

AAH Pharmaceuticals Limited

Annual report and financial statements for the year ended 31 March 2017

Registered number: 00123458



AAH Pharmaceuticals Limited

Annual report and financial statements for the year ended 31 March 2017

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AAH Pharmaceuticals Limited

Strategic report for the year ended 31 March 2017

The directors present their strategic report for the year ended 31 March 2017.

Principal activities

AAH Pharmaceuticals Limited is one of the leading distributors of pharmaceutical and healthcare products and services in the UK. The company works in partnership with manufacturers to supply pharmacies, hospitals and dispensing doctors.

Review of business and future developments

The directors monitor the progress of the company and the implementation of its strategy by reference to key performance indicators. The indicators employed include revenue, gross profit and operating margin. These are discussed in more detail below.

The pharmaceutical wholesale market remained highly competitive during the year. Constraints in government expenditure manifested themselves in reduced pharmacy remuneration leading to pressure from customers to offset the effects through price reductions. The major pharmaceutical manufacturers also continue to exert pressure via competition for the rights to distribute their products through reduced wholesale and direct to pharmacy arrangements. However, we view these as normal pressures for a wholesale business and therefore continue to strive to minimise and offset them.

During the year the UK voted via referendum to exit the European Union and towards the end of the year the exit process was triggered by the UK government serving notice under Article 50 of the Treaty on European Union. The directors continue to monitor and plan for effects which will arise as a result of this decision. So far the most significant effect seen is the weakening of sterling against other currencies, including the Euro, and this has caused a decline in the profits arising from parallel trade import products.

Revenues were relatively flat for the year increasing by 1.3%. There were no special factors underlying this change and the reported growth is broadly consistent with growth seen in the wider pharmaceutical market.

The gross profit margin declined from 8.45% to 7.92% and this reflects ongoing competitive pressures in the market and also a further contribution from the loss of some parallel import profits following the Brexit referendum vote as a result of sterling weakness. Operating margins similarly declined, from 4.23% to 3.61% and this decrease is mainly attributable to the reduction in gross profit already noted.

During April 2016 the company acquired the share capital in the Sangers (NI) Limited and Masta Limited businesses as part of the wider acquisition in the group of various companies previously owned by UDG Healthcare plc. Sangers (NI) Limited is the largest pharmaceutical wholesaler in Northern Ireland and the acquisition allowed us to secure our position as the key player in the Northern Irish market. Masta Limited is primarily a vaccines business which operates through its own clinics, third party pharmacies and other sites and also performs some wholesale activity. Due to overlaps and potential competition concerns the businesses acquired were subject to a detailed review by the Competition and Markets Authority which ultimately concluded that all significant competition concerns were adequately dealt with or compensated in the market. However the CMA inquiry meant that the business had to be held separate until August 2016 and integration activities have only commenced subsequent to that date. It remains the case that the directors will consider suitable opportunities to acquire businesses where they fit with the objectives of the group and can be acquired at an attractive price.

The directors remain confident that AAH Pharmaceuticals Limited is well placed to deal with any upcoming changes in the market.

AAH Pharmaceuticals Limited

Strategic report for the year ended 31 March 2017 *(continued)*

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are 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.

Competition

AAH Pharmaceuticals Limited operates in a market which is highly competitive, particularly around price and product availability. There is, as a result, downward pressure on margins with the additional risk that the company will not meet the expectations of customers. To mitigate this risk, the company periodically undertakes market research to understand customer and supplier expectations and identify whether their needs are being met. The sales and commercial teams also monitor market prices on a daily basis.

Supply chain

The provision of a process driven quality service to customers and suppliers is dependent on the availability of a number of key systems, including warehouse management, supply chain support and customer ordering. The company has a policy of continually investing in these systems to ensure it retains its leading position amongst pharmaceutical wholesalers. The systems are monitored and assessed on a regular basis, using a variety of diagnostic tools such as benchmarking.

People

The company recognises that the success of AAH Pharmaceuticals Limited is built upon the consistency, and effectiveness of the service that is offered to customers. It is understood that the culture of the business is ensuring service to customers continues to be core focus of our activities.

Good service can only be delivered by the very best people and there is a continuing focus within the company on the recruitment, training, development and performance of all members of staff. The Board of Directors devote significant time to ensuring the programmes, processes, systems and behaviours continually support and develop the culture of the business to meet the needs of a continually changing environment.


H M Lipp
Director

13 December 2017

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 March 2017

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

Results

The results for the financial year are presented in the income statement on page 9.

Dividends

The directors do not recommend a final dividend (2016: £nil). An interim dividend of £80,000,000 (£1.60 per share) was paid during the year (2016: £nil).

Political and charitable contributions

There were charitable contributions made during the year totalling £nil (2016: £nil charitable donations).

Future developments

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

Directors

The directors of the company who were in office during the period and up to the date of signing the financial statements were:

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

In accordance with the Articles of Association, none of the directors are required to retire from the board.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial period and is currently in force. The Company also purchased and maintained throughout the financial period Directors' and Officers' liability insurance in respect of itself and its Directors.

Employment policies

The directors pursue a policy of promoting equality of opportunity to all employees and of fostering and developing their involvement and interest in the company. Both formal and informal systems of communication are used and managers have a specific responsibility to communicate effectively with the employees. Copies of the Celesio group annual report and news releases are distributed to employees. These seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company performance.

Training and development are regarded as fundamental requirements and key to the retention of staff. Appropriate programmes exist at warehouse and head office level.

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 March 2017 *(continued)*

Employment policies *(continued)*

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.

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

Financial risk management

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

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 Celesio in the UK ('the UK group'). This central function operates within a framework of clearly defined policies and procedures. The function reports to the board on a regular basis.

The policies approved by the board of directors are implemented by the company's finance department and the central treasury function. The policies, 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: the company 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 projections which are compiled on a periodic basis across the group. The UK group operates a cash pooling arrangement in which the company participates. Under this arrangement, cash funds which are in excess of day to day requirements are loaned to other UK group companies.

Foreign currency and interest rate risk: the company uses instruments to manage its foreign currency risks, including forward currency contracts. The company also has both interest bearing assets and liabilities, these being managed within the UK group, including interest rate hedging contracts.

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 March 2017 *(continued)*

Creditor payment policy

The policy of the company regarding the payment of trade creditors is determined internally. The policy is to:

- a. agree the terms of payment with creditors at the outset of any supply chain partnership and in advance of any provision of goods and services; and
- b. pay in accordance with the agreed terms and any other contractual or legal obligations.

The payment policy applies to all creditors for the supply of revenue and capital goods and services.

Employee involvement

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

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

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

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 March 2017 *(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 true and fair view of the state of the affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

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

Statement of disclosure of information to auditor

Each person who is a director at the date of approval of this report confirms the following: so far as each director is aware (a) there is no relevant audit information - that is information needed by the company's auditor in connection with preparing their report - of which the company's auditor is unaware and (b) the director has taken all the steps necessary as a director in order to make himself 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 section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

By order of the Board



H M Llop
Director

13 December 2017

AAH Pharmaceuticals Limited
Registered number: 00123458

AAH Pharmaceuticals Limited

Independent auditor's report to the members of AAH Pharmaceuticals Limited

We have audited the financial statements of AAH Pharmaceuticals Limited for the year ended 31 March 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other 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.

AAH Pharmaceuticals Limited

Independent auditor's report to the members of AAH Pharmaceuticals Limited *(continued)*

Matters on which we are required to report by exception

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

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

R. Duffy

Ryan Duffy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom,

13 December 2017

AAH Pharmaceuticals Limited

Income Statement for the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Revenue	3	3,288,490	3,246,554
Cost of sales		(3,027,921)	(2,972,354)
Gross Profit		260,569	274,200
Other income	6	21,062	21,910
Distribution costs and administrative expenses	7	(162,986)	(158,626)
Operating profit		118,645	137,484
Finance costs	8	(268)	(101)
Finance income	8	16,672	19,366
Profit before income tax	9	135,049	156,749
Income tax expense	10	(26,168)	(31,692)
Profit for the financial year attributable to the equity holder of the parent		108,881	125,057

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

AAH Pharmaceuticals Limited

Statement of Comprehensive Income for the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Profit for the year		108,881	125,057
Other comprehensive income - items that will not be reclassified to profit or loss			
Actuarial (loss)/gain on post employment benefit obligations	24	(4,731)	5,001
Deferred tax credit/(charge) on actuarial gains/losses	10	804	(1,000)
Other comprehensive (loss)/income for the year net of tax		(3,927)	4,001
Total comprehensive income for the year attributable to the equity holders of the parent		104,954	129,058

AAH Pharmaceuticals Limited

Balance sheet as at 31 March 2017

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	13	29,740	26,428
Investments	14	67,616	-
Finance lease	17	-	915
Other financial assets	15	4,662	9,134
Deferred income tax asset	10	1,300	426
		<u>103,318</u>	<u>36,903</u>
Current Assets			
Inventories	16	229,034	191,451
Trade and other receivables	17	662,394	511,607
Derivative financial instruments	18	41	145
Other financial assets	15	1,174	3,104
Cash and cash equivalents	19	2,765	205,608
		<u>895,408</u>	<u>911,915</u>
Total assets		<u>998,726</u>	<u>948,818</u>
Current liabilities			
Trade and other payables	20	548,758	552,648
Income tax liability		22,090	35,487
Other financial liabilities	21	8,832	-
Provisions	22	-	1,297
Derivative financial instruments	18	153	28
Other current liabilities	23	21,186	17,375
		<u>601,019</u>	<u>606,835</u>
Net current assets		<u>294,389</u>	<u>305,080</u>
Non-current liabilities			
Provisions	22	1,604	2,458
		<u>1,604</u>	<u>2,458</u>
Total liabilities		<u>602,623</u>	<u>609,293</u>
Net Assets		<u>396,103</u>	<u>339,525</u>
Equity			
Issued capital	25	50,000	50,000
Capital contribution reserve	26	31,624	-
Retained earnings		314,479	289,525
Total equity		<u>396,103</u>	<u>339,525</u>

The financial statements of AAH Pharmaceuticals Limited (registered number 00123458) were approved by the board of directors and authorised for issue on 13 December 2017. They were signed on its behalf by:



H M LLP
Finance Director

AAH Pharmaceuticals Limited

Statement of Changes in Equity for the year ended 31 March 2017

	Issued capital	Capital contribution	Retained Earnings	Total
	£'000	£'000	£'000	£'000
Balance as at 1 April 2015	50,000	-	160,467	210,467
Other comprehensive income	-	-	4,001	4,001
Profit for the year	-	-	125,057	125,057
Total comprehensive income for the year	-	-	129,058	129,058
Balance as at 31 March 2016	50,000	-	289,525	339,525
Other comprehensive loss	-	-	(3,927)	(3,927)
Profit for the year	-	-	108,881	108,881
Total comprehensive income for the year	-	-	104,954	104,954
Dividends paid (note 12)	-	-	(80,000)	(80,000)
Capital contribution reserve (note 26)	-	31,624	-	31,624
Balance as at 31 March 2017	50,000	31,624	314,479	396,103

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017

1 General information

AAH Pharmaceuticals Limited is a private company limited by shares and is domiciled in the UK and registered in England and Wales (registered number: 00123458). The registered office address 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 on pages 1 to 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest thousand. The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.

2 Summary of significant accounting policies

Basis of preparation

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 share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

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

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

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

The financial statements have been prepared on the historical cost basis as modified by financial instruments recognised at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

2 Summary of significant accounting policies *(continued)*

Consolidated financial statements

The financial statements contain information about AAH Pharmaceuticals Limited as an individual company, rather than consolidated information as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as its results and the results of its subsidiaries are included by full consolidation in the financial statements of its ultimate parent, McKesson Corporation, a company incorporated in the United States of America.

Set out below is a summary of the principal accounting policies, which have been applied consistently except where stated.

Going concern

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

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Revenue

Revenue originates from the sale of merchandise and from the provision of services. Revenue and other operating income are recognised when the goods or services are delivered provided that the amount can be reliably measured and it is likely that economic benefits will flow to the Company. Any deductions from sales such as returned goods, rebates, discounts allowed and bonuses are deducted from gross revenue. Revenue excludes Value Added Tax.

The Company operates under agency contracts with certain suppliers where the Company collects amounts on behalf of third parties; these do not represent revenue as they do not represent an inflow of economic benefits for the Company. Only the agency fee and not the total proceeds are recognised as revenue of the entity. The Company is only regarded as the principal of such agency transactions if it bears the significant risks and rewards associated with the sale of the goods or the rendering of the services. In that case, the gross amount of merchandise delivered is recognised as revenue.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date.

Current income tax relating to items recognised directly in equity and other comprehensive income is also recognised in equity and other comprehensive income and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

2 Summary of significant accounting policies *(continued)*

Taxes *(continued)*

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. This is unless the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside the income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Property, plant and equipment

Property, plant and equipment are carried at amortised cost, net of accumulated depreciation and/or accumulated impairment losses, if any. All repair and maintenance costs are recognised in the income statement as incurred.

With the exception of land, items of property, plant and equipment are depreciated on a straight-line basis over their useful lives. The following rates have been applied to the various asset categories:

Freehold buildings	2% straight line
Short leasehold land and buildings	2% straight line or over the period of the lease
Fixtures, fittings, plant and equipment	5% - 33.3% straight line
Motor vehicles	25% - 33.3% straight line

Impairment losses are recorded on items of property, plant and equipment when the carrying amount of the asset exceeds the recoverable amount. These are reversed as soon as the reasons for the impairment no longer exist.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

2 Summary of significant accounting policies *(continued)*

Investments

Shares in group companies are shown at historic cost less any necessary write down for impairment.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, in particular whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement as incurred.

Company as a 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.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on weighted average purchase price basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Where necessary, allowance is made for obsolete, slow moving and defective inventory.

Inventories held under agency agreements do not represent assets for which the Company has all the risks and rewards. Therefore this inventory is not recognised in the Company's financial statements.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

2 Summary of significant accounting policies *(continued)*

Financial assets

(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 has not designated any financial assets upon initial recognition as fair value through profit or loss.

Available for sale financial investments include equity investments which are neither classified as held for trading nor designated at fair value through profit or loss. After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in finance costs.

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.

(iv) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

2 Summary of significant accounting policies *(continued)*

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

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, bank overdraft, loans and borrowings, financial guarantee contracts and derivative financial instruments.

(ii) Subsequent measurement

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

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.

Financial guarantee contracts:

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised as a liability when it is likely there will be an outflow of resources. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

(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.

(v) Fair value of financial instruments

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 uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

2 Summary of significant accounting policies *(continued)*

Provisions

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Currency translation

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Any such translation differences are taken to the income statement. Non-monetary items denominated in foreign currencies are translated using the exchange rate at the date of the transaction.

Pensions

The Company contributes to group pension schemes operated by Admenta UK Limited, including defined benefit and defined contribution schemes.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

The cost of providing benefits under the defined benefit plan is determined by using the projected unit credit method. 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. Re-measurement comprising actuarial gains and losses are recognised immediately on the statement of comprehensive income with a charge or credit to other comprehensive income.

The past service costs are recognised as an expense at the earlier of when the plan amendment or curtailment occurs and when the company recognises related restructuring costs or termination benefits. The net interest on the net defined benefit liability is reported within finance costs.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less past service costs and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published bid price.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

2 Summary of significant accounting policies *(continued)*

Critical accounting judgements and key sources of estimation

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.

Deferred taxes

The measurement of deferred tax assets and liabilities requires management to make assumptions and estimates. Besides interpreting the tax provisions applicable to the Company, the calculation of deferred tax assets on temporary differences and unused tax losses depends in particular on an appraisal of whether the entity will generate sufficient taxable income in future.

All assumptions and estimates are based on circumstances prevailing at the balance sheet date. Future events and changes in conditions often mean that the actual amounts differ materially from the estimated figures. In such cases, the assumptions, and if necessary the carrying amounts of the assets and liabilities concerned, are adjusted accordingly.

Pension benefits

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Additional information is disclosed in note 24.

Trade receivables and other assets

Allowances for trade receivables and other assets are based to a large extent on estimates and judgements of individual receivables taking the creditworthiness of the respective customer into account. When measuring allowances, assumptions and estimates play an important role when assessing the probability of utilisation, the obligation amount and the interest rates used for non-current provisions.

Inventories

Allowances are made for obsolete, slow moving and defective inventory. The assumptions used in estimating allowances are reviewed at each reporting date.

Other provisions

Other provisions are made in the financial statements for present obligations arising from past events, where there is a reasonable degree of certainty as to their amount and date of settlement. Key assumptions used in estimating other provisions including occupancy levels for surplus property and discount rates are reviewed at each reporting date.

Key sources of estimation uncertainty – Inventory provisioning

The nature of the stock held consists of a high volume of relatively low value items, some with used by dates and some with seasonal characteristics. The obsolescence calculation is based on the stock holding and anticipated future sales.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

3 Revenue

Revenue is generated wholly in the United Kingdom. The breakdown of revenue is as follows:

	2017 £'000	2016 £'000
Sales of goods	3,278,185	3,236,793
Services	10,305	9,761
	<u>3,288,490</u>	<u>3,246,554</u>

The Directors consider there is one business segment being the distribution of pharmaceutical and healthcare products and services in the UK.

4 Directors' emoluments

Key management are the directors of the Company. Compensation for key management is detailed below.

	2017 £'000	2016 £'000
Aggregate emoluments	<u>848</u>	<u>1,458</u>

Retirement benefits under defined benefit schemes accrued to one individual who was a director of the company during the year (2016: one director).

Highest paid director	2017 £'000	2016 £'000
Aggregate emoluments	<u>848</u>	<u>953</u>

5 Employee information

The average monthly number of persons (including executive directors) employed during the year was:

By function	2017 Number	2016 Number
Distribution	2,389	2,374
Administration	355	396
	<u>2,744</u>	<u>2,770</u>

Staff costs	2017 £'000	2016 £'000
Wages and salaries	68,089	68,721
Social security costs	4,732	4,821
Other pension costs	1,636	1,915
	<u>74,457</u>	<u>75,457</u>

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

6 Other income

	2017	2016
	£'000	£'000
Other income		
Operating income from third parties	19,171	20,213
Operating income from affiliates	1,891	1,697
	<u>21,062</u>	<u>21,910</u>

Other operating income represents income from the provision of services to other group companies, promotional income, income from the rental of properties and also from the sale of data.

7 Distribution costs and administrative expenses

	2017	2016
	£'000	£'000
Staff costs	74,457	75,457
Other expenses	82,720	77,453
Depreciation	5,809	5,716
	<u>162,986</u>	<u>158,626</u>

8 Finance income and costs

	2017	2016
	£'000	£'000
Finance costs		
Interest expenses on other provisions	43	15
Finance charges payable under finance leases and hire purchase agreements	-	86
Net finance exchange loss	225	-
	<u>268</u>	<u>101</u>

	2017	2016
	£'000	£'000
Finance income		
Net interest income on pensions	295	60
Interest income on loans and receivables	16,377	19,228
Net finance exchange gain	-	78
	<u>16,672</u>	<u>19,366</u>

Interest expense on pensions were as follows:

	2017	2016
	£'000	£'000
Interest on plan assets	4,675	4,391
Interest on scheme liabilities	(4,380)	(4,331)
Net Interest income	<u>295</u>	<u>60</u>

Interest income relates primarily to interest earned on intercompany balances which attracted interest equivalent to the overall cost of borrowing for the UK group of 3.71% (2016: 4.40%).

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 (continued)

9 Profit before income tax

Profit before income tax is stated after charging / (crediting) the following:

	2017 £'000	2016 £'000
Loss on disposal of property, plant and equipment	44	-
Depreciation – property, plant and equipment:		
Charge for the year on owned assets	5,810	5,687
Charge for the year on assets held under finance leases	-	29
Operating lease rentals:		
Other	3,611	4,194
Land, buildings and motor vehicles	12,689	12,776
Staff costs	74,457	75,457
Cost of inventories recognised within cost of sales	3,027,921	2,972,354
Including: - write down of inventories to net realisable value	668	676
Restructuring costs	911	1,823
Services provided by the company's auditor		
Fees payable for the statutory audit	78	78
Fees payable for audit related services	116	116

10 Income tax expense

The major components of income tax expense for the year ended 31 March 2017 and the year ended 31 March 2016 are:

Income statement	2017 £'000	2016 £'000
Current income tax:		
UK corporation tax at 20% (2016: 20.0%)	26,611	31,661
Adjustment in respect of previous years	(373)	(165)
	<u>26,238</u>	<u>31,496</u>
Deferred tax		
Relating to origination and reversal of temporary differences	538	703
Impact of change in tax rate	(57)	166
Adjustment in respect of previous years	(551)	(673)
	<u>(70)</u>	<u>196</u>
Income tax expense reported in the income statement	<u><u>26,168</u></u>	<u><u>31,692</u></u>
Statement of other comprehensive income		
Deferred tax related to items (credited)/ charged directly to other comprehensive income during the year	(804)	1,000
Income tax (credited)/ charged directly to other comprehensive income	<u><u>(804)</u></u>	<u><u>1,000</u></u>

The above item included directly in other comprehensive income will not be reclassified subsequently to profit or loss.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

10 Income tax expense *(continued)*

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

The tax assessed on the profit on ordinary activities for the year is lower (2016: higher) than the average rate of corporation tax in the UK of 20.0% (2016: 20.0%). The difference is reconciled below

	2017	2016
	£'000	£'000
Profit before tax	<u>135,049</u>	<u>156,749</u>
Profit before tax multiplied by the average rate of UK corporation tax of 20.0% (2016: 20.0%)	27,010	31,350
Expenses not deductible for tax purposes	139	1,014
Current tax adjustments in respect of previous years	(373)	(165)
Impact of change in tax rate	(57)	166
Deferred tax adjustments in respect of previous years	<u>(551)</u>	<u>(673)</u>
Income tax expense reported in the income statement	<u>26,168</u>	<u>31,692</u>

Deferred taxation

	2017	2016
	£'000	£'000
The movements in the total deferred tax asset are as follows:		
At the beginning of the year	426	1,622
Deferred tax movement in the income statement	70	(196)
Deferred tax movement in other comprehensive income	<u>804</u>	<u>(1,000)</u>
At the end of the year	<u>1,300</u>	<u>426</u>

The deferred taxation asset recognised in the financial statements can be analysed as follows:

	2017	2016
	£'000	£'000
Accelerated capital allowances	1,456	1,089
Short term timing differences	(886)	845
Deferred tax on pension liability	<u>730</u>	<u>(1,508)</u>
Total deferred taxation asset	<u>1,300</u>	<u>426</u>

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

11 Components of other comprehensive income

	2017 £'000	2016 £'000
Actuarial (loss)/gain on post-employment benefit obligations net of tax	(3,927)	4,001
	<u>(3,927)</u>	<u>4,001</u>

12 Dividends

	2017 £'000	2016 £'000
Ordinary Shares		
Interim dividend: £1.60 (2016: £nil) per £1 share	<u>80,000</u>	<u>-</u>

13 Property, plant and equipment

	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Fixtures, fittings, plant and equipment £'000	Motor vehicles £'000	Total £'000
At 1 April 2016	483	17,311	86,578	2,840	107,212
Additions	274	1,341	5,609	676	7,900
Reclassification from other assets	-	-	3,454	-	3,454
Disposals	-	-	(2,349)	-	(2,349)
At 31 March 2017	<u>757</u>	<u>18,652</u>	<u>93,292</u>	<u>3,516</u>	<u>116,217</u>

Accumulated depreciation

At 1 April 2016	179	9,271	69,109	2,225	80,784
Charge for the year	51	758	4,677	324	5,810
Reclassification from other assets	-	-	1,764	-	1,764
Disposals	-	-	(1,881)	-	(1,881)
At 31 March 2017	<u>230</u>	<u>10,029</u>	<u>73,669</u>	<u>2,549</u>	<u>86,477</u>

Net book value

At 31 March 2017	<u>527</u>	<u>8,623</u>	<u>19,623</u>	<u>967</u>	<u>29,740</u>
At 31 March 2016	<u>304</u>	<u>8,040</u>	<u>17,469</u>	<u>615</u>	<u>26,428</u>

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

13 Property, plant and equipment *(continued)*

Property, plant and equipment shown above include assets held under finance leases that have a cost of £1,043,000 (2016: £1,043,000) and a net book value of £nil (2016: £nil). There were additions of £nil, during the year (2016: £3,000) of property, plant and equipment held under finance leases and hire purchase and disposals of £nil (2016: £nil). Leased assets and assets under hire purchase and hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

14 Investments

	Investment in subsidiaries £'000
Cost	
At 31 March 2016	-
Additions	67,616
At 31 March 2017	<u>67,616</u>

On 1st April 2016 AAH Pharmaceuticals Limited acquired 100% of the Sangers (NI) Limited and MASTA Limited businesses for the amount £67,616,000. This was formally cleared by the Competitions and Market Authority (CMA) on the 1st June 2016.

The registered address of Sangers (NI) Limited is 2 Marshalls Road, Belfast, Northern Ireland, BT5 6SR and the registered address of MASTA Limited is Sapphire Court, Walsgrave Triangle, Coventry, England, CV2 2TX.

15 Other financial assets

	2017 £'000	2016 £'000
Current		
Other assets	<u>1,174</u>	<u>3,104</u>
Non – current		
Pension plan asset (note 24)	4,294	8,377
Other assets	<u>368</u>	<u>757</u>
	<u>4,662</u>	<u>9,134</u>

Other assets include loans receivable from customers.

16 Inventories

	2017 £'000	2016 £'000
Finished goods and goods for resale	<u>229,034</u>	<u>191,451</u>

In the reporting year inventories were written down by £668,000 (2016: £676,000).

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

17 Trade and other receivables

	2017 £'000	2016 £'000
Current		
Trade receivables from third parties	254,464	280,050
Receivables from affiliated companies: Trade	186,250	177,208
Receivables from affiliated companies: Intragroup funding	139,519	-
Other assets	77,611	49,037
Prepayments and accrued income	4,550	4,536
Finance leases	-	776
	<u>662,394</u>	<u>511,607</u>
Non - current		
Finance leases	-	915

Trade receivables are non-interest bearing and generally on 30 day terms.

Receivables from affiliated companies: Intragroup funding balance related to amounts receivable from other entities in the McKesson Europe AG group associated with the McKesson Europe AG group treasury funding arrangements. These balances are unsecured and have no fixed repayment date, other than that they are payable on demand. The balances were either interest free or attracted interest equivalent to the overall cost of borrowing for the Celesio related companies in the UK, of 3.71% (2016: 4.4%).

Other assets include supplier claims and rebates, creditors with debit balances, receivables from employees and other short-term receivables from customers.

As at 31 March 2017, trade receivables of £2,722,000 (2016: £3,215,000) were impaired and fully provided. The table below presents the movement on allowances for trade receivables in the year.

	2017 £'000	2016 £'000
Allowances brought forward	(3,215)	(4,466)
Additions	-	(238)
Utilisations	359	1,489
Reversals	134	-
Allowances carried forward	<u>(2,722)</u>	<u>(3,215)</u>

In the case of the trade receivables that are not impaired, there is no indication that the debtors will not be able to meet their payment obligations.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

18 Derivative financial instruments

	2017	2017	2016	2016
	Asset	Liability	Asset	Liability
	£'000	£'000	£'000	£'000
Forward currency contracts	<u>41</u>	<u>153</u>	<u>145</u>	<u>28</u>

19 Cash and cash equivalents

	2017	2016
	£'000	£'000
Cash at bank and in hand	2,765	205,608
Bank loans and overdraft (note 21)	<u>(8,832)</u>	<u>-</u>
	<u>(6,067)</u>	<u>205,608</u>

20 Trade and other payables

	2017	2016
	£'000	£'000
Trade payables	486,037	467,090
Amounts owed to affiliated companies: Trade	8,114	9,651
Amounts owed to affiliated companies: Intragroup funding	<u>54,607</u>	<u>75,907</u>
	<u>548,758</u>	<u>552,648</u>

Amounts owed to affiliated companies: intragroup funding shown above as falling due within one year are unsecured and are repayable within one month of the balance sheet date. These balances are either interest free or incur interest equivalent to the overall cost of borrowing for the UK group of 3.71% (2016: 4.40%). There are no undrawn borrowing facilities.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

21 Other financial liabilities

	2017 £'000	2016 £'000
Current financial liabilities		
Bank loans and overdraft	8,832	-
	<u>8,832</u>	<u>-</u>

22 Provisions

	Dilapidations / ARO £'000	Guarantee obligations £'000	Restructuring £'000	Total £'000
At 1 April 2016	1,561	303	1,891	3,755
Charged to the income statement	43	-	911	954
Utilised during the year	-	(303)	(2,802)	(3,105)
At 31 March 2017	1,604	-	-	1,604

Analysis of total provisions	2017	2016
Non-current	£'000	£'000
Dilapidations / ARO	1,604	1,561
Restructuring	-	594
Guarantee obligations	-	303
	<u>1,604</u>	<u>2,458</u>
Current	£'000	£'000
Restructuring	-	1,297
	<u>-</u>	<u>1,297</u>

The dilapidations / ARO provision relates to the dilapidation (asset retirement obligations) costs associated to the warehouses and properties leased.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

23 Other current liabilities

	2017 £'000	2016 £'000
Other taxation and social security liabilities	3,460	3,970
Accruals and deferred income	9,055	4,391
Other liabilities	5,808	5,001
Sales ledger credit balances	2,863	4,013
	<u>21,186</u>	<u>17,375</u>

24 Pension obligations

AAH Lloyds Pension Scheme

The Company participates in the AAH Lloyds Pension Scheme, which is a defined contribution scheme.

The contributions paid by the Company to the scheme during the year to 31 March 2017 amounted to £1,636,000 (year to 31 March 2016: £1,915,000). Included in other creditors at the balance sheet date were amounts of £nil in respect of contributions (2016: £nil).

Admenta Pension Scheme

The Company also participates in the Admenta Pension Scheme, which is operated by Admenta UK Limited (a parent company in the Celesio group in the UK). This is a final salary defined benefit scheme with members of the scheme employees of the Company or Lloyds Pharmacy Limited. The defined benefit liability is allocated between the Company and Lloyds Pharmacy Limited based on the sponsoring employer for each member of the scheme. The defined benefit disclosures in these financial statements relate to the Company's share of the schemes 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 corporate 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.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

24 Pension obligations (continued)

Admenta Pension Scheme (continued)

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.

All schemes are funded and constituted as independently administered funds with their assets being held separately from those of the Company. The operating costs for the schemes were borne by the relevant fund.

Admenta Pension Scheme

A full actuarial valuation was carried out as at 6 April 2014 and was updated to 31 March 2017 by a qualified independent actuary. The major assumptions used by the actuary were as follows:

	2017	2016
Rate of increase in salaries	3.60%	3.30%
Rate of increase in pensions in payment	3.10%	2.90%
Discount rate	2.50%	3.40%
Inflation assumption	3.20%	2.90%
Assumed life expectancies on retirement at age 65:		
Retiring today – males	87.5	87.7
Retiring today – females	89.2	89.4
Retiring in 20 years – males	89.2	89.4
Retiring in 20 years – females	91.1	91.3

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is shown in the table below. The value of the defined benefit obligation after adjusting the assumption by the amount stated is as follows:

Value of defined benefit obligation

	2017 £'000	2016 £'000
Increase in discount rate of 0.5%	135,152	122,724
Decrease in discount rate of 0.5%	155,978	141,703
Increase in rate of pension progression of 0.5%	151,199	136,289
Decrease in rate of pension progression of 0.5%	139,931	127,391
Increase in rate of increase in salaries of 0.5%	146,038	132,338
Decrease in rate of increase in salaries of 0.5%	145,107	131,024
Increase in mortality of retiree of 10%	139,927	127,446
Decrease in mortality of retiree of 10%	151,202	136,427

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

24 Pension obligations (continued)

Admenta Pension Scheme (continued)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The contributions, excluding expenses, paid by the company in the year amounted to £881,000 (2016: £4,638,000), which includes £450,000 (2016: £4,050,000) in respect of reducing the Trustee's funding deficit.

The Company expects to contribute £294,000 to its defined benefit plan over the 12 months to 31 March 2018.

Every three years a formal actuarial valuation is carried out for the Scheme. As part of the valuation the funding position of the Scheme will be assessed and the Trustees and Company will agree the contributions payable by the Company in respect of any funding deficit.

The last funding valuation was carried out as at 6 April 2014 which resulted in a new funding plan agreed from 15 December 2014. The Company has no remaining commitment in relation to deficit funding contributions as part of this funding plan (2015/2016: £4,950,000). Contributions towards the expenses of running the Scheme are payable in addition. The scheme is now closed to benefit accrual so there are no further contributions in respect of accrual.

The next funding valuation is currently ongoing, after which a new contribution agreement will be put in place. The results of the valuation are expected to be available for the 2018 financial statements.

The agreed contributions for the coming year are 29% per annum of pensionable salaries (2016: 29.0%). In addition, £24,500 is payable per month to finance the expected expenses and levies incurred by the Scheme. There is currently no agreed allocation of a deficit or rights on wind up of the Scheme.

The pension plan is closed to new entrants so the average age of the membership is expected to increase over time. The projected unit method is used to calculate the current service cost. This calculates the value of the following years' pension accrual and expresses it as a percentage of pensionable pay; this will not be applicable next year as the Scheme closed to future accrual on 28 February 2017. The weighted average duration of the defined benefit obligation is 15 years (2016: 14 years). 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 Scheme closed to future accrual on 28 February 2017.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

24 Pension obligations (continued)

Admenta Pension Scheme (continued)

Plan assets are comprised as follows:

	2017 £'000	2016 £'000
Equity Instruments (Quoted)		
- UK	13,859	11,891
- European	5,554	5,477
- Japan	3,127	2,520
- Pacific Basin	2,576	1,723
- US	6,161	4,579
Debt Instruments (Quoted)		
- AAA	17,036	11,381
- AA	6,621	4,694
- A	5,973	5,962
- BBB	13,674	16,631
- BB	10,154	17,725
- B	5,709	2,988
- CCC / CC	1,530	1,029
- Unknown/unrated	26,229	23,586
Real Estate (Quoted)	5,834	6,281
Insurance Contracts (Unquoted)	1,184	1,198
Cash and Cash Equivalents	832	879
Standard Life Global Absolute Return Fund (Quoted)	23,806	21,493
Total Plan Assets	<u>149,859</u>	<u>140,037</u>

	2017 £'000	2016 £'000
Total benefit asset		
Fair value of scheme assets	149,859	140,037
Present value of funded defined benefit obligation	(145,565)	(131,660)
Net defined benefit asset	<u>4,294</u>	<u>8,377</u>

The amounts charged to the income statement can be analysed as follows:

	2017 £'000	2016 £'000
Current service cost	528	703
Interest on scheme assets	(4,675)	(4,391)
Interest on scheme liabilities	4,380	4,331
Net defined benefit expense	<u>233</u>	<u>643</u>

Of the total charge, a credit of £295,000 (2016: credit of £60,000) was included in 'finance costs' respectively.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

24 Pension obligations (continued)

Admenta Pension Scheme *(continued)*

The amounts charged to the statement of comprehensive income can be analysed as follows:

	2017 £'000	2016 £'000
Experience adjustments of defined benefit obligation	2,115	1,411
Experience adjustments of plan assets	11,736	(4,259)
Effects from changes in financial assumptions	(18,582)	7,849
Net actuarial(loss)/gain	<u>(4,731)</u>	<u>5,001</u>

Movements in the present value of the defined benefit obligation are as follows:

	2017 £'000	2016 £'000
Defined benefit obligation as at the beginning of the year	131,660	142,475
Movement in year:		
Current service cost	528	703
Contributions by employees	30	44
Interest cost	4,380	4,331
Benefits paid	(7,500)	(6,633)
Actuarial gain arising from changes in demographic assumptions	(2,115)	(1,411)
Actuarial loss/ (gain) arising from changes in financial assumptions	18,582	(7,849)
Defined benefit obligation as at end of the year	<u>145,565</u>	<u>131,660</u>

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

	2017 £'000	2016 £'000
Fair value of plan assets at the beginning of the year	140,037	141,856
Movement in year:		
Interest on scheme assets	4,675	4,391
Return on plan assets in excess of interest on scheme assets	11,736	(4,259)
Contributions by employer	881	4,638
Contributions by employee	30	44
Benefits paid	(7,500)	(6,633)
Fair value of plan assets at the end of the year	<u>149,859</u>	<u>140,037</u>

The actual return on scheme assets in the year was £16,411,000 (2016: £132,000).

Included in other creditors at the balance sheet date were amounts of £nil accrued in respect of Admenta Pension Scheme contributions (2016: £nil).

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

25 Issued share capital

	2017 £'000	2016 £'000
Authorised, allotted, called and fully paid		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

26 Capital Contribution reserve

This relates to contributions made by an intermediate parent company during the year.

27 Capital commitments

The Company had capital commitments at 31 March 2017 of £nil (2016: £nil).

28 Lease commitments

Operating leases

At 31 March 2017, as lessee, the future minimum rentals payable under non-cancellable operating leases are as follows:

	31 March 2017		31 March 2016	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Within 1 year	6,850	7,022	6,246	6,425
After 1 year but not more than 5 years	23,904	6,973	20,327	10,722
More than 5 years	27,181	-	19,662	-
	<u>57,935</u>	<u>13,995</u>	<u>46,235</u>	<u>17,147</u>

Other non-cancellable leases comprises of motor vehicles.

Finance leases – Lessor

Future minimum lease payment receivables under finance lease contracts are as follows:

	2017 £'000	2016 £'000
Within 1 year	-	776
In more than 1 year, but no more than 5 years	-	915
Present value	<u>-</u>	<u>1,691</u>

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2017 *(continued)*

29 Contingent liabilities

	2016 £'000	2016 £'000
Guarantee of loans for pharmacy customers	<u>13,497</u>	<u>18,835</u>
	<u>13,497</u>	<u>18,835</u>

The Company has guaranteed bank loans to independent retail pharmacist customers. The guarantees are conditional upon the retail pharmacists remaining customers of the Company. In the opinion of the directors no material unprovided loss will arise in connection with these arrangements. The Company has also guaranteed a part of the trade debt of pharmacy customers.

30 Events after the reporting period

In August 2017, an announcement was made to start integrating and consolidating Sangers (NI) Limited wholesale operations with the AAH warehouse in Northern Ireland. The wholesale businesses will trade in Northern Ireland as Sangers AAH.

31 Ultimate parent undertaking and ultimate controlling party

The immediate parent undertaking is Admenta Holdings Limited.

The ultimate parent undertaking and controlling party of the Company is McKesson Corporation, a company registered in 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, One Post Street, San Francisco, CA 94104, United States.

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