MCKESSON

McKesson Europe AG

Annual Report
2021

Annual Report

McKesson Europe AG
Financial 2021

McKesson Europe

McKesson Europe AG, 78% owned by McKesson Corporation, and its subsidiaries are a leading business in the healthcare sector, with strong brands across 13 European countries. McKesson Corporation, originally founded in 1833, is a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions. McKesson partners with life sciences companies, manufacturers, providers, pharmacies, governments, and other healthcare organizations to help provide the right medicines, medical products, and healthcare services to the right patients at the right time, safely, and cost-effectively.

United by our ICARE (Integrity, Customer First, Accountability, Respect and Excellence) shared principles, our employees work every day to innovate and deliver opportunities to improve patient care in every setting – one product, one partner, one patient at a time. For more information visit www.mckesson.eu.

McKesson Europe has operations in 10 countries and manages wholesale and pharmacy operations wholly owned by McKesson Corporation in Norway, Sweden and Ireland.

The Pharmaceutical Distribution business delivers pharmaceutical and other healthcare-related products to pharmacies across Europe. This business functions as a vital link connecting manufacturers to retail pharmacies by supplying medicines and other products sold in pharmacies. Pharmaceutical and other healthcare-related products are stored at regional wholesale branches using technology-enabled management systems. Our business leverages its scale and provides innovative and effective medical care services to create enhanced customer value.

Retail Pharmacy serves patients and consumers in European countries directly through our own pharmacies and franchise pharmacies. In addition, in the United Kingdom, this business includes outpatient dispensing, eCommerce and homecare arrangements by providing traditional prescription pharmaceuticals, non-prescription products and medical services. The Lloyds Pharmacy brand operates in Belgium, Ireland, Italy, and the UK. In addition, we partner with independent pharmacies under our franchise program.

The fiscal year at a glance (01/04/2020 – 31/03/2021)

KEY FIGURES OF MCKESSON EUROPE		Fiscal 2020	Fiscal 2021	Change on EUR basis %
Continuing operations				
Revenue	EUR m	17,117.6	16,748.1	–2.2
Gross profit	EUR m	1,877.6	1,815.0	–3.3
adjusted 1)	EUR m	1,875.4	1,822.5	–2.8
EBIT	EUR m	–8.6	24.2	/
adjusted 1)	EUR m	96.4	151.9	57.6
Profit before taxes	EUR m	–29.5	27.8	/
adjusted 1)	EUR m	75.5	155.5	>100
Net profit/loss	EUR m	–66.1	0.9	/
adjusted 1)	EUR m	38.9	112.7	>100
Earnings per share (basic)	€	–0.35	–0.01	96.6
Earnings per share (basic), adjusted [1)]	€	0.17	0.54	>100
Cash inflow from operating activities	EUR m	302.6	419.5	38.7
Net cash flow from investing activities	EUR m	–189.1	179.8	-
Free cash flow	EUR m	75.7	573.1	>100
Employees (full-time equivalent) [2)]		22,850	21,192	/
Retail pharmacies [2)]		1,860	1,749	/
Wholesale branches [2)]		97	90	/
Discontinued operations				
Net profit/loss	EUR m	–177.2	–8.2	95.4
Earnings per share (basic)	€	–0.87	–0.04	95.4
Employees (full-time equivalent) [2)]		1,479	0	/
Continuing and discontinued operations				
Total assets	EUR m	7,919.6 [2]	7,047.3 [2]	–11.0
Equity	EUR m	1,748.7 [2]	1,900.7 [2]	8.7
Equity ratio	%	22.1 [2]	27.0 [2]	/
Net financial debt (Financial liabilities net cash)	EUR m	566.0 [2]	28.2 [2]	–95.0
Net Financial Debt/EBITDA adj. [1) 3)]		1.96 [2]	0.1 [2]	–95.3
Employees (full-time equivalent) [2)]		24,329	21,192	/
Employees [2)]		31,912	27,618	/
Net profit/loss for the period	EUR m	–243.3	–7.3	97.0
Earnings per share (basic)	€	–1.22	–0.05	95.7

[1)] Adjusted for special effects from defined non-recurring expenses and income (including tax effect), incl. goodwill impairments.
[2)] Closing figures at the end of the reporting period
[3)] Based on EBITDA of the last twelve months ending on the respective reporting date

To our shareholders

McKesson Europe AG
Financial Year 2021

The Supervisory Board

Members of the Supervisory Board of McKesson Europe AG as of 31 March 2021

Brian S. Tyler [2] [3] [4]	(Chairman)
Ihno Goldenstein [1] [2] [3] until 31 October 2020	(Deputy Chairman until 31 October 2020)
Ralf Kuhlen [1] [3] since 1 November 2020	(Deputy Chairman since 3 November 2020)
W.M. Henning Rehder [2]	(Deputy Chairman)
Marc Bauer [1] until 31 October 2020	
Detlef Bernhardt [1] until 31 October 2020	
Dennis Both [1] until 31 October 2020	
Leonie Dengler [1] since 1 November 2020	
Jörg Lauenroth-Mago [1] [2]	
Pauline Lindwall	
Stanton McComb since 21 April 2020	
Susan Naumann [1] [3]	
Heike Nowak [1] since 1 November 2020	
Fabian Sattler [1] since 1 November 2020	
Lori A. Schechter [3]	
Jack Stephens	

[1] Employee representative
[2] General Committee
[3] Mediation Committee
[4] Chairman of the respective committee

Report of the Supervisory Board

Dear Shareholders,
Dear Ladies and Gentlemen,

In the 2021 financial year (1 April 2020 to 31 March 2021), we, as the Supervisory Board of McKesson Europe AG, regularly advised the Management Board in its management of McKesson Europe and continuously monitored its management team. We performed the duties required of us by law, our articles of association and our rules of procedure with great diligence. As a supervisory body, we dealt in detail with the commercial and financial development of McKesson Europe as well as its strategic alignment. We were involved in all decisions of fundamental importance to McKesson Europe at an early stage.

Changes in the Supervisory Board

Subsequent to the transfer of GEHE Pharma Handel GmbH into the joint venture with Walgreens Boots Alliance, the mandates of Ihno Goldenstein, Detlef Bernhardt, Dennis Both and Marc Bauer as employee representatives on the Supervisory Board ended on 31 October 2020. Leonie Dengler, Ralf Kuhlen, Heike Nowak and Fabian Sattler were appointed by the court as their successors effective as of 1 November 2020.

In its meeting on 3 November 2020, the Supervisory Board appointed Ralf Kuhlen first Deputy Chairman, and Jörg Lauenroth-Mago member of the General Committee.

The Supervisory Board would like to thank the departing members of the Supervisory Board for their – in part – very long period of service, committed contribution and support, and for their consistently constructive and trusting cooperation.

Cooperation with the Management Board and monitoring

In the past business year, the cooperation between the Management Board and the Supervisory Board was again characterized by an intensive and open dialogue based on trust. The Management Board regularly and comprehensively informed the Supervisory Board and its Chairman in written and oral form aboutall relevant matters concerning McKesson Europe. The main focus of our joint work and monitoringwas onthe financial position of McKesson Europe AG and its subsidiaries and the results of its operations and cash flows, the course of business in the business divisions, the development of the market environment, strategy and planning of McKesson Europe as well as portfolio considerations. The Management Board was present at and involved in all three meetings and five resolutions of the Supervisory Board. In this context, the Supervisory Board dealt withvarious significant developments, including the challenging overall situation due to the pandemic and the stillintense competitive environment in France and Germany, the government measures and the Brexit scenario in the UK, as well as productivity and growth initiatives in many countries. In addition, the Supervisory Board was involved in all significant investments and M&A projects, including the transfer of GEHE Pharma Handel GmbH into the joint venture with Walgreens Boots Alliance.

Annual and consolidated financial statements as well as management report

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements of McKesson Europe AG and the consolidated financial statements as well as the joint management report as of 31 March 2021 and issued an unqualified auditor's report in each case. The Supervisory Board had awarded the audit engagement in accordance with the resolution of the Annual General Meeting of 18 December 2020.

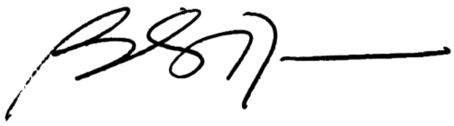
The necessary documents and the auditor's reports were available to all members of the Supervisory Board and were discussed in detail also with the auditor in the Supervisory Board meeting on 29 July 2021. After the final result of its detailed examination and consultation, the Supervisory Board had no objections to raise. It agreed with the results of the audit and approved the annual financial statements of McKesson Europe AG prepared by the Management Board as well as the consolidated financial statements.

Credits

The Supervisory Board thanks the Management Board, the management teams of the subsidiaries and all employees in Germany and abroad for their great personal commitment, dedication, performance and loyalty in a 2021 financial year still characterized by the pandemic. We are convinced that we are on the right track and will continue to overcome all challenges and seize the opportunities presented to us in the 2022 financial year.

STUTTGART, JULY 2021

ON BEHALF OF THE SUPERVISORY BOARD



BRIAN S. TYLER

CHAIRMAN

Combined Management Report

McKesson Europe AG
Fiscal 2021 from 1 April 2020 to
31 March 2021

Background of McKesson Europe/ Business activity and organisation

This combined Management Report is based on the fiscal 2021 (01/04/2020 – 31/03/2021) of McKesson Europe that consists of McKesson Europe AG and its subsidiaries (hereafter referred to as “McKesson Europe”).

McKesson Europe AG is the management holding company of McKesson Europe and provides its subsidiaries and managed entities central financial and liquidity management as well as services on the basis of service agreements.

As the nature of business, the economic position and the opportunities and risks associated with the future development of McKesson Europe AG do not differ from those of McKesson Europe, the management report of McKesson Europe has been combined with that of McKesson Europe AG in accordance with section 315(5) HGB (German Commercial Code) in connection with section 298 (2) HGB.

Our business model

We manage strong brands in pharmaceutical and healthcare markets across Europe, making McKesson Europe one of the leading international trading companies and service providers in the pharmaceutical market in Europe. We have operations in 10 countries and manage wholesale and pharmacy operations wholly-owned by McKesson Corporation in Norway, Sweden and Ireland, therefore not part of the IFRS consolidated financial statements. Our core business consists of pharmaceutical wholesale and pharmacies – we operate our own retail pharmacies and maintain partnership schemes with independent, owner-run pharmacies.

Nearly 28,000 employees cover the supply chain from the pharmaceutical manufacturers through to the patient, offering supply chain services for pharmaceutical and biotechnology manufacturers and selling medicines, healthcare products and special services for customers via our pharmaceutical wholesale business and retail pharmacies. Additionally, about 3,500 employees are working in our managed operations in Norway, Sweden and Ireland.

Our own and managed wholesale network delivers to approximately 48,000 pharmacies every day in eleven European countries.

We operate approximately 1,750 pharmacies and manage more than 300 pharmacies in six European countries. With a focus on professional advice, we support patients and consumers by supplying medicines and numerous pharmaceutical services for health and well-being.

Our aim is to actively help people through effective, efficient and innovative healthcare services. We are developing our core business through new concepts and innovative approaches as part of our strategy.

Optimising key areas of business activities together with McKesson

As of 31 March 2021, McKesson Corporation ("McKesson"), Irving, USA, is the majority shareholder in McKesson Europe, with more than 78% of McKesson Europe shares. The existence of a domination and profit and loss transfer agreement between McKesson Europe Holdings GmbH & Co. KGaA (a wholly-owned indirect subsidiary of McKesson) and McKesson Europe AG empowers both companies to work together as an integrated global company and create more stakeholder value.

McKesson Europe structure and management

The organisation and reporting structure of McKesson Europe is divided into two divisions which are aligned to the needs and demands of the respective customer groups.

The Pharmaceutical Distribution division serves pharmacies and is primarily concerned with wholesale distribution activities. The Retail Pharmacy division is aimed at patients and consumers and is mainly comprised of the retail pharmacy business.

The organisational structure of McKesson Europe is arranged functionally. The businesses in the countries are supported by corporate functions.

Management and control

The Management Board of McKesson Europe AG manages McKesson Europe based on legal requirements and the rules of procedure laid down by the Supervisory Board. The Management Board is supported by a leadership team, but the Management Board ultimately leads McKesson Europe.

The Management Board of McKesson Europe AG is advised and controlled in its management function by the Supervisory Board. The Supervisory Board as of 31 March 2021 is made up of an equal number of shareholder and employee representatives and is responsible for appointing members of the Management Board; any major transactions by the Management Board must be approved by the Supervisory Board.

An essential element of the domination agreement is granting the parent company the authority to issue instructions. McKesson Europe Holdings GmbH & Co. KGaA is authorised to issue instructions to McKesson Europe AG with regard to the management of McKesson Europe AG. McKesson Europe AG nevertheless remains legally independent with its own executive bodies, as described above. It also continues to be the responsibility of the McKesson Europe AG Management Board to run and represent McKesson Europe. If no instructions are issued, the McKesson Europe AG Management Board can and must run McKesson Europe AG on its own authority.

Key performance indicator

Revenue, EBIT (earnings before interest and taxes) and adjusted EBIT are key performance indicators for the performance measurement of our business. A detailed description of special effects leading to the adjustments on EBIT is provided on page 17. EBIT allows us to measure the operating business success including amortisation and depreciation and to compare ourselves with other international companies. The number of employees is the most significant non-financial performance indicator.

Additionally, we budget and measure a number of financial and non-financial key performance indicators on a monthly basis, such as net working capital, net debt, free-cash flow and full-time equivalents (FTE).

Market and strategy

Demographic change is one of the main drivers of growth in the global pharmaceutical markets

Growth of the global pharmaceutical and healthcare markets will continue to be driven primarily by global demographic trends in the coming years.

Overall worldwide pharmaceutical and healthcare markets will grow by an average of 4.5% per year until 2024. Through strong population growth, rising affluence, higher life expectations and increased quality of and access to healthcare, the developing and emerging economies will contribute to global growth with high single digit growth rates. Industrialised nations on the other hand will mostly only generate growth rates in the lower single digits (source: IQVIA Inc., Q3 2020, Danbury, USA, hereafter "IQVIA").

Cost pressure on healthcare systems as a driver of competition and development in Europe

In the advanced and highly regulated markets of Europe, moderate growth of approximately 3.9% per year is expected through 2024, according to IQVIA. Furthermore price pressure in European pharmaceutical and healthcare markets is expected to remain, primarily as a result of structural reforms in those countries in Europe that are economically weaker.

It is likely that government cost reduction programs will adversely impact pharmaceutical distribution. In the medium term, this pressure could lead to further consolidation in the pharmaceutical business in order to realise economies of scale and purchasing advantages. In addition, traditional pharmaceutical distribution models are increasingly adding services for manufacturers and pharmacies with corresponding new compensation models. The pharmaceutical wholesale business is thus positioning itself as a full service provider between manufacturers and pharmacies. In the pharmacy sector, higher reimbursement pressure is causing a concentration of pharmacies into cooperation concepts and – in less regulated markets – to pharmacy networks.

In many European countries, the pharmacy is shifting to a model of providing medical care. This relates to both patient support for chronic illnesses (e.g. advice or therapy compliance) and the rendering of medical services such as performing vaccinations. This will increase the quality of healthcare and reduce healthcare costs. Additionally, in some markets, as authorities try to control rising hospital and healthcare costs, the home is becoming a preferred healthcare setting for patients. This increases the need for business models that support in-home healthcare services as well as eCommerce.

COVID-19

In December 2019, a novel strain of coronavirus, which causes the infectious disease known as COVID-19, was reported in Wuhan, China. The World Health Organization declared COVID-19 a "Public Health Emergency of International Concern" on 30 January 2020 and a global pandemic on 11 March 2020.

We continue to evaluate the nature and extent of the impacts COVID-19 has on our business and operations. The pandemic developed rapidly during our fourth quarter of 2020 and continued to evolve throughout 2021. A significant number of new COVID-19 cases continue to be reported. These also include cases from new and emerging COVID-19 variants, which could have the potential to be more severe, spread more easily, require different treatments, or change the effectiveness of current vaccines.

During this unprecedented time, we are committed in continuing to supply our customers and protect the safety of our employees. The various responses we put in place to mitigate the impact of COVID-19 on our business operations, including telecommuting and work from home policies, restricted travel, employee support programs, and enhanced safety measures, are intended to limit employee exposure to COVID-19. For employees whose roles require presence at our facilities, we enhanced safety by promoting the practice of social distancing, providing personal protective equipment and establishing hygiene and disinfection measures. For employees whose roles do not require presence at our facilities, we added technology resources to support their working remotely. And for our retail staff and customers in pharmacies we applied changes to physical facilities, such as adding plexiglas panels to counters, adapted customer flows and provided personal protective equipment. These responses were started to be put in place in our fourth quarter of 2020. These steps to protect employee safety have resulted in limited disruption from COVID-19 to our normal business operations, productivity trends, and have not materially impacted our operating expenses or operating margins, as those negative impacts were largely offset by government support.

Our consolidated balance sheets and ability to maintain financial liquidity remains strong. We have experienced no adverse impacts to our liquidity, but we have experienced additional stock from emergency or safety stock due to the COVID-19 pandemic impacting our net working capital. We are monitoring our customers closely for changes to their timing of payments or ability to pay amounts owed to us as a result of COVID-19 pandemic impacts to their businesses.

We also continue to monitor the COVID-19 pandemic impacts on our supply chain. Although the availability of various products is dependent on our suppliers, their locations, and the extent to which they are impacted by the COVID-19 pandemic, we are proactively working with manufacturers, industry partners, and government agencies to meet the needs of our customers during the pandemic. We have engaged with industry partners and government agencies to gain visibility into supply and demand. The situation remains fluid and we are taking a proactive approach to protect inventory during this crisis and ensure our provider partners have needed supplies and medications to help prevent the spread of the disease and treat those that are ill. COVID-19 has put an unprecedented strain on the supply of high-demand personal protective equipment (PPE) and ancillary supplies, including masks, gloves, as well as disinfecting sprays and wipes. The supply chain has improved over the initial impact of pandemic-related demand, and we continue to closely monitor demand by customer type.

During the fourth quarter of 2020, we experienced a temporary increase in demand for pharmaceuticals due to stockpiling by pharmacy customers and advanced purchases by patients and consumers driven by the COVID-19 pandemic outbreak. Subsequently, we had lower pharmaceutical volumes, specialty drug volumes, and patient care visits that negatively impacted our consolidated revenues and income from continuing operations in fiscal 2021. Offsetting these negative impacts, government assistance including tax relief and furloughs was received. Operating expenses also decreased, largely due to savings from restricted travel and decreased meetings. The demand for COVID-19 tests, the year over year impact from PPE, as well as the distribution of COVID-19 vaccines and ancillary supplies also positively impacted revenues and EBIT.

Overall, these COVID-19 related items had a net unfavorable impact on consolidated income from continuing operations for the year ended 31 March 2021. Impacts to future periods due to COVID-19 may differ based on future developments, which is described in our outlook.

Primary objective: people's health

Now more so than ever before, patients and consumers are determining the success of the pharmaceutical and healthcare markets.

McKesson Europe aims to improve care in every setting one product, one partner, one patient at a time. Our strategy is based on this ultimate goal. We continuously strive to improve the quality of services for patients and consumers as well as the efficiency of the supply chain through a strategy of innovation. Our corporate mission serves as a framework and directional aid for McKesson Europe’s strategy and structure.

The way we do business

To achieve our goals, we follow our McKesson Europe playbook which has three dimensions: foundational, transformational and aspirational. The foundational dimension is about strengthening our core business, winning as one, inclusive team with an enterprise-first mindset. We strive to operate with excellence, efficiency and effectiveness, spending smarter and leveraging our scale for superior customer value. In the transformational dimension we focus on working smarter and growing smarter, e.g. expand our role in COVID-19 vaccine distribution and digitalize customer interfaces to improve experience. We focus on the potential to deliver healthcare through digital and physical channels. In the aspirational dimension, our goal is to be preferred partner in patient care and also to be the best place to work in healthcare. We strive to ensure our business is sustainable and take coordinated action across McKesson on climate issues. McKesson Europe is committed to drastically reduce its CO2 emissions and be carbon neutral until 2030.

Fundamental for McKesson Europe's success is strong collaboration between and amongst countries and corporate functions. As countries differ greatly in terms of regulations and health care systems, in general, decisions should be made as close to the customers as possible, i.e., by the local management. In areas like procurement, European Pharmacy Network (EPN) or IT, it is important that we are acting as a coordinated entity. Last, but not least, developing our employees is an overarching task and management priority, which is key to our success.

McKesson Europe strategy is to focus on European core markets that offer the right mix of economic growth potential, competitive landscape and customer type, coupled with an ability to scale and leverage our operations to generate maximum efficiencies.

Following this strategy, on 1 November 2020, McKesson completed its previously announced transaction with Walgreens Boots Alliance (WBA) whereby the German Pharmaceutical Distribution businesses of both groups were contributed to a newly formed joint venture in which McKesson Europe has a 30% ownership interest.

McKesson Europe has implemented several restructuring programs to enhance the profitability and strengthen its business. These programs include reorganization and consolidation of our business operations and related headcount reductions as well as closures of retail pharmacies.

Economy

Dependency on economic environment

The pharmaceutical wholesale business operates in a relatively stable market environment that is not directly dependent on economic stability. The pharmaceutical retail business is slightly dependent on the overall economy, typically for non-prescription products sold. However, we have not assessed any direct dependency on the overall economic environment in the past.

We are influenced by government actions from the UK Department of Health. However, in the past year we did not experience significant changes as we are operating in similar terms as in the previous year.

Besides the development in the UK, the basic parameters of the economic environment - with the exception of the effects of the COVID-19 pandemic - in our European markets remained generally stable in fiscal 2021.

Revenue and earnings development

McKESSON EUROPE REVENUE AND OPERATING RESULTS	Fiscal 2020		Fiscal 2021	
	EUR m	of revenue %	EUR m	of revenue %
Revenue	17,117.6	100.0	16,748.1	100.0
Gross profit	1,877.6	11.0	1,815.0	10.8
adjusted 1)	1,875.4	11.0	1,822.5	10.9
EBIT	– 8.6	– 0.1	24.2	0.1
adjusted 1)	96.4	0.6	151.9	0.9
Profit before taxes	– 29.5	– 0.2	27.8	0.2
adjusted 1)	75.5	0.4	155.5	0.9
Net profit from continuing operations	– 66.1	– 0.4	0.9	0.0
adjusted 1)	38.9	0.2	112.7	0.7
Net profit from discontinued operations	– 177.2	– 1.0	– 8.2	0.0
Net profit/loss from continuing and discontinued operations	**– 243.3**	**– 1.4**	**– 7.3**	**0.0**

1) Adjusted for special effects from defined non-recurring expenses and income (including tax effect), incl. goodwill impairments.

Revenue

McKesson Europe's revenue was EUR 16,748.1m in fiscal 2021, down – 2.2% from the fiscal 2020 amount of EUR 17,117.6m. Revenue in fiscal 2021 was negatively impacted by exchange rate effects of EUR – 132.7m. On a constant currency basis our revenue decreased by – 1.4% in fiscal 2021. The negative development was primarily caused by lower volumes driven by the COVID-19 pandemic.

As in the past fiscal year, the UK made the largest contribution to revenue (38.2%; fiscal 2020: 38.2%) followed by France (34.5%; fiscal 2020: 34.3%:), and Austria (7.9%; fiscal 2020: 7.9%).

Gross profit

In fiscal 2021 gross profit decreased by EUR – 62.6m to EUR 1,815.0m. This development is primarily driven by the above-mentioned revenue decrease, partly offset by a newly regulated wholesale margin in France. At 10.8%, the gross profit margin in the reporting period was slightly below the prior year level of 11.0%. The decline in gross margin, is mainly driven by an unfavourable sales mix in Retail Pharmacies UK and general decrease in OTC sales due to a less severe cough, cold and flu season impact and lockdown measures imposed by national and local governments that reduced footfall in our pharmacies.

EBIT

EBIT saw an increase from EUR – 8.6m in fiscal 2020 to EUR 24.2m in fiscal 2021. This increase is primarily driven by the sale of the European Pharmacy Network (EPN) intellectual property (IP) for EUR 54.0m to McKesson Strategic Services Ltd. EPN is an innovative multi-jurisdictional initiative designed to optimize McKesson's pharmacies across Europe, resulting in improved profits for McKesson and outcomes for patients, pharmacists and manufacturers.

This increase is also amplified by non-recurring expenses, which differed significantly between the two fiscal years. In fiscal 2020 the non-recurring expenses amounted to EUR 104.9m. The most significant non-recurring items were goodwill impairments of EUR 97.4m mainly in Pharmaceutical Distribution France and long-lived asset impairments of EUR 13.3m, mainly in Ireland. Additionally, integration activities in various countries created non-recurring expenses of EUR 8.8m. These were partly offset by profits from disposal amounting to EUR 11.8m, mainly relating to the sale of pharmacies in Retail Pharmacy UK.

In fiscal 2021 non-recurring expenses increased by EUR 22.8m to EUR 127.6m. The most significant non-recurring items were the goodwill impairments of EUR 54.6m in Retail Pharmacy UK and Retail Pharmacy Ireland as well as long-lived asset impairments of EUR 40.8m, mainly in the UK. Additionally, restructuring programs primarily in France, UK and Germany created non-recurring expenses of EUR 47.4m. Integration activities in various countries resulted in non-recurring expenses of EUR 6.0m. These non-recurring expenses were partly offset by profits of pharmacy disposals of EUR 19.7m, mainly in the UK.

Adjusted EBIT excludes effects that are non-recurring, these effects are derived from:
- impairment losses/ reversals recorded on non-current assets and revaluations pursuant to accounting for assets held for sale and discontinued operations regarding the expected amount of net sale proceeds,
- deconsolidation,
- impairment losses/ reversals recognised on intangible or tangible assets,
- restructuring charges from changes in strategy, of ordinary business, including changes to management
- integration activity of newly acquired entities as well as the integration into McKesson Corporation.

Adjusted EBIT increased by 57.6% to EUR 151.9m in fiscal 2021 compared to EUR 96.4m in fiscal year 2020. This development was mainly driven by the above mentioned sale of the European Pharmacy Network (EPN) intellectual property (IP). Additionally, significant cost efficiencies overcompensated together with government support (e.g. furlough, tax reliefs) the above-mentioned volume shortfall driven by the COVID-19 pandemic. Positive exchange rate effects amounted to EUR 1.6m, mainly related to the British pound.

Investment result

At EUR 30.2m the investment result was above the previous year of EUR 23.1m. This was primarily attributable to the prior year impairment of the minority investment in mymHealth Limited.

Financial result

The financial result, the balance of the items interest expense, interest income and other financial result, declined to EUR -26.6m in fiscal 2021, compared to EUR -44.0m in fiscal 2020. This decline is mainly driven by a repayment of a loan to a McKesson Corporation subsidiary and a corresponding reduction in interest expenses.

Income taxes

Income taxes decreased by EUR 9.7m, resulting in a tax expense of EUR 26.9m in this fiscal (fiscal 2020: EUR 36.6m tax expense). This results in an effective tax rate of 96.6% for the reporting period (fiscal 2020: >100%). The fiscal 2021 tax rate is mainly driven by non-deductible goodwill impairments and the impact of differing national tax rates.

Adjusted for the special effects mentioned above, the adjusted tax rate is 27.6% in fiscal 2021 compared to 48.5% in fiscal 2020. The movement in the adjusted tax rate is mainly due to a change in the earnings mix from the different countries in which McKesson Europe operates.

Net profit/loss from continuing operations

The net profit from continuing operations at McKesson Europe was EUR 0.9m compared to EUR –66.1m in fiscal 2020. After adjustments for non-recurring items, net profit from continuing operations was EUR 112.7m compared to EUR 38.9m in fiscal 2020. This increase results mainly from the previously described increase in adjusted EBIT and improvements in the investment and financial result. The basic and diluted earnings per share of McKesson Europe increased from EUR 0.17 in fiscal 2020 to EUR 0.54 in fiscal 2021.

Net profit/loss from discontinued operations

In fiscal 2020, due to the agreement with WBA to contribute our German wholesale business to a newly formed joint venture in which McKesson Europe has a 30% ownership interest, the Pharmaceutical Distribution Germany entities were classified as discontinued operations. Discontinued operations generated revenue of EUR 2,909.8m in fiscal 2021 compared to EUR 5,074.6m in fiscal 2020. EBIT amounted to EUR 14.3m in fiscal 2021 compared to EUR 21.1m in fiscal 2020.

The contribution of the German pharmaceutical wholesale business into a joint venture with WBA resulted in a loss of EUR 15.1m in the reporting period. Net profit amounted to EUR – 8.2m in fiscal 2021 compared to EUR – 177.2m in fiscal 2020.

Subsequent to the sale of the Brazil operations in fiscal 2016, EUR 6.1m were recorded as an expense through profit and loss in fiscal 2021 compared to EUR 2.5m in fiscal 2020.

Net profit/loss

Net profit from continuing and discontinued operations was EUR – 7.3m in fiscal 2021 compared to a net loss of EUR – 243.3m in fiscal 2020. Accordingly, basic and diluted earnings per share were EUR – 0.05 compared to EUR – 1.22 in fiscal 2020.

Investments and capital expenditures

Investments and capital expenditures recognized in the statement of financial position were EUR 174.4m in fiscal 2021 (fiscal 2020: EUR 307.9m).

McKesson Europe differentiates between investments in acquisitions and new pharmacies and capital expenditures of the existing business.

Balance sheet additions from acquisitions and new pharmacies were EUR 7.1m in fiscal 2021 compared to EUR 112.1m in 2020. The fiscal 2020 amount includes the acquisition of the majority stake of Metabolic Healthcare Holdings Ltd. in the UK and a pharmacy chain in Italy. In fiscal 2021 the majority of acquisitions were in Retail Pharmacies Italy.

In fiscal 2021, capital expenditure for existing operating business totalled EUR 167.3m compared to EUR 195.7m in fiscal 2020. Similar to last year, investments in our IT infrastructure create a large part of this investment. Furthermore, we finalized our network optimizations in Denmark and Austria as well as further optimization in Belgium. In Retail Pharmacies UK, significant investments were made in Strategic Dispensing project which offers our business customers individual patient pill assembly.

Retail Pharmacy

Market environment and business development

The Retail Pharmacy division serves patients and consumers. It includes the entire logistics chain from purchasing merchandise to handing it over to the end customers. In particular, the division includes activities relating to retail, ecommerce as well as homecare.

McKesson Europe is one of the largest pharmacy operators in Europe. As of the end of fiscal 2021 McKesson Europe owned approximately 1,750 retail pharmacies in four countries.

Due to the ongoing optimisation of the European pharmacy portfolio, there was an overall net decrease of 111 pharmacies in fiscal 2021. More specifically, we sold and closed several pharmacies in the UK as a result of a strategic review and restructuring of the pharmacy portfolio in the UK.

Revenue and earnings development

RETAIL PHARMACY REVENUE AND OPERATING RESULTS	Fiscal 2020		Fiscal 2021	
	EUR m	of revenue %	EUR m	of revenue %
Revenue	3,926.8	100.0	3,998.9	100.0
Gross profit	951.4	24.2	917.2	22.9
adjusted 1)	949.5	24.2	922.8	23.1
EBIT	–17.4	–0.4	–63.2	–1.6
adjusted 1)	–24.0	–0.6	20.0	0.5

[1] Adjusted for special effects from defined non-recurring expenses and income.

Revenue

Revenue in the Retail Pharmacy division increased by 1.8% in fiscal 2021 from EUR 3,926.8m in fiscal 2020 to EUR 3,998.9m. Negative exchange rate effects amounted to EUR 72.8m related to the British Pound. On a constant currency basis Retail Pharmacy increased by 3.7% compared to prior year. UK, being the largest Retail Pharmacy country in terms of revenue, contributed to its growth with an increase of 2.4%. This improvement was mainly driven by increases in the homecare business. Irelands revenue also showed a slight increase.

Gross profit

In fiscal 2021, the division's gross profit decreased by 3.6% to EUR 917.2m, from EUR 951.4m in the comparison period. The main reason for this decline was an unfavorable sales mix in the UK. The exchange rate effects amounted to EUR –14.2m. The gross profit margin decreased from 24.2% in fiscal 2020 to 22.9% in fiscal 2021.

EBIT

EBIT amounted to EUR –63.2m in fiscal 2021 compared to EUR –17.4m in fiscal 2020. EBIT adjusted for non-recurring items changed from EUR –24.0m in fiscal 2020 to EUR 20.0m in fiscal 2021. This increase was mainly driven by significant cost efficiencies as well as government support (e.g. furlough, tax reliefs) for the COVID-19 pandemic in the UK.

In fiscal 2021 non-recurring expenses amounted to EUR 83.2m. The most significant non-recurring item in were the goodwill impairments of EUR 54.6m in Retail Pharmacy UK and Retail Pharmacy Ireland as well as long-lived asset impairments of EUR 27.7m, mainly in the UK. Additionally, restructuring programs primarily in the UK created non-recurring expenses of EUR 16.2m. These non-recurring expenses were partly offset by pharmacy disposals of EUR 15.7m, mainly in the UK.

In fiscal 2020 non-recurring income amounted to EUR 6.6m. Mainly driven by disposal income EUR 11.8m in the UK as well as the release of provisions for restructuring programs of EUR 12.7m mainly in the UK, partly offset by a long-lived asset impairment of EUR 10.7m, mainly in Ireland. Additionally, integration activities led to non-recurring expenses of EUR 4.0m.

Pharmaceutical Distribution

Market environment and business development

McKesson Europe bundles its wholesale activities with pharmaceutical products in its Pharmaceutical Distribution division.

McKesson Europe subsidiaries are active in nine European countries. McKesson Europe is one of the major players in all countries with the exception of Italy, where we only operate regionally.

McKesson Europe offers supplementary services for pharmacists such as the organisation and management of pharmacy cooperation programs in UK, France, Portugal and Belgium. Within the framework of these cooperation programs, we also support our business partners with offers and campaigns and provide platforms to facilitate the exchange of information. McKesson Europe offers a suite of services to suppliers, manufactures and other third parties in the pharmaceutical and healthcare sector.

The pharmaceutical wholesale business operates in a relatively stable market environment that is not directly dependent on economic stability.

Revenue and earnings development

PHARMACEUTICAL DISTRIBUTION REVENUE AND OPERATING RESULTS	**Fiscal 2020**		**Fiscal 2021**	
	EUR m	**of revenue %**	**EUR m**	**of revenue %**
Revenue	13,201.9	100.0	12,750.9	100.0
Gross profit	926.2	7.0	897.8	7.0
adjusted 1)	925.9	7.0	899.6	7.1
EBIT	22.9	0.2	65.8	0.5
adjusted 1)	128.1	1.0	103.6	0.8

[1)] Adjusted for special effects from defined non-recurring expenses and income.

Revenue

In fiscal 2021 the Pharmaceutical Distribution division generated revenue of EUR 12,750.9m compared to EUR 13,201.9m in fiscal 2020, a decrease of -3.4%. The exchange rate effect of EUR -59.9m was slightly negative. The revenue decline was mainly driven by lower volumes caused by the COVID-19 pandemic.

Gross profit

In fiscal 2021, the division's gross profit decreased by 3.1% from EUR 926.2m in fiscal 2020 to EUR 897.8m. Overall negative currency exchange rate effects amounted to EUR -4.0m mainly related to the British pound. The gross profit margin in fiscal 2021 of 7.0% is in line with the prior year margin of 7.0%.

EBIT

The division's EBIT increased significantly from EUR 22.9m in fiscal 2020 to EUR 65.8m in fiscal 2021. Adjusted EBIT decreased by -19.1% from EUR 128.1m in fiscal 2020 to EUR 103.6m in fiscal 2021.

In fiscal 2021 the non-recurring expenses amounted to EUR 37.8m, mainly driven by restructuring expenses of EUR 24.0m, primarily in France. Additionally, long-lived asset impairments of EUR 11.6m as well as integration activities in various countries created non-recurring expenses.

In fiscal 2020 non-recurring expenses amounted to EUR 105.1m, mainly due to a goodwill impairment in France of EUR 94.2m. Furthermore, integration activities in various countries of EUR 5.1m as well as restructuring expenses of EUR 3.7m created non-recurring expenses.

The decrease in adjusted EBIT was mainly driven by lower volumes across all countries due to the COVID-19 pandemic, partly offset by a significant increase in France resulting from the newly regulated wholesale margin.

Discontinued Operations

Discontinued operations generated revenue of EUR 2,909.8m in fiscal 2021 compared to EUR 5,074.6m in fiscal 2020. EBIT amounted to EUR 14.3m in fiscal 2021 compared to EUR 21.1m in fiscal 2020. The German pharmaceutical wholesale business was presented as discontinued operations for seven months in fiscal 2021 prior to disposal.

Financial position

Statement of cash flows

EUR m	Fiscal year 2020	Fiscal year 2021	Dev.
Cashflow statement - continued operations			
Cash inflow from operating activities - continuing activities	302.6	419.5	116.9
Cash outflow from investing activities - continued operations	– 189.1	179.8	368.9
Interest paid and received	– 37.8	– 26.2	11.6
Free cash flow	**75.7**	**573.1**	**497.4**
Payments from shareholders	155.0	114.7	– 40.2
Payments made to shareholders (including non-controlling interests)	– 3.2	– 3.8	– 0.6
Cash Flows Financial Liabilities	– 84.3	– 409.4	– 325.2
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	– 0.5	– 0.8	– 0.3
Net change in cash and cash equivalents - discontinued operations	**1.8**	**– 60.9**	**– 62.7**
Payments for hedging activities	0.0	0.0	0.0
Net change in cash and cash equivalents	**144.5**	**212.9**	**68.4**
Exchange rate changes in funds	5.8	2.2	– 3.6
Change in cash and cash equivalents	**150.3**	**215.1**	**64.8**

The cash inflow from operating activities came to EUR 419.5m for continuing operations in fiscal 2021, compared to a cash inflow of EUR 302.6m generated in the previous fiscal 2020. Cash inflow from operating activities came to EUR – 57.0m for discontinued operations, compared to EUR 10.0m in fiscal 2020.

The cash inflow from investing activities for continuing operations amounted to EUR 179.8m. Main effects in fiscal 2021 were the cash outflows for investments of EUR -100.3m, offset by the cash inflows of EUR 235.0m related to the conclusion of the Pharmaceutical Distribution joint venture in Germany, proceeds from the disposal of non-current assets EUR 24.4m as well as proceeds from disposals of stores in UK of EUR 15.5m.

Free cash flow, the balance of net cash inflow from operating activities, net cash outflow from investing activities, interest paid and received amounted to EUR 573.1m for continuing operations in fiscal 2021 compared to EUR 75.7m in fiscal 2020.

Cash and cash equivalents came to EUR 1,192.1m as of 31 March 2021, an increase of EUR 215.1m compared to the end of the fiscal 2020.

EUR m	03/31/2020	03/31/2021	Change in statement of financial position	Net change in cash and cash equivalents continuing operations*
Change in net working capital				
Inventories	1,327.1	1,249.4	–77.7	97.9
Trade receivables	2,069.6	1,888.9	–180.7	238.8
Trade payables	–3,319.1	–3,067.9	251.2	–276.6
Other net operating assets	–52.8	–46.2	6.6	–10.1
Net operating assets	**24.8**	**24.2**	**–0.6**	**50.0**
Other assets and liabilities	**–260.0**	**–299.1**	**–39.0**	**60.6**
Cash inflow from change in net working capital				**110.6**

* Change in the statement of financial position adjusted for currency effects, changes in the consolidated group, assets and liabilities held for sale and impairment of operating assets

Net debt (financial liabilities net of cash) decreased from EUR 566.0 m as of 31 March 2020 to EUR 28.2m as of 31 March 2021. The key performance indicator net debt/ adjusted EBITDA amounts to 0.09 as of 31 March 2021 compared to 1.96 as of 31 March 2020, mainly due to the repayment of a loan of a McKesson subsidiary.

Cash outflow from financing activities for continued operations amounted to EUR –325.5m in the reporting period compared to a cash inflow of EUR 29.2m in the previous fiscal 2020. The cash inflow from financial liabilities decreased by EUR 13.9m to EUR 0.0m. The cash outflow for the settlement of financial liabilities increased by EUR –311.3m to EUR –409.4m. This change is mainly due to the repayment of a loan of a McKesson Corporation subsidiary of EUR 284,4m.

As of 31 March 2021, net working capital amounted to EUR 24.2m (31 March 2020: EUR 24.8m).

Financing strategy and financial management

Our financing strategy is founded on the following principles:

1. Safeguarding liquidity
2. Ensuring entrepreneurial flexibility
3. Minimising financing costs

McKesson Europe consistently pursues a conservative financing strategy that is aligned to our long-term needs. Our financing agreements do not contain any financial covenants.

Financial liabilities	03/31/2020	03/31/2021
EUR m		
Liabilities to banks	0.3	0.3
Lease liabilities	587.0	543.1
Liabilities to McKesson entities	943.3	669.0
Other financial liabilities	12.4	7.9
Total	**1,543.0**	**1,220.3**

McKesson Europe is driving efforts to limit bank financing and to make use of internal funding sources. Local lines of credit are only used where it is not possible or not practical to draw on central intercompany sources.

Net debt (financial liabilities net of cash) is composed as follows:

Net Debt	**03/31/2020**	**03/31/2021**
EUR m		
Cash and cash equivalents	977.0	1,192.1
Financial liabilities	1,543.0	1,220.3
Total	**566.0**	**28.2**

Financial instruments

Credit lines and intercompany long term loans

In April 2017 McKesson Europe entered into a long-term loan in the amount of EUR 522.0m with McKesson UK Finance II Limited with a six year term.

McKesson Europe is part of the international cross currency cashpool of the McKesson group through which it receives funding of working capital need. The committed credit facility granted by McKesson Europe Holdings GmbH & Co. KGaA in the amount of EUR 250.0m matured in December 2020.

Until its maturity, McKesson Europe had no drawdown under this committed credit facility. The terms and conditions of the facility were at arm’s length.

In addition, our British entities are directly funded in British pounds by a subsidiary of McKesson Corporation since the second half of fiscal 2016 and by our cross currency cashpool held at Bank Mendes Gans B.V., a subsidiary of ING Bank, Amsterdam.

Financing costs

We optimise financing costs and our counterparty risk by funding the McKesson Europe working capital, which fluctuates daily, primarily at consolidated level.

In the current fiscal and on 31 March 2021, McKesson Europe AG and its subsidiaries had met all loan obligations from financing agreements.

Assets position

As of 31 March 2021, McKesson Europe had total assets of EUR 7,047.3m, a decrease of EUR 872.3m compared to 31 March 2020.

The financial leverage ratio, which expresses the ratio of net debt to equity, decreased as of 31 March 2021 to 0.01 compared to 0.32 as of 31 March 2020. This development was mainly driven by a decrease of EUR 537.8m in net financial debt compared to the equity development. Net financial debt decreased mainly due to the repayment of a loan of a McKesson subsidiary.

ASSETS	03/31/2020	03/31/2021
EUR m		
Non-current assets	**2,216.1**	**2,144.7**
Current assets	**5,703.5**	**4,902.6**
Total assets	**7,919.6**	**7,047.3**

Non-current assets decreased by a total of EUR 71.4m to EUR 2,144.7m compared to 31 March 2020.

Intangible assets decreased by EUR 19.9m to EUR 888.9m, mainly driven by amortization as well as impairments with respect to restructuring programs. The decrease was partly offset by additions on internally developed projects (mainly ERP system SAP S/4 HANA) and additions to pharmacy licenses resulting from a pharmacy acquisition in Italy.

Property, plant and equipment (without right-of-use assets) decreased by EUR 40.7m to EUR 363.7m. This was mainly driven by depreciation as well as impairments with respect to EU restructuring programs. Right of Use Assets were EUR 463.4m, a decrease of EUR 51.8m compared to 31 March 2020. The change was mainly caused by normal depreciation as well as impairments related to EU restructuring programs, partly offset by additions of new Right of Use Assets. Investments in associates increased by EUR 15.5m to EUR 304.4m, mainly due to the current year performance of our equity method investment in Brocacef. Other financial assets decreased by EUR 3.7m to EUR 60.8m, mainly driven by a change in the long-term portion of trade receivables and in loans to new pharmacy owners which were offset by a settlement of a deferred purchase price adjustment between our Irish entities and Uniphar Plc for the disposal of the investment in Cahill May Roberts limited. Other non-current assets came to EUR 29.9m compared to EUR 8.0m as of 31 March 2020 due to first time recognition of pension plan assets in UK. Deferred tax assets increased by EUR 7.3m to EUR 33.6m.

As of 31 March 2021, current assets were EUR 4,902.6m, a decrease of EUR 800.9m compared to 31 March 2020.

Inventories decreased by EUR 77.7m to 1,249.4m, mainly resulting from operational measures taken to improve net working capital, partly offset higher stock level from emergency or safety stock due to the COVID-19 pandemic impacting our net working capital. Trade receivables decreased by EUR 180.7m to EUR 1,888.9m. The change was mainly attributable to reduced revenues driven by impacts from the COVID-19 pandemic compared to the end of FY2020. As of 31 March 2021, cash and cash equivalents totaled EUR 1,192.1m compared to EUR 977.0m as of 31 March 2020. This increase of EUR 215.1m was mainly driven by the settlement of the short-term loan related to the transaction completion of the Pharmaceutical Distribution joint venture in Germany and by improvement in cash flow from operating activities.

As of 31 March 2021, McKesson Europe reported assets held for sale of EUR 10.0m. The decrease of EUR 809.8m compared to 31 March 2020 is caused by the conclusion of the Pharmaceutical Distribution joint venture in Germany.

EQUITY AND LIABILITIES	03/31/2020	03/31/2021
EUR m		
Equity	**1,748.7**	**1,900.5**
Liabilities	**6,170.9**	**5,146.8**
Non-current liabilities	**1,269.0**	**1,244.5**
Current liabilities	**4,901.9**	**3,902.3**
Total assets	**7,919.6**	**7,047.3**

As of 31 March 2021, we recorded an increase of EUR 151.8m in equity to EUR 1,900.5m compared to 31 March 2020. The IFRS capital reserve increased in particular due to the fulfilment of the comfort letter granted by McKesson Europe Holding GmbH & Co. KGaA in the amount of EUR 102.8m. Negative revenue reserves increased by EUR 38.2m to EUR – 55.0m. The increase was mainly driven by the profit and loss agreement with McKesson Europe Holdings GmbH & Co. KGaA of EUR 53.2m, partly offset by the actuarial losses from the revaluation reserves in the course of the deconsolidation of the German Pharmaceutical Distribution entities. The negative revaluation reserves decreased by EUR 75.7m to EUR – 400.1m as of 31 March 2021. Non-controlling interests increased by EUR 0.3m.

The equity ratio was 27.0% on 31 March 2021, an increase of 4.9 percentage points compared to 31 March 2020.

As of 31 March 2021 non-current liabilities were EUR 24.5m lower in comparison to 31 March 2020 and amount to EUR 1,244.5m. Non-current financial liabilities decreased by EUR 0.8m to EUR 529.6m. Non-current Lease Liabilities decreased to EUR 457.6m compared to EUR 499.3m as of 31 March 2020. The change of EUR 41.7m was mainly caused by normal payments, partially offset by new contracts as well as exchange rate effects. Pension provisions decreased by EUR 14.8m to EUR 134.8m mainly due to the first time recognition of pension plan assets in UK. Other non-current provisions increased by EUR 18.9 m to EUR 78.5m mainly due to additions in the restructuring provision in France.

Current liabilities were EUR 3,902.3m as of 31 March 2021, a decrease of EUR 999.6m compared to 31 March 2020. Current financial liabilities decreased by EUR 274.1m to EUR 147.6m mainly due to the repayment of a loan of a McKesson Corporation subsidiary of EUR 284,4m. Current Lease Liabilities came to EUR 85.6m compared to EUR 87.7m as of 31 March 2020. The decrease of EUR 2.1m was mainly caused by normal lease payments and exchange rate effects. Trade payables decreased by EUR 251.2 to EUR 3,067.9m due to net working capital optimization at year-end. Other current liabilities were EUR 368.8m as of 31 March 2021 compared to EUR 274.6m as of 31 March 2020. The change is mainly related to Trade and other payables impacted by cash optimization measures at year end.

As of 31 March 2021, McKesson Europe reported liabilities of discontinued operations of EUR 8.0m. The decrease of EUR 592.0m compared to 31 March 2020 was mainly caused by the completion of the transfer of the German Pharmaceutial Distribution business into the joint venture with WBA.

Net debt decreased from EUR 566.0m as of 31 March 2020 to EUR 28.2m as of 31 March 2021. The key performance indicator net financial debt/ adjusted EBITDA decreased from 1.96 as of 31 March 2020 to 0.09 as of 31 March 2021.

McKesson Europe AG financial statements (Holding)

The annual financial statements of McKesson Europe AG reflect the company's activity as a management holding company. McKesson Europe AG has shareholdings directly in the operating subsidiaries, or indirectly via national holding companies in the respective countries. Furthermore, the short-term working capital requirements of the operating companies are predominantly financed via McKesson Europe AG. The annual financial statements of McKesson Europe AG were compiled in euros (EUR) in accordance with Sections 242 et seqq. and Sections 264 et seqq. of the Handelsgesetzbuch (HGB, German Commercial Code) and the relevant regulations of the Aktiengesetz (AktG, German Stock Corporation Act).

In fiscal year 2020 the Management Board of McKesson Europe approved a transaction whereby its German pharmaceutical wholesale business, GEHE Pharma Handel GmbH ('GEHE'), would be contributed to a newly formed joint venture with Alliance Healthcare Germany in which McKesson Europe would have a 30% ownership interest. The transaction was completed on 1 November 2020.

Asset position

Total assets increased by EUR 38.2m to EUR 4,158.7m as of 31 March 2021. Fixed assets increased by EUR 580.1m to EUR 3,129.8m, and current assets decreased by EUR 532.3m to EUR 1,021.4m.

Intangible assets increased by EUR 23.9m to EUR 95.8m, primarily due to capitalized costs for internally generated intangible assets associated with the implementation of the new global ERP system SAP S/4 HANA.

The increase in fixed assets was mainly driven by financial assets. Financial assets increased by EUR 555.7m to EUR 3,027.1m. Additions to financial assets were the result of increases in the investments in Admenta UK PLC of EUR 1,405.7m related to a contribution of a loan receivable in the amount of EUR 700.5m against new shares and a capital contribution of EUR 705.2m.

In addition, the investment in McKesson France Holding SAS increased by EUR 433.0m, in the course of a contribution of a loan receivable against the subsidiary OCP S.A. of EUR 433.7m against new shares.

The loans to affiliates decreased accordingly resulting in a reclassification within the financial assets.

Despite improved long-term planning assumptions, an impairment of EUR 222.3m for the carrying amount of the shares of McKesson France Holding SAS which increased due to the contribution of the loan was recognized. In addition, a depreciation of EUR 0.8m for Admenta Denmark ApS was recognized.

Due to positive earnings expectations and planning assumptions, there was an offsetting impairment reversal associated with the investment in affiliates in Belgium of EUR 49.2m.

Current assets decreased primarily due to the contribution of GEHE in the joint venture with WBA and the associated reduction of receivables and other assets in the course of the repayment of the loan to the former subsidiary. With the contribution, shares in affiliated companies under current assets also decreased by EUR 104.7m.

Cash and cash equivalents decreased by EUR 275.3m. mainly due to the capital contribution payment to Admenta UK PLC. This effect was partly offset due to the increased cash pool positions of the group companies.

The equity of McKesson Europe AG, amounting to EUR 3,125.5m, has not changed year-on-year. Based on the domination and profit and loss transfer agreement of 22 May 2014, the annual deficit of EUR 53.2m (previous year annual deficit EUR 0.7m) will be transferred to McKesson Europe Holdings GmbH & Co. KGaA. The equity ratio dropped by 0.7 percentage points to 75.2% (previous year 75.9%) due to an increase in total assets.

Provisions mainly include pension obligations of EUR 36.6 m and other provisions of EUR 20.7 m. The decrease is mainly attributable to lower provisions for outstanding invoices in the amount of EUR 6.6 m.

The liabilities of EUR 975.9m primarily include liabilities to affiliated companies in an amount of EUR 963.4m.

Financial position

Our financial strategy is based on the principles of safeguarding liquidity, guaranteeing entrepreneurial freedom, and minimising financing costs. This strategy is outlined in the policy on the financial strategy and financial management of McKesson Europe.

Of the liabilities amounting to EUR 975.9m, 98.7% are due to affiliated companies. The company records full coverage of interest-bearing liabilities (net gearing).

The gearing ratio is -22.3% (previous year -31.0%). McKesson Europe AG is financed through a subsidiary of the McKesson Corporation by means of a loan amounting to EUR 522.2m (due 24 April 2023).

Based on the above explanations, the financial position can be considered as good.

Financial performance

Net profit for the 2021 fiscal year was EUR 0.0m (previous year: EUR 0.0m). Based on the domination and profit and loss transfer agreement of 22 May 2014, the net loss of EUR 53.2m (previous year: EUR 0.7m) will be transferred in full to McKesson Europe Holdings GmbH & Co. KGaA.

Revenue consists exclusively of services provided to subsidiaries and McKesson Corporation. The earnings before income tax are primarily related to the investment result, interest result and other income.

The investment result is composed of domestic subsidiary profit transfers and foreign subsidiary profit distributions as well as changes in the value of financial assets. It decreased by EUR 226.1m year-on-year to EUR – 242.5m, mainly because of an increase in write-down of investment by EUR 212.0m to EUR 322.0m. In addition, there was an offsetting effect from the reversal of impairment losses on financial assets amounting to EUR 49.1m (previous year: EUR 60.3m).

Other income increased by EUR 188.4m to EUR 242.5m. Other income mainly consists of the loss compensation due to the disposal of GEHE Pharma Handel GmbH based on the comfort letter provided by McKesson Europe GmbH & Co. KGaA of EUR 102.8m. Furthermore, a gain on the sale of a trademark right in the amount of EUR 54.0m and currency effects due to the conversion of the loan to Admenta UK PLC of EUR 27.6m drove the increase in other income. In addition, this position includes recharges to subsidiaries.

Net expenses for the management holding company are primarily composed of personnel expenses of EUR 43.6m (previous year: EUR 47.6m), amortisation of non-current intangible assets and depreciation of property, plant and equipment of EUR 10.5m (previous year: EUR 10.1m), and other expenses of EUR 79.0m (previous year: EUR 74.1m). Other expenses comprise costs of IT services, legal costs, consultancy, travel expenses, personnel services of subsidiary companies and rent and service charges.

A domination and profit and loss transfer agreement (DPLTA) has been in place since 22 May 2014 between the company and its majority shareholder, McKesson Europe Holdings GmbH & Co. KGaA, a wholly-owned indirect subsidiary of the McKesson Corporation, which has its head office in Irving, Texas, USA. In accordance with Section 4 Paragraphs 2 and 3 of the DPLTA, McKesson Europe Holdings GmbH & Co. KGaA guarantees that it will pay the external shareholders a dividend of EUR 0.83 per no-par value share for the duration of the contract and therefore also for the 2021 fiscal year.

Forecast

The business and earnings development of McKesson Europe AG as a management holding company is closely connected to that of its subsidiary companies. The earnings of McKesson Europe AG for the 2022 fiscal year will therefore also depend primarily on the profit distributions from foreign subsidiaries, profits transferred from investments in Germany and the results from the financing activities. We expect the result to break even, before the effects of the valuation of investments and before transferring profits or offsetting losses (excluding divestment effects) for McKesson Europe AG, compared to the loss incurred in the 2021 financial year which included net effects from the valuation of investments of EUR -168.1 m.

The investment result is expected to be similar to that of the fiscal year 2021 after adjusting for the effects of the write-down of subsidiaries. Thus, we expect a result at a similar level to the fiscal year 2021. Based on the comfort letter from McKesson Corporation, we do not expect any effects from the impairment test of the UK subsidiaries. For all other subsidiaries, the investment carrying value is fully supported by their respective equity values. Consequently, we do not expect any future impairment based on our current estimation of future cash flows. Due to the existing domination and profit and loss transfer agreement, we expect that equity will remain unchanged in future fiscal years.

Employees

McKesson Europe Employees	Full-time equivalents annual average 31/03/2020	31/03/2021	Full-time equivalents reporting date 31/03/2020	31/03/2021	Employees reporting date 31/03/2020	31/03/2021
Retail Pharmacy	14,320	13,786	14,181	12,966	19,675	18,182
Pharmaceutical Distribution	8,329	8,061	8,289	7,926	9,609	9,079
Holding	383	350	380	300	395	357
McKesson Europe	**23,032**	**22,197**	**22,850**	**21,192**	**29,679**	**27,618**
Discontinued operations	1,484	1,484	1,479	0	2,233	0
McKesson Europe total	**24,516**	**23,681**	**24,329**	**21,192**	**31,912**	**27,618**

Employee figures

As of 31 March 2021, 21,192 full-time equivalents (FTEs) worked for McKesson Europe. The decrease of 12.9% against 31 March 2020 results mainly from the closure or sale of pharmacies in UK and the disposal of the German pharmaceutical wholesale business.

A total of 12,966 FTEs were employed in the Retail Pharmacy division at the end of fiscal 2021, a decrease of 8.6% compared to 31 March 2020. This development is mainly caused by the closure or sale of pharmacies in UK. At 61.2% this division accounted again for the largest share of FTEs in McKesson Europe.

The Pharmaceutical Distribution division had 7,926 FTEs as of the end of fiscal 2021, a decrease of 4.4%. The decrease compared to 31 March 2020 is mainly caused by the infrastructure optimization in UK and France.

There were 300 FTEs working in the Holding as of 31 March 2021 (31 March 2020: 380 FTEs).

As of 31 March 2021, 97.9% (31 March 2020: 97.7%) of our FTEs working outside of Germany, we are one of the most international German groups.

Due to creation of the joint venture combining the pharmaceutical wholesale businesses in Germany of WBA and McKesson, employee figures for the former Pharmaceutical Distribution wholesale business Germany are disclosed in the table above in discontinued operations in fiscal 2020.

Declaration in accordance with Sec. 289f, para. 4 of the Handelsgesetzbuch (HGB, German Commercial Code)

The Supervisory Board of McKesson Europe AG has determined a target range for the proportion of women in the management board and the supervisory board of between 0% and 30%, to be achieved by 30 June 2022. The proportion of women in the Supervisory Board was 25% and the proportion of women in the Management Board is unchanged (at 0%).

The Management Board of McKesson Europe AG has set the target figure for the proportion of women in the first management level below the management board to 27-30%, and has set a target of 0-40% for the next lower level to be achieved by 30 June 2022. The proportion of women in the first management level below the management board was 31% and for the next lower level 30%.

Research and development

As a healthcare trading company and service provider, we have no need to pursue research and development activities in the course of our business. Of course, we still develop our range of services and our IT infrastructure on a rolling basis. More information on this can be found in sections concerning the development of each division.

Overall picture of the economic situation

The pharmaceutical and healthcare markets in which we operate as a leading service provider are characterised by good long-term prospects for development. In contrast, government intervention in pricing and margin-setting is associated with negative effects for McKesson Europe in many of the European markets.

In fiscal 2021 revenue came to EUR 16,748.1m, which is a decrease of EUR –369.5m. This decrease was mainly caused by lower volumes driven by the COVID-19 pandemic.

In fiscal 2021, gross profit came to EUR 1,815.0m, which is a decrease of EUR –62.6m. This development is primarily driven by the revenue decrease above.

Non-recurring expenses came to EUR –127.6m in fiscal 2021. They mainly result from goodwill impairments in UK and Ireland, long-lived asset impairments, restructuring programmes as well as integration activities in various countries. These non-recurring expenses were partly offset by profits from pharmacy disposals in the UK. A detailed description of these non-recurring expenses is provided on page 17.

Adjusted EBIT of the Retail Pharmacies division in fiscal 2021 amounted to EUR 20.0m, which is a major increase of EUR 44.0m due to significant cost efficiencies in the UK. This increase is higher than originally foreseen.

Adjusted EBIT in the Pharmaceutical Distribution division recorded a considerable decrease of EUR –24.5m in fiscal 2021, which was lower than expected. This decrease is primarily due to lower volumes driven by the COVID-19 pandemic.

The adjusted tax rate decreased, higher than expected, mainly due to a change in the earnings mix from the different countries in which McKesson Europe operates.

In line with our expectations, the investment level decreased in fiscal 2021. Currently we focus on important investment in the ERP software, pharmacy network, dispensing systems and our infrastructure.

The decline in FTEs from 24,329 in fiscal 2020 to 21,192 in fiscal 2021 was in line with our expectations. This decline is primarily caused by closure or sale of pharmacies in UK and the contribution of the German pharmaceutical wholesale business into a joint venture with WBA.

The cash flow from operating activities increased, primarily due to net working capital improvements. The increase in free cash flow is mainly driven by the cash inflow related to the conclusion of the German Pharmaceutical Distribution business into a joint venture with WBA as well as proceeds from disposals of stores in UK.

In fiscal 2021, revenue came to EUR 16,748.1m resulting in a decrease of –2.2% (fiscal 2020: EUR 17,117.6m). This revenue decrease is in line with our expectations. Adjusted EBIT amounted EUR 151.9m, which resulted to be higher than our expected outlook. This increase mainly resulted from the EPN IP sale as well as cost efficiencies.

Risk and opportunities report

As McKesson Europe, is operating internationally, we encounter various risks and opportunities in the course of our varied business operations. We have set up a comprehensive opportunity and risk management system, which allows us to identify and analyse risks efficiently and to take suitable countermeasures if necessary. The objective of McKesson Europe's risk management system is to identify risks at an early stage in order to be able to react in a timely way to changes in the business environment and contain the negative influences on McKesson Europe.

Risk management

McKesson Europe has a well-established risk management system across the entities of McKesson Europe. Its risk management system is one component of the overall risk governance framework. This includes the management control and oversight of functional departments, risk control oversight functions established by management and the McKesson Europe-wide risk reporting. Internal Audit, as an independent assurance function, represents another key component to it. In combination, these components embody the organization wide governance framework.

Opportunity management

Alongside risk management, opportunity management is an important component of our planning and management systems throughout McKesson Europe. However, there is no separate opportunity reporting. This is rather a component of the annual planning process. For us, opportunities are internal and external factors and events with the potential to exert a positive influence on our operations. The healthcare market is a dynamic market, offering a wide range of opportunities. In order for our opportunity management to be successful, we observe the business climate very closely. This also involves us consulting market research findings and participating in active dialogue with various market participants. From this, we can derive market opportunities that the management board coordinates with operational management in the planning process. Opportunities particularly arise from being part of the global McKesson Corporation. This has created some excellent opportunities and considerable long-term growth potential for McKesson Europe.

Significant specific risks and opportunities

Unless stated otherwise, the following risks relate to both the retail and wholesale business.

Environment/market risks and opportunities

Regulatory risks and opportunities

The pharmaceutical and healthcare markets are subject to various regulatory interventions. Growing demand for healthcare services – driven by demographic change – often collides with the interests of squeezed healthcare systems whose financial difficulties have been further heightened by the weak economic development in Europe. Continuously, national governments respond accordingly through intervention by adjusting remuneration structures to cut spending in various countries in Europe, mainly in the UK. As experienced in previous years, these measures have a direct impact on the performance of our business and on our income. As the potential loss and likelihood of occurrence is deemed to be high, these represent significant risk for McKesson Europe. Besides lean cost management, we rely on a range of strategic projects and the optimisation of the entire value-added chain to compensate for this risk (read more about our strategy → page 13).

Moreover, McKesson Europe is party to contracts with public institutions such as national health services and subject to regulation and regulatory decisions and changes to existing regulation. Failure to comply with any such contract terms or regulation could lead to litigation, fines, sanctions, increased cost of compliance (in order, amongst other things, to change operation practices) as well as reputational damage.

Specific market risks and opportunities

Overall, the healthcare sector with its constantly shifting parameters is a dynamic market and can be associated with a number of risks:

- **Tougher competition**
  The pharmaceutical wholesale business is a competitive industry. Besides attempts from traditional logistics firms to encroach on the pharmaceutical distribution business, our competitors' activities result in a pressure on our margin and may have a negative effect on our earnings. We aim to reduce and offset potential effects through cost reduction and efficiency optimisation programmes. Further countermeasures include fostering customer loyalty by improving and expanding our services and customer loyalty programmes.

- **Innovative wholesale distribution models**
  In certain countries and for particular product categories, manufacturers are increasingly keen to reduce the role of the wholesaler and are turning instead to models such as direct-to-pharmacy (DTP) supply by the manufacturer or the so called reduced-wholesale model where the manufacturer maintains exclusive agreements with just a few wholesalers. The latter can be seen as a risk as well as an opportunity because McKesson Europe is represented in countries with a strong market position in wholesale in these exclusive distribution models. McKesson Europe is sharpening its focus on communication with manufacturers to position itself as an attractive business partner with new offerings for manufacturers. The extension of our logistics competence to the entire supply chain and the seamless integration of all logistics steps offer us the opportunity to leverage synergy effects and provide a basis for future growth potential.

- **Cooperation between the EU and the United Kingdom**
  The final trading landscape following Brexit is still emerging and the related risk has declined compared to prior years. The EU and UK are likely to continue protracted discussions for some time and we are keeping this dynamic situation under regular review.

Corporate strategy risks and opportunities

The optimisation of the portfolio through acquisitions or disposal of entities is associated with both opportunities and risks. Acquisition and investment plans are therefore verified as part of a due diligence process and analysed with regards to return and risk factors by the department M&A and Corporate Development and other relevant departments or subsidiaries. We may further be exposed to risks due to changes in the market environment during integration of acquired operations as well as whilst holding investments in companies in which our responsibility for the company is shared or limited. On the other hand, the strategic decision for a disposal of a business unit could pose additional risks, mainly in the legal area. Further, exchange rate fluctuations may influence such transaction financially, which in turn may have an impact on the sales price to be redeemed for the business unit to be sold.

Operating business risks

There are a number of special risks relating to the safety and the consistently high quality of pharmaceuticals supply in all countries where operations are taking place:

- **Pandemic crisis development**
  Uncertainty about the future development of the pandemic is likely to have an impact on the global economy and financial markets, which might only potentially rebound to pre COVID-19 levels. Key impacts for a company such as McKesson could be supply chain disruptions, unavailability of staff, the closure of facilities and stores, changes in purchasing patterns, travel restrictions, further lockdowns, among others. As described below, measures to ensure that our service level continues, are in place. Due to the nature of our business, a pandemic could also in part be considered as opportunity. The increased demand of pharmaceutical (and non-pharmaceutical) products and services could lead to increased revenue.

- **Interruption of operating business**
  Our operating processes, especially transport, storage and dispensing, demand a mature infrastructure and are also highly dependent on IT and hence exposed to cyber-attacks. As even short-term outages at peak times can have a negative effect on operations, the interruption of operating business poses a risk of a high level of loss, but with a low likelihood of occurrence. Measures to safeguard operating business include division business continuity plans, which ensure that services can be provided to clients in the event of unforeseeable events. Insurance policies are also in place that will help in the event of business interruptions.

- **Compliance with pharmaceutical regulations**
  Medicines need to be handled with particular care. EU guidelines, such as the Falsified Medicines Directive (2011/62/EU), or the guideline on Good Distribution Practice of medicinal products for human use (2013/C 343/01) further increased requirements.
  The Good Distribution Practice guideline focuses on the maintenance of the quality and the integrity of medicinal products throughout the entire supply chain. The guideline refers to products such as many types of vaccines, which require strict maintenance of a cold chain. If the cold chain is interrupted during storage or transport, such products have to be destroyed. We minimise this risk with a comprehensive quality management system and by applying a range of preventive measures such as round-the-clock temperature monitoring at warehouses and insulated transport containers.

- **Dispensing errors**
  Dispensing the wrong medicines is an inherent risk at pharmacies. This risk is characterised by a low likelihood of occurrence due to the detailed process definitions for our pharmacists and pharmaceutical technicians and to the regular training they receive. On the other hand, if this risk does materialise, there can be a high level of potential loss, including reputational harm.

Financial risks

Currency risks

McKesson Europe is active in a number of different currencies, which can create foreign exchange risks. Internal guidelines ensure that these risks are systematically identified and reduced. In this regard we distinguish between transaction risks and translation risks:

Transaction risks

McKesson Europe is exposed to foreign exchange rate fluctuations impacting the value of assets or liabilities to be settled in a foreign currency. We minimise these transaction risks through the use of hedges, which we execute with banks.

Translation risks

McKesson Europe faces changes in the values of items in the balance sheet and in the income statement if these items are not originally reported in Euros. As in previous years, this represents a significant foreign exchange risk especially in British pound given the importance of British activities for McKesson Europe. McKesson Europe minimizes these translation risks through the financing of assets in the same currency.

Risk of default on receivables

McKesson Europe's business activities primarily comprise the supply of goods and rendering of services on the basis of invoices. Until these invoices are settled, McKesson Europe is faced with a risk of bad debt. The risk of significant payment defaults is lowered due to our diversified customer portfolio. We secure our receivables by having a proactive receivables management system in place which comprises continuous checks of our customers' payment behaviour, regular testing of credit standing as well as changes in payment terms and conditions and the selected use of credit insurances.

Liquidity and financing risks

McKesson Europe's financing portfolio, provided by a large degree by McKesson Corporation and its subsidiaries, ensures that it is in a position to meet its obligations at any time.

In our day-to-day operations, liquidity risks are reduced by making use of cash pools as well as by a constant monitoring of our net working capital.

Interest rate risks

McKesson Europe is exposed to changes of the price payable for floating-rate assets and liabilities. A high share of fixed rate financial liabilities significantly reduces the risk from changes in interest rates.

Counterparty risks from derivatives

McKesson Europe reduces the counterparty risk from derivatives entered into with banks by strict regulations regarding the quality requirements of our trading partners.

Measurement risks

McKesson Europe faces fluctuations of securities prices, including pension obligations.

Money laundering risk

McKesson Europe maintains guidelines and procedures to mitigate the risk of money laundering in accordance with the EU directive on the prevention of money laundering and terrorism financing.

Information technology risks

McKesson business and its daily operations relies on the effective and secure handling, storage and transmission of information, including sensitive, personal, financial, health and regulated data relating to our customers, suppliers, company and workforce. Further on, with the fast digitalization of every aspect of the daily life and business we expect a stronger correlation between McKesson and information technology in the near future.

With such correlation come risks, our and our customers' information systems could be subject to cyberattacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. A failure or compromise of our or our customers' information systems may jeopardize the confidentiality, integrity and availability of the data processed, stored, and transmitted through such systems. Such an event may result in significant damage to our reputation, financial losses, litigation, increased costs, regulatory penalties, customer attrition, brand impairment, or other business harm. These risks may increase in the future as we continue to expand our internet and mobile strategies and to build an integrated digital enterprise. These risks have been identified and are being addressed through different projects and programmes.

Additionally, the changes in the information technology's operational, security and technical standards, as well as the different international laws and regulations our company is subject to, require that our information systems are up to date, flexible, and capable of implementing the controls and requirements needed to ensure business continuity and compliance.

We have carefully implemented measures related to the requirements on the EU General Data Protection Regulation (GDPR) across McKesson Europe and further strengthened it during the last year. Nevertheless, any loss of personal data or any other potential infringement of the GDPR may lead to damage claims or administrative fines.

Since data is one of the most important assets of businesses today, McKesson has established a global capability to secure its information and protect it from evolving cyber threats by adjusting security mechanisms, policies and security controls across McKesson's global distribution and retail operations as needed. Threat detection and response to cybersecurity events are supported by security operations and a global community has been established to help each employee developing their security awareness and protect McKesson's information.

As a key component of our efforts to digitalize and secure our services, we continue with our IT infrastructure renewal with major projects such as the ERP-system landscape harmonization across the business units, potential delays in further implementation of these efforts could have an impact on the estimated project costs as well as the realisation of the expected benefits.

Personnel risks

The COVID-19 pandemic required tremendous flexibility and dedication on behalf of our employees across all lines of business. The physical and mental well-being of our employees has been paramount during the pandemic and will continue to require McKesson Europe's support in the future. Many of our businesses operate in tight labour markets so McKesson Europe is continuing to implement more contemporary programs, processes and HR systems to enhance the employee experience.

Legal risks and tax risks

In principle, legal and tax risks are inherent to all operations, and McKesson Europe is no exception. At present, McKesson Europe is involved in legal proceedings and disputes that could have a significant impact on our results of operations, financial position and assets position.

The Brazilian operations were divested on 31 May 2016. Based on the agreed closing account mechanism, the buyer has put forward a claim for an adjustment of the purchase price in the amount of BRL 225.0m (EUR 34.0m) and has initiated arbitration proceedings in order to pursue its claim. Furthermore, the buyer has included warranty claims in a total amount of BRL 148m (EUR 22.4m) in the arbitration proceedings. The arbitration proceedings were concluded in the fiscal year 2021 with a preliminary ruling in favour of McKesson Europe. The preliminary ruling does not stipulate a purchase price adjustment and only minor warranty obligations against the buyer. Furthermore, McKesson Europe was awarded a partial reimbursement of legal and court costs.

Generally, McKesson Europe bears a risk as a result of contractual indemnification obligation towards the buyer. These are partially secured by bank guarantees. The obligation to indemnify the buyer is, subject to certain exceptions, capped at an inflation-adjusted amount of BRL 118.3m (EUR 17.5m) as of 31 March 2021. The claims that have been put forward by the buyers to date exceed the cap. They have largely been contested, but an unfavourable outcome in respect of individual claims cannot be ruled out. The liability cap does not, among other things, apply to risks attributable to the time prior to the majority participation of McKesson Europe for which McKesson Europe has contractual counterclaims against some of the former shareholders. For all of the above, appropriate provisions have been made following the principles of commercial prudence and caution. McKesson Europe will continue to defend itself vigorously against unjustified claims.

On November 21, 2016, the Belgian anti-trust authority carried out an on-site investigation of certain Belgian wholesalers, including Belmedis. On May 2, 2017, Belmedis was acquired by McKesson Belgium Holdings. Pharma Belgium NV is also part of the investigation. On April 23, 2021, McKesson received correspondence from the Belgian Competition Authority seeking civil penalties. The evaluation of contingent liabilities can change due to new information such that it may become necessary to recognize additional provisions or adjust or reverse an existing provision in accordance with IAS 37. Upon utilisation, expenses may arise for McKesson Europe which exceed the provision amount.

McKesson Europe assesses its legal as well as tax risks at regular intervals, consulting external lawyers and other external advisors where necessary.

Compliance risks

In general, it is inherent to companies of the size of McKesson Europe that operate in a highly regulated environment to face certain compliance risks. McKesson Europe assesses and evaluates existing and potential Compliance risks at regular intervals, consulting external lawyers and other external advisors where necessary. Antitrust and corruption are set priority risks to be addressed alongside all other compliance risks by the compliance organization in all countries.

In order to address and mitigate the identified compliance risks adequately throughout the organization, McKesson Europe continues to move forward with constantly improving its Compliance Management System and implementing and integrating it in newly acquired businesses. The compliance organization also develops and grows organically with the business.

In fiscal 2021, there were no compliance cases with material impact on McKesson Europe.

Overall assessment of risks and opportunities by management

In general, based on the outcome of our risk assessment and management processes, we are not aware of any single risks or risks in combination with others, which would present a significant danger to the continued existence of McKesson Europe.

Compared to last year, the level of the specific risks identified has remained relatively stable, as our key risks relate to state healthcare systems, financial and operational risks, and IT. In addition, we seek to take advantage of current opportunities to explore new ways of doing business and to support international efforts to fight the COVID-19 pandemic.

In addition to the risk categories we describe above, we acknowledge that there remains the possibility that unforeseeable events could have a negative impact on the business. All in all, we continue to believe that the overall level of risk to our operating activities has slightly increased due to the uncertainty of impacts arising out of the pandemic crisis.

Outlook

The following statements on future business development and assumptions as to how the market and industry will evolve are estimates that the Management Board considers realistic based on the information currently available. However, the future development of our divisions depends on various factors beyond McKesson Europe's sphere of influence and such statements can only be made with a limited degree of accuracy. Examples of factors beyond our control are the future economic and regulatory environment, the conduct of competitors and other market participants as well as government intervention in healthcare and social systems. The following statements by the Management Board of McKesson Europe AG are based on the assumptions of a stable development of exchange and interest rates, when compared to fiscal 2021.

COVID-19

COVID-19 continues to have an impact on our European business. During this challenging period, the support of governments across Europe has allowed McKesson Europe to continue to invest in its people and services. We have therefore been able to continue to serve our communities and ensure the safe supply of medicines, pharmaceutical products, and healthcare services when and where people need them.

Some impacts of COVID-19 are expected to reduce and we expect trading to return to a level similar to prior the COVID-19 pandemic. As society returns to this ‘new normal’ we must expect government support to be phased out.

On a positive note, Full-Service Distributors like McKesson are now playing an increasing role across Europe providing new services out of the pandemic such as inventory management solutions and the distribution of the COVID-19 vaccines and tests, as well as PPE.

Overall economic prospects

The global economy continued to recover in the winter 2020/2021, despite the number of new COVID-19 infections increasing and containment measures tighter again in many countries. Industrial production and world trade have already caught up with their pre-pandemic levels and appear to be little affected by the recent COVID-19 impacts. On a purchase power parity basis, the IfW ["Institut für Weltwirtschaft der Universität Kiel": Kiel Institute for the World Economy] expects the global output to increase by 6.7 percent in 2021 and by 4.7 percent in 2022, thus progressively returning to the pre-pandemic level.

In its March 2021 forecast, the IfW expects the following for the next years:

One year after the start of the global pandemic, all signs point to a normalization of economic activity in the coming months. The GDP in the euro zone is expected to increase by 4.8% in the year 2021 and grow again by 4.3% in the year 2022. Inflation is likely to amount 1.7% due to economic and energy price factors in 2021. In 2022, price level is expected to increase again by 1.5%.

For France the IfW expects a growth rate in GDP of 6.4% in 2021 and 3.8% in 2022. GDP prognosis for the United Kingdom is expected at a rate of 5.6% in 2021 and 4.7% in 2022 as compared to overall Europe where the growth is expected to be around 1.7%.

Our industry: Growth of the pharmaceutical markets, consolidation and internationalisation

Based on a market prognosis as of Q3 2020 by IQVIA, a compounded annual growth rate (CAGR) of 4.5% is expected for the global pharmaceutical markets through 2024.

While the pandemic has been extremely disruptive, it is clear that other aspects of healthcare have continued and the immediate shocks in early 2020 have given way to patterns of adaptation and adjustment around the world. The success of countries around the world in implementing a global vaccination program unprecedented in speed or scope will be key to the outlook for all medicine use. The key elements of the outlook are therefore the handling of the pandemic as well as how that will affect non-COVID healthcare and use of medicines.

The pre-pandemic drivers of medicine use and spending remain a significant driver of the outlook and have been only modestly impacted by the effects of COVID-19. In developed countries, the adoption of new treatments, offset by patent lifecycles and competition from generics and biosimilars are expected to continue as the main factors influencing medicine spending and growth.

Demographic change continues to be a significant factor in the development of the global pharmaceutical and healthcare markets. The over-65 age group accounts for 9.3% of the global population at present. However, this is expected to rise continuously in the coming years to approximately 10.4% in 2025 and 15.8% in 2050. In the EU this level has already been reached today, in 2020, 20.8% of the population were 65 years old or older and in 2050 this figure will rise to 30.7%. We will also see a significant increase in the percentage of over 80s in the population in the world as well as the EU. The global percentage will increase from 1.9% today to 4.4% in 2050. In the EU this increase will be even more significant. It is expected that the percentage will increase from currently 6.0% to 11.9% in 2050. This development is causing a rise in the demand for the treatment of chronic and age-related diseases which require long-term medical treatment. This will cause costs to rise considerably as the amount spent on the elderly is far higher than the average per capita expenditure.

With ageing populations and the rising cost of new innovative medicines, healthcare systems across the EU are under increasing strain. Governments will continue to seek ways to reduce overall spending on pharmaceuticals and, as a result, companies may face pressure on costs and funding policies. The key challenge for the pharmaceutical and healthcare markets and especially for the pharmaceutical distribution markets continues to be government regulation along the entire pharmaceutical supply chain. The persistently difficult market environment in our industry is resulting in further consolidation primarily in established markets. Global purchasing cooperatives are also forming as a way of realising economies of scale and purchasing advantages, especially for generics pharmaceuticals.

Outlook McKesson Europe

Retail Pharmacy

In fiscal 2022 we expect considerable revenue growth in the Retail Pharmacy division compared to fiscal 2021, mainly due to growth in online business and the homecare business in the UK and an overall increase in the other retail business units. Adjusted EBIT is expected to be significantly higher than the prior year, mainly driven by increased revenue, continued cost containment efforts and reorganization and consolidation of our business operations.

Pharmaceutical Distribution

In fiscal 2022 we expect a significant revenue increase in the Pharmaceutical Distribution division, mainly driven by a reversal of the negative COVID-19 impacts from fiscal 2021. We expect adjusted EBIT to significantly increase due to the above-mentioned revenue increase, positive impacts from the COVID-19 vaccine distribution as well as continued cost containment efforts.

Investments and capital expenditures

The level of investment will be at a lower level in fiscal 2022 compared to fiscal 2021. The investments include the continuing optimization of our ERP software, pharmacy network, dispensing systems and our infrastructure. We will continue to drive an efficient distribution network, which includes modernisation of distribution centers and enhancing the security of our supply chain.

Depreciation, amortisation and impairment

We expect overall depreciation, amortisation and impairment to significantly decrease in fiscal 2022 due to the non-recurring impairment charges recorded in the previous fiscals.

Financial result

We expect interest expense in fiscal 2022 to be stable due to existing long-term financing agreements with the McKesson Corporation.

Tax rate

The adjusted tax rate is not expected to significantly change in future periods compared to fiscal 2021. The adjusted tax rate may be influenced by a change in the earnings mix from the different countries in which McKesson Europe operates or a change in the specific effective tax rates in each country.

Employees

Overall FTEs are expected to slightly decline in fiscal 2022.

Other non-financial items

In fiscal 2022, we expect a slight decline in the number of warehouses operated. We expect that the number of pharmacies will decline slightly throughout the next fiscal.

McKesson Europe - Revenue and (adjusted) EBIT

In fiscal 2022, we expect a significant revenue increase compared to fiscal 2021. This increase is mainly driven by the reversal of the current year revenue reduction caused by impacts from the COVID-19 pandemic, which are not expected in the next fiscal.

Adjusted EBIT is expected to significantly decrease in fiscal 2022, mainly driven by the non-recurrance of the one-off income from the EPN IP sale in fiscal 2021, which offset the significant adjusted EBIT increase in both segments driven by revenue increase and continued cost saving measures.

EBIT in fiscal 2022 is expected to significantly increase. This increase is mainly driven by the assumption that non-recurring expenses will be significantly below fiscal 2021, as we do not expect any impairments of goodwill and long-lived assets and restructuring expenses will be lower in fiscal 2022 compared to fiscal 2021.