

This is the first year that the Company has presented its financial statements under FRS 101. The last financial statements under a previous GAAP (FRS 102) were for the year ended 31 March 2020 and the date of transition to FRS 101 was therefore 1 April 2019.

In the transition to FRS 101, the Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* ('IFRS 1') whilst ensuring that its assets and liabilities are measured in compliance with FRS 101.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain IFRSs. The following exemptions have been applied.

- *Business combinations*

Business combinations that took place prior to 1 April 2019 have not been restated. Accordingly, the carrying amounts of assets and liabilities, that are required to be recognised under FRS 101, under previous GAAP, are their deemed costs at the date of the acquisition. The carrying amount of goodwill in the Company's opening balance sheet is equal to its carrying amount under FRS 102 at the date of transition.

- *Leases*

IFRS 16 *Leases* has been applied by measuring lease liabilities at the present value of remaining lease payments at the date of transition to FRS 101, discounted using the lessee's incremental borrowing rate at the transition date. The associated right-of-use asset has been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the FRS 101 transition date. In addition, initial direct costs have been excluded from the measurement of the right-of-use asset at the transition date. Short-term leases with a maturity of 12 months or less, and lease agreements for low value assets are not recognised in the statement of financial position. This is also applied to all leases ending before March 31, 2020, regardless of their initial lease term.

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 2. Accounting policies (continued)

##### 2.2 Explanation of transition to FRS 101 (continued)

As a consequence of adopting IFRS 16, the onerous lease provisions of £66.4 million recorded in the statement of financial position as of 31 March 2019 in accordance with FRS 102 Section 21 *Provisions and Contingencies* was released. Right of use assets were subjected to an impairment test as of the adoption date. Consequently, an impairment charge £63.0m was recognised against right of use assets. The net impact of £3.4million was recorded in the opening retained earnings.

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (FRS 102). An explanation of how the transition from FRS 102 to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

##### Reconciliation of equity

	Note	1 April 2019			31 March 2020		
		FRS 102	Effect of transition to FRS 101	FRS 101	FRS 102	Effect of transition to FRS 101	FRS 101
		£'000	£'000	£'000	£'000	£'000	£'000
<b>Non-current assets</b>							
Intangible assets	<i>b</i>	17,739	-	17,739	-	-	-
Property, plant and equipment	<i>a</i>	92,992	225,642	318,634	98,081	199,556	297,637
Investments in subsidiaries		47,559	-	47,559	57,857	-	57,857
Interests in associates		5,456	-	5,456	327	-	327
Defined benefit pension scheme assets		-	-	-	-	-	-
<b>Current Assets</b>							
Inventories		150,609	-	150,609	155,534	-	155,534
Trade and other receivables	<i>a</i>	466,204	(8,400)	457,804	463,355	(4,358)	458,997
Deferred tax assets		17,106	(636)	16,470	16,575	(2,485)	14,090
Cash and bank balances		36,623	-	36,623	12,030	-	12,030
<b>Current liabilities</b>							
Trade and other payables	<i>a</i>	(973,754)	101	(973,653)	(1,128,547)	1,369	(1,127,178)
Lease liabilities	<i>a</i>	-	(32,567)	(32,567)	-	(32,567)	(32,567)
<b>Non-current liabilities</b>							
Trade and other payables		-	-	-	(4,800)	-	(4,800)
Lease liabilities	<i>a</i>	-	(247,799)	(247,799)	-	(221,581)	(221,581)
Provisions	<i>a</i>	(104,647)	66,371	(38,276)	(95,209)	63,445	(31,764)
Pensions liability		(8,674)	-	(8,674)	(3,987)	-	(3,987)
<b>Net Assets/(Liabilities)</b>		<b>(252,787)</b>	<b>2,712</b>	<b>(250,075)</b>	<b>(428,784)</b>	<b>3,379</b>	<b>(425,405)</b>
<b>Total Shareholder's funds</b>		<b>(252,787)</b>	<b>2,712</b>	<b>(250,075)</b>	<b>(428,784)</b>	<b>3,379</b>	<b>(425,405)</b>

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 2. Accounting policies (continued)

##### 2.2 Explanation of transition to FRS 101 (continued)

Reconciliation of profit and loss for the year ended 31 March 2020

	Note	31 March 2020		
		FRS 102	Effect of transition to FRS 101	FRS 101
		£'000	£'000	£'000
Revenue		1,948,476	-	1,948,476
Cost of Sales		(1,533,348)	-	(1,533,348)
<b>Gross profit</b>		<b>415,128</b>	<b>-</b>	<b>415,128</b>
Other operating income		22,572	-	22,572
Distribution costs	a	(457,735)	9,925	(447,810)
Administrative expenses	a, b	(98,328)	(7,036)	(105,364)
<b>Operating loss</b>		<b>(118,363)</b>	<b>2,889</b>	<b>(115,474)</b>
Income from other non-current asset investments		144	-	144
Impairment of investment in group undertakings	b	(30,850)	2,857	(27,993)
Movement in fair value of derivatives		(2,000)	0	(2,000)
Finance costs	a	(36,605)	(3,230)	(39,835)
Finance income – interest income		5	-	5
<b>Loss before taxation</b>		<b>(187,669)</b>	<b>2,516</b>	<b>(185,153)</b>
Tax	a	12,187	(1,849)	10,338
<b>Loss for the financial year</b>	<b>a</b>	<b>(175,482)</b>	<b>667</b>	<b>(174,815)</b>

Reconciliation of total comprehensive income for the year ended 31 March 2020

Note	£'000
<b>Total comprehensive income for the financial year under FRS 102</b>	(175,482)
a IFRS 16 adjustment	667
<b>Total comprehensive income for the financial year under FRS 101</b>	<b>(174,815)</b>

#### Notes to the reconciliation equity and profit or loss for 2020

- The principal adjustment arising was to recognise certain property, motor vehicle, and equipment leases (previously treated as operating leases) as a right of use asset and corresponding lease liability as required by IFRS 16. The operating lease expense has been reversed, right of use asset depreciated over the lease term and interest accrued on the lease liability. The onerous lease provision was released and the right of use asset instead tested for impairment in accordance with IAS 36.
- The goodwill was amortised under UK GAAP over a period of 10 to 20 years. Under FRS 101, goodwill was recognised at its carrying value (under UK GAAP) as at 1 April 2019. No amortisation is charged since the date of transition, instead the goodwill is tested annually for impairment. Goodwill at transition was £17.7m, however this was assessed to be fully impaired in the year to 31 March 2020.

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 2. Accounting policies (continued)

##### 2.3 Prior period adjustment

It was identified that amounts owed to group undertakings had been understated for the year ended 31 March 2020 due to inaccuracies in the records maintained relating to balances held with dormant companies. As such, current liabilities have increased and the brought forward profit and loss account within equity has increased by £23.1m.

In addition to this, a prior period balance sheet reclassification was identified in respect of amounts owed by group companies. The 2020 comparative balances for amounts owed by group companies, which were previously disclosed within current assets, have been restated to incorporate the fact that debtor is not expected to be realised within the companies normal operating cycle and has resulted in a balance sheet reclassification of £6.38m from current assets to non-current asset on the balance sheet. There was no impact to net assets or retained earnings as a result of this adjustment.

A reconciliation to amounts previously reported is provided below:

	Current Amounts owed to group undertakings	Non-current Trade and other receivables	Current Trade and other receivables
At 31 March 2020 as previously stated under FRS 102	(743,050)	-	65,057
Prior period adjustment recognised through opening retained earnings	(23,060)	-	-
Reclassification to non-current assets	-	6,381	(6,381)
	<u>(766,110)</u>	<u>6,381</u>	<u>58,676</u>
	Retained earnings		
At 31 March 2019 as previously stated under FRS 102	(378,092)		
Prior period adjustment recognised through equity	(23,060)		
	<u>(401,152)</u>		

#### 3. Significant accounting policies

##### Basis of accounting

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, certain disclosure in respect of revenue from contracts with customers, impairment of assets, certain related party transactions, and certain disclosure requirements in respect of leases.

Where relevant, equivalent disclosures have been given in the group accounts of McKesson Europe AG.

The financial statements have been prepared on the historical cost basis, except for the derivative financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 3. Significant accounting policies *(continued)*

##### **Basis of accounting** *(continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

##### **Going concern**

The directors have received confirmation from the UK parent Company, Admenta UK Limited, 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 Admenta UK Limited 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 Admenta UK Limited, 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. **Investments in subsidiaries**

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

##### **Investments in associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for at cost less, where appropriate, provisions for impairment.

##### **Revenue recognition**

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

Revenue is recognised when control of the goods is transferred to the customer, provided that the amount of revenue can be reliably measured, and it is likely that economic benefits will flow to the Company. Service revenues are recognized when services are provided to the customer. For long-term service contracts, revenue is recognised on a straight-line basis over the term of the contract. Any deductions from sales such as returned goods, rebates, discounts allowed, and bonuses are deducted from gross revenue. The variable consideration is estimated at the most likely amount.

For the sale of goods, the customer obtains control at the point in time at which the goods are delivered. The transfer of control is not tied to the transfer of legal ownership. Deliveries of goods where past experience shows that returns should be expected are not recognised in income until the deadline for the return has expired. For expected returns, a refund liability is recognized as well as a corresponding asset for the right to recover goods from customers.

The revenue generated is recorded at the time when the customer acquires control of the goods. We generally do not adjust the consideration for the effects of a significant financing component for contracts with an original expected length of one year or less. Additionally, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less and for contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

#### 3. Significant accounting policies *(continued)*

##### **Revenue recognition** *(continued)*



## Lloyds Pharmacy Limited

### Notes to the Financial Statements

If one party to the contract has satisfied its performance obligation, but the other party has not yet, then the contract is accounted for as either a contract liability or a contract asset, whereby an unconditional right to receive payment is presented separately as a trade receivable. As we usually satisfy our performance obligation to deliver goods or services first, which results in an unconditional right to receive payment, our contract balances are typically not material.

If Lloyds Pharmacy collects amounts in the interest of third parties, these do not represent revenue as they do not represent an inflow of economic benefits for the company. Only the remuneration for arranging the transaction and not the total proceeds are recognised as revenue. Lloyds Pharmacy is considered to be the principal, if the company has the ability to direct the use of the goods or services prior to transfer to a customer, is responsible for fulfilling the promise to the customer, and also bears the significant opportunities and risks associated with the sale of goods or the provision of services. Only in those cases is revenue recorded gross.

#### Leases

##### *The Company as lessee*

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivables;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

### 3. Significant accounting policies (continued)

#### Leases (continued)

## **Lloyds Pharmacy Limited**

### **Notes to the Financial Statements**

The Company did not make any such adjustments during the periods presented. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented within the property, plant and equipment line in the balance sheet.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

#### ***The Company as lessor***

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Leases where the Company transfers substantially all the risks and benefits of ownership of the assets are classified as finance leases. The present value of the lease payments are recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

#### **Foreign currencies**

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

#### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Any grant relating to income must be presented as a credit, i.e. netting off against the related expense is not permitted.

### **3. Significant accounting policies (continued)**

#### **Taxation**

## **Lloyds Pharmacy Limited**

### **Notes to the Financial Statements**

The tax expense represents the sum of the tax currently payable and deferred tax.

#### ***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

#### ***Deferred tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### ***Current tax and deferred tax for the year***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### **Property, plant and equipment**

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and any recognised impairment loss.

### **3. Significant accounting policies (continued)**

#### **Property, plant and equipment (continued)**

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

Buildings	2% per annum
Long leasehold property	2% or over the period of the lease if less than 50 years
Short leasehold property	10%– 20% per annum or over the period of the lease
Fixtures and equipment	10%-33% per annum

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **Intangible assets – Goodwill**

Goodwill represents the excess of the fair value of consideration given to acquire new business over the fair value of the separable net assets at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

#### **Impairment of property, plant and equipment, goodwill and intangible assets**

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment, goodwill and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life and goodwill are tested for impairment at least annually and whenever there is an indication at the end of the reporting period that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

### **3. Significant accounting policies (continued)**

#### **Impairment of property, plant and equipment, goodwill and intangible assets (continued)**

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

An impairment loss on goodwill is not reversed.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out (FIFO) method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### (i) Initial recognition and measurement

All financial assets are recognised initially at their fair value. The Company's financial assets include cash and cash equivalents, trade and other receivables and derivative financial instruments.

##### (ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any

discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Financial assets at fair value through profit and loss (including derivatives) are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the income statement.

The Company does not have any held-to-maturity investment financial assets.

##### (iii) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

### **3. Significant accounting policies (continued)**

#### **Financial instruments (continued)**

##### (iv) Impairment of financial assets

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, trade debtors and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company recognises lifetime expected credit losses (ECL) for trade debtors. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### Financial liabilities

##### (i) Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value.

The Company's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

##### (ii) Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

##### *Trade and other payables*

Trade and other payables are recognised initially at transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

##### *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

##### (iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

##### (iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### 3. Significant accounting policies (continued)

#### Financial instruments (continued)

##### (v) Fair value of financial instruments

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

#### *Derivative financial instruments*

The company holds a call option on the shares in Metabolic Healthcare Holdings Ltd to acquire the remaining shares in the entity (currently 73.9% held). This option has been recognised as a financial liability. Further details of derivative financial instruments are disclosed in note 16.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss

immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset due after one year or a creditor due after more than one year if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### **Cash and cash equivalents**

Cash and cash equivalents include 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.

#### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **Post-employment benefit assets and obligations**

##### *Defined benefit pension arrangements*

Post-employment benefit assets and obligations recognised in the balance sheet comprise of the fair value of plan assets less the present value of the related defined benefit obligation at that date.

Post-employment benefit obligations are determined using the actuarial projected unit credit method in accordance with IAS 19. This method involves considering the biometric parameters and the respective long-term interest rates on the capital markets as well as the latest assumptions on future salary and pension increases.

The net interest contained in the pension expense is reported under net interest income/loss. Actuarial gains and losses (revaluations) are posted directly to other comprehensive income when they arise. The revaluations recorded under other comprehensive income are not recycled through profit or loss in subsequent periods. Rather, they remain as components of other comprehensive income.

### **3. Significant accounting policies (continued)**

#### **Post-employment benefit assets and obligations (continued)**

The interest on defined benefit plans that are fully or partly funded by plan assets is calculated on the basis of the net assets or net liabilities of the plan. The same interest rate is used to calculate net interest income/loss. Past service cost

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

arises if an adjustment is made to the plan that has an impact on the benefit obligation arising from past service. Past service cost is recognised in the periods in which the adjustment is made to the plan. Consequently, there is no need to allocate past service cost to future periods. When setting the discount rate, management refers to the interest rates of corporate bonds with top ratings in the country in question.

#### *Defined contribution pension arrangements*

The assets of defined contribution plans are held separately in independently administered funds. The pension cost recognised in the profit and loss account represents the contributions payable by the Company in respect of the year.

#### **Adoption of new and revised standards**

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7 In September 2019, the IASB issued Interest Rate Benchmark Reform, (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7) Financial Instruments: Disclosures. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are not relevant to the Company given that it does not apply hedge accounting to its benchmark interest rate exposures.

In the current year, the Company has applied the below amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

<p>Amendments to References to the Conceptual Framework in IFRS Standards</p>	<p>The Company has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.</p> <p>The standard which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.</p>
<p>Amendments to IAS 1 and IAS 8 <i>Definition of material</i></p>	<p>The Company has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.</p> <p>The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.</p>

#### **4. Critical accounting judgements and key sources of estimation uncertainty**

In applying the Company's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from



## **Lloyds Pharmacy Limited**

### **Notes to the Financial Statements**

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***

##### ***Critical Accounting Judgements***

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The directors do not believe there are any critical judgements or key sources of estimation uncertainty in applying the company's accounting policies in the current year.

##### ***Key sources of estimation uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### **Impairment**

The Company investments are set out in Note 14 and 15. 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 property, plant and equipment 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 assessment of the cash flows from new business activities, on which the recoverable amount is based, is particularly reliant on management estimates of the future development of these market segments. In these cases, historical information is available to a limited extent only. Moreover, unforeseen government measures could have a negative impact on future revenue and cash flows of Retail Pharmacy. If demand for these products and services does not develop as expected, or if unexpected government measures are introduced, this could reduce income and cash flows and possibly lead to a need to record an impairment loss. These premises and the underlying calculation model can have a material impact on the respective values and ultimately on the amount of a possible goodwill impairment

The Company impairs stores for which there are indicators of impairment. The recognition of an impairment 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 right of use asset according to IAS 36 'Impairment of Assets' criteria throughout the lease period.

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### Notes to the Financial Statements

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

##### *Key sources of estimation uncertainty (continued)*

##### Pensions

The cost of defined benefit post-employment plans and the fair value of the defined benefit obligation are determined using actuarial calculations. Actuarial calculations involve making assumptions about discount rates, future wage and salary increases, the mortality rate and future pension increases. All assumptions are reviews at each reporting date. When determining the appropriate discount rate, management uses the interest rates of first-class corporate bonds in the country. Moreover, Lloyds Pharmacy conducts sensitivity analyses for the corresponding parameters and their impact on the present future obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary and pension increases are based on expected future inflation rates. The pensions assumptions are set out in note 23.

#### 5. Revenue

An analysis of the Company's revenue by class of business is set out below.

	<b>2021</b>	2020
	<b>£'000</b>	£'000
<b>Revenue:</b>		
Sale of Goods	1,320,304	1,449,577
Rendering of Services	441,266	498,899
	<u><b>1,761,570</b></u>	<u>1,948,476</u>

All turnover derives from operations within the United Kingdom.

#### 6. Other operating income

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Rental income	<b>2,769</b>	2,945
Other operating income	<b>21,619</b>	19,627
	<u><b>24,388</b></u>	<u>22,572</u>

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 7. Directors' remuneration

	2021 £'000	2020 £'000
Emoluments	1,982	2,840
Amounts receivable (other than shares and share options) under long-term incentive schemes	16	29
Company contributions to defined contribution pension schemes	147	30
Compensation for loss of office	-	242
Excess retirement benefits of directors and past directors	-	103
	<u>2,145</u>	<u>3,244</u>
	<b>Number</b>	<b>Number</b>
<b>The number of directors who:</b>		
Are members of a defined benefit pension scheme	-	-
Are members of a defined contribution pension scheme	3	3
Exercised options over shares in the parent Company in respect of qualifying services under a long term incentive plan	<u>3</u>	<u>1</u>

	2021 £'000	2020 £'000
<b>Remuneration of the highest paid director:</b>		
Emoluments	1,251	1,092
Company contributions to defined contribution pension plans	68	10
Amounts receivable (other than shares and share options) under long-term incentive schemes	16	-
	<u>1,335</u>	<u>1,102</u>

#### 8. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the Company's annual accounts were £268,000 (2020: £248,000). There were no fees for non-audit related services in either the current or previous years.

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 9. Staff costs

The average monthly number of employees (including executive directors) was:

	<b>2021</b>	2020
	<b>Number</b>	Number
Distribution staff	<b>13,762</b>	14,495
Administrative staff	<b>917</b>	952
	<b>14,679</b>	15,447

Their aggregate remuneration comprised:

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Wages and salaries	<b>273,326</b>	286,841
Social security costs	<b>21,538</b>	22,211
Other pension costs (see note 22)	<b>6,412</b>	6,279
	<b>301,276</b>	315,331

Disclosure of directors' remuneration is included in note 7.

#### 10. Loss for the year

Loss for the year has been arrived at after charging/(crediting):

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Net foreign exchange losses/(gains)	<b>71</b>	28
Depreciation of property, plant and equipment (note 13)	<b>17,388</b>	19,824
Impairment of property, plant and equipment (note 13)	<b>7,841</b>	1,287
(Gain)/loss on disposal of property, plant and equipment (note 13)	<b>(292)</b>	343
Depreciation of right-of-use assets (note 13)	<b>27,172</b>	30,039
Impairment of right-of-use assets (note 13)	<b>3,377</b>	144
Reversal of impairment of property, plant and equipment (note 13)	<b>-</b>	(3,142)
Cost of inventories recognised as expense (note 19)	<b>1,345,035</b>	1,533,348
Write downs of inventories recognised as an expense (note 19)	<b>3,887</b>	648
Staff costs (note 19)	<b>301,276</b>	315,331
Loss allowance on trade receivables (note 18)	<b>2,133</b>	2,756
Impairment of goodwill	<b>-</b>	17,739

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 11. Finance costs

	2021 £'000	2020 £'000
Interest payable to group companies	25,257	36,228
Interest on lease liabilities	5,750	3,230
Pension interest payable	-	377
	<u>31,007</u>	<u>39,835</u>

#### 12. Tax

	2021 £'000	2020 £'000
Corporation tax:		
UK corporation tax	(6,734)	(21,053)
Adjustments in respect of prior years:		
- UK corporation tax	2,780	8,214
	<u>(3,954)</u>	<u>(12,839)</u>
Deferred tax: (note 17)		
Origination and reversal of temporary differences	3,417	5,115
Adjustments in respect of prior years	(263)	(2,614)
	<u>3,154</u>	<u>2,501</u>
	<u>(800)</u>	<u>(10,338)</u>

The standard rate of corporation tax applied to reported profit is 19 per cent (2020: 19 per cent).

The March 2020 Budget announced that a rate of 19% would apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The March 2021 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2022 and a rate of 25% would apply from 1 April 2023 for companies with profits over £250,000. Businesses with profits of £50,000 or less will continue to be taxed at 19%. A tapered rate will also be introduced for profits above £50,000 so that only businesses with £250,000 or greater will be taxed at the full 25%. These rates are due to be introduced in the Finance Bill 2021. This will increase the company's future current tax charge accordingly.

An increase in the main UK corporation tax rate from 19% to 25%, applicable from 1 April 2023, was enacted on 10 June 2021 in Finance Act 2021. As substantial enactment did not take place on or before the balance sheet date, the deferred taxes in these financial statements have been calculated at 19%

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 12. Tax (continued)

The charge for the year can be reconciled to the profit before tax as follows:

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Profit before tax	<b>(101,560)</b>	(185,153)
Tax at the UK corporation tax rate of 19 per cent (2020: 19 per cent)	<b>19,296</b>	35,179
Adjustments of tax charge in respect of prior periods	<b>(2,516)</b>	(5,602)
Tax effect of expenses that are not deductible in determining taxable profit	<b>(7,304)</b>	(12,256)
Other permanent differences	<b>274</b>	206
Group relief for no payment	<b>(8,950)</b>	(7,189)
Tax expense for the year	<b>800</b>	10,338

In addition to the amount charged to profit or loss, the following amounts relating to tax have been recognised in other comprehensive income:

	<b>2021</b>	2020
	<b>£'000</b>	£'000
<b>Deferred tax:</b>		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Taxation in relation to the revaluation of the DB Pension Scheme	<b>(2,463)</b>	121
Total income tax recognised in other comprehensive income	<b>(2,463)</b>	121

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 13. Property, plant and equipment

	Freehold Property £'000	Long Leasehold property £'000	Short leasehold property £'000	Fixtures and fittings £'000	Right-of-use assets			Total £'000
					Buildings £'000	Vehicles £'000	Equip ment £'000	
<b>Cost or valuation</b>								
At 1 April 2020	19,388	2,124	38,153	324,539	227,782	5,451	818	618,255
Additions	-	680	5,902	18,691	336	-	-	25,609
Disposals	(69)	(680)	(203)	(7,196)	-	-	-	(8,148)
Transfers	2,192	-	-	(2,217)	-	-	-	(25)
Reclassified as held-for-sale	-	-	(1,331)	(3,581)	(9,488)	-	-	(14,400)
At 31 March 2021	<b>21,511</b>	<b>2,124</b>	<b>42,521</b>	<b>330,236</b>	<b>218,630</b>	<b>5,451</b>	<b>818</b>	<b>621,291</b>
<b>Accumulated depreciation and impairment</b>								
At 1 April 2020	3,928	944	28,383	256,939	28,055	2,096	273	320,618
Charge for the year	144	289	2,077	14,878	25,017	1,883	272	44,560
Impairment loss	284	495	673	6,389	3,377	-	-	11,218
Eliminated on disposal	-	(185)	(202)	(5,679)	-	-	-	(6,066)
Transfers	-	-	-	-	-	-	-	-
Reclassified as held-for-sale	-	-	(777)	(3,030)	-	-	-	(3,807)
At 31 March 2021	<b>4,356</b>	<b>1,543</b>	<b>30,154</b>	<b>269,497</b>	<b>56,449</b>	<b>3,979</b>	<b>545</b>	<b>366,523</b>
<b>Carrying amount</b>								
At 31 March 2021	<b>17,155</b>	<b>581</b>	<b>12,367</b>	<b>60,739</b>	<b>162,181</b>	<b>1,472</b>	<b>273</b>	<b>254,768</b>
At 31 March 2020	15,460	1,180	9,770	67,600	199,727	3,355	545	297,637

#### Impairment losses recognised in the year

There was an impairment charge in the year of £16,998,000 (2020: £1,287,000) 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 £nil (2020: £3,142,000) in respect of an increase in the residual value of the assets.

#### Right-of-use assets

Lloyd Pharmacy Limited's leasing activities mainly relate to its pharmacies. The Company leases several assets including buildings, vehicle and equipment. The average lease term is 7 years (2020: 8 years)

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 13. Property, plant and equipment *(continued)*

##### Incremental borrowing rate

The weighted average lessees incremental borrowing rate (IBR) applied to lease liabilities recognised in the balance sheet on 1 April 2019 is shown below:

Lease term in months	IBR %	Lease term in months	IBR %	Lease term in months	IBR %
1	1.60	60	2.32	300	3.04
3	1.60	84	2.42	360	3.21
6	1.60	96	2.47	420	3.32
12	1.60	108	2.51	480	3.43
24	1.99	120	2.55	540	3.41
36	2.12	180	2.72	600	3.39
48	2.25	240	2.87	1200	3.39

<b>Amounts recognised in profit and loss</b>	<b>2021</b>	2020
	<b>£'000</b>	£'000
Depreciation expense on right-of-use assets	<b>27,172</b>	30,039
Interest expense on lease liabilities	<b>5,750</b>	3,230
Impairment expense on right-of-use assets	<b>3,377</b>	144
Expense relating to short-term leases	<b>2,919</b>	5,452
Income from sub-leasing right-of-use assets	<b>(2,769)</b>	(2,945)

In the year, the Company incurred expenses of £2,919,000 (2020: £5,452,000) for short-term leases.

In the year, total cash outflows in relation to leases was £31,858,212 (2020: £37,564,252).



## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 14. Investments in subsidiaries

	<b>£'000</b>
<b>Cost</b>	
At 1 April 2020	98,772
Additions	730
<b>At 31 March 2021</b>	<b>99,502</b>
<b>Provisions for impairment</b>	
At 1 April 2020	40,915
Impairment charge	22,913
<b>At 31 March 2021</b>	<b>63,828</b>
<b>Carrying amount</b>	
<b>At 31 March 2021</b>	<b>35,674</b>
At 31 March 2020	57,857

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

<b>Subsidiary undertaking</b>	<b>Nature of business</b>	<b>Class of capital</b>	<b>% held</b>
28 CVR Limited (liquidated 5 <sup>th</sup> May 2021)	Holding company	£0.10 Ordinary and A Ordinary shares	100
30 MC Limited* (liquidated 4 <sup>th</sup> May 2021)	Dormant	£1 Ordinary shares	100
AHLP Pharmacy Limited	Dormant	£1 A Ordinary shares	75
BetterlifeHealthcare Limited (liquidated 5 <sup>th</sup> May 2021)	Dormant	£1 Ordinary shares	100
Baillieston Health Centre Pharmacy Limited	Health centre	£1 Ordinary A shares and £1 Ordinary B shares	100
Escon (St Neots) Limited (liquidated 4 <sup>th</sup> May 2021)	Dormant	£1 Ordinary shares	100
Expert Health Limited*	Online health	£1 Ordinary shares	100
Lloyds Pharmacy Clinical Homecare Limited	Healthcare services	£1 Ordinary shares	100
Optimed Health Limited	Consulting	£1 Ordinary Shares	100
Metabolic Healthcare Holding Limited	Holding	£1 Ordinary Shares	74
Metabolic Healthcare Ltd*	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 directors consider the aggregate value of the company's shares in its subsidiaries 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

#### 15. Investments in Associates

	<b>£'000</b>
<b>Cost and net book value</b>	
At 1 April 2020	327
Impairment	(327)
	<hr/>
<b>At 31 March 2021</b>	<hr/> <hr/> <b>-</b>

The company has investments in the following associates. The investment in MyMHealth Limited was fully impaired in the prior year. The Company's investment in Company Chemists Association Limited was impaired to £nil in the current year as it's carrying value was assessed to be irrecoverable.

<b>Associate</b>	<b>Nature of business</b>	<b>Class of capital</b>	<b>% held</b>
Company Chemists Association Limited	Retail pharmacy	£1 Ordinary shares	27
MyMHealth Limited	Online healthcare	£0.001 Ordinary Shares	8

The registered address of the associates are as follows:

<b>Name</b>	<b>Registered office</b>
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

#### 16. Derivative financial instruments

	<b>2021</b>	2020
	<b>£'000</b>	£'000
<b>Financial liabilities carried at fair value through profit or loss (FVTPL):</b>		
Held for trading derivatives that are not designated in hedge accounting relationships:		
<i>Call option</i>	<b>2,445</b>	4,800
	<hr/>	<hr/>
	<b>2,445</b>	4,800
	<hr/> <hr/>	<hr/> <hr/>

The derivative held consists of an option to acquire the remaining percentage of shares of Metabolic Healthcare Holdings Ltd, which was purchased on June 19 2019. The derivative is expiring on June 19 2021 and therefore is appropriate to be presented as a current liability. The derivative was valued by calculating the redemption value as if it were redeemable on the balance sheet date.

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 17. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Accelerated tax depreciation	<b>16,765</b>	17,786
Short term timing difference	<b>(2,132)</b>	853
Deferred gains in excess of capital losses	<b>(6,160)</b>	(5,512)
Unused tax losses	-	963
	<u><b>8,473</b></u>	<u>14,090</u>

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Deferred tax liabilities	<b>(8,292)</b>	(5,512)
Deferred tax assets	<b>16,765</b>	19,602
	<u><b>8,473</b></u>	<u>14,090</u>

At the reporting date, the Company has unused tax losses of £8,757,818 (2020: £8,757,818) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil (2020: £963) of such losses.

	<b>2021</b>	2020
	<b>£'000</b>	£'000
At the beginning of the year	<b>14,090</b>	16,470
Deferred tax movement in income statement	<b>(3,154)</b>	(2,501)
Deferred tax movement in statement of other comprehensive income	<b>(2,463)</b>	121
	<u><b>8,473</b></u>	<u>14,090</u>

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 18. Trade and other receivables

	2021 £'000	2020 (Restated) £'000
<b>Non-current</b>		
Amounts owed by subsidiaries	8,381	6,381
	<u>8,381</u>	<u>6,381</u>
<b>Current</b>		
Trade debtors	225,922	284,798
Amounts owed by immediate parent	-	165
Amounts owed by subsidiaries	27,479	58,432
Amounts owed by other group companies	25,216	79
Prepayments and accrued income	2,127	7,624
Corporation tax group relief payable	23,806	47,041
Other debtors	42,751	54,477
	<u>347,301</u>	<u>452,616</u>
<b>Total trade and other receivables</b>	<u><u>355,682</u></u>	<u><u>458,997</u></u>

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

During 2021, a prior period balance sheet reclassification was identified in respect of amounts owed by group companies. The 2020 comparative balances for amounts owed by group companies, which were previously disclosed within current assets, have been restated to incorporate the fact that debtor is not expected to be realised within the companies normal operating cycle and has resulted in a balance sheet reclassification of £6.38m from current assets to non-current asset on the balance Sheet.

As at 31 March 2021, trade receivables of £3.98m (2020: £2.56m) were impaired and fully provided. The table below presents the movement expected credit losses for trade receivables in the year.

	2021 £'000	2020 £'000
Allowances brought forward	2,564	153
Additions	2,231	2,831
Utilisations	(814)	(420)
Reversals	-	-
	<u>3,981</u>	<u>2,564</u>

#### 19. Inventories

	2021 £'000	2020 £'000
Finished goods and goods for resale	135,862	155,534
	<u>135,862</u>	<u>155,534</u>

During the year, inventories were written down by £3,887,000 (2020: £648,000)

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 20. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	77,340	118,665
Other current liabilities	328	64
Other taxes and social security	6,153	8,138
Accruals and deferred income	149,968	110,942
	<u>233,789</u>	<u>237,809</u>

#### 21. Borrowings and lease liabilities

##### (a) Analysis of borrowings and lease liabilities

	2021 £'000	2020 (Restated) £'000
<b>Amount due for settlement:</b>		
Between one and five years	104,626	132,679
After five years	82,015	88,902
	<u>186,641</u>	<u>221,581</u>
On demand or within one year	911,400	921,936
	<u>1,098,041</u>	<u>1,143,517</u>

##### (b) Analysis of borrowings

	2021 £'000	2020 (Restated) £'000
<b>Unsecured borrowing</b>		
Amounts owed to other group companies	187,676	2,566
Amounts owed to subsidiaries	1,347	185,161
Amounts owed to immediate parent	551,715	578,383
	<u>740,738</u>	<u>766,110</u>
Total amounts owed to related parties	740,738	766,110
<b>Secured borrowing</b>		
Bank overdrafts	159,446	146,319
	<u>159,446</u>	<u>146,319</u>
<b>Total borrowings</b>	<u>900,184</u>	<u>912,429</u>

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 21. Borrowings and lease liabilities (continued)

##### (b) Analysis of borrowings (continued)

	2021 £'000	2020 £'000
<b>Amount due for settlement:</b>		
On demand or within one year		
Bank Loans and overdrafts	159,446	146,319
Amounts owed to related parties	740,738	766,110
	<u>900,184</u>	<u>912,429</u>

The other principal features of the Company's borrowings are as follows:

- (i) The balances due to fellow subsidiaries, subsidiaries and other group companies are unsecured, repayable on demand and interest free.
- (ii) Amounts owed under the overdraft are secured on the cash assets of all McKesson Europe AG participants bearing interest at 0.715% (2020: 0.725%) and is repayable on demand. Interest is only payable where the overall group position of Mckesson Europe AG is in an overdraft position. At 31<sup>st</sup> March 2021 the overall group position was not overdrawn and therefore interest was not being incurred.
- (iii) Amounts owed to the immediate parent are interest bearing and repayable on demand at 2.69% (2020: 3.24%).

##### (c) Analysis of lease liabilities

	2021 £'000	2020 £'000
<b>Amount due for settlement:</b>		
Between one and five years	104,626	132,679
After five years	82,015	88,902
	<u>186,641</u>	<u>221,581</u>
On demand or within one year	33,664	32,567
	<u>220,305</u>	<u>254,148</u>

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 22. Provisions

	2021 £'000	2020 £'000
Property Provision	26,831	26,235
Restructuring provision	4,843	5,229
Other	247	300
	<u>31,921</u>	<u>31,764</u>
Current	8,644	-
Non-current	23,277	31,764
	<u>31,921</u>	<u>31,764</u>

	Property Provision £'000	Restructuring provision £'000	Other £'000	Total £'000
At 1 April 2020	26,235	5,229	300	31,764
Additional provision in the year	3,731	4,700	-	8,431
Utilisation of provision	(864)	(4,993)	-	(5,857)
Unwinding of discount	-	-	-	-
Adjustment for change in discount rate	(837)	-	-	(837)
Release of provision	(639)	(888)	-	(1,527)
Other adjustments	(795)	795	(53)	(53)
<b>At 31 March 2021</b>	<u><b>26,831</b></u>	<u><b>4,843</b></u>	<u><b>247</b></u>	<u><b>31,921</b></u>

The property provisions represent an assessment of the costs to cover (a) rent increases accrued following rent reviews, (b) 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 the balance is expected to be utilised within the next 5 years.

# Lloyds Pharmacy Limited

## Notes to the Financial Statements

### 23. Retirement benefit schemes

#### Defined contribution schemes

The Company operates defined contribution retirement benefit schemes for its employees. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The total cost charged to profit or loss of £6,412,000(2020: £6,279,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. As at 31 March 2021, contributions of £ nil (2020: £476,000) due in respect of the current reporting period had not been paid over to the schemes and are included in other payables.

#### Defined benefit schemes

The Company participates in a group defined benefit scheme for qualifying employees 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, with the rates of contribution payable being determined by the actuary.

The defined benefit disclosures in these financial statements relate to the Company's share of the scheme's assets and liabilities the remaining assets and liabilities of the scheme are disclosed in the Lloyds Pharmacy Limited financial statements. Through this scheme the Company is exposed to a number of risks, the most significant of which are as follows:

#### *Asset volatility*

The Scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if Scheme assets underperform this yield, this will create a deficit. The UK plans hold a significant proportion of assets in return seeking assets such as equities, property and diversified growth funds, which are expected to outperform bonds in the long-term while providing more volatility and risk in the short-term.

As the Scheme matures, the Company intends to reduce the level of investment risk by investing more in assets that better match the liabilities. The Scheme has gradually increased its credit and bond holdings over time to the current level of 60%. The Company believes that due to the long term nature of the Scheme liabilities and the strength of the supporting Company a level of continuing investment in return seeking assets is appropriate.

#### *Changes in bond yields*

A decrease in corporate bond yields will increase Scheme liabilities, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

#### *Inflation risk*

The majority of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, restrictions on the level of inflationary increases are in place to protect the Scheme against extreme inflation). The majority of the Scheme's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

#### *Life expectancy:*

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Scheme's liabilities.



## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 23. Retirement benefit schemes (continued)

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 31<sup>st</sup> March 2020 and is updated to each accounting year end by a qualified independent actuary.

The company contributions during the year amounted to £2,700,000 (2020: £5,700,000) in respect of reducing the scheme's funding deficit based on a funding agreement between Admenta UK Limited and the Trustees. A contribution of £2,700,000 (2020: £5,700,000) was made during the year ended 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:

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Present value of defined benefit obligations	<b>(116,773)</b>	(111,006)
Fair value of plan assets	<b>127,533</b>	107,019
	<b>10,760</b>	(3,987)

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

	<b>2021</b>	2020
	<b>£'000</b>	£'000
At 1 April	<b>111,006</b>	123,029
Past Service cost	<b>34</b>	-
Interest expense	<b>2,493</b>	2,823
Benefits paid	<b>(5,585)</b>	(5,810)
Remeasurements: Actuarial gains and losses	<b>8,825</b>	(9,036)
<b>At 31 March</b>	<b>116,773</b>	111,006

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

	<b>2021</b>	2020
	<b>£'000</b>	£'000
At 1 April	<b>107,019</b>	114,355
Interest income	<b>2,519</b>	2,446
Benefits paid	<b>(5,585)</b>	(5,810)
Contributions by plan participants	<b>2,701</b>	5,700
Remeasurements: Actuarial gains and losses	<b>20,879</b>	(9,672)
	<b>127,533</b>	107,019

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 23. Retirement benefit schemes (continued)

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

	2021 £'000	2020 £'000
Recognised in profit or loss		
Past Service cost	34	-
Net interest (credit)/expense	(26)	377
	<u>8</u>	<u>377</u>
Recognised in other comprehensive income		
Actuarial (gains) and losses	(11,282)	636
	<u>(11,282)</u>	<u>636</u>

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

	2021 £'000	2020 £'000
Equity instruments	37,961	29,668
Debt instruments	87,287	71,987
Other	2,285	5,364
	<u>127,533</u>	<u>107,019</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:

	2021 £'000	2020 £'000
Return on assets of benefit plan	23,398	(7,227)
	<u>23,398</u>	<u>(7,227)</u>

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

	2021 %	2020 %
Discount rate	2.00	2.30
Expected rate of salary increase	3.60	3.10
Expected rate of increase in pensions	3.10	2.70
Inflation assumption	3.20	2.70
Assumed life expectancies on retirement		
Current pensioners at 65 – male	86.90	86.70
Current pensioners at 65 – female	89.00	86.70
Future pensioners at 65 – male	88.30	88.10
Future pensioners at 65 – female	90.40	90.30
	<u>86.90</u>	<u>86.70</u>

## Lloyds Pharmacy Limited

### Notes to the Financial Statements

#### 23. Retirement benefit schemes (continued)

##### Sensitivity

If the discount rate increases by 0.5%, the defined benefit obligation at 31 March 2021 will decrease by approximately £7.0m to £109.7m. If the discount rate decreases by 0.5%, the defined benefit obligation at 31 March 2021 will increase by approximately £8.1m to £124.9m.

If the expected rate of increase in pensions increases by 0.5%, the defined benefit obligation at 31 March 2021 will increase by approximately £3.8m to £120.6m. If the expected rate of increase in pensions decreased by 0.5%, the defined benefit obligation at 31 March 2021 will decrease by approximately £3.3m to £113.4m.

If the expected rate of salary increase increases by 0.5%, the defined benefit obligation at 31 March 2021 will increase by approximately £0.1m to £116.9m. If the expected rate of salary increases/decreases by 0.5%, the defined benefit obligation at 31 March 2021 will decrease by approximately £0.2m to £116.6m.

If assumed life expectancies on retirement of pensioners increased by 10%, the defined benefit obligation at 31 March 2021 will decrease by approximately £112.9m. If assumed life expectancies on retirement of pensioners decreased by 10%, the defined benefit obligation at 31 March 2021 will increase by approximately £121.2m.

#### 24. Share capital and reserves

	2021 £'000	2020 £'000
<b>Authorised:</b>		
125,242,450 ordinary shares of £1 each	<u>125,242</u>	<u>125,242</u>
<b>Issued and fully paid:</b>		
125,242,450 ordinary shares of £1 each	<u>125,242</u>	<u>125,242</u>

The Company has one class of ordinary shares which carry no right to fixed income.

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.

#### 25. Events after the balance sheet date

The challenges of the COVID-19 pandemic continue to impact the business, although the directors believe that the long-term impact is not yet clear.

In November 2021, McKesson Corporation announced an agreement to sell its UK businesses to AURELIUS. The transaction is expected to close in the financial year ending 31 March 2022, subject to closing conditions, including receipt of required regulatory approvals.

#### 26. Related party transactions

Lloyds Pharmacy Limited have chosen to exercise the exemption under FRS 101.8(k) to exempt themselves from disclosing related party transactions with wholly owned group companies.

## **Lloyds Pharmacy Limited**

### **Notes to the Financial Statements**

#### **27. Controlling party**

The immediate parent undertaking is Admenta Holdings Limited a company registered in England and Wales.

The ultimate parent undertaking and controlling party of the Company is McKesson Corporation, a company registered in the United States of 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, USA.

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.