AAH Pharmaceuticals Limited

Annual report and financial statements for the year ended

31 March 2021

Registered number: 00123458

AAH Pharmaceuticals Limited

Annual report and financial statements for the year ended 31 March 2021

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AAH Pharmaceuticals 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

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

Business review

The directors monitor the progress of the Company and the implementation of its strategy by reference to key performance indicators. The indicators include revenue and operating profit discussed in more detail below.

	2021	2021	2020
	£'000	% Change	£'000
Revenue	3,278,990	(8.1)	3,566,006
Operating Profit	65,454	(4.0)	68,181
Profit for the year	60,702	0.4	60,469
Shareholder's equity	419,280	21.4	345,310

Revenues for the year decreased by 8.10% due to a fall in volumes and price reductions. The novel coronavirus changed patterns of customer demand and challenging government drug reimbursement levels resulted in pressure from customers to offset the effects through price reductions.

Operating profit reduced due to declining revenue and competitive pressures around securing rights to distribute pharmaceutical manufacturer products through reduced wholesale and direct to pharmacy arrangements. The Company responded to these pressures by enhancing its value proposition in the supply chain by, for example, implementing an online customer portal to improve customer experience and automate certain manual processes. In addition, the Company invested resources to introduce Covid-19 safety measures in accordance with government guidance.

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.

<u>Regulation and government</u>
The company operates in highly regulated markets; any changes to regulation, or noncompliance with that regulation, could have a negative impact on business performance. For example, we are subject to a range of regulations around pricing margins traceability and storage conditions data or privacy regulations and health safety, or environmental standards. We are indirectly impacted by changes that affect our stakeholders including the changes to drug reimbursement levels which impact some of our customers and could adversely impact the Company's profitability. In addition, the United Kingdom ("UK") entered into a trading arrangement with the European Union on 31 December 2020. The principal risks we face are around ensuring uninterrupted supply of pharmaceutical and medical products at competitive prices. The risk of fluctuations in exchange rates have the potential to cause business disruption and profitability impacts.

The Company continues to seek advice and clarification from the government regarding ongoing negotiations to enhance the trading agreement and mitigate the above risks. Mitigating actions have been implemented including policies, ways of working, and training and monitoring to secure supply and minimise business disruption.

Principal risks and uncertainties *(continued)*

Competition

AAH Pharmaceuticals Limited operates in a market which is highly competitive, particularly around price, service levels and product availability. There is, as a result, ongoing downward pressure on margins with the additional risk that the Company will not meet customer expectations. To mitigate this risk, the Company monitors the market to understand customer and supplier expectations identify whether their needs are being met and to evolve and enhance our value proposition.

Cost management

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

Covid-19 pandemic

The Covid-19 pandemic has created significant volatility and disruption. Despite this, AAH Pharmaceuticals Limited is proud to have continued to play a pivotal role in delivering pharmaceutical products and services to communities around the country, with supply challenges communicated and quickly overcome to ensure patients continued to have access to vital medicines throughout the period.

The health and wellbeing of its employees and customers is the Company's cardinal priority. It has invested in resources to implement safety measure in order to remain open to the pharmaceutical wholesale market as access to other healthcare (e.g. GPs, clinics and hospitals) has been restricted.

Future developments may 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.

In addition, AAH Pharmaceuticals was commissioned by NHS England as one of its principal partners for the Covid-19 vaccination distribution programme, and to date we have handled and delivered over 35 million doses by the end of November 2021. Our colleagues acted swiftly and with the utmost professionalism to set up the new processes and technology needed and requested at short notice, to ensure the UK could start vaccinating its population.

Statement by the directors on the performance of their statutory duties in accordance with s172(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 Covid-19 and Brexit) and innovation by introducing e-commerce to automate the supply chain and supporting prompt payment. The board is briefed on customer and supplier metrics and feedback, opportunities and issues through regular board and management meeting reporting.

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

Statement by the directors on the performance of their statutory duties in accordance with s172(1) of the Companies Act 2006 *(continued)*

Colleagues

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

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 Chief Executive Officer 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 programmes.

The health and wellness of our colleagues are a key priority, and we provide a robust employee assistance program which includes mental health support and free 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. Appropriately 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.

Government and regulators

We operate in a highly regulated industry, and patient safety is critical. Government entities, including the Department of Health, determine reimbursement levels for the supply chain, including ourselves. We engage with the government and regulators through sector organisations such as the Healthcare Distribution Association. We also independently engage with stakeholders by responding to consultations, and participate in forums to inform about, educate on and discuss changes to the sector with policy makers.

Key areas of engagement include compliance with laws and regulations, health and safety, evolving how we support stakeholders under Covid-19 and Brexit negotiations. The board is updated on developments through regular board and management meeting reporting on developments and takes these into account when making decisions.

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 for this cause through corporate events. The board received updated through appropriate board and management reporting.

Approved by the board and signed on its behalf by:

DocuSigned by:
Chris Keen
BDB7F99981984A8...

C Keen
Director
25 March 2022

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 March 2021

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

Results

The results for the financial year are presented in the income statement on page 14.

Dividends

The directors do not recommend a final dividend (2020: £nil). No interim dividend was paid during the year (2020: £nil).

Political and charitable contributions

No political or charitable contributions were made during the year (2020: £nil donations).

Future developments

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

Statement of Corporate Governance Arrangements

The Statutory Board of Directors of Admenta UK Limited ("the Board") is responsible for driving the strategy of all its subsidiaries (including AAH Pharmaceuticals 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, although and therefore it did not apply a U.K.-based governance code within this framework during the financial year. This framework enables the Board to be assured of the quality of its services, and of the effectiveness with which the Board is alerted to risks to the achievement of its overall purpose and priorities. This understanding is underpinned by our internal global policy framework which ensures that the way in which we operate is fully aligned with the expectations of our shareholders. The oversight function of corporate governance is performed by the Board and its designated committees. The Board has established a committee structure as part of its governance framework, listed below. Each committee has clear authorities delegated to it by the Board. Those delegations and authorities are set out in their respective terms of reference.

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

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

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

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 March 2021 *(continued)*

Statement of Corporate Governance Arrangements *(continued)*

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

Shareholders

As a subsidiary of McKesson Corporation an internal global policy framework ensures that our strategy and long-range financial and operating plans are fully aligned with the expectations of our shareholders. These plans are reviewed at least annually, adjusted as required, and approved by the relevant board committees of McKesson Corporation. The internal policy framework sets out how and when we engage with our shareholders, and how decisions are made and escalated for shareholder consideration, review and approval. McKesson Corporation manages external shareholder relationships on behalf of the Company.

Directors' Responsibility under Section 172 and Statement of engagement with suppliers, customers and others in a business relationship with the Company

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

Energy and Carbon Reporting

	Year ended 31 March 2021
Emission resulting from activities including combustion of gas or consumption of fuel for transport (tCO2e)	22,247
Emissions resulting from the purchase of electricity, including for transport (tCO2e)	2,664
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)	107,715,698
Intensity ratio (kWh/revenue £m)	32,850

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 year ended 31 March 2021

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.

Directors

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

T Anderson
J Davies
C Keen

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.

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 McKesson 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 2021 *(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.

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.

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

Employment of disabled persons

Wherever possible, disabled persons are given the same consideration for employment opportunities as other applicants and training and promotion prospects are identical. In particular, special consideration is given to continuity of employment in the case of an employee who becomes disabled, with suitable retraining for alternative employment, if practicable.

Engagement with employees

This is included within s172 statement in the Strategic Report.

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:

(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.

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 March 2021 *(continued)*

Directors' Responsibilities Statement *(continued)*

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.

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.

Events after the reporting period

The challenges of the novel coronavirus pandemic continue to impact the business, although the directors believe that the long-term impact of this virus is not yet clear.

In July 2021, McKesson Corporation announced that it is exploring strategic alternatives for the company.

Approved by the board of directors and signed on its behalf by:

DocuSigned by:
Chris Keen
BDB7F99981984A8...

C Keen
Director
25 March 2022

AAH Pharmaceuticals Limited
Registered number: 00123458

AAH Pharmaceuticals Limited

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of AAH Pharmaceuticals 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 profit 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 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, 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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included an assessment of the entity's:

- financing facilities including nature of the facilities, repayment terms and covenants
- business model and medium-term risks
- assumptions used and headroom in the forecasts
- sensitivity analysis and sophistication of the model used to prepare the forecasts including testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management

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.

AAH Pharmaceuticals Limited

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

Conclusions relating to going concern (continued)

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. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

AAH Pharmaceuticals Limited

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

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 internal tax, pensions and IT audit specialists 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 posting of manual adjustments. We performed substantive testing on a sample of these transactions and agreed our samples through to invoices, or other relevant supporting documentation in order to conclude that each transaction was compliant with the accounting standards, was approved before posting, was recognised at the correct amount and related to a genuine transaction for a legitimate adjustment

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.

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

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

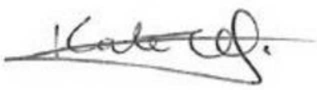
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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
Birmingham, United Kingdom

25th March 2022

AAH Pharmaceuticals Limited

Income Statement for the year ended 31 March 2021

	Notes	**2021** **£'000**	2020 £'000
Revenue	3	**3,278,990**	3,566,006
Cost of sales		**(3,047,876)**	(3,292,820)
Gross Profit		**231,114**	273,186
Other income	6	**27,016**	25,731
Distribution costs and administrative expenses	7	**(192,676)**	(230,736)
Operating profit	9	**65,454**	68,181
Finance costs	8	**(1,602)**	(1,374)
Finance income	8	**13,352**	13,565
Profit before income tax		**77,204**	80,372
Income tax expense	10	**(16,502)**	(19,903)
Profit for the financial year attributable to the equity holder of the parent		**60,702**	60,469

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

AAH Pharmaceuticals Limited

Statement of Comprehensive Income for the year ended 31 March 2021

	Notes	**2021**	2020
		£'000	£'000
Profit for the year		**60,702**	60,469
Other comprehensive income - items that will not be reclassified to profit or loss			
Actuarial gain/(loss) on post employment benefit obligations	24	**16,208**	(815)
Deferred tax on actuarial (loss)/gain	10	**(2,940)**	155
Other comprehensive income/(expense) for the year net of tax		**13,268**	(660)
Total comprehensive income for the year attributable to the equity holders of the parent		**73,970**	59,809

AAH Pharmaceuticals Limited

Balance Sheet as at 31 March 2021

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	13	**77,598**	100,042
Intangible assets	29	**4,345**	4,345
Investments	14	**18,565**	22,114
Trade and other receivables	17	**137,653**	139,334
Other financial assets	15	**8,535**	-
Deferred income tax asset	10	**2,060**	4,592
		248,756	131,093
Current Assets			
Inventories	16	**228,501**	208,593
Trade and other receivables	17	**552,571**	600,360
Derivative financial instruments	18	**-**	410
Cash and short term deposits	19	**154,759**	120,968
		935,831	1,069,665
Total assets		**1,184,587**	1,200,758
Liabilities			
Current liabilities			
Trade and other payables	20	**654,637**	719,634
Corporation Tax group relief payable		**38,310**	42,465
Other financial liabilities	21	**13,546**	13,334
Provisions	22	**155**	1,081
Derivative financial instruments	18	**181**	171
Other current liabilities	23	**20,453**	23,856
		727,282	800,541
Net current assets		**208,549**	269,124
Total asset less liabilities		**457,305**	400,217
Non current liabilities			
Other financial liabilities	21	**31,727**	41,045
Provisions	22	**6,298**	6,278
Pension liability	24	**-**	7,584
		38,025	54,907
Total liabilities		**765,307**	**855,448**
Net assets		**419,280**	**345,310**
Equity			
Issued capital	25	**50,000**	50,000
Capital contribution reserve	26	**31,624**	31,624
Retained earnings	26	**337,656**	263,686
Total equity		**419,280**	**345,310**

Prior year comparative information has been restated as a result of a presentational adjustment as described in note 17.

The financial statements of AAH Pharmaceuticals Limited (registered number 00123458) were approved by the board of directors and authorised for issue on 25 March 2022. They were signed on its behalf by:

DocuSigned by:
Chris Keen
BDB7F99981984A8...

C Keen
Finance Director

AAH Pharmaceuticals Limited

Statement of Changes in Equity for the year ended 31 March 2021

	Issued Capital	Capital Contirbution Reserve	Retained Earnings	Total
	£'000	£'000	£'000	£'000
Balance as at 1 April 2019	50,000	31,624	203,877	**285,501**
Other comprehensive expense (note 11)	-	-	(660)	**(660)**
Profit for the year	-	-	60,469	**60,469**
Total comprehensive income for the year	**-**	**-**	59,809	**59,809**
Dividends paid (note 12)	-	-	-	**-**
Capital contribution reserve (note 26)	**-**	-	**-**	**-**
Balance as at 31 March 2020	**50,000**	**31,624**	**263,686**	**345,310**
Other comprehensive income (note 11)	-	-	13,268	**13,268**
Profit for the year	-	-	60,702	**60,702**
Total comprehensive income for the year	**-**	**-**	73,970	**73,970**
Dividends paid (note 12)	-	-	-	**-**
Balance as at 31 March 2021	**50,000**	**31,624**	**337,656**	**419,280**

Notes to the financial statements for the year ended 31 March 2021

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 3.

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 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.

Consolidated financial statements for the largest group of undertakings for the year ended 31 March 2021 are prepared by McKesson Corporation and may be obtained from McKesson Corporation, 6555 State Hwy 161, Irving, TX 75039, USA.

Consolidated financial statements for the smallest group of companies for the year ended 31 March 2021 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.

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.

2 Summary of significant accounting policies *(continued)*

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.

Amendments to References to the Conceptual Framework in IFRS Standards	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. 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.
Amendments to IAS 1 and IAS *8 Definition of material*	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. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

2 Summary of significant accounting policies *(continued)*

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 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.

Revenue

Revenue originates from the sale of merchandise and, to a lesser extent, from the provision of services and receipt of royalties. The contract with the customer generally relates to a confirmed purchase order, which is to be completed under the agreed terms or the general terms and conditions of the company. In the retail business, the contract is usually closed at the point of sale.

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 group. 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.

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.

2 Summary of significant accounting policies *(continued)*

Taxes

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

The company pays tax on its trading profits at the standard rate of income tax for companies in the Island of Jersey at 0%.

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.

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.

Intangible assets – goodwill

Goodwill represents the excess of the fair value of consideration given to acquire new businesses over the fair value of the separable net assets at the date of the acquisition. Goodwill is capitalised as an intangible asset on the balance sheet and is carried net of impairment.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

2 Summary of significant accounting policies *(continued)*

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, which is not depreciated, 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.

Investments

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

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 receivable;
- 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.

2 Summary of significant accounting policies *(continued)*

Leases ***(continued)***

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.

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 and are included in the line 'Other operating expenses' in profit or loss (see note 9) .

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contracts that contain a lease component and one or more additional

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

2 Summary of significant accounting policies *(continued)*

Leases *(continued)*

lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Company as lessor

The Company enters into lease agreements as a lessor with respect to its investment properties.

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When a contract includes both lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

The Company has recognised the value of £2,267,000 for the short term leases during the financial year. The total cash outflow for leases amount to £17,549,000 (2020: £17,973,000).

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 2021 *(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.

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 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 always recognises lifetime expected credit losses (ECL) for trade debtors and contract assets. 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.

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.

2 Summary of significant accounting policies *(continued)*

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, financial guarantee contracts 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.

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.

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 and Sangers (Northern Ireland) 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.

2 Summary of significant accounting policies *(continued)*

Interest income and expenses

Interest is recorded as an expense or income respectively in the period in which it arises unless the criteria of IAS 23 are satisfied for capitalising it in the cost of an asset or liability. Interest income is recognised in the income statement using the effective interest method.

Critical accounting judgments and key sources of estimation uncertainty

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.

Investment Impairments – key source of estimation uncertainty
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 Directors have conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the group of CGUs to which goodwill is allocated. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of the CGUs is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGUs.

Sensitivities have been performed around the discount rate used. An increase in the discount rate by 1% increases the impairment charge to £4,121,000 and a decrease in the discount rate by 1% alters the impairment charge to £2,905,000.

Defined Benefit Pensions – key source of estimation uncertainty
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 reviewed at each reporting date. When determining the appropriate discount rate, management uses the interest rates of first-class corporate bonds in each country. The mortality rate is based on publicly available mortality tables for the U.K. Future salary and pension increases are based on expected future inflation rates for the U.K.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is shown in note 24.

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

3 Revenue

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

	2021	2020
	£'000	£'000
Sales of goods	**3,273,635**	3,559,898
Services	**5,355**	6,108
	3,278,990	3,566,006

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.

From 1 April 2020 all directors are paid by a fellow subsidiary company, Lloyds Pharmacy Limited, which makes no recharge to the company. All directors of this company are directors of a number of fellow subsidiary companies and it is impossible to make an accurate apportionment of their time and therefore their emoluments in respect of each of these companies. Accordingly, no emoluments in respect of these directors are disclosed. Their emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of Lloyds Pharmacy Limited.

	2021	2020
	£'000	£'000
Aggregate emoluments	**-**	624

No retirement benefits under defined benefit schemes were accrued to the director of the company during the year (2020: £nil).

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

5 Employee Information

The average monthly number of persons employed during the year was:

By function	2021 Number	2020 Number
Distribution	**2,619**	2,701
Administration	**269**	304
	2,888	3,005

Staff costs	2021 £'000	2020 £'000
Wages and salaries	**89,206**	93,668
Social security costs	**5,673**	5,664
Other pension costs	**-**	176
Other staff costs	**4,662**	5,628
	99,541	105,136

6 Other income

	2021 £'000	2020 £'000
Other income		
Operating income from third parties	**22,279**	21,978
Operating income from affiliates	**4,737**	3,753
	27,016	25,731

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

7 Distribution costs and administrative expenses

	2021 £'000	2020 £'000
Staff costs	**99,541**	105,136
Other expenses	**61,158**	74,101
Depreciation	**24,270**	23,655
Impairment	**7,708**	27,844
	192,676	230,736

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

8 Finance income and costs

	2021 £'000	2020 £'000
Finance costs		
Interest on borrowings	**3**	8
Interest expenses on other provisions	**-**	13
Finance charges payable under finance leases and hire	**989**	1,165
Net finance expense	**438**	-
Interest expenses on pension	**172**	188
	1,602	1,374

	2021 £'000	2020 £'000
Finance income		
Net finance income	**-**	257
Interest income on loans and receivables from affiliates	**13,352**	13,308
	13,352	13,565

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 2.69% (2020: 3.24%).

9 Operating profit

Operating profit is stated after charging the following:

	2021 £'000	2020 £'000
Net foreign exchange (gains)/losses	**438**	(257)
Loss on disposal of property, plant and equipment	**-**	50
Depreciation – property, plant and equipment:		
Charge for the year on owned assets	**9,518**	8,868
Charge for the year on assets held under finance	**14,751**	14,787
Impairment of property, plant and equipment (note 7)	**7,708**	1,944
Operating lease rentals		
Lease costs in relation to land, buildings and motor	**1,620**	2,383
Staff costs	**99,541**	105,136
Cost of inventories recognised within cost of sales	**3,047,876**	3,292,820
Including: - write down of inventories to net realisable value	**3,473**	3,645
Impairment of goodwill (note 7)	**-**	4,706
Impairment of investment (note 7)	**3,549**	21,194
Services provided by the company's auditor		
Fees payable for the audit of the financial statements	**434**	298

Total auditor's remuneration for the year was £192,000 (2020: £174,000). There were no fees for non-audit related services in either the current or previous years.

10 Income tax expense

The major components of income tax expense for the year ended 31 March 2021 are:

Income statement:	**2021**	2020
	£'000	£'000
Current income tax:		
UK corporation tax at 19% (2020: 19.0%)	**16,841**	20,363
Adjustment in respect of previous years	**69**	(174)
	16,910	20,189
Deferred tax		
Relating to origination and reversal of temporary differences	**(378)**	379
Impact of change in tax rate	**-**	(254)
Adjustment in respect of previous years	**(30)**	(411)
	(408)	(286)
Income tax expense reported in the income statement	**16,502**	19,903
Statement of other comprehensive income		
Deferred tax related to items charged or credited directly to other comprehensive income during the year	**2,940**	(155)
Income tax charged directly to equity	**2,940**	(155)

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

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%.

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

10 Income tax expense *(continued)*

The tax assessed on the profit on ordinary activities for the year is higher (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The difference is reconciled below:

	2021	2020
	£'000	£'000
Profit before tax	**77,204**	80,372
Profit before tax multiplied by the standard rate of tax	**14,669**	15,271
Expenses not deductible for tax purposes	**1,794**	5,471
Current tax adjustments in respect of previous years	**69**	(174)
Impact of change in tax rate	**-**	(254)
Deferred tax adjustments in respect of previous years	**(30)**	(411)
Income tax expense reported in the income statement	**16,502**	19,903

Deferred taxation

	2021	2020
	£'000	£'000
The movements in the total deferred tax asset are as		
At the beginning of the year	**4,592**	4,151
Deferred tax movement in the income statement	**408**	286
Deferred tax movement in the statement of comprehensive income	**(2,940)**	155
At the end of the year	**2,060**	4,592

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

10 Income tax expense *(continued)*

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

	2021	2020
	£'000	£'000
Accelerated capital allowances	**2,973**	2,145
Short term timing differences	**709**	1,335
Deferred tax on pension liability	**(1,622)**	1,112
Total deferred taxation asset	**2,060**	4,592

A deferred tax asset has been recognised based on forecast profits against which these timing differences are expected to reverse.

11 Components of other comprehensive income

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	2021	2020
	£'000	£'000
Actuarial gain/(loss) on post employment benefit obligations net of tax	**13,268**	(660)
	13,268	(660)

12 Dividends

	2021	2020
	£'000	£'000
Equity Ordinary		
Interim dividend: £0.00 (2020: £0.00) per £1 share	**-**	-

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

13 Property, plant and equipment

	Freehold land and buildings	Short leasehold land and buildings	Fixtures, fittings, plant and equipment	Motor vehicles	Right-of-use Buildings	Right-of-use Vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2020	**9,300**	**27,582**	**112,137**	**3,126**	**44,097**	**25,972**	**222,214**
Additions	53	547	6,345	-	835	3,446	11,226
Reclassification from other assets	-	-	-	-	-	-	-
Disposals	-	-	(119)	-	(1,513)	(1,571)	(3,203)
At 31 March 2021	**9,353**	**28,129**	**118,363**	**3,126**	**43,419**	**27,847**	**230,237**
Accumulated depreciation							
At 1 April 2020	**1,564**	**15,711**	**86,139**	**3,126**	**6,993**	**8,638**	**122,171**
Depreciation charge for the year	238	3,011	6,269	-	6,012	8,740	24,270
Impairment charge for the year	2,651	13	5,044	-		-	7,708
Disposals	-	-	-	-	(131)	(1,379)	(1,510)
At 31 March 2021	**4,453**	**18,735**	**97,452**	**3,126**	**12,874**	**15,999**	**152,639**
Net book value							
At 31 March 2021	**4,900**	**9,394**	**20,911**	**-**	**30,545**	**11,848**	**77,598**
At 31 March 2020	**7,736**	**11,871**	**25,998**	**-**	**37,104**	**17,334**	**100,042**

Impairment charge

There was an impairment charge in the year of £7,708,000 (2020: £1,944,000) in respect of warehouse closure as part of the restructuring plans to their net realisable value of £nil during an annual impairment test.

Incremental borrowing rate

The weighted average lessees incremental borrowing rate (IBR) applied to lease liabilities recognised in the balance sheet on 1 April 2020 is shown below:

Lease Term in Months	IBT %	Lease Term in Months	IBT %	Lease Term in Months	IBT %
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

14 Investments

	Investment in subsidiaries £'000
Cost	
At 1 April 2020	47,271
Transfer to Goodwill	-
At 31 March 2021	**47,271**
Impairment	
At 1 April 2020	25,157
Transfer to Goodwill	-
Impairment	3,549
At 31 March 2021	**28,706**
Net book value	
At 31 March 2021	**18,565**
At 31 March 2020	22,114

The impairment charge is £3,549,000 (2020: £21,194,000) in respect of the investment in Sangers (NI) Limited, a subsidiary company. Investments were written down to their value in use based on the methodology described in note 2. The recoverable amount being value in use is £15,565,000 (2020: £19,114,000).

The impairment charge is £nil (2020: £nil) in respect to MASTA Limited. The recoverable amount being value in use is £3,000,000 (2020: £3,000,000).

The discount rate used is 7.90% (2020: 7.90%).

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

Subsidiary	Nature of business	Holding	% held
Sangers (NI) Limited	Pharmaceutical Wholesaler	Ordinary	100
Masta Limited	Vaccinations Specialist	Ordinary	100

The registered address of Sangers (NI) Limited is 2 Marshalls Road, Belfast, Northern Ireland, BT5 6SR.

The registered address of MASTA Limited is Sapphire Court, Walsgrave Triangle, Coventry, England, CV2 2TX.

15 Other financial assets

	2021 £'000	2020 £'000
Current		
Other assets	**-**	-

	2021 £'000	2020 £'000
Non – current		
Pension plan asset (note 24)	**8,535**	-

Other assets include loans receivable from customers.

16 Inventories

	2021	2020
	£'000	£'000
Finished goods and goods for resale	**228,501**	208,593

In the reporting year inventories were written down by £3,473,000 (2020: £3,645,000).

17 Trade and other receivables

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

	2021	2020
	£'000	£'000
Current		
Trade receivables from third parties	**290,583**	323,680
Amounts owed by direct parent	**1,664**	3
Amounts owed by other group entities	**139,730**	152,203
Other assets	**119,078**	121,957
Prepayments and accrued income	**1,516**	2,517
	552,571	600,360
Non – current		
Amounts owed by direct parent	**137,653**	139,334

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 McKesson related companies in the UK, of 2.69% (2020: 3.24%).

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

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 £139.33m from current assets to non-current asset on the balance sheet.

17 Trade and other receivables *(continued)*

As at 31 March 2021, trade receivables of £1,873,000 (2020: £2,528,000) were impaired and fully provided. The table below presents the movement on expected credit losses for trade receivables in the year.

	2021	2020
	£'000	£'000
Allowances brought forward	**(2,528)**	(2,746)
Additions	**(73)**	(197)
Utilisations	**1,280**	549
Reversals	**(552)**	(134)
Allowances carried forward	**(1,873)**	(2,528)

The expected credit losses are minimal compared to the overall trade receivables of £290,583 (2020: £323,680), 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.

18 Derivative financial instruments

	2021	**2021**	2020	2020
	Asset	**Liability**	Asset	Liability
	£'000	**£'000**	£'000	£'000
Forward currency contracts	**0**	**181**	410	171

19 Cash and cash equivalents

	2021	2020
	£'000	£'000
Cash at bank and in hand	**154,759**	120,968
Bank loans and overdraft (note 21)	**(1,870)**	-
	152,889	120,968

20 Trade and other payables

	2021	2020
	£'000	£'000
Trade payables	**587,780**	655,522
Finance lease assets - short term	**(243)**	-
Amounts owed to other group entities	**67,100**	64,112
	654,637	719,634

Amounts owed to affiliated companies: Intragroup funding balance related to amounts payable to 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 McKesson related companies in the UK, of 2.69% (2020: 3.24%).

21 Other financial liabilities

	2021 £'000	2020 £'000
Current financial liabilities		
Bank loans and overdraft	**1,870**	-
Lease liabilities	**11,676**	13,334
	13,546	13,334
Non – current financial liabilities		
Lease liabilities	**31,727**	**41,045**

The bank loans and overdrafts are secured against assets of the group and company.

22 Provisions

	Dilapidations / ARO £'000	Restructuring £'000	Total £'000
At 1 April 2020	5,828	1,529	**7,357**
Charged to the income statement	470	2,065	**2,535**
Utilised during the period	-	(3,367)	**(3,367)**
Transferred to allowance against receivables	-	(72)	**(72)**
At 31 March 2021	**6,298**	**155**	**6,453**

Analysis of total provisions	**2021**	2020
Non-current	**£'000**	£'000
Dilapidations / ARO	**6,298**	5,830
Restructuring	**-**	448
	6,298	6,278
Current	**£'000**	£'000
Restructuring	**155**	1,081
	155	1,081

The dilapidations / ARO provision relates to the dilapidation (asset retirement obligations) costs associated to the warehouses and properties leased. The related leases are expected to expire within a period of between 1 to 10 years.

The restructuring provisions represent an assessment of the costs to cover dilapidations. The assessment is made in conjunction with Admenta UK Limited's property services department.

23 Other current liabilities

	2021 £'000	2020 £'000
Other taxation and social security liabilities	**3,198**	2,476
Accrued expenses	**7,567**	10,512
Other liabilities	**2,007**	6,514
Sales ledger credit balances	**7,681**	4,354
	20,453	23,856

24 Pension obligations

McKesson UK Group Personal Pension Plan
The Company contributes to members' funds within the McKesson UK Group Personal Pension Plan, which is a contract based defined contribution scheme.

The contributions paid by the Company to the plan during the year to 31 March 2021 amounted to £360,000 (year to 31 March 2020: £332,800). Included in other creditors at the balance sheet date were amounts of £nil in respect of contributions (2020: £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 McKesson 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 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.

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.

The scheme is funded and constituted as an independently administered fund with the assets being held separately from those of the Company. The operating costs are borne by the scheme.

Admenta Pension Scheme

A full actuarial valuation was carried out as at 5 April 2017 and was updated to 31 March 2021 by a qualified independent actuary. The major assumptions used by the actuary were as follows:

	2021	2020
Rate of increase in salaries	**3.60%**	3.10%
Rate of increase in pensions in payment	**3.10%**	2.70%
Discount rate	**2.00%**	2.30%
Inflation assumption	**3.20%**	2.70%
Assumed life expectancies on retirement at age 65:		
Retiring today – males	**86.9**	86.7
Retiring today – females	**89**	88.7
Retiring in 20 years – males	**88.3**	88.1
Retiring in 20 years – females	**90.4**	90.3

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

	2021 **£'000**	2020 £'000
Increase in discount rate of 0.5%	**134,066**	126,545
Decrease in discount rate of 0.5%	**152,553**	145,747
Increase in rate of pension progression of 0.5%	**147,316**	141,071
Decrease in rate of pension progression of 0.5%	**138,564**	130,689
Increase in rate of increase in salaries of 0.5%	**142,846**	135,871
Decrease in rate of increase in salaries of 0.5%	**142,466**	135,352
Increase in mortality of retiree of 10%	**137,939**	130,218
Decrease in mortality of retiree of 10%	**148,141**	141,774

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(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, including administration expenses relating to expenses and levies to the Scheme, paid by the company in the year amounted to £360,000 (2020: £332,800), which includes £nil (2020: £nil) in respect of reducing the scheme's funding deficit, which are included in the accounting results. All contributions and payments relating to administration expenses are excluded from the accounting results. The contributions for the FY22 are expected to be £nil.

The results of the latest funding valuation at 5 April 2020, carried out by a qualified actuary have been adjusted to the balance sheet date taking account of experience over the period since 5 April 2020, changes in market conditions and differences in the financial and demographic assumptions. The present value of the defined benefit obligation was measured using the Projected Unit Method.

As the scheme is closed to ongoing accrual there were no contributions in respect of additional accrued benefits during the year or prior year.

The pension plan is closed to ongoing accrual and therefore closed to new entrants so the average age of the membership will increase over time. The weighted average duration of the defined benefit obligation is 14 years (2020: 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.

Plan assets are comprised as follows:

	2021	2020
	£'000	£'000
Equity Instruments (Quoted)		
- Hosking Global Fund	**24,390**	16,673
- Morgan Stanley	**20,576**	19,298
Insurance Contracts (Unquoted)	**1,146**	1,110
Cash and Cash Equivalents	**1,560**	5,393
Blackrock	**9,603**	-
PIMCO	**38,335**	34,439
M&G Alpha Opportunities Fund	**28,983**	37,161
Insight LDI Solutions	**26,475**	15,679
Total Plan Assets	**151,068**	129,753

	2021	2020
	£'000	£'000
Total benefit liability		
Fair value of scheme assets	**151,068**	129,753
Present value of funded defined benefit obligation	**(142,652)**	(135,608)
Net defined benefit asset/(liability)	**8,416**	(5,855)

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

24 Pension obligations *(continued)*

Admenta Pension Scheme *(continued)*

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

	2021 £'000	2020 £'000
Current service cost	-	-
Past service costs & curtailments	42	-
Interest on scheme assets	(2,910)	(3,334)
Interest on scheme liabilities	3,045	3,453
Net defined benefit expense/ (income)	177	119

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

	2021 £'000	2020 £'000
Experience adjustments of defined benefit obligation	548	4,449
Experience adjustments of plan assets	25,228	(12,978)
Effects from changes in financial assumptions	(11,329)	6,595
Net actuarial loss	14,447	(1,934)

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

	2021 £'000	2020 £'000
Defined benefit obligation at 1 April	135,608	150,296
Movement in year:		
Current service cost	-	-
Past service cost and curtailments	42	-
Contributions by employees	-	-
Interest cost	3,045	3,453
Benefits paid	(6,823)	(7,097)
Actuarial gain arising from changes in demographic assumptions	(548)	(4,449)
Actuarial (gain) / loss arising from changes in financial assumptions	11,329	(6,595)
Defined benefit obligation at 31 March	142,653	135,608

24 Pension obligations *(continued)*

Admenta Pension Scheme *(continued)*

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

	2021	2020
	£'000	£'000
Fair value of plan assets at 1 April	**129,753**	146,494
Movement in year:		
Interest on scheme assets	**2,910**	3,334
Return on plan assets in less than interest on scheme assets	**25,228**	(12,978)
Contributions by employer	**-**	-
Contributions by employee	**-**	-
Benefits paid	**(6,823)**	(7,097)
Fair value of plan assets at 31 March	**151,068**	129,753

The actual return on scheme assets in the year was £23,138,000 (2020: £(9,644,000)).

Included in other creditors at the balance sheet date were amounts of £nil accrued in respect of Admenta Pension Scheme contributions (2020: £nil).

The Sangers (Northern Ireland) Limited Pension Fund

As a result of the transfer of the majority of the business of Sangers (Northern Ireland) Limited to the company on 31 August 2017 the Company also now participates in the Sangers (Northern Ireland) Limited pension fund, and that scheme is now operated by AAH Pharmaceuticals Limited. This is a career average defined benefit scheme with members of the scheme being employees of the Company. The defined benefit liability has been assumed by the Company based on it being the sponsoring employer for each member of the scheme. 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 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.

24 Pension obligations *(continued)*

The Sangers (Northern Ireland) Limited Pension Fund *(continued)*

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. Benefits are accrued under a formula linked to career average earnings and this provides a degree of offset against the effects of inflation in the future.

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.

The scheme is funded and constituted as an independently administered fund with the assets being held separately from those of the Company. The operating costs are borne by the employer.

A full actuarial valuation was carried out as at 1 April 2019 and was updated to 31 March 2021 by a qualified independent actuary. The major assumptions used by the actuary were as follows:

	2021	2020
Rate of increase in career average revalued earnings	**2.50%**	1.65%
Rate of increase in pensions in payment	**3.00%**	0.00%
Discount rate	**2.10%**	2.30%
Inflation assumption	**2.80%**	2.55%
Assumed life expectancies on retirement at age 65:		
Retiring today – males	**86.2**	86.0
Retiring today – females	**88.6**	89.0
Retiring in 20 years – males	**87.6**	88.0
Retiring in 20 years – females	**90.0**	90.0

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:

24 Pension obligations *(continued)*

The Sangers (Northern Ireland) Limited Pension Fund *(continued)*

Value of defined benefit obligation

	2021 **£'000**	2020 £'000
Increase in discount rate of 0.5%	**24,145**	21,617
Decrease in discount rate of 0.5%	**28,708**	26,050
Increase in rate of pension progression of 0.5%	**27,677**	24,698
Decrease in rate of pension progression of 0.5%	**24,803**	22,702
Increase in rate of increase in salaries of 0.5%	**26,283**	24,104
Decrease in rate of increase in salaries of 0.5%	**26,283**	23,312
Increase in mortality of retiree of 10%	**25,420**	22,895
Decrease in mortality of retiree of 10%	**27,244**	24,534

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, including administration expenses relating to expenses and levies to the Scheme, paid by the company in the year amounted to £242,000 (2020: £340,000), which includes £139,200 (2020: £231,300) in respect of reducing the scheme's funding deficit, which are included in the accounting results. All contributions and payments relating to administration expenses are excluded from the accounting results. The Company expects to contribute £829,000 to this defined benefit plan over the 12 months to 31 March 2022.

The results of the latest funding valuation at 1 April 2019, carried out by a qualified actuary have been adjusted to the balance sheet date taking account of experience over the period since 1 April 2019, changes in market conditions and differences in the financial and demographic assumptions. The present value of the defined benefit obligation was measured using the Projected Unit Method.

The Fund is open to ongoing accrual and company contributions during the year were at a rate of 15.2% pa of member pensionable salary prior to 1 October 2020 and 26.4% pa thereafter plus £139,200 in respect of the current deficit recovery plan (2020: £231,300).

The Fund is closed to new members and so the average age of the membership will increase over time. The weighted average duration of the defined benefit obligation is 17 years (2020: 17 years). The level of benefits provided by the Fund depends on a member's length of service and their career average salary adjusted for inflation to the date of leaving the Fund.

Notes to the financial statements for the year ended 31 March 2021 (continued)

24 Pension obligations *(continued)*

The Sangers (Northern Ireland) Limited Pension Fund *(continued)*

Plan assets are comprised as follows:

	2021 £'000	2020 £'000
Equity Instruments (Quoted)		
- L&G All World Equity Index Fund	**15,379**	11,080
Debt Instruments (Quoted)		
L&G AAA – AA –A Corporate Bond over 15 Year Fund	**6,209**	6,161
L&G 5 year Index Linked Gilt Fund	**3,164**	3,098
L&G Managed Property Fund (Quoted)	**1,674**	1,597
Cash and Cash Equivalents	**(24)**	35
Total Plan Assets	**26,402**	21,971

	2021 £'000	2020 £'000
Total benefit liability		
Fair value of scheme assets	**26,402**	21,971
Present value of funded defined benefit obligation	**(26,283)**	(23,700)
Net defined benefit asset/(liability)	**119**	(1,729)

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

	2021 £'000	2020 £'000
Current service cost	**106**	176
Past service costs & curtailments	**11**	-
Interest on scheme assets	**(500)**	(540)
Interest on scheme liabilities	**537**	609
Net defined benefit expense	**154**	245

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

	2021 £'000	2020 £'000
Experience adjustments of defined benefit obligation	**322**	334
Acturial (loss)/ gain arising from changes in demographic assumptions	**(75)**	583
Experience adjustments of plan assets	**4,425**	(867)
Effects from changes in financial assumptions	**(2,911)**	1,069
Net actuarial gain	**1,761**	1,119

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 (continued)

24 Pension obligations *(continued)*

The Sangers (Northern Ireland) Limited Pension Fund *(continued)*

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

	2021	2020
	£'000	£'000
Defined benefit obligation at 1 April	**23,700**	25,677
Movement in year:		
Past service cost	**11**	-
Current service cost	**106**	176
Contributions by employees	**42**	57
Interest cost	**537**	609
Benefits paid	**(779)**	(833)
Actuarial gain arising from changes in demographic assumptions	**75**	(583)
Actuarial (gain) / loss arising from changes in financial assumptions	**2,911**	(1,069)
Experience (gain) / loss	**(322)**	(334)
Defined benefit obligation at 31 March	**26,281**	23,700

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

	2021	2020
	£'000	£'000
Fair value of plan assets at 1 April	**21,971**	22,732
Movement in year:		
Interest on scheme assets	**500**	540
Return on plan assets in (less than) / excess of interest on scheme assets	**4,425**	(867)
Contributions by employer	**242**	342
Contributions by employee	**42**	57
Benefits paid	**(779)**	(833)
Fair value of plan assets at 31 March	**26,401**	21,971

The actual return on scheme assets in the year was a credit of £4,925,000 (2020: (£327,000)).

Included in other creditors at the balance sheet date were amounts of £nil accrued in respect of the Sangers (Northern Ireland) Limited Pension Fund contributions (2020: £nil).

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2021 *(continued)*

25 Issued share capital

	2021	2020
	£'000	£'000
Authorised, allotted, called and fully paid		
50,000,000 ordinary shares of £1 each	**50,000**	50,000

26 Reserves

Capital contribution reserve relates to contributions made by an intermediate parent company.

Revenue reserves relate to the accumulated profits of the Company less dividends paid.

27 Capital commitments

The Company had capital commitments at 31 March 2021 of £nil (2020: £nil).

28 Contingent liabilities

	2021	2020
	£'000	£'000
Guarantee of loans for pharmacy customers	**1,358**	2,357
	1,358	2,357

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.

29 Intangible assets

	Goodwill £'000
Cost	
At 1 April 2020	20,345
Transfer from Investments	-
At 31 March 2021	**20,345**
Impairment	
At 1 April 2020	16,000
Transfer from Investments	-
Impairment	-
At 31 March 2021	**16,000**
Net book value	
At 31 March 2021	**4,345**
At 31 March 2020	4,345

30 Events after the reporting period

The challenges of the novel coronavirus pandemic continue to impact the business, although the directors believe that the long-term impact of this virus is not yet clear.

In November 2021, McKesson Corporation announced an agreement to sell its UK businesses to AURELIUS, an asset management group which has a proven track record and focus on operational excellence. The transaction is expected to close in fiscal 2022, subject to closing conditions, including receipt of required regulatory approvals.

31 Ultimate parent undertaking and ultimate 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.