

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2020
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 1-13252

MCKESSON

McKESSON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

94-3207296

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

6555 State Hwy 161,
Irving, TX 75039

(Address of principal executive offices, including zip code)
(972) 446-4800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<i>(Title of each class)</i>	<i>(Trading Symbol)</i>	<i>(Name of each exchange on which registered)</i>
Common stock, \$0.01 par value	MCK	New York Stock Exchange
0.625% Notes due 2021	MCK21A	New York Stock Exchange
1.500% Notes due 2025	MCK25	New York Stock Exchange
1.625% Notes due 2026	MCK26	New York Stock Exchange
3.125% Notes due 2029	MCK29	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 30, 2019, was approximately \$25 billion.

Number of shares of common stock outstanding on April 30, 2020: 161,853,218

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

McKESSON CORPORATION

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PART I

Item 1. Business.

General

McKesson Corporation (“McKesson,” the “Company,” or “we” and other similar pronouns), originally founded in 1833, is a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information technology. 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.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company’s fiscal year. The Company was incorporated on July 7, 1994 in the State of Delaware.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) are available free of charge on the Company’s website (www.mckesson.com) under the “Investors — Financials — SEC Filings” caption) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of the website is www.sec.gov.

Business Segments

The Company operates its business through three reportable segments: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure are referred to and included in Other.

Our U.S. Pharmaceutical and Specialty Solutions segment distributes branded, generic, specialty, biosimilar and over-the-counter (“OTC”) pharmaceutical drugs and other healthcare-related products. This segment provides practice management, technology, clinical support and business solutions to community-based oncology and other specialty practices. This segment also provides solutions for life sciences companies including offering multiple distribution channels and clinical trial access to specific patient populations through our network of oncology physicians. In addition, the segment sells financial, operational and clinical solutions to pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services.

Our European Pharmaceutical Solutions segment provides distribution and services to wholesale, institutional and retail customers in 13 European countries where we own, partner or franchise with retail pharmacies, as further described below.

Our Medical-Surgical Solutions segment distributes medical-surgical supplies and provides logistics and other services to healthcare providers in the United States.

Other primarily consists of the following:

- McKesson Canada which provides better, safer care by delivering vital medicines, supplies and information technologies throughout Canada and operates Rexall Health retail pharmacies;
- McKesson Prescription Technology Solutions (“MRxTS”) which provides innovative technological and connectivity solutions to pharmaceutical companies, retail pharmacies, health systems, clinics and payers across the healthcare industry; and
- Our investment in the Change Healthcare joint venture, which was separated from the Company in the fourth quarter of 2020 as discussed in more detail below.

U.S. Pharmaceutical and Specialty Solutions Segment:

Our U.S. Pharmaceutical and Specialty Solutions segment provides distribution and logistics services for branded, generic, specialty, biosimilar and OTC pharmaceutical drugs along with other healthcare-related products to customers. This business provides solutions and services to pharmacies, hospitals, pharmaceutical manufacturers, physicians, payers and patients throughout the United States and Puerto Rico. We also source generic pharmaceutical drugs through our joint sourcing entity, ClarusONE Sourcing Services LLP (“ClarusONE”).

Our U.S. Pharmaceutical and Specialty Solutions segment operates and serves customers through a network of 30 distribution centers, as well as a primary redistribution center and a strategic redistribution center, along with four third-party logistics sites within our McKesson Life Sciences business. We invest in technology and other systems at all of our distribution centers to enhance safety, reliability and product availability. For example, we offer McKesson ConnectSM, an internet-based ordering system that provides item look-up and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. We make extensive use of technology as an enabler to ensure customers have the right products at the right time in the right place.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology, which is an analytical approach that emphasizes setting high-quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs and enhance service accuracy and safety. We provide solutions to our customers including supply management technology, world-class marketing programs, managed care, repackaging products and services to help them meet their business and quality goals. We continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

We have three primary customer pharmaceutical distribution channels: (i) retail national accounts which include national and regional chains, food and drug combinations, mail order pharmacies and mass merchandisers, (ii) independent, small and medium chain retail pharmacies, and (iii) institutional healthcare providers such as hospitals, health systems, integrated delivery networks and long-term care providers.

Retail National Accounts: We provide business solutions that help retail national account customers increase revenues and profitability. Solutions include:

- Central FillSM - Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers - Two facilities totaling over 830,000 square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologics. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- McKesson SynerGx[®] - Generic pharmaceutical purchasing program and inventory management that helps pharmacies maximize their cost savings with a broad selection of generic drugs, competitive pricing and one-stop shopping.
- Inventory Management - An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory-carrying costs.
- ExpressRx TrackTM - Pharmacy automation solution featuring state-of-the-art robotics, upgraded imaging and expanded vial capabilities, and industry-leading speed and accuracy in a small footprint.

Independent, Small and Medium Chain Retail Pharmacies: We provide managed care contracting, branding and advertising, merchandising, purchasing, operational efficiency and automation that help independent pharmacists focus on patient care while improving profitability. Solutions include:

- Health Mart[®] - Health Mart[®] is a national network of more than 5,000 independently-owned pharmacies and is one of the industry’s most comprehensive pharmacy franchise programs. Health Mart[®] provides franchisees support for managed care contracting, branding and local marketing solutions, the Health Mart private label line of products, merchandising solutions and programs for enhanced patient support.

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- Health Mart Atlas® - Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- McKesson Reimbursement AdvantageSM (“MRA”) - MRA is one of the industry’s most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services and customer care.
- McKesson OneStop Generics® - Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, competitive pricing and one-stop shopping.
- Sunmark® - Complete line of more than 600 products that provide retail independent pharmacies with value-priced alternatives to national brands.
- FrontEdge™ - Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- McKesson Sponsored Clinical Services (SCS) Network - Access to patient-support services that allow pharmacists to earn service fees and to develop stronger patient relationships.
- McKesson RxOwnership Program - Assist independent pharmacist owners with the opportunity to remain independent via succession planning and business operation loans.

Institutional Healthcare Providers: We provide electronic ordering/purchasing and supply chain management systems that help customers improve financial performance, increase operational efficiencies and deliver better patient care. Solutions include:

- Fulfill-RxSM - Ordering and inventory management system that empowers hospitals to optimize the often complicated processes related to unit-based cabinet replenishment and inventory management.
- Asset Management - Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- SKY Packaging - Blister, Unit of Use and Unit dose packaging containing the most widely prescribed dosages and strengths in generic oral-solid medications. SKY Packaging enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- McKesson Plasma and Biologics - A full portfolio of plasma-derivatives and biologic products.
- McKesson OneStop Generics® - Described above.

This segment also provides a range of solutions to oncology and other specialty practices operating in communities across the country, to pharmaceutical and biotechnology suppliers who manufacture specialty drugs and vaccines, and to payers and hospitals. We have two core specialty business lines: Specialty Provider Organization and McKesson Life Sciences.

Specialty Provider Organization: This business offers community specialists (oncologists, rheumatologists, ophthalmologists, urologists, neurologists and other specialists) an extensive set of customizable products and services designed to strengthen core practice operations, enhance value-based care delivery and expand their service offering to patients. These services include specialty drug distribution, group purchasing organizations (“GPO”) like Onmark®, technology solutions, practice consulting services and vaccine distribution, including our exclusive distributor relationship with the Centers for Disease Control and Prevention’s (“CDC”) Vaccines for Children program. Community-based physicians in this business have broad flexibility and discretion to select the products and commitment levels that best meet their practice needs. This business also provides a variety of solutions, including practice operations, healthcare information technology, revenue cycle management and managed care contracting solutions, evidence-based guidelines and quality measurements to support U.S. Oncology Network, one of the nation’s largest networks of physician-led, integrated, community-based oncology practices dedicated to advancing high-quality, evidence-based cancer care. We also support U.S. Oncology Research, one of the nation’s largest research networks, specializing in oncology clinical trials.

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McKesson Life Sciences: This business helps life sciences companies drive faster and greater market access, optimize patient experiences and deliver better business results with a comprehensive suite of solutions for biopharmaceutical products. RxCrossroads provides a comprehensive suite of solutions for life sciences companies including program pharmacy services, third-party logistics (“3PL”), clinical trial support, patient assistance programs, access and adherence solutions, and other tailored services for pharmaceutical manufacturers. In addition, we help life sciences companies minimize reimbursement challenges while offering affordable, safe access to therapies through Risk Evaluation and Mitigation Strategies (“REMS”) programs. Biologics by McKesson specialty pharmacy solutions help pharmaceutical and biotech partners to effectively distribute oral and self-administered specialty products to patients across the country.

When we discuss specialty products or services, we consider the following factors: diseases requiring complex treatment regimens such as cancer and rheumatoid arthritis; plasma and biologics products; ongoing clinical monitoring requirements, high-cost, special handling, storage and delivery requirements and, in some cases, exclusive distribution arrangements. Our use of the term “specialty” may not be comparable to that used by other industry participants, including our competitors.

European Pharmaceutical Solutions Segment:

Our European Pharmaceutical Solutions segment provides distribution and services to wholesale, institutional and retail customers in 13 European countries where we own, partner or franchise with retail pharmacies, as further described below. The segment consists of two businesses: Pharmaceutical Distribution and Retail Pharmacy.

Our 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, 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 European business leverages its scale and provides innovative and effective medical care services to create enhanced customer value.

Our Retail Pharmacy business serves patients and consumers in European countries directly through approximately 2,200 of our own pharmacies and 7,900 participant pharmacies operating under brand partnership arrangements. In addition, this business includes outpatient dispensing and homecare arrangements mainly in the United Kingdom (“U.K.”) and provides traditional prescription pharmaceuticals, non-prescription products and medical services and operates under the Lloyds Pharmacy brand in Belgium, Ireland, Italy, Sweden and the U.K. In addition, we partner with independent pharmacies under our franchise program.

Medical-Surgical Solutions Segment:

Our Medical-Surgical Solutions segment delivers medical-supply distribution, logistics, biomedical and other services to healthcare providers across the alternate-site spectrum. Our more than 200,000 customers include physicians’ offices, surgery centers, post-acute care facilities, hospital reference labs, home health agencies, and occupational and alternative health sites. To support the country’s efforts to fight the coronavirus disease 2019 (“COVID-19”) pandemic, in the fourth quarter of 2020 McKesson began working closely with government agencies such as the U.S. Federal Emergency Management Agency and the U.S. Department of Health and Human Services (“HHS”) to get critical supplies to healthcare providers who need them. We distribute medical-surgical supplies (such as gloves, needles, syringes and wound care products), infusion pumps, laboratory equipment and pharmaceuticals. Through a network of distribution centers within the U.S., we offer more than 275,000 products from national brand manufacturers and McKesson’s own high-quality product line. Through the right mix of products and services, we help improve efficiencies, profitability and compliance. We also never lose focus on helping customers improve patient and business outcomes. We develop customized plans to address the product, operational and clinical support needs of our customers, including tackling inventory management, reducing administrative burdens, and training and educating clinical staff. We care for our customers, so they can care for their patients.

Other:

Other primarily consists of the following operating segments and business activities: McKesson Canada, MRxTS and our investment in the Change Healthcare LLC joint venture.

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McKesson Canada: This business is one of the largest pharmaceutical wholesale and retail distributors in Canada. The wholesale business delivers their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions in Canada through a network of 15 distribution centers and provides logistics and distribution services for manufacturers. Beyond wholesale pharmaceutical logistics and distribution, McKesson Canada provides automation solutions to its retail and hospital customers. McKesson Canada also provides health information exchange solutions that streamline clinical and administrative communication. The retail business operates more than 400 owned pharmacies under the Rexall Health brand in Canada where we provide patients with greater choice and access, integrated pharmacy care and industry-leading service levels.

MRxTS: This business provides innovative technologies that support retail pharmacies and manufacturers that ultimately enable patients to fulfill their prescriptions. This business supports our customers, with a comprehensive, expanded portfolio of solutions designed to help them drive business growth, realize greater business efficiencies, deliver high-quality care, enhance medication adherence and safety, and more effectively connect with other players in the pharmaceutical supply chain.

Change Healthcare: Our equity ownership interest in Change Healthcare LLC (“Change Healthcare JV”), a joint venture, has been accounted for using the equity method of accounting. Change Healthcare LLC provides software and analytics, network solutions and technology-enabled services that deliver wide-ranging financial, operational and clinical benefits to payers, providers and consumers. On March 10, 2020, we completed the separation of our interest in the Change Healthcare JV through a split-off transaction. This transaction reduced our investment in the Change Healthcare JV to zero. Refer to Financial Note 2, “Investment in Change Healthcare Joint Venture,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information related to this transaction.

Restructuring, Business Combinations, Investments and Divestitures

We have undertaken additional strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. These initiatives are detailed in Financial Notes 2, 3, 4 and 5, “Investment in Change Healthcare Joint Venture,” “Held for Sale,” “Restructuring, Impairment and Related Charges,” and “Business Acquisitions and Divestitures” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Competition

We face highly competitive global environments. Additionally, in recent years the healthcare industry has been subject to increasing consolidation. In the pharmaceutical distribution environment in which our U.S. Pharmaceutical and Specialty Solutions and European Pharmaceutical Solutions segments and McKesson Canada business operate, we face strong competition from international, national, regional and local full-line, short-line and specialty distributors, service merchandisers, self-warehousing chain drug stores, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. Our retail businesses, which primarily operate in our European Pharmaceutical Solutions segment and McKesson Canada business, face competition from various local, regional, national and global retailers, including chain and independent pharmacies. We consider our largest competitors in distribution, wholesaling and logistics to be AmerisourceBergen Corporation and Cardinal Health, Inc.

Our Medical-Surgical Solutions segment operates primarily in providing distribution and logistics services to physicians’ offices, surgery centers, post-acute care facilities, hospital reference labs, home health agencies, and occupational and alternative health sites and faces competition from a wide range of medical and surgical supply and equipment distributors throughout the United States.

Our MRxTS business experiences substantial competition from many companies, including other software services firms, consulting firms, shared service vendors and internet-based companies with technology applicable to the healthcare industry. Competition in this business varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

In addition, we compete with other service providers, pharmaceutical and other healthcare manufacturers as well as other potential customers of our businesses, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that might otherwise be provided by our businesses. We believe that our scale and diversity of product and service offerings are our primary competitive advantages. In all areas, key competitive factors include price, quality of service, breadth of product lines, innovation and, in some cases, convenience to the customer.

Patents, Trademarks, Copyrights and Licenses

McKesson and its subsidiaries hold patents, copyrights, trademarks and trade secrets related to McKesson products and services. We pursue patent protection for our innovations and obtain copyright protection for our original works of authorship, when such protection is advantageous. Through these efforts, we have developed a portfolio of patents and copyrights in the U.S. and worldwide. In addition, we have registered or applied to register certain trademarks and service marks in the U.S. and in foreign countries.

We believe that, in the aggregate, McKesson's confidential information, patents, copyrights, trademarks and intellectual property licenses are important to its operations and market position, but we do not consider any of our businesses to be dependent upon any one patent, copyright, trademark, or trade secret, or any family or families of the same. We cannot guarantee that our intellectual property portfolio will be sufficient to deter misappropriation, theft, or misuse of our technology, nor that we can successfully enjoin infringers. We periodically receive notices alleging that our products or services infringe on third party patents and other intellectual property rights. These claims may result in McKesson entering settlement agreements, paying damages, discontinuing use or sale of accused products, or ceasing other activities. While the outcome of any litigation or dispute is inherently uncertain, we do not believe that the resolution of any of these infringement notices would have a material adverse impact on our results of operation.

We hold inbound licenses for certain intellectual property that is used internally, and in some cases, utilized in McKesson's products or services. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products and services, we believe, based upon past experience and industry practice, such licenses generally can be obtained on commercially reasonable terms. We believe our operations and products and services are not materially dependent on any single license or other agreement with any third party.

Other Information about the Business

Customers: During 2020, sales to our ten largest customers, including GPOs accounted for approximately 51% of our total consolidated revenues. Sales to our largest customer, CVS Health Corporation ("CVS"), accounted for approximately 20% of our total consolidated revenues in 2020. In May 2019, we extended our pharmaceutical distribution relationship with CVS to June 2023. Our ten largest customers comprised approximately 37%, and CVS was approximately 20%, of total trade accounts receivable at March 31, 2020. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivable balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. Substantially all of these revenues and accounts receivable are included in our U.S. Pharmaceutical and Specialty Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than 6% of our purchases in 2020. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers are generally sound. The ten largest suppliers in 2020 accounted for approximately 44% of our purchases.

Some of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. In addition, we have certain distribution arrangements with pharmaceutical manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our existing inventory at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could have an adverse impact on our gross profit margin.

Research and Development: Research and development ("R&D") expenses were \$96 million, \$71 million and \$125 million during 2020, 2019 and 2018. R&D costs were higher in 2018 prior to the sale of our Enterprise Information Solutions ("EIS") business.

Environmental Regulation: Our operations are subject to regulations under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws.

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We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment through an environmental strategy and sustainability program.

We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 21, “Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

The liability for environmental remediation and other environmental costs is accrued when the Company considers it probable and can reasonably estimate the costs. Environmental costs and accruals, including that related to our legacy chemical distribution operations, presently are not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse impact on our operations or financial condition, we do not currently anticipate material capital expenditures for environmental matters. Other than the expected expenditures that may be required in connection with our legacy chemical distribution operations, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2020 and is not expected to be material in the next year.

Employees: On March 31, 2020, we employed approximately 80,000 employees, including approximately 20,000 part-time employees.

Financial Information About Foreign and Domestic Operations: Certain financial information relating to foreign and domestic operations is included in Financial Note 24, “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K. See “Risk Factors” in Item 1A of Part I below for information regarding risks associated with our foreign operations.

Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II of this report and the “Risk Factors” in Item 1A of Part I of this report, contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed in Item 1A of Part I of this report under “Risk Factors.”

These and other risks and uncertainties are described herein and in other information contained in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors

The discussion below identifies certain representative risks that might cause our actual business results to materially differ from our estimates. It is not practical to identify or describe all risks and uncertainties that might materially impact our business operations, reputation, financial position or results of operations. Our business could be materially affected by risks that we have not yet identified or that we currently consider to be immaterial. This is not a complete statement of all potential risks and uncertainties.

Litigation and Regulatory Risks***We experience costly and disruptive legal disputes.***

We are routinely named as a defendant in litigation or regulatory proceedings and other legal disputes, which may include asserted class action litigation, such as those described in Financial Note 21, “Commitments and Contingent Liabilities,” to the consolidated financial statements in this report. Regulatory proceedings might involve allegations such as false claims, healthcare fraud and abuse, and antitrust violations. Civil litigation proceedings might involve commercial, employment, environmental, intellectual property, tort and other claims. Despite valid defenses that we assert, legal disputes are often costly, time-consuming, distracting to management and disruptive to normal business operations. The outcome of legal disputes is difficult to predict. Outcomes can occur that are not justified by the evidence or existing law. The uncertainty and expense associated with unresolved legal disputes might harm our business and reputation even if the matter is favorably resolved. Accordingly, any legal dispute might have a materially adverse impact on our reputation, our business operations and our financial position or results of operations.

We might experience losses not covered by insurance.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing and administration of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payer businesses and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. For example, pharmacy operations are exposed to risks such as improper filling of prescriptions, mislabeling of prescriptions, inadequacy of warnings, unintentional distribution of counterfeit drugs and expiration of drugs. Although we seek to maintain adequate insurance coverage, such as property insurance for inventory and professional and general liability insurance, coverages on acceptable terms might be unavailable, or coverages might not cover our losses. We generally seek to limit our contractual exposure, but limitations of liability or indemnity provisions in our contracts may not be enforceable or adequately protect us from liability. Uninsured losses might have a materially adverse impact on our business operations and our financial position or results of operations.

We experience costly legal disputes, government actions and adverse publicity regarding our role in distributing controlled substances such as opioids.

The Company is a defendant in over 3,000 cases alleging claims related to the distribution of controlled substances (opioids), as described in Financial Note 21, “Commitments and Contingent Liabilities,” to the consolidated financial statements in this report. We regularly are named as a defendant in similar, new cases. The plaintiffs in those cases include governmental entities (such as states, provinces, counties and municipalities) as well as businesses, groups and individuals. The cases allege violations of controlled substance laws and other laws, and they make common law claims such as negligence and public nuisance. Many of these cases raise novel theories of liability. Any proceedings can have unexpected outcomes that are not justified by evidence or existing law. All proceedings involve significant expense, management time and distraction, and risk of loss that can be difficult to predict or quantify. It is not uncommon for claims to be resolved over many years. Proceedings can result in monetary damages, penalties and fines, and injunctive or other relief. Although the Company has valid defenses and is vigorously defending itself, some proceedings are resolved by negotiated outcome. Our reputation is impacted by publicity regarding the impacts of opioid use. The adverse outcome of legal proceedings might have a materially adverse impact on our business operations and our financial position or results of operations.

We might experience increased costs to distribute controlled substances such as opioids.

Legislative, regulatory or industry measures related to the distribution of controlled substances such as prescription opioids could affect our business in ways that we may not be able to predict. For example, some states have passed legislation that could require us to pay taxes or assessments on the distribution of opioid medications in those states and other states have considered similar legislation. Liabilities for taxes or assessments or other costs of compliance under any such laws might have a materially adverse impact on our business operations and our financial position or results of operations.

We are subject to extensive, complex and challenging healthcare and other laws.

Our industry is highly regulated, and further regulation of our distribution businesses and technology products and services could impose increased costs, negatively impact our profit margins and the profit margins of our customers, delay the introduction or implementation of our new products, or otherwise negatively impact our business and expose the Company to litigation and regulatory investigations. For example, we are subject to many environmental and hazardous materials regulations, including those relating to radiation-emitting equipment operated at U.S. Oncology Network practices. Any noncompliance by us with applicable laws or the failure to maintain, renew or obtain necessary permits and licenses could lead to litigation and might have a materially adverse impact on our business operations and our financial position or results of operations.

We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud, waste and abuse.

Local, state and federal governments continue to strengthen their position and scrutiny over practices involving fraud, waste and abuse affecting Medicare, Medicaid and other government healthcare programs. Our relationships with pharmaceutical and medical surgical product manufacturers and healthcare providers, as well as our provision of products and services to government entities, subject our business to laws and regulations on fraud and abuse, which among other things: (1) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or to induce the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs; (2) impose many restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs; and (3) prohibit the knowing submission of a false or fraudulent claim for payment to, and knowing retention of an overpayment by, a federal healthcare program such as Medicare and Medicaid. Many of these laws, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the courts. The laws may be interpreted or applied by a prosecutorial, regulatory, or judicial authority in a manner that could require us to make changes in our operations. Failures to comply with applicable laws subject us to federal or state government investigations or qui tam actions, and to liability for damages and civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs. These sanctions might have a materially adverse impact on our business operations and our financial position or results of operations.

We might lose our ability to purchase, compound, store or distribute pharmaceuticals and controlled substances.

We are subject to the operating and security standards of the Drug Enforcement Administration (“DEA”), the U.S. Food and Drug Administration (“FDA”), various state boards of pharmacy, state health departments, HHS, the Centers for Medicare & Medicaid Services (“CMS”) and other comparable agencies. Certain of our businesses may be required to register for permits and/or licenses with, and comply with operating and security standards of, the DEA, FDA, HHS, CMS, various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies, depending upon the type of operations and location of product development, manufacture, distribution, and sale. For example, we are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, holding, distribution, and disposal of controlled substances. Noncompliance with these requirements has resulted in monetary penalties and/or licensing sanctions. For example, under a January 2017 agreement with the DEA and Department of Justice we paid \$150 million to settle potential administrative and civil claims about our practices for reporting suspicious orders of controlled substances and the DEA suspended, on a staggered basis for limited periods of time, our registrations to distribute certain controlled substances from four distribution centers. As of March 31, 2020, one DEA registration was in suspension, and three were expired. If we are not able to obtain, maintain or renew permits, licenses or other regulatory approvals needed for the operation of our businesses, it might have a materially adverse impact on our business operations and our financial position or results of operations.

Pedigree tracking laws increase our compliance burden and our pharmaceutical distribution costs.

There have been increasing efforts by governments to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system, otherwise known as pedigree tracking. For example, the U.S. Drug Quality and Security Act of 2013 (“DQSA”) requires us to participate in a federal prescription drug track and trace system that preempts state drug pedigree requirements, and the U.S. Food and Drug Administration Amendments Act of 2007 requires the FDA to establish standards and identify and validate effective technologies, such as track and trace or authentication technologies, to secure the pharmaceutical supply chain against counterfeit drugs. We also have record-keeping and other obligations under the E.U. Falsified Medicines Directive. Pedigree tracking laws such as these increase our compliance burden and our pharmaceutical distribution costs, and they might have a materially adverse impact on our business operations and our financial position or results of operations.

Privacy and data protection laws increase our compliance burden.

We are subject to a variety of privacy and data protection laws that change frequently and have requirements that vary from jurisdiction to jurisdiction. For example, under the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) we must maintain administrative, physical and technological safeguards to protect individually identifiable health information (“protected health information”) and ensure the confidentiality, integrity and availability of electronic protected health information. We are subject to significant compliance obligations under privacy laws such as the General Data Protection Regulation in the European Union (“GDPR”), the Personal Information Protection and Electronic Documents Act (“PIPEDA”) in Canada, and the California Consumer Protection Act (“CCPA”). Some privacy laws prohibit the transfer of personal information to certain other jurisdictions. We are subject to privacy and data protection compliance audits or investigations by various government agencies. Failure to comply with these laws subjects us to potential regulatory enforcement activity, fines, private litigation including class actions, and other costs. We also have contractual obligations to customers that might be breached if we fail to comply with privacy laws. Our efforts to comply with privacy laws complicates our operations and adds to our compliance costs. A significant privacy breach or failure to comply with privacy laws might have a materially adverse impact on our reputation, business operations and our financial position or results of operations.

Anti-bribery and anti-corruption laws increase our compliance burden.

We are subject to laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar regulations in foreign jurisdictions. The U.K. Bribery Act, for example, prohibits both domestic and international bribery, as well as bribery across both private and public sectors. An organization that fails to prevent bribery committed by anyone associated with the organization can be charged under the U.K. Bribery Act unless the organization can establish the defense of having implemented adequate procedures to prevent bribery. Our failure to comply with these laws might subject us to civil and criminal penalties that might have a materially adverse impact on our business operations and our financial position or results of operations.

Company and Operational Risks***We might record significant charges from impairment to goodwill, intangibles and other assets or investments.***

We are required under U.S. Generally Accepted Accounting Principles (“GAAP”) to test our goodwill for impairment annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends or a significant decline in the Company’s stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible and other long-lived assets for impairment when events or changes in circumstances, such as a divestiture, indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible and other long-lived assets may not be recoverable include slower growth rates, the loss of a significant customer, burdensome new laws or divestiture of a business or asset for less than its carrying value. There are inherent uncertainties in management’s estimates, judgments and assumptions used in assessing recoverability of goodwill, intangible and other long-lived assets. Any material changes in key assumptions, including failure to meet business plans, negative changes in government reimbursement rates, a deterioration in the U.S. and global financial markets, an increase in interest rate or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may decrease the projected cash flows or increase the discount rates and could potentially result in an impairment charge. For example, the COVID-19 pandemic has disrupted the global economy and exacerbated uncertainties inherent in estimates, judgments and assumptions used in our forecasts and impairment assessments. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible and other long-lived assets is determined, which might have a materially adverse impact on our business operations and our financial position or results of operations.

We experience cybersecurity incidents and might experience significant computer system compromises or data breaches.

We and our external service providers use sophisticated computer systems to perform our business operations, such as the secure electronic transmission, processing, storage and hosting of sensitive information, including protected health information and other types of personal information, confidential financial information, proprietary information, and other sensitive information relating to our customers, company and workforce. Many of these systems have experienced and are subject to cybersecurity incidents, despite physical, technical and administrative security measures. Cyber incidents include actual or attempted unauthorized access, tampering, malware insertion, ransomware attacks or other system integrity events. The risk of cyber incidents may be increased while many of our personnel are working remotely due to the COVID-19 pandemic. A cybersecurity incident might involve a material data breach or other material impact to the integrity and operations of these computer systems, which might result in litigation or regulatory action, loss of customers or revenue, increased expense, any of which might have a materially adverse impact on our business operations, reputation and our financial position or results of operations.

We might experience significant problems with information systems or networks.

We rely on sophisticated information systems and networks to perform our business operations, such as to obtain, rapidly process, analyze and manage data that facilitate the purchase and distribution of thousands of inventory items from distribution centers. Our dependence on network availability is increased while many of our personnel are working remotely due to the COVID-19 pandemic. If those information systems are unsuccessfully implemented, fail, suffer errors or interruptions, or become unavailable, it might have a materially adverse impact on our business operations and our financial position or results of operations.

Our products or services might not conform to specifications or perform as we intend.

We sell and provide services involving complex software and technology that may contain errors, especially when first introduced to market. Healthcare professionals delivering patient care tend to have heightened sensitivity to system and software errors. If our software and technology services are alleged to have contributed to faulty clinical decisions or injury to patients, we might be subject to claims or litigation by users of or software or services or their patients. Errors or failures might damage our reputation and negatively affect future sales. A failure of a system or software to conform to specifications might constitute a breach of warranty that could result in repair costs, contract termination, refunds of amounts previously paid or claims for damages. Any of these types of errors or failures might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be impeded in providing customers online services and data access.

We provide remote services that involve hosting customer data and operating software on our own or third party systems. Our customers rely on their ability to access the systems and their data as needed. The networks and hosting systems are vulnerable to interruption or damage from sources beyond our control, such as power loss, telecommunications failures, fire, natural disasters, software and hardware failures and cyberattacks. If the timely delivery of medical care or other customer business requirements are impaired by data access, network or systems problems, we could be exposed to significant claims and reputational harm. Any such problems might have a materially adverse impact on our business operations and our financial position or results of operations.

We might not realize expected benefits from business process initiatives.

We may implement restructuring, cost reduction or other business process initiatives that might result in extraordinary charges and expenses, failures to achieve our desired objectives, or unintended consequences such as distraction of our management and employees, business disruption, attrition beyond any planned reduction in workforce, inability to attract or retain key personnel and reduced employee productivity. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be unable to successfully complete or integrate acquisitions or other business combinations.

Our growth strategy includes consummating acquisitions or other business combinations that either expand or complement our business. To fund acquisitions, we may require financing that may not be available on acceptable terms. We may not receive regulatory approvals needed to complete proposed transactions, or such approvals may be subject to delays or conditions that reduce transaction benefits. Achieving the desired outcomes of business combinations involves significant risks including: diverting management's attention from other business operations; challenges with assimilating the acquired businesses, such as integration of operations and systems; failure or delay in realizing operating synergies; difficulty retaining key acquired company personnel; unanticipated accounting or financial systems issues with the acquired business, which might affect our internal controls over financial reporting; unanticipated compliance issues in the acquired business; challenges retaining customers of the acquired business; unanticipated expenses or charges to earnings, including depreciation and amortization or potential impairment charges; and risks of known and unknown assumed liabilities in the acquired business. Any of these risks could adversely affect our ability to achieve the anticipated benefits of an acquisition and might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by delays or other difficulties with divestitures.

When we decide to sell assets or a business, we may encounter difficulty in finding buyers or exit strategies on acceptable terms or in a timely manner, which could delay the achievement of our strategic objectives. After the disposition, we might experience greater dissynergies than expected, and the impact of the divestiture on our revenue or profit might be larger than we expected. We might have difficulties with pre-closing conditions such as regulatory and governmental approvals, which could delay or prevent the divestiture. We might have financial exposure in a divested business, such as through minority equity ownership, financial or performance guarantees, indemnities or other obligations, such that conditions outside of our control might negate the expected benefits of the disposition. Any of these risks could adversely affect our ability to achieve the anticipated benefits of a divestiture and might have a materially adverse impact on our business operations and our financial position or results of operations.

We might not realize the expected tax treatment from our split-off of Change Healthcare.

On March 10, 2020, the Company completed a separation of its interest in Change Healthcare LLC ("Change Healthcare JV"). The divestiture was effected through the split-off of PF2 SpinCo, Inc. ("SpinCo"), a wholly owned subsidiary of the Company that held all of the Company's interest in the Change Healthcare JV, to certain of the Company's stockholders through an exchange offer (the "Exchange Offer"), followed by a merger of SpinCo with and into Change Healthcare Inc. ("Change"), with Change surviving the merger (the "Merger" and, together with the Exchange Offer, the "Transactions"). The Company received an opinion from outside legal counsel to the effect that the Transactions qualified as generally tax-free transactions to the Company and its shareholders for U.S. federal income tax purposes. An opinion of legal counsel is not binding on the Internal Revenue Service (the "IRS") or the courts, and the IRS or the courts may not agree with the intended tax-free treatment of the Transactions. In addition, the opinion could not be relied upon if certain assumptions, representations and undertakings upon which the opinion was based are materially inaccurate or incomplete, or are violated in any material respect. If the intended tax-free treatment of the Transactions is not sustained, the Company and its stockholders who participated in the Transactions may be required to pay substantial U.S. federal income taxes. In connection with the Transactions, the Company, SpinCo, Change and the Change Healthcare JV entered into the Tax Matters Agreement, which governs their respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, tax contests and other tax sharing regarding U.S. federal, state and local, and non-U.S. taxes, other tax matters and related tax returns. Under the Tax Matters Agreement, Change is required to indemnify the Company if the Transactions become taxable as a result of certain actions by Change or SpinCo, or as a result of certain changes in ownership of the stock of Change after the Merger. If Change does not honor its obligations to indemnify the Company, or if the Transactions fail to qualify for the intended tax-free treatment for reasons not related to a disqualifying action by Change or SpinCo, the resulting tax to the Company could have a significant adverse effect on our financial position or results of operations.

We might be adversely impacted by outsourcing or similar third-party relationships.

We rely on third parties to perform certain business and administrative functions for us. We might not adequately develop, implement and monitor these outsourced service providers, and we might not realize expected cost savings or other benefits. Third-party services providers might fail to perform as anticipated, or we might experience unanticipated operational difficulties, compliance requirements or increased costs related to outsourced services. For example, our ability to use outsourcing resources in certain jurisdictions might be limited by legislative action or customer contracts, with the result that the work must be performed at greater expense or we may be subject to sanctions for non-compliance. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We may be unsuccessful in retail pharmacy operations or maintaining profitability.

Our business strategy included expanding our retail pharmacy operations. Our retail pharmacy operations involve numerous risks, such as the following ones. We might encounter difficulties attracting and retaining customers to our retail locations due to their unfamiliarity with our brands or our inexperience with local market preferences. Competition from our retail pharmacy operations might strain relationships with our retail pharmacy customers. Consolidation of retail pharmacies with third party payers, expansion of large retail pharmacy networks, reductions in reimbursement rates, shifts in the mix of branded and generic pharmaceutical sales, and exclusion from preferred pharmacy networks can impair our retail pharmacy sales and profitability. Failure to maintain profitable retail pharmacy operations may result in significant costs, including those associated with site closures and reductions in workforce. If our retail pharmacy operations fail to achieve, or are unable to sustain, acceptable net sales and profitability levels, it might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be harmed by large customer purchase reductions, payment defaults or contract non-renewal.

We derive a significant portion of our revenue from, and have a significant portion of our accounts receivable with, a small number of customers. At March 31, 2020, sales to our largest customer represented approximately 20% of our consolidated revenues and approximately 20% of our trade receivables, and those of our ten largest customers combined accounted for approximately 51% of our consolidated revenues and approximately 37% of our trade receivables. A material default in payment, reduction in purchases, or the loss of business from a large customer might have a materially adverse impact on our business operations and our financial position or results of operations.

Our contracts with government entities involve future funding and compliance risks.

Our contracts with government entities are subject to risks such as lack of funding and legal compliance. For example, government contract purchase obligations are typically subject to the availability of funding, which may be eliminated. Our government contracts might not be renewed or might be terminated for convenience with little or no prior notice. Government contracts typically expose us to higher potential liability than do other types of contracts. In addition, government contracts typically are subject to procurement laws that include socio-economic, employment practices, environmental protection, recordkeeping and accounting and other requirements. For example, our contracts with the U.S. government generally require us to comply with the Federal Acquisition Regulations, U.S. False Claims Act, Procurement Integrity Act, Buy American Act and Trade Agreements Act. We are subject to government audits, investigations and oversight proceedings. Government agencies routinely review and audit government contractors to determine whether they are complying with contractual and legal requirements. If we fail to comply with these requirements, or we fail an audit, we are subject to various sanctions such as monetary damages, criminal and civil penalties, termination of contracts and suspension or debarment from government contract work. These requirements complicate our business and increase our compliance burden. The occurrence of any of these risks could harm our reputation and might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be harmed by changes in our relationships or contracts with suppliers.

We attempt to structure our pharmaceutical distribution agreements with manufacturers to ensure that we are appropriately and predictably compensated for the services we provide. Certain distribution agreements with manufacturers include pharmaceutical price inflation as a component of our compensation, and we cannot control the frequency or magnitude of pharmaceutical price changes. We might be unable to renew pharmaceutical distribution agreements with manufacturers in a timely and favorable manner. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might infringe intellectual property rights or our intellectual property protections might be inadequate.

We believe that our products and services do not infringe the proprietary rights of third parties, but third parties have asserted infringement claims against us and may do so in the future. If a court were to hold that we infringed other's rights, we might be required to pay substantial damages, develop non-infringing products or services, obtain a license, stop selling or using the infringing products or services, or incur other sanctions. We rely on trade secret, patent, copyright and trademark laws, nondisclosure obligations and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. We might initiate costly and time-consuming litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. Our intellectual property protection efforts might be inadequate to protect our rights. Our competitors might develop non-infringing products or services equivalent or superior to ours. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be unable to successfully recruit and retain qualified employees.

Our ability to attract, engage, develop and retain qualified and experienced employees, including key executives and other talent, is essential for us to meet our objectives. We compete with many other businesses to attract and retain employees. Competition among potential employers might result in increased salaries, benefits or other employee-related costs, or in our failure to recruit and retain employees. We may experience sudden loss of key personnel due to a variety of causes, such as illness, and must adequately plan for succession of key management roles. Employees might not successfully transition into new roles. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

Industry and Economic Risks***We might be adversely impacted by healthcare reform such as changes in pricing and reimbursement models.***

Many of our products and services are designed and intended to function within the structure of current healthcare financing and reimbursement systems. The healthcare industry and related government programs are changing significantly as they seek to increase efficiencies, reduce costs and improve patient outcomes. These changes increase our risks and create uncertainties for our business.

For example, reimbursement methodologies (including government rates) for pharmaceuticals, medical treatments and related services reduce profit margins for us and our customers and impose new legal requirements on healthcare providers. Changes have included cuts in Medicare and Medicaid reimbursement levels, changes in the basis for payments, shifting away from fee-for-service and towards value-based payments and risk-sharing models, and increases in the use of managed care.

In the U.S., the Patient Protection and Affordable Care Act ("ACA") significantly expanded health insurance coverage to uninsured Americans and changed the way healthcare is financed by both governmental and private payers. There are continued efforts to challenge the ACA. There are also efforts to broaden healthcare coverage. U.S. lawmakers also have explored proposals to reduce drug prices, including requiring price transparency and drug importation measures. These proposals might result in significant changes in the pharmaceutical value chain as manufacturers, PBM, managed care organizations and other industry stakeholders look to implement new transactional flows and adapt their business models.

Provincial governments in Canada that provide partial funding for the purchase of pharmaceuticals and independently regulate the sale and reimbursement of drugs have sought to reduce the costs of publicly funded health programs. For example, provincial governments have taken steps to reduce consumer prices for generic pharmaceuticals and, in some provinces, change professional allowances paid to pharmacists by generic manufacturers.

Many European governments provide or subsidize healthcare to consumers and regulate pharmaceutical prices, patient eligibility and reimbursement levels in order to control government healthcare system costs. Some European governments have implemented or are considering austerity measures to reduce healthcare spending. These measures exert pressure on the pricing and reimbursement timelines for pharmaceuticals and may cause our customers to purchase fewer of our products and services or influence us to reduce prices.

Although there is substantial uncertainty about the likelihood, timing and results of these health reform efforts, their implementation might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by competition and industry consolidation.

Our businesses face a highly competitive global environment with strong competition from international, national, regional and local full-line, short-line and specialty distributors, service merchandisers, self-warehousing chain drug stores, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, our businesses face competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that might otherwise be provided by our businesses. Due to consolidation, a few large suppliers control a significant share of the pharmaceuticals market. This concentration reduces our ability to negotiate favorable terms with suppliers and causes us to depend on a smaller number of suppliers. Many of our customers, including healthcare organizations, have consolidated and have greater power to negotiate favorable prices. Consolidation by our customers, suppliers and competitors might reduce the number of market participants and give the remaining enterprises greater bargaining power, which might lead to erosion in our profit margin. Consolidation might increase counter-party credit risk because credit purchases increase for fewer market participants. These competitive pressures and industry consolidation might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by changes or disruptions in product supply.

Our supply arrangements might be interrupted or adversely affected by a variety of causes over which we have no control, such as export controls or trade sanctions, labor disputes, unavailability of key manufacturing sites, inability to procure raw materials, quality control concerns, ethical sourcing issues, supplier's financial distress, natural disasters, civil unrest or acts of war. Our inventory might be requisitioned, diverted or allocated by government order such as under emergency, disaster and civil defense declarations. For example, government actions in response to the COVID-19 pandemic affect our supply allocation, and those and our own allocation decisions can impact our customer relationships. Changes in the healthcare industry's or our suppliers' pricing, selling, inventory, distribution or supply policies or practices could significantly reduce our revenues and net income. We might experience disruptions in our supply of higher margin pharmaceuticals, including generic pharmaceuticals. Any of these changes or disruptions might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted as a result of our distribution of generic pharmaceuticals.

Our generic pharmaceuticals distribution business is subject to pricing risks. We might be adversely impacted if our ClarusONE generic pharmaceutical sourcing joint venture with Walmart, Inc. is unsuccessful or experiences margins declines. Generic drug manufacturers often offer a generic version of branded pharmaceuticals while they challenge the validity or enforceability branded pharmaceutical patents. The patent holder might assert infringement claims against us for distributing those generic versions and the generic drug manufactures may not fully indemnify us against such claims. These risks, as well as changes in the availability, pricing volatility, reimbursement rates for generic drugs, or significant changes in the nature, frequency or magnitude of generic pharmaceutical launches, might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by an economic slowdown or recession.

An economic slowdown or recession affecting our businesses in one or more regions could reduce the prices our customers are able or willing to pay for our products and services and the volume of their purchases. This risk is increased by the COVID-19 pandemic. Any economic slowdown or recession might have a materially adverse impact on our business operations and our financial position or results of operations.

Disruption or other changes in capital and credit markets might impede access to credit and increase borrowing costs for us and our customers and suppliers and might impair the financial soundness of our customers and suppliers.

Volatility and disruption in global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by financial institutions, or decreased liquidity and increased costs in the commercial paper market, might adversely affect our borrowing ability and cost of borrowing. We generally sell our products and services under short-term unsecured credit arrangements. An adverse change in general economic conditions or access to capital might cause our customers to reduce their purchases from us, or delay or fail paying amounts owed to us. Suppliers might increase their prices, reduce their output or change their terms of sale due to limited availability of credit. Suppliers might be unable to make payments due to us for fees, returned products or incentives. These risks are increased by the COVID-19 pandemic. Interest rate increases or changes in capital market conditions might impede our or our customers' or suppliers' ability or cost to obtain credit. For example, interest rate costs on types of borrowings that have historically been linked to the London Inter-Bank Offered Rate ("LIBOR") may increase when LIBOR is replaced by reference rates such as the Secured Overnight Financing Rate ("SOFR"). Any of these risks might have a material adverse impact on our business operations and our financial position or results of operations.

We may have difficulties in sourcing or selling products due to a variety of causes.

We might experience difficulties and delays in sourcing and selling products due to a variety of causes, such as: difficulties in complying with the legal requirements for export or import of pharmaceuticals or components; suppliers' failure to satisfy production demand; manufacturing or supply problems such as inadequate resources; and real or perceived quality issues. Difficulties in product manufacturing or access to raw materials could result in supplier production shutdowns, product shortages and other supply disruptions. The FDA banned certain manufacturers from selling raw materials and drug ingredients in the U.S. due to quality issues. The COVID-19 pandemic adversely affects the availability of some products, resulting in product allocation and delivery delays. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by tax legislation or challenges to our tax positions.

We are subject to the tax laws in the United States at the federal, state and local government levels and to the tax laws of many other jurisdictions in which we operate or sell products or services. Tax laws might change in ways that adversely affect our tax positions, effective tax rate and cash flow. The tax laws are extremely complex and subject to varying interpretations. We are subject to tax examinations in various jurisdictions that might assess additional tax liabilities against us. Our tax reporting positions might be challenged by relevant tax authorities, we might incur significant expense in our efforts to defend those challenges, and we might be unsuccessful those efforts. Developments in examinations and challenges might materially change our provision for taxes in the affected periods and might differ materially from our historical tax accruals. Any of these risks might have a materially adverse impact on our business operations, our cash flows and our financial position or results of operations.

We might be adversely impacted by the Brexit withdrawal of the United Kingdom from the European Union.

We have operations in the U.K. and the European Union ("E.U.") and face risks associated with the uncertainty and potential disruptions that might follow the United Kingdom withdrawing from the European Union ("Brexit"). Brexit could adversely affect political, regulatory, economic or market conditions and contribute to instability in global political institutions, regulatory agencies and financial markets. For example, we might experience volatility in exchange rates and interest rates and changes in laws regulating our U.K. operations. Customers might reduce purchases due to the uncertainty caused by Brexit. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by fluctuations in foreign currency exchange rates.

We conduct our business in various currencies, including the U.S. dollar, euro, British pound sterling and Canadian dollar. Changes in foreign currency exchange rates could reduce our revenues, increase our costs or otherwise adversely affect our financial results reported in U.S. dollars. For example, we are exposed to transactional currency exchange risk due to our import and export of products that are purchased or sold in currencies other than the U.S. dollar. We also have currency exchange risk due to intercompany loans denominated in various currencies. The COVID-19 pandemic has affected and might increase currency exchange rate volatility. We may from time to time enter into foreign currency contracts, foreign currency borrowings or other techniques intended to hedge a portion of our foreign currency exchange rate risks. These hedging activities may not completely offset the adverse financial effects of unfavorable movements in foreign currency exchange rates during the time the hedges are in place. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

Other Risks

We might be adversely impacted by events outside of our control, such as widespread public health issues, natural disasters, political events and other catastrophic events.

We might be adversely affected by events outside of our control, including: widespread public health issues, such as epidemic or pandemic infectious diseases; natural disasters such as earthquakes, hurricanes or floods; political events such as terrorism, military conflicts and trade wars; and other catastrophic events. These events might disrupt operations for us, our suppliers and our customers. They might affect consumer confidence levels and spending. In response to these events, we might suspend operations, implement extraordinary procedures, seek alternate sources for product supply, or suffer consequences that are unexpected and difficult to mitigate. In particular, the rapid and widespread transmission of the SARS-CoV-2 novel coronavirus beginning in late 2019 impacts us in significant ways. For example, to mitigate the spread of the COVID-19 disease caused by SARS-CoV-2, we implemented travel restrictions and remote working arrangements for most of our employees in order to minimize physical contact, and we implemented additional sanitation and personal protection measures in our warehouse, retail pharmacy and delivery operations. These measures might not fully mitigate COVID-19 risks to our workforce and we could experience unusual levels of absenteeism that might impair operations and delay delivery of products. The COVID-19 pandemic affects product manufacturing, supply and transport availability and cost. The pandemic reduces demand for some products due to delays or cancellations of elective medical procedures, consumer self-isolation and business closures, among other reasons. The COVID-19 pandemic influences shortages of some products, with product allocation resulting in delivery delays for customers. The ongoing impacts of the pandemic might cause a general economic slowdown or recession in one or more markets, disruptions and volatility in global capital markets and other broad and adverse effects on the economy, business conditions, commercial activity and the healthcare industry. The pandemic might impact our business operation, financial position and results of operation in unpredictable ways that depend on highly-uncertain future developments, such as determining the effectiveness of current or future government actions to address the public health or economic impacts of the pandemic. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by changes in accounting standards.

Our consolidated financial statements are subject to the application of U.S. GAAP, which periodically is revised or reinterpreted. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board (“FASB”) and the SEC. It is possible that future accounting standards may require changes to the accounting treatment in our consolidated financial statements and may require us to make significant changes to our financial systems. Such changes might have a materially adverse impact on our financial position or results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Because of the nature of our principal businesses, our plant, warehousing, retail pharmacies, office and other facilities are operated in widely dispersed locations, primarily throughout North America and Europe. The warehouses and retail pharmacies are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 13, “Leases,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

Certain legal proceedings in which we are involved are discussed in Financial Note 21, “Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.

Not applicable.

McKESSON CORPORATION**Information about our Executive Officers**

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are elected on an annual basis generally and their term expires at the first meeting of the Board of Directors (“Board”) following the annual meeting of stockholders, or until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
Brian S. Tyler	53	Chief Executive Officer since April 2019; President and Chief Operating Officer from August 2018 to March 2019; Chairman of the Management Board of McKesson Europe AG from 2017 to 2018; President and Chief Operating Officer, McKesson Europe from 2016 to 2017; President of North America Distribution and Services from 2015 to 2016; Executive Vice President, Corporate Strategy and Business Development from 2012 to 2015; and a director since April 2019. Service with the Company - 23 years.
Britt J. Vitalone	51	Executive Vice President and Chief Financial Officer since January 2018; Senior Vice President and Chief Financial Officer, U.S. Pharmaceutical from July 2014 to December 2017; Senior Vice President and Chief Financial Officer, U.S. Pharmaceutical and Specialty Health from October 2017 to December 2017; Senior Vice President of Corporate Finance and M&A Finance from March 2012 to June 2014. Service with the Company - 14 years.
Tracy Faber	50	Executive Vice President and Chief Human Resources Officer since October 2019. Previously, Senior Vice President of Human Resources. Service with the Company - 9 years.
Nancy Flores	53	Executive Vice President, Chief Information Officer and Chief Technology Officer since January 2020; Chief Information Officer, Johnson Controls from 2018 to July 2019. Corporate Officer and Vice President of Business and Technology Services, Abbott Laboratories from 1996 to 2018. Service with the Company - less than 1 year.
Lori A. Schechter	58	Executive Vice President, Chief Legal Officer and General Counsel since June 2014; Associate General Counsel from January 2012 to June 2014; Litigation Partner, Morrison & Foerster LLP from 1995 to December 2011. Service with the Company - 8 years.

McKESSON CORPORATION

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

- (a) *Market Information:* The principal market on which our common stock is traded is the New York Stock Exchange (“NYSE”) under the trading symbol of “MCK”.
- (b) *Holders:* The number of record holders of our common stock at March 31, 2020 was approximately 5,034.
- (c) *Dividends:* In July 2019, our quarterly dividend was raised from \$0.39 to \$0.41 per common share for dividends declared on or after such date by the Board. We declared regular cash dividends of \$1.62 and \$1.51 per share in the years ended March 31, 2020 and 2019.

We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon our future earnings, financial condition, capital requirements and other factors.

- (d) *Securities Authorized for Issuance under Equity Compensation Plans:* Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.
- (e) *Share Repurchase Plans:* Stock repurchases may be made from time to time in open market transactions, privately negotiated transactions, through accelerated share repurchase (“ASR”) programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

During the last three years, our share repurchases were transacted through both open market transactions and ASR programs with third-party financial institutions.

In 2018, we repurchased 3.5 million shares for \$500 million through open market transactions at an average price per share of \$144.43. In June 2017, August 2017 and March 2018, we entered into three separate ASR programs with third-party financial institutions to repurchase \$250 million, \$400 million and \$500 million of our common stock. As of March 31, 2018, we completed and received a total of 1.5 million shares under the June 2017 ASR program and a total of 2.7 million shares under the August 2017 ASR program. In addition, we received 2.5 million shares representing the initial number of shares due in March 2018 and an additional 1.0 million shares in the first quarter of 2019. The March 2018 ASR program was completed at an average price per share of \$143.66 during the first quarter of 2019. The total authorization outstanding for repurchase of our common stock was \$1.1 billion at March 31, 2018.

In May 2018, the Board authorized the repurchase of up to \$4.0 billion of our common stock. The total authorization outstanding for repurchases of our common stock was increased to \$5.1 billion at that time. During 2019, we repurchased 10.4 million shares for \$1.4 billion through open market transactions at an average price per share of \$132.14. In December 2018, we entered into an ASR program with a third-party financial institution to repurchase \$250 million of our common stock. The total number of shares repurchased under this ASR program was 2.1 million shares at an average price per share of \$117.98. The total authorization outstanding for repurchase of our common stock was \$3.5 billion at March 31, 2019.

In 2019, we retired 5.0 million or \$542 million of our treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with our accounting policy, we allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. Accordingly, our retained earnings and additional paid-in capital were reduced by \$472 million and \$70 million during 2019.

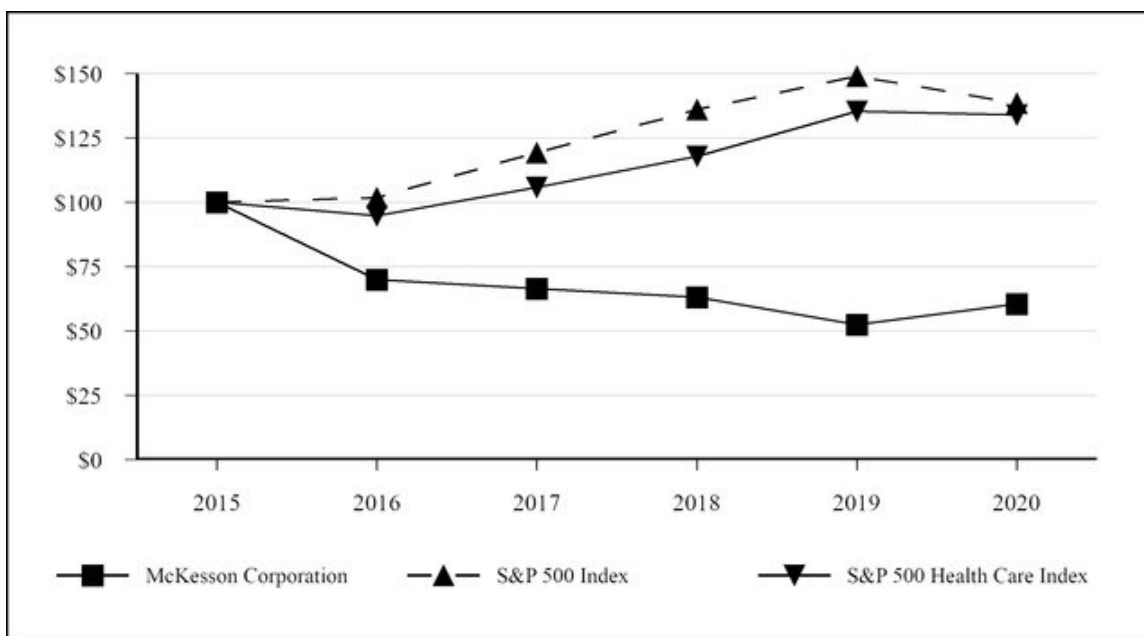
In 2020, we repurchased 9.2 million shares for \$1.3 billion through open market transactions at an average price per share of \$144.68. In May 2019, we entered into an ASR program with a third-party financial institution to repurchase \$600 million of our common stock. The total number of shares repurchased under this ASR program was 4.7 million shares at an average price per share of \$127.68. The total authorization outstanding for repurchase of our common stock was \$1.5 billion at March 31, 2020.

McKESSEON CORPORATION

The following table provides information on our share repurchases during the fourth quarter of 2020:

<i>(In millions, except price per share)</i>	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased ⁽²⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs ⁽²⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
January 1, 2020 - January 31, 2020	—	\$ —	—	\$ 1,535
February 1, 2020 - February 29, 2020	—	—	—	1,535
March 1, 2020 - March 31, 2020	15.4	—	15.4	1,535
Total	15.4		15.4	

- (1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax-withholding obligations in connection with employee equity awards.
- (2) On March 9, 2020, we completed the previously announced separation (“Split-off”) of our interest in the Change Healthcare JV. In connection with the Split-off, we distributed all 176.0 million outstanding shares of common stock of our wholly owned subsidiary, PF2 SpinCo, Inc. (“SpinCo”), which held all of McKesson’s interests in the Change Healthcare JV, to participating holders of our common stock in exchange for 15.4 million shares of McKesson stock which now are held as treasury stock on our consolidated balance sheet. Refer to Financial Note 22, “Stockholders’ Equity,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.
- (f) *Stock Price Performance Graph**: The following graph compares the cumulative total stockholder return on our common stock for the periods indicated with the Standard & Poor’s 500 Index and the S&P 500 Health Care Index. The S&P 500 Health Care Index was selected as a comparator because it is generally available to investors and broadly used by other companies in the same industry.



	March 31,					
	2015	2016	2017	2018	2019	2020
McKesson Corporation	\$ 100.00	\$ 69.92	\$ 66.37	\$ 63.06	\$ 52.40	\$ 60.55
S&P 500 Index	\$ 100.00	\$ 101.78	\$ 119.26	\$ 135.95	\$ 148.86	\$ 138.47
S&P 500 Health Care Index	\$ 100.00	\$ 94.82	\$ 105.81	\$ 117.74	\$ 135.27	\$ 133.90

* Assumes \$100 invested in McKesson Common Stock and in each index on March 31, 2015 and that all dividends are reinvested.

McKESSEON CORPORATION
Item 6. Selected Financial Data.
FIVE-YEAR HIGHLIGHTS

As of and for the Years Ended March 31,

(In millions, except per share data and ratios)

	2020	2019	2018	2017	2016
Operating Results					
Revenues	\$ 231,051	\$ 214,319	\$ 208,357	\$ 198,533	\$ 190,884
Percent change	7.8%	2.9%	4.9%	4.0%	6.6%
Gross profit	\$ 12,023	\$ 11,754	\$ 11,184	\$ 11,271	\$ 11,416
Percent change	2.3%	5.1%	(0.8)%	(1.3)%	—%
Income from continuing operations before income taxes ⁽¹⁾	\$ 1,144	\$ 610	\$ 239	\$ 6,861	\$ 3,250
Income (Loss) after income taxes					
Continuing operations ⁽¹⁾	1,126	254	292	5,277	2,342
Discontinued operations	(6)	1	5	(124)	(32)
Net income	1,120	255	297	5,153	2,310
Net income attributable to noncontrolling interests ⁽²⁾	(220)	(221)	(230)	(83)	(52)
Net income attributable to McKesson Corporation ⁽¹⁾	900	34	67	5,070	2,258
Financial Position					
Working capital	\$ (402)	\$ 839	\$ 451	\$ 1,336	\$ 3,366
Days sales outstanding for: ⁽³⁾					
Customer receivables	26	26	25	27	28
Inventories	27	31	30	30	32
Drafts and accounts payable	61	62	60	61	59
Total assets	\$ 61,247	\$ 59,672	\$ 60,381	\$ 60,969	\$ 56,523
Total debt, including finance lease obligations ⁽⁴⁾	7,387	7,595	7,880	8,545	8,114
Total McKesson stockholders' equity ⁽⁵⁾	5,092	8,094	9,804	11,095	8,924
Payments for property, plant and equipment	362	426	405	404	488
Acquisitions, net of cash, cash equivalents and restricted cash acquired	133	905	2,893	4,212	40
Common Share Information					
Common shares outstanding at year-end	162	190	202	211	225
Shares on which earnings per common share were based					
Diluted	182	197	209	223	233
Basic	181	196	208	221	230
Diluted earnings (loss) per common share attributable to McKesson Corporation ⁽⁵⁾					
Continuing operations	\$ 4.99	\$ 0.17	\$ 0.30	\$ 23.28	\$ 9.84
Discontinued operations	(0.04)	—	0.02	(0.55)	(0.14)
Total	4.95	0.17	0.32	22.73	9.70
Cash dividends declared	294	298	270	249	249
Cash dividends declared per common share	1.62	1.51	1.30	1.12	1.08
Book value per common share ⁽⁶⁾⁽⁷⁾	31.43	42.60	48.53	52.58	39.66
Market value per common share - year-end	135.26	117.06	140.87	148.26	157.25
Supplemental Data					
Debt to capital ratio ⁽⁸⁾	52.1%	43.3%	40.6%	39.2%	43.6%
Average McKesson stockholders' equity ⁽⁹⁾	\$ 6,743	\$ 9,163	\$ 11,016	\$ 9,282	\$ 8,688
Return on McKesson stockholders' equity ⁽¹⁰⁾	13.3%	0.4%	0.6%	54.6%	26.0%

Footnotes to Five-Year Highlights:

- (1) 2020 includes a pre-tax other-than-temporary impairment charge of \$1.2 billion (\$864 million after-tax) and a pre-tax dilution loss of \$246 million (\$184 million after-tax) related to our investment in the Change Healthcare Joint Venture, charges of \$275 million (pre-tax and after-tax) to remeasure to fair value the assets and liabilities of the Company's German wholesale business to be contributed to a joint venture and an estimated gain of \$414 million relating to the split-off of its investment in the Change Healthcare Joint Venture. 2019 includes pre-tax goodwill impairment charges of \$1.8 billion (pre-tax and after-tax) primarily for our two reporting units within our European Pharmaceutical Solutions segment. 2018 includes total goodwill impairment charges of \$1.7 billion (pre-tax and after-tax) for our European Pharmaceutical Solutions segment and Other. The goodwill impairment charges are generally not deductible for income tax purposes. 2020, 2019 and 2018 also include asset impairment charges of \$82 million (\$66 million after tax), \$210 million (\$172 million after-tax) and \$446 million (\$410 million after-tax) primarily for our U.K. retail businesses. 2017 includes a pre-tax gain of \$3.9 billion (\$3.0 billion after-tax) from the contribution of the majority of our Core MTS Business in connection with the Healthcare Technology Net Asset Exchange as discussed in Financial Note 2, "Investment in Change Healthcare Joint Venture."
- (2) Includes annual recurring compensation McKesson is obligated to pay to the noncontrolling shareholders of McKesson Europe. 2020, 2019, 2018 and 2017 include net income attributable to third-party equity interests in our consolidated entities including Vantage Oncology Holdings, LLC and ClarusONE Sourcing Services LLP, which was formed in 2017.
- (3) Based on year-end balances and sales or cost of sales for the last 90 days of the year.
- (4) Total debt includes finance lease obligations for 2020. Prior to the adoption of the amended lease guidance in 2020, these were capital lease obligations. Refer to Financial Note 1, "Significant Accounting Policies," for additional information.
- (5) Excludes noncontrolling and redeemable noncontrolling interests.
- (6) Certain computations may reflect rounding adjustments.
- (7) Represents McKesson stockholders' equity divided by year-end common shares outstanding.
- (8) Ratio is computed as total debt divided by the sum of total debt and McKesson stockholders' equity excluding accumulated other comprehensive income (loss).
- (9) Represents a five-quarter average of McKesson stockholders' equity.
- (10) Ratio is computed as net income (loss) attributable to McKesson Corporation for the last four quarters, divided by a five-quarter average of McKesson stockholders' equity.

McKESSON CORPORATION
FINANCIAL REVIEW

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

Management’s discussion and analysis of financial condition and results of operations, referred to as the “Financial Review,” is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of McKesson Corporation together with its subsidiaries (collectively, the “Company,” “we,” “our,” or “us” and other similar pronouns). This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in Item 8 of Part II of this Annual Report on Form 10-K. Our fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean our fiscal year.

Certain statements in this report constitute forward-looking statements. See Item 1 - Business - Forward-Looking Statements in Part I of this Annual Report on Form 10-K for additional factors relating to these statements; also see Item 1A - Risk Factors in Part I of this Annual Report on Form 10-K for a list of certain risk factors applicable to our business, financial condition and results of operations.

Overview of Our Business:

We are a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare technology. We partner 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.

We conduct our business through three reportable segments: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure are included in Other, which primarily consists of McKesson Canada, McKesson Prescription Technology Solutions (“MRxTS”) and our investment in Change Healthcare LLC (“Change Healthcare JV”), which was split-off from the Company in the fourth quarter of 2020 as further discussed in this Financial Review. Our organizational structure also includes Corporate, which consists of income and expenses associated with administrative functions and projects, and the results of certain investments. The factors for determining the reportable segments include the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments on a number of measures, including revenues and operating profit before interest expense and income taxes. Refer to Financial Note 24, “Segments of Business,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for a description of these segments.

McKESON CORPORATION
FINANCIAL REVIEW (Continued)

Executive Summary:

The following executive summary provides highlights and key factors that impacted our business, operating results and liquidity for the year ended March 31, 2020. The coronavirus disease 2019 (“COVID-19”) did not significantly impact our financial condition, results of operations or liquidity in 2020. For a more in-depth discussion of how COVID-19 impacted our business, operations, and outlook, see the COVID-19 section of “Trends and Uncertainties” included below.

- Revenues of \$231.1 billion, reflecting an 8% increase from the prior year driven primarily by market growth in our U.S. Pharmaceutical and Specialty Solutions segment, including branded pharmaceutical price increases and higher volumes from retail national account customers;
- Gross profit increased 2% from the prior year primarily driven by market growth in our Medical-Surgical Solutions segment;
- On October 21, 2019, we disclosed an opioid-related litigation settlement with two Ohio counties and recorded a related charge of \$82 million in total operating expenses;
- On December 12, 2019, McKesson and Walgreens Boots Alliance announced an agreement to create a joint venture that is expected to combine their respective pharmaceutical wholesale businesses in Germany. As a result of this agreement, we recognized fair value remeasurement charges of \$275 million in total operating expenses within our European Pharmaceutical Solutions segment;
- On March 10, 2020, we completed the previously announced separation of our investment in Change Healthcare JV and recognized an estimated gain of \$414 million related to this transaction. We no longer hold an interest in any securities of Change Healthcare JV or Change Healthcare, Inc. (“Change”) following the separation. During the second quarter of 2020, we recorded an other-than-temporary-impairment (“OTTI”) charge of \$1.2 billion and a dilution loss of \$246 million related to our investment in Change Healthcare JV;
- Diluted earnings per common share from continuing operations attributable to McKesson Corporation in 2020 of \$4.99 reflects the aforementioned items and a lower share count compared to the prior year driven largely by share repurchases; and
- We returned \$2.2 billion of cash to shareholders through \$1.9 billion of common stock repurchases and \$294 million of dividend payments.

Trends and Uncertainties:**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 January 30, 2020 and a global pandemic on March 11, 2020.

We continue to evaluate the nature and extent COVID-19 may have to our business and operations. The pandemic is developing rapidly and the full extent to which COVID-19 will impact us depends on future developments, including the duration and spread of the virus, as well as potential seasonality of new outbreaks.

In response to the COVID-19 pandemic, federal, state, and local government directives and policies have been put in place in the United States to enhance availability of medications and supplies to meet the increased demand, assist front-line healthcare providers, manage public health concerns by creating social distancing, and address the economic impacts, including sharply reduced business activity, increased unemployment, and overall uncertainty presented by this new healthcare challenge. Similar governmental actions have occurred in Canada and Europe.

As a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information technology, we are uniquely positioned to respond to the COVID-19 pandemic in the United States, Canada, and Europe. We are working closely with national and local governments, agencies, and industry partners to ensure supplies, including personal protective equipment, and medicine reach our customers and patients when they need them.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

We have taken the necessary steps to ensure that we continue 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 requirements, employee support programs, and enhanced safety measures are intended to limit exposure to COVID-19. These successful steps in our fourth quarter of 2020 have resulted in limited disruption of our normal business operations, productivity trends, and slightly compressed operating margins due to increased operating expenses.

The financial impact to the year ended March 31, 2020 is muted due to the timing of the COVID-19 pandemic late in our fourth quarter. We experienced higher pharmaceutical distribution volumes in March, however, these increases were partially offset by decreases in specialty drug volumes and decreased demand within primary care medical-surgical supplies. Specialty drug volumes were negatively impacted by lower demand for infusions, elective specialty drugs, oncology, and dermatology practice sales. Demand for primary care medical-surgical supplies were negatively impacted by deferrals in elective procedures in hospitals and surgery centers as well as decreased traffic or closures in doctor's offices. These positive and negative COVID-19 impacts drove increased consolidated revenues by less than 1% in 2020.

The increased volumes and revenue due to COVID-19 favorably impacted income from continuing operations before income taxes, but were mostly offset by increased variable labor costs, enhanced sterilization procedures to sanitize operating facilities, costs of personal protection equipment for our employees, and increased costs of transport as well as increased other operating expenses. Additionally, as previously mentioned, decreased specialty drug volumes and demand challenges for primary care medical-surgical supplies weighed negatively on income from continuing operations before income taxes. We also expanded temporary employee benefits and incentives targeted for our front-line employees to not only protect their safety, but to provide further support including additional medical benefits, emergency leave as well as added compensation. The overall impact to income from continuing operations before income taxes from the favorable and unfavorable items mentioned above largely offset each other, however, impacts to future periods due to COVID-19 may differ based on future developments, including the duration and spread of the virus as well as potential seasonality of new outbreaks. Overall operating margins were compressed due to higher pharmaceutical distribution volumes, shifts in product mix, higher demand by retail national accounts and increased operating expenses.

Our consolidated balance sheets and ability to maintain financial liquidity remains strong. We have experienced no material impacts to our liquidity or net working capital. With many of our customers anticipating extended declines in their businesses due to the COVID-19 pandemic, we are monitoring closely for trends that may impact their timing or ability to pay amounts owed to us. We remain well-capitalized with access to liquidity from our revolving credit facility. Long-term debt markets and commercial paper markets, our primary sources of capital after cash flow from operations, have remained open during the COVID-19 pandemic. While there are signs of stress in both markets, we do not have an immediate need to access these markets and could use our revolving credit facility to meet any near-term liquidity needs. We have seen some improvement in conditions in the debt markets and commercial paper markets as the Federal Reserve has taken steps to stabilize the markets. We believe we have the ability to meet the covenants of our credit agreements.

We continue to monitor the COVID-19 pandemic impact on our supply chain. We were able to maintain appropriate labor and overall vendor supply levels under the circumstances in the fourth quarter, despite challenges including higher sickness rates and service level issues with suppliers. Supplier shortages and stock-outs for certain products have occurred in specific instances as demand in excess of supply escalated for certain items tied to the COVID-19 pandemic response, such as personal protective equipment and other preventive products. Our inventory levels have fluctuated in response to these supply dynamics and increased concentrated customer orders for certain products, with varying inventory level impacts depending on the specific product within our portfolio of offerings.

Although the availability of various products is dependent on our suppliers, their location 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 assembled a Critical Care Drug Task Force, made up of our procurement specialists, clinical health systems pharmacists, and supply chain professionals, focused on securing additional product where available, sourcing back-up products, adjusting allocations to ensure equitable distribution and to protect our operations across all locations and facilities. We have a robust Business Continuity and Disaster Recovery Program ("BCRP") and we have proactively enhanced our BCRP in response to the COVID-19 pandemic.

McKESSEON CORPORATION
FINANCIAL REVIEW (Continued)

The COVID-19 pandemic impacted our business operations and financial results beginning in the fourth quarter of 2020. Although the financial impact on our overall 2020 results is limited due to the timing of the outbreak, we face numerous uncertainties in estimating the direct and indirect effects on our future business operations, financial condition, results of operations, and liquidity. Additionally, responses from authorities and regulators at all levels of government may materially impact us in future periods. Due to several rapidly changing variables related to the COVID-19 pandemic, we cannot reasonably estimate future economic trends and the timing of when stability will return. Refer to Item 1A - Risk Factors in Part I of this Annual Report on Form 10-K for a disclosure of risk factors related to COVID-19.

Opioid-Related Litigation and Claims

We are a defendant in over 3,000 legal proceedings asserting claims related to distribution of controlled substances (opioids) in federal and state courts throughout the United States, and in Puerto Rico and Canada. We are vigorously defending ourselves against such claims and proceedings and are a party to discussions with the objective of achieving broad resolution of the remaining claims. Because of the large number of parties involved, together with the novelty and complexity of the issues, for which there may be different considerations among the parties, we cannot predict the successful resolution through a negotiated settlement. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on our financial position, cash flows or liquidity, or results of operations. Refer to Financial Note 21, "Commitments and Contingent Liabilities," to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

RESULTS OF OPERATIONS

Overview of Consolidated Results:

<i>(Dollars in millions, except per share data and ratios)</i>	Years Ended March 31,			Change	
	2020	2019	2018	2020	2019
Revenues	\$ 231,051	\$ 214,319	\$ 208,357	8 %	3 %
Gross Profit	12,023	11,754	11,184	2	5
<i>Gross Profit Margin</i>	5.20 %	5.48 %	5.37 %	(28) bp	11 bp
Total Operating Expenses	\$ (9,534)	\$ (10,868)	\$ (10,422)	(12) %	4 %
<i>Total Operating Expenses as a Percentage of Revenues</i>	4.13 %	5.07 %	5.00 %	(94) bp	7 bp
Other Income, Net	\$ 12	\$ 182	\$ 130	(93) %	40 %
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture	(1,108)	(194)	(248)	471	(22)
Loss on Debt Extinguishment	—	—	(122)	NM	(100)
Interest Expense	(249)	(264)	(283)	(6)	(7)
Income from Continuing Operations Before Income Taxes	1,144	610	239	88	155
Income Tax (Expense) Benefit	(18)	(356)	53	(95)	(772)
Income from Continuing Operations	1,126	254	292	343	(13)
Income (Loss) from Discontinued Operations, Net of Tax	(6)	1	5	(700)	(80)
Net Income	1,120	255	297	339	(14)
Net Income Attributable to Noncontrolling Interests	(220)	(221)	(230)	-	(4)
Net Income Attributable to McKesson Corporation	\$ 900	\$ 34	\$ 67	NM	(49) %
Diluted Earnings (Loss) Per Common Share Attributable to McKesson Corporation					
Continuing operations	\$ 4.99	\$ 0.17	\$ 0.30	NM	(43) %
Discontinued operations	(0.04)	—	0.02	NM	(100)
Total	\$ 4.95	\$ 0.17	\$ 0.32	NM	(47) %
Weighted Average Diluted Common Shares	182	197	209	(8) %	(6) %

bp - basis points

NM - not meaningful

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Revenues

Revenues increased for the years ended March 31, 2020 and 2019 compared to the respective prior years primarily due to market growth, including expanded business with existing customers within our U.S. Pharmaceutical and Specialty Solutions segment. Market growth includes growing drug utilization, price increases and newly launched products, partially offset by price deflation associated with brand to generic drug conversion. The increase in revenues for 2019 was also due to our 2019 first quarter acquisition of Medical Specialties Distributors LLC (“MSD”), partially offset by loss of customers within our U.S. Pharmaceutical and Specialty Solutions segment. The impact from COVID-19 increased revenues by less than 1% for the year ended March 31, 2020 and was primarily attributable to our U.S. Pharmaceutical and Specialty Solutions and European Pharmaceutical Solutions segments.

Gross Profit

Gross profit increased for the year ended March 31, 2020 compared to the prior year primarily due to market growth in our Medical-Surgical Solutions segment, partially offset by unfavorable effects of foreign currency exchange fluctuations. Gross profit and gross profit margin for the year ended March 31, 2020 compared to the prior year were unfavorably impacted by a decrease in net cash proceeds received of \$22 million in 2020 compared to \$202 million in 2019 representing our share of antitrust legal settlements, partially offset by higher last-in, first-out (“LIFO”) credits in 2020 due to higher generic deflation. The impact from COVID-19 increased gross profit by less than 1% and decreased gross profit margin by less than 10 basis points for the year ended March 31, 2020.

Gross profit and gross profit margin increased for the year ended March 31, 2019 compared to the prior year. Gross profit increased due to market growth, partially offset by loss of customers. The increase in gross profit and gross profit margin for 2019 was also due to the receipt of net cash proceeds representing our share of antitrust legal settlements of \$202 million, higher LIFO credits and our business acquisitions. These increases in 2019 were partially offset by the incremental government reimbursement reductions in the United Kingdom (“U.K.”), government imposed generic price cuts in Canada and the 2018 third quarter sale of our Enterprise Information Solutions (“EIS”) business.

Gross profit for the years ended March 31, 2020, 2019 and 2018 included LIFO inventory credits of \$252 million, \$210 million and \$99 million. Refer to the “Critical Accounting Policies and Estimates” section included in this Financial Review for further information.

Total Operating Expenses

A summary of the components of our total operating expenses for the years ended March 31, 2020, 2019 and 2018 is as follows:

	Years Ended March 31,			Change	
	2020	2019	2018	2020	2019
<i>(Dollars in millions, except ratios)</i>					
Selling, distribution and administrative expenses	\$ 9,168	\$ 8,403	\$ 8,138	9 %	3 %
Research and development	96	71	125	35	(43)
Goodwill impairment charges	2	1,797	1,738	(100)	3
Restructuring, impairment and related charges	268	597	567	(55)	5
Gain from sale of business	—	—	(109)	NM	(100)
Gain on healthcare technology net asset exchange, net	—	—	(37)	NM	(100)
Total Operating Expenses	\$ 9,534	\$ 10,868	\$ 10,422	(12) %	4 %
<i>Percent of Revenues</i>	<i>4.13 %</i>	<i>5.07 %</i>	<i>5.00 %</i>	<i>(94) bp</i>	<i>7 bp</i>

Total operating expenses and total operating expenses as a percentage of revenues decreased for the year ended March 31, 2020 compared to the prior year and increased for the year ended March 31, 2019 compared to the prior year.

McKESON CORPORATION
FINANCIAL REVIEW (Continued)

Total operating expenses for the years ended March 31, 2020, 2019 and 2018 were affected by the following significant items:

2020

- Selling, distribution and administrative expenses (“SD&A”) includes charges of \$275 million to remeasure assets and liabilities held for sale to the lower of carrying value or fair value less costs to sell related to the expected contribution of the majority of our German wholesale business to create a joint venture in which McKesson will have a non-controlling interest within our European Pharmaceutical Solutions segment. Refer to Financial Note 3, “Held for Sale,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information;
- SD&A includes opioid-related expenses of \$232 million, primarily litigation and related expenses, including the second quarter settlement charge of \$82 million recorded in connection with an agreement executed in December 2019 to settle all opioid-related claims filed by two Ohio counties;
- Restructuring, impairment and related charges includes long-lived asset impairment charges of \$112 million, primarily for our U.K. business (mainly pharmacy licenses) and Rexall Health retail business (“Rexall Health”) in Other (mainly customer relationships), and the remaining \$156 million primarily represents employee severance and exit-related costs related to our 2019 restructuring initiatives, as further discussed below; and
- Total operating expenses includes higher SD&A due to our business acquisitions and to support business growth, as well as our technology initiatives, partially offset by favorable effects of foreign currency exchange fluctuations.

2019

- Goodwill impairment charges of \$1.8 billion in our Retail Pharmacy (“RP”, formerly “Consumer Solutions”) and Pharmaceutical Distribution (“PD”, formerly “Pharmacy Solutions”) reporting units within the European Pharmaceutical Solutions segment. Of these impairment charges, \$238 million was recognized upon the 2019 first quarter segment changes, which resulted in two new reporting units. The remaining charges primarily were due to declines in the reporting units’ estimated future cash flows and the selection of higher discount rates. These impairment charges generally were not deductible for income tax purposes. The declines in estimated future cash flows primarily were attributed to additional government reimbursement reductions and competitive pressures within the U.K. The risk of successfully achieving certain business initiatives was the primary factor in the use of a higher discount rate. At March 31, 2019, both RP and PD reporting units had no remaining goodwill balances;
- Restructuring, impairment and related charges primarily includes employee severance and exit-related costs of \$331 million for our 2019 restructuring initiatives, as further discussed below and long-lived asset impairment charges of \$245 million primarily for our U.K. business (mainly pharmacy licenses) driven by additional government reimbursement reductions and competitive pressures in the U.K.; and
- SD&A includes opioid-related costs of \$151 million primarily related to litigation expenses and increased expenses due to our business acquisitions and to support growth, partially offset by a gain from an escrow settlement of \$97 million representing certain indemnity and other claims related to our 2017 acquisition of Rexall Health and a credit of \$90 million for the derecognition of a liability related to the tax receivable agreement (“TRA”) payable to the shareholders of Change.

2018

- Goodwill impairment charges of \$1.3 billion for the European Pharmaceutical Solutions segment and \$455 million for Rexall Health. There were no tax benefits associated with these goodwill impairment charges. The impairments for Europe were triggered primarily by government reimbursement reductions in our retail business in the U.K. and a more competitive environment in France. The impairments for Rexall Health were primarily driven by significant generics reimbursement reductions across Canada and minimum wage increases in multiple provinces. At March 31, 2018, Rexall Health had no remaining goodwill related to our acquisition of Rexall Health;

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

- Restructuring, impairment and related charges primarily includes long-lived asset impairment charges of \$446 million due to the declines in estimated future cash flows in our European business including those declines in our U.K. retail business driven by government reimbursement reductions. In addition, we recorded employee severance and lease exit costs of \$74 million for our 2018 restructuring plan in our McKesson Europe business. The plan was substantially completed in 2020;
- SD&A includes a charitable contribution expense of \$100 million to a public benefit California foundation (the “Foundation”);
- SD&A includes increased expenses due to our business acquisitions, partially offset by a gain from sale of business of \$109 million related to the sale of our EIS business within Other.

Goodwill Impairments

The impairment testing performed in 2020 did not indicate any material impairment of goodwill. As of the testing date, other risks, expenses and future developments, such as additional government actions, increased regulatory uncertainty and material changes in key market assumptions limit our ability to estimate projected cash flows, which could adversely affect the fair value of various reporting units in future periods, including our McKesson Canada reporting unit in Other where the risk of a material goodwill impairment is higher than other reporting units. Refer to “Critical Accounting Policies and Estimates” included in this Financial Review for further information.

On October 1, 2019, we voluntarily changed our annual goodwill impairment testing date from January 1 to October 1 to better align with the timing of our annual long-term planning process. This change was not material to our consolidated financial statements as it did not delay, accelerate, or avoid any potential goodwill impairment charge. Refer to Note 14, “Goodwill and Intangible Assets, Net,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for further information.

2019 Restructuring Initiatives

On April 25, 2018, we announced a strategic growth initiative intended to drive long-term incremental profit growth and increase operational efficiency. The initiative consists of multiple growth priorities and plans to optimize our operating models and cost structures primarily through the centralization, cost management and outsourcing of certain administrative functions. As part of the growth initiative, we committed to implement certain actions including a reduction in workforce, facility consolidation and store closures. This set of the initiatives was substantially complete by the end of 2020 and we recorded charges of \$15 million and \$135 million in 2020 and 2019 primarily representing employee severance, exit-related costs and asset impairment charges. Any remaining charges primarily consist of exit-related costs.

As previously announced on November 30, 2018, we relocated our corporate headquarters from San Francisco, California to Irving, Texas to improve efficiency, collaboration and cost competitiveness, effective April 1, 2019. We anticipate that the relocation will be complete by January 2021. We expect to incur total charges of approximately \$80 million to \$130 million, of which charges of \$44 million and \$33 million were recorded in 2020 and 2019 primarily representing employee retention expenses, asset impairments and accelerated depreciation. The estimated remaining charges primarily consist of lease and other exit-related costs, and employee-related expenses including retention.

During the fourth quarter of 2019, we committed to additional programs to continue our operating model and cost optimization efforts. We continue to implement centralization of certain functions and outsourcing through the expanded arrangement with a third-party vendor to achieve operational efficiency. The programs also include reorganization and consolidation of our business operations and related headcount reductions, closures of retail pharmacy stores in Europe and closures of other facilities. We anticipate these additional programs will be substantially complete by the end of 2021. We expect to incur total charges of approximately \$300 million to \$350 million for these programs, of which charges of \$72 million and \$163 million were recorded in 2020 and 2019 primarily representing employee severance, accelerated depreciation expense and project consulting fees. The estimated remaining charges primarily consist of facility and other exit costs and employee-related costs.

Refer to Financial Note 4, “Restructuring, Impairment and Related Charges,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Other Income, Net

Other income, net, for the year ended March 31, 2020 decreased compared to the prior year primarily due to the 2020 pension settlement charges of \$122 million related to our previously approved termination of the frozen U.S. defined benefit pension plan and higher gains recognized from the sale of investments in 2019, partially offset by higher settlement gains in 2020 from our derivative contracts. In connection with the pension plan termination, we purchased annuity contracts from an insurer that will pay and administer the future pension benefits of the remaining participants.

Other income, net for the year ended March 31, 2019 increased compared to the prior year primarily due to higher gains recognized from the sales of investments.

Equity Earnings and Charges from Investment in Change Healthcare Joint Venture

Our investment in Change Healthcare JV is accounted for using the equity method of accounting. Excluding the impairment and transaction-related items described below, our proportionate share of loss from our investment in Change Healthcare JV for the years ended March 31, 2020, 2019 and 2018 was \$119 million, \$194 million and \$248 million, which primarily includes transaction and integration expenses incurred by the joint venture and basis differences between the joint venture and McKesson including amortization of fair value adjustments. 2018 also includes certain transaction expenses, partially offset by a tax benefit of \$76 million primarily due to a reduction in the future applicable tax rate related to the 2017 Tax Cuts and Jobs Act (the "2017 Tax Act"). During the first quarter of 2020 and for the years ended March 31, 2019 and 2018, we owned approximately 70% of this joint venture.

On June 27, 2019, common stock and certain other securities of Change began trading on the NASDAQ ("IPO"). On July 1, 2019, upon the completion of its IPO, Change contributed net cash proceeds it received from its offering of common stock to Change Healthcare JV in exchange for additional membership interests of Change Healthcare JV ("LLC Units") at the equivalent of its offering price of \$13 per share. The proceeds from the concurrent offering of other securities were also used by Change to acquire certain securities of Change Healthcare JV. As a result, McKesson's equity interest in Change Healthcare JV was reduced to approximately 58.5%, which was used to recognize our proportionate share in net loss from Change Healthcare JV, commencing the second quarter of 2020. As a result of the ownership dilution to 58.5% from 70%, we recognized a dilution loss of approximately \$246 million in the second quarter of 2020. Additionally, our proportionate share of income or loss from this investment was subsequently reduced as immaterial settlements of stock option exercises occurred after the IPO and further diluted our ownership.

In the second quarter of 2020, we recorded an OTTI charge of \$1.2 billion to our investment in Change Healthcare JV, representing the difference between the carrying value of our investment and the fair value derived from the corresponding closing price of Change's common stock at September 30, 2019. This charge was included within equity earnings and charges from investment in Change Healthcare joint venture in our consolidated statements of operations for the year ended March 31, 2020.

On March 10, 2020, we completed the previously announced separation of our interest in Change Healthcare JV. The separation was effected through the split-off of SpinCo, a wholly owned subsidiary of the Company that held all of our interest in Change Healthcare JV, to certain of our stockholders through an exchange offer ("Split-off"), followed by the merger of SpinCo with and into Change, with Change surviving the merger ("Merger").

In connection with the exchange offer, on March 9, 2020, we distributed all 176.0 million outstanding shares of common stock of SpinCo to participating holders of the Company's common stock in exchange for 15.4 million shares of McKesson common stock. Following consummation of the exchange offer, on March 10, 2020, the Merger was consummated, with each share of SpinCo common stock converted into one share of Change common stock, par value \$0.001 per share, with cash being paid in lieu of fractional shares of Change common stock. The Split-off and Merger are intended to be generally tax-free transactions to McKesson and its shareholders for U.S. federal income tax purposes. Following the Split-off, we do not beneficially own any of Change's outstanding securities. In connection with this transaction, we recognized an estimated gain for financial reporting purposes of \$414 million during the fourth quarter of 2020, which was largely driven by the reversal of a related deferred tax liability.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

After the separation, Change Healthcare JV is required under the TRA to pay McKesson 85% of the net cash tax savings realized, or deemed to be realized, resulting from depreciation or amortization allocated to Change by McKesson. The receipt of any payments under the TRA is dependent upon Change benefiting from this depreciation or amortization in future tax return filings, which creates uncertainty over the amount, timing and probability of the gain recognized. As such, we account for the TRA as a gain contingency, with no receivable recognized as of March 31, 2020.

Loss on Debt Extinguishment

In 2018, we recognized a loss on debt extinguishment of \$122 million primarily representing premiums related to our February 2018 tender offers to redeem a portion of our existing outstanding long-term debt.

Interest Expense

Interest expense decreased in 2020 compared to the prior year primarily due to a decrease in the issuance of commercial paper, partially offset by a decrease in interest income from our derivative contracts. Interest expense decreased in 2019 compared to the prior year primarily due to the refinancing of debt at lower interest rates, partially offset by an increase in the issuance of commercial paper. Interest expense fluctuates based on timing, amounts and interest rates of term debt repaid and new term debt issued, as well as amounts incurred associated with financing fees.

Income Tax (Expense) Benefit

We recorded income tax expense of \$18 million and \$356 million and tax benefit of \$53 million related to continuing operations for the years ended March 31, 2020, 2019 and 2018. Our reported income tax expense rates were 1.6% and 58.4% in 2020 and 2019, and our income tax benefit rate was 22.2% in 2018.

Our reported income tax expense rate for 2020 was favorably impacted by an estimated gain on the Change Healthcare JV divestiture of \$414 million (pre-tax and after-tax), which was intended to generally be a tax-free split-off for U.S. federal income tax purposes, and unfavorably impacted by charges of \$275 million (pre-tax and after-tax) to remeasure the carrying value of assets and liabilities held for sale related to the expected formation of a new German wholesale joint venture within our European Pharmaceutical Solutions segment. Refer to Financial Note 2, "Investment in Change Healthcare Joint Venture" and Note 3, "Held for Sale," to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

Our reported income tax expense rate for 2019 was unfavorably impacted by charges of \$1.8 billion (pre-tax and after-tax) to impair the carrying value of goodwill for our European Pharmaceutical Solutions segment, given that these charges are generally not deductible for tax purposes. The reported income tax benefit rate for 2018 was unfavorably impacted by the goodwill impairment charges of \$1.7 billion (pre-tax and after-tax), given that these charges are generally not deductible for tax purposes. Refer to Financial Note 14, "Goodwill and Intangible Assets, Net," to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for additional information. As a result of the enactment of the 2017 Tax Act, the 2018 income tax benefit rate included a tax benefit of \$1.3 billion from the remeasurement of certain deferred taxes to the lower U.S. federal tax rate, partially offset by a tax expense of \$457 million representing the one-time tax imposed on certain accumulated earnings and profits of our foreign subsidiaries.

Significant judgments and estimates are required in determining the consolidated income tax provision and evaluating income tax uncertainties. Although our major taxing jurisdictions include the U.S., Canada and the U.K., we are subject to income taxes in numerous foreign jurisdictions. Our income tax expense, deferred tax assets and liabilities and uncertain tax liabilities reflect management's best assessment of estimated current and future taxes to be paid. We believe that we have made adequate provision for all income tax uncertainties.

Income (Loss) from Discontinued Operations, Net of Tax

Income (loss) from discontinued operations, net of tax, was a loss of \$6 million for the year ended March 31, 2020 and income of \$1 million and \$5 million for the years ended March 31, 2019 and 2018.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests primarily represents ClarusONE Sourcing Services LLP, Vantage Oncology Holdings, LLC and the accrual of the annual recurring compensation amount of €0.83 per McKesson Europe AG (“McKesson Europe”) share that McKesson is obligated to pay to the noncontrolling shareholders of McKesson Europe under a domination and profit and loss transfer agreement (the “Domination Agreement”). Noncontrolling interests with redemption features, such as put rights, that are not solely within our control are considered redeemable noncontrolling interests. Redeemable noncontrolling interests are presented outside of Stockholders’ Equity on our consolidated balance sheet. Refer to Financial Note 9, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for additional information.

Net Income Attributable to McKesson Corporation

Net income attributable to McKesson Corporation was \$900 million, \$34 million and \$67 million for the years ended March 31, 2020, 2019 and 2018. Diluted earnings per common share attributable to McKesson Corporation was \$4.95, \$0.17 and \$0.32 for the years ended March 31, 2020, 2019 and 2018. Additionally, our 2020, 2019 and 2018 diluted earnings per share reflect the cumulative effects of share repurchases.

Weighted Average Diluted Common Shares

Diluted earnings per common share was calculated based on a weighted average number of shares outstanding of 182 million, 197 million and 209 million for the years ended March 31, 2020, 2019 and 2018. Weighted average diluted common shares outstanding is impacted by the exercise and settlement of share-based awards and the cumulative effect of share repurchases, including the impact of shares exchanged as part of the split-off from our investment in Change Healthcare JV, as discussed above.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Overview of Segment Results:**Revenues:**

<i>(Dollars in millions)</i>	Years Ended March 31,			Change	
	2020	2019	2018	2020	2019
U.S. Pharmaceutical and Specialty Solutions	\$ 183,341	\$ 167,763	\$ 162,587	9 %	3 %
European Pharmaceutical Solutions	27,390	27,242	27,320	1	—
Medical-Surgical Solutions	8,305	7,618	6,611	9	15
Other	12,015	11,696	11,839	3	(1)
Total Revenues	\$ 231,051	\$ 214,319	\$ 208,357	8 %	3 %

U.S. Pharmaceutical and Specialty Solutions2020 vs. 2019

U.S. Pharmaceutical and Specialty Solutions revenues for the year ended March 31, 2020 increased 9% compared to the prior year primarily due to market growth, including branded pharmaceutical price increases, higher volumes from retail national account customers and growth in specialty pharmaceuticals, partially offset by brand to generic drug conversions.

2019 vs. 2018

U.S. Pharmaceutical and Specialty Solutions revenues for the year ended March 31, 2019 increased 3% compared to the prior year primarily due to market growth, including expanded business with existing customers, growth of specialty pharmaceuticals and our business acquisitions, partially offset by loss of customers.

European Pharmaceutical Solutions2020 vs. 2019

European Pharmaceutical Solutions revenues for the year ended March 31, 2020 increased 1% compared to the prior year. Excluding the unfavorable effect of foreign currency exchange fluctuations, revenues for this segment increased 4% primarily due to market growth in our pharmaceutical distribution business.

2019 vs. 2018

European Pharmaceutical Solutions revenues remained flat for the year ended March 31, 2019 compared to the prior year. Excluding the unfavorable effect of foreign currency exchange fluctuations, revenues for this segment increased 1% primarily due to market growth, partially offset by the impact of retail pharmacy closures and additional government reimbursement reductions in the U.K., and the competitive environment in France.

Medical-Surgical Solutions2020 vs. 2019

Medical-Surgical Solutions revenues for the year ended March 31, 2020 increased 9% compared to the prior year primarily due to market growth in our primary care business.

2019 vs. 2018

Medical-Surgical Solutions revenues for the year ended March 31, 2019 increased 15% compared to the prior year primarily due to our 2019 first quarter acquisition of MSD and market growth.

Other2020 vs. 2019

Revenues in Other for March 31, 2020 increased 3% compared to the prior year primarily due to market growth in our Canadian and MRxTS businesses.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

2019 vs. 2018

Revenues in Other for the year ended March 31, 2019 decreased 1% compared to the prior year primarily due to unfavorable effects of foreign currency exchange fluctuations of 2% and the effect of government imposed generic price cuts and retail pharmacy closures related to our Canadian business. In addition, revenues in Other for 2019 were negatively impacted by the 2018 sale of our EIS business. These decreases are partially offset by growth in our Canadian and MRxTS businesses and the effects of acquisitions in Canada.

Segment Operating Profit and Corporate Expenses, Net:

<i>(Dollars in millions, except ratios)</i>	Years Ended March 31,			Change	
	2020	2019	2018	2020	2019
Segment Operating Profit (Loss) ⁽¹⁾					
U.S. Pharmaceutical and Specialty Solutions	\$ 2,767	\$ 2,697	\$ 2,535	3 %	6 %
European Pharmaceutical Solutions ⁽²⁾	(261)	(1,978)	(1,681)	(87)	18
Medical-Surgical Solutions	499	455	461	10	(1)
Other ⁽³⁾	(595)	394	(107)	(251)	468
Subtotal	2,410	1,568	1,208	54	30
Corporate Expenses, Net ⁽⁴⁾	(1,017)	(694)	(564)	47	23
Loss on Debt Extinguishment	—	—	(122)	NM	(100)
Interest Expense	(249)	(264)	(283)	(6)	(7)
Income from Continuing Operations Before Income Taxes	\$ 1,144	\$ 610	\$ 239	88 %	155 %

Segment Operating Profit (Loss) Margin

U.S. Pharmaceutical and Specialty Solutions	1.51 %	1.61 %	1.56 %	(10) bp	5 bp
European Pharmaceutical Solutions	(0.95)	(7.26)	(6.15)	631	(111)
Medical-Surgical Solutions	6.01	5.97	6.97	4	(100)

bp - basis points

NM - not meaningful

- (1) Segment operating profit (loss) includes gross profit, net of operating expenses, as well as other income (expense), net, for our reportable segments and Other.
- (2) Operating loss of our European Pharmaceutical Solutions segment for the year ended March 31, 2020 includes charges of \$275 million to remeasure to fair value the assets and liabilities of our German wholesale business to be contributed to a joint venture as well as long-lived asset impairment charges of \$82 million. This segment's operating loss for the years ended March 31, 2019 and 2018 include goodwill impairment charges of \$1.8 billion and \$1.3 billion as well as long-lived asset impairment charges of \$210 million and \$446 million.
- (3) Operating loss for Other for the year ended March 31, 2020 includes an impairment charge of \$1.2 billion and a dilution loss of \$246 million related to our investment in Change Healthcare JV, partially offset by an estimated gain of \$414 million related to the completed separation of our interest in Change Healthcare JV during the fourth quarter of 2020.
- (4) Corporate expenses, net for the year ended March 31, 2020 includes a pension settlement charge of \$122 million and a settlement charge of \$82 million related to opioid claims.

U.S. Pharmaceutical and Specialty Solutions

2020 vs. 2019

Operating profit increased for the year ended March 31, 2020 compared to the prior year primarily due to market growth in our specialty business. Operating profit and operating profit margin were favorably impacted by a charge related to a customer bankruptcy in 2019 and higher LIFO credits in 2020. Operating profit and operating profit margin were unfavorably impacted by customer mix and lower net cash proceeds received of \$22 million in 2020 compared to \$202 million in 2019 representing our share of antitrust legal settlements.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

2019 vs. 2018

Operating profit increased for the year ended March 31, 2019 compared to the prior year primarily due to market growth, including growth in our specialty business, partially offset by loss of customers. Operating profit and operating profit margin for 2019 benefited from the net cash proceeds of \$202 million representing our share of antitrust legal settlements and higher LIFO credits of \$210 million in 2019 compared to \$99 million in 2018, partially offset by a \$61 million charge related to a customer bankruptcy.

European Pharmaceutical Solutions2020 vs. 2019

Operating loss and operating loss margin improved for the year ended March 31, 2020 compared to the prior year primarily due to 2019 goodwill impairment charges of \$1.8 billion and decreased long-lived asset impairment charges of \$82 million in 2020 compared to \$210 million in 2019, partially offset by 2020 charges of \$275 million for the fair value remeasurement related to our German wholesale business to be contributed to a joint venture.

2019 vs. 2018

Operating loss and operating loss margin were negatively impacted for the year ended March 31, 2019 compared to the prior year primarily due to goodwill impairment charges of \$1.8 billion in 2019 compared to \$1.3 billion in 2018, the effect of government reimbursement reductions and lower sales volume in the U.K., and increased competition in France. This was partially offset by market growth and long-lived asset impairment charges of \$210 million in 2019 compared to \$446 million in 2018.

Medical-Surgical Solutions2020 vs. 2019

Operating profit and operating profit margin increased for the year ended March 31, 2020 compared to prior year primarily due to market growth in our primary care business and lower restructuring charges, partially offset by the remeasurement of assets and liabilities to fair value related to a divestiture that was completed in the fourth quarter of 2020 and higher operating expenses, including an increase in our provision for bad debts.

2019 vs. 2018

Operating profit decreased for the year ended March 31, 2019 compared to the prior year primarily due to higher restructuring charges, partially offset by market growth. Operating profit margin for 2019 decreased primarily due to higher restructuring charges and changes in our mix of business, partially offset by ongoing cost management.

Other

Operating profit for Other decreased for 2020 and increased in 2019 compared to the respective prior years. Operating profit for Other for the years ended March 31, 2020, 2019 and 2018 were affected by the following significant items:

2020

- OTTI charge of \$1.2 billion and the dilution loss of \$246 million related to our investment in Change Healthcare JV both recognized in the second quarter of 2020, partially offset by an estimated gain of \$414 million related to the completed separation of our interest in Change Healthcare JV during the fourth quarter of 2020;
- Long-lived asset impairment charges of \$30 million recognized for Rexall Health; and
- Market growth in our MRxTS and Canadian businesses.

2019

- Market growth in our MRxTS business;
- Lower operating profit due to the 2018 sale of our EIS business;
- Gain from an escrow settlement of \$97 million related to our 2017 acquisition of Rexall Health;
- Credit of \$90 million for the derecognition of a liability related to the TRA payable to the shareholders of Change;

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

- Higher restructuring and asset impairment charges related to closures of our retail pharmacy stores in Canada;
- Lower amount of our proportionate share of losses from our equity method investment in Change Healthcare JV during 2019;
- Goodwill and long-lived asset impairment charges of \$56 million recognized for Rexall Health;
- Gain of \$56 million from the divestiture of an equity investment; and
- Government imposed generic price cuts in Canada.

2018

- Lower operating profit due to the 2017 contribution of the Core MTS Business to the Change Healthcare JV;
- Goodwill charges of \$455 million and long-lived asset impairment charges of \$33 million recognized for Rexall Health;
- Market growth in our MRxTS business;
- Our proportionate share of losses from our equity method investment in Change Healthcare JV during 2018;
- \$109 million gain from the sale of our EIS business in 2018;
- \$46 million credit representing a reduction of our TRA liability related to the adoption of the 2017 Tax Act; and
- Gain of \$37 million resulting from the finalization of net working capital and other adjustments related to the contribution of the Core MTS Business to Change Healthcare JV.

Corporate

2020 vs. 2019

Corporate expenses, net, increased for the year ended March 31, 2020 compared to the prior year primarily due to a \$122 million pension settlement charge, an \$82 million opioid claim settlement charge and higher costs for technology initiatives, partially offset by higher net settlement gains in 2020 from our derivative contracts. Corporate expenses, net, for 2020 also included charitable contribution expenses of approximately \$20 million primarily for the McKesson Foundation.

2019 vs. 2018

Corporate expenses, net, increased for the year ended March 31, 2019 compared to the prior year primarily due to an increase in opioid-related costs, higher restructuring-related charges and costs for technology initiatives. Corporate expenses, net, for 2018 included a charitable contribution expense of \$100 million for the Foundation.

Foreign Operations

Our foreign operations represented approximately 17% of our consolidated revenues in 2020 and approximately 18% in each of 2019 and 2018. Foreign operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. We conduct our business worldwide in local currencies including Euro, British pound sterling and Canadian dollar. As a result, the comparability of our results reported in U.S. dollars can be affected by changes in foreign currency exchange rates. In discussing our operating results, we may use the term “foreign currency effect”, which refers to the effect of changes in foreign currency exchange rates used to convert the local currency results of foreign countries where the functional currency is not the U.S. dollar. We present this information to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. In computing foreign currency effect, we translate our current year results in local currencies into U.S. dollars by applying average foreign exchange rates of the corresponding prior year periods, and we subsequently compare those results to the previously reported results of the comparable prior year periods in U.S. dollars. Additional information regarding our foreign operations is included in Financial Note 24, “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Business Combinations

Refer to Financial Note 5, “Business Acquisitions and Divestitures,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Fiscal 2021 Outlook

Information regarding the Company's fiscal 2021 outlook is contained in our Form 8-K dated May 20, 2020. That Form 8-K should be read in conjunction with the forward-looking statements in Item 7 - Trends and Uncertainties, and the cautionary statements in Item 1 - Business - Forward-Looking Statements and Item 1A - Risk Factors in Part I of this Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We also provide financing to certain customers related to the purchase of pharmacies, which serve as collateral for the loans. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers and record an allowance in our consolidated financial statements for these amounts.

In determining the appropriate allowance for doubtful accounts, which includes general and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers' financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt.

Sales to the Company's ten largest customers, including GPOs, accounted for approximately 51% of total consolidated revenues in 2020 and comprised approximately 37% of total trade accounts receivable at March 31, 2020. Sales to our largest customer, CVS Health Corporation ("CVS"), accounted for approximately 20% of our total consolidated revenues in 2020 and comprised approximately 20% of total trade accounts receivable March 31, 2020. As a result, our sales and credit concentration is significant. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivables balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. A material default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or GPO could have a material adverse impact on our financial position, results of operations and liquidity.

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. With many of our customers anticipating extended declines in their businesses due to COVID-19, we are monitoring closely for trends that may impact their timing or ability to pay amounts owed to us. We believe the reserves maintained and expenses recorded in 2020 are appropriate and consistent in the context of historical methodologies employed, as well as assessment of trends currently available.

At March 31, 2020, trade and notes receivables were \$17.6 billion prior to allowances of \$252 million. In 2020, 2019 and 2018, our provision for bad debts was \$91 million, \$132 million and \$44 million. At March 31, 2020 and 2019, the allowance as a percentage of trade and notes receivables was 1.4% and 1.8%. An increase or decrease of a hypothetical 0.1% in the 2020 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision for bad debts of approximately \$18 million. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst-case scenarios. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Inventories: Inventories consist of merchandise held for resale. Prior to 2018, we reported inventories at the lower of cost or market (“LCM”). Effective in the first quarter of 2018, we report inventories at the lower of cost or net realizable value, except for inventories determined using the last-in, last-out (“LIFO”) method which are valued at the lower of LIFO cost or market. LIFO method presumes that the most recent inventory purchases are the first items sold and the inventory cost under LIFO approximates market. The majority of the cost of domestic inventories is determined using the LIFO method. The majority of the cost of inventories held in foreign and certain domestic locations is based on first-in, first-out (“FIFO”) method and weighted average purchase prices. Rebates, cash discounts and other incentives received from vendors relating to the purchase or distribution of inventory are considered as product discounts and are accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold.

At March 31, 2020 and 2019, total inventories, net were \$16.7 billion on our consolidated balance sheets. The LIFO method was used to value approximately 60% and 62% of our inventories at March 31, 2020 and 2019. If we had used the moving average method of inventory valuation, inventories would have been approximately \$444 million and \$696 million higher than the amounts reported at March 31, 2020 and 2019. These amounts are equivalent to our LIFO reserves. Our LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. We recognized LIFO credits of \$252 million, \$210 million and \$99 million in 2020, 2019 and 2018 in our consolidated statements of operations. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory.

We believe that moving average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO or market. As of March 31, 2020 and 2019, inventories at LIFO did not exceed market.

In determining whether an inventory valuation allowance is required, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. We write down inventories which are considered excess and obsolete as a result of these reviews. These factors could make our estimates of inventory valuation differ from actual results.

Business Combinations: The Company accounts for business combinations using the acquisition method of accounting whereby the identifiable assets and liabilities of the acquired business, as well as any noncontrolling interest in the acquired business, are recorded at their estimated fair values as of the date that the Company obtains control of the acquired business. Any purchase consideration in excess of the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use a method that is a form or variation of the income approach, whereby a forecast of future cash flows attributable to the asset are discounted to present value using a risk-adjusted discount rate. Some of the more significant estimates and assumptions inherent in the income approach include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset’s expected useful life. Refer to Financial Note 5, “Business Acquisitions and Divestitures,” to the consolidated financial statements included in this Annual Report on Form 10-K for additional information regarding our acquisitions.

Goodwill and Long-Lived Assets: As a result of acquiring businesses, we have \$9.4 billion of goodwill at March 31, 2020 and 2019, and \$3.2 billion and \$3.7 billion of intangible assets, net at March 31, 2020 and 2019. On October 1, 2019, we voluntarily changed our annual goodwill impairment testing date from January 1 to October 1 to better align with the timing of our annual long-term planning process. This change was not material to our consolidated financial statements as it did not delay, accelerate, or avoid any potential goodwill impairment charge. Refer to Note 14, “Goodwill and Intangible Assets, Net,” to the consolidated financial statements included in this Annual Report on Form 10-K for further information.

We perform an impairment test on goodwill balances annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant declines in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, or a significant decline in the Company’s stock price and/or market capitalization for a sustained period of time.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or a component, one level below our operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

In 2018, we elected to early adopt, on a prospective basis, the amended guidance that simplifies goodwill impairment testing by eliminating the second step of the impairment test. The one-step impairment test under the amended guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any, up to the amount of goodwill the entity has recorded.

To estimate the fair value of our reporting units, we generally use a combination of the market approach and the income approach. Under the market approach, we estimate fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, we use a discounted cash flow ("DCF") model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate that is commensurate with the risk inherent within the reporting unit. In addition, we compare the aggregate of the reporting units' fair values to our market capitalization as further corroboration of the fair values.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. Judgments made in determining an estimate of fair value may materially impact our results of operations. The valuations are based on information available as of the impairment testing date and are based on expectations and assumptions that have been deemed reasonable by management. Any material changes in key assumptions, including failure to meet business plans, negative changes in government reimbursement rates, deterioration in the U.S. and global financial markets, an increase in interest rates or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may decrease the projected cash flows or increase the discount rates and could potentially result in an impairment charge. Under the market approach, significant estimates and assumptions also include the selection of appropriate guideline companies and the determination of appropriate valuation multiples to apply to the reporting unit. Under the income approach, significant estimates and assumptions also includes the determination of discount rates. The discount rates represent the weighted average cost of capital measuring the reporting unit's cost of debt and equity financing, which are weighted by the percentage of debt and percentage of equity in a company's target capital structure. Included in the estimate of the weighted average cost of capital is the assumption of an unsystematic risk premium to address incremental uncertainty related to the reporting units' future cash flow projections. An increase in the unsystematic risk premium increases the discount rate.

Based on the 2019 annual goodwill impairment tests, the estimated fair values of our reporting units excluding the Retail Pharmacy (formerly, Consumer Solutions) and Pharmaceutical Distribution (formerly, Pharmacy Solutions) reporting units in our European Pharmaceutical Solutions segment exceeded their carrying values. However, other risks, expenses and future developments, such as additional government actions, increased regulatory uncertainty and material changes in key market assumptions that we were unable to anticipate as of the testing date may require us to further revise the projected cash flows, which could adversely affect the fair value of our other reporting units in future periods. The estimated fair value of our McKesson Canada reporting unit within Other exceeded the carrying value of this reporting unit by 11% in 2020. The goodwill balance of this reporting unit was \$1.4 billion at March 31, 2020 or approximately 15% of the consolidated goodwill balance. Generally, a decline in estimated future cash flows in excess of 12% or an increase in the discount rate in excess of 1% could result in an indication of goodwill impairment for this reporting unit in future reporting periods. Refer to Financial Note 14, "Goodwill and Intangible Assets, Net," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Currently, all of our intangible and other long-lived assets are amortized or depreciated based on the pattern of their economic consumption or on a straight-line basis over their estimated useful lives, ranging from one to 38 years. We review intangible assets for impairment at an asset group level whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability of intangible assets is based on the lowest level of identifiable estimated future undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset group over its fair value. Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Our ongoing consideration of all the factors described previously could result in further impairment charges in the future, which could adversely affect our net income. Refer to Financial Note 4, “Restructuring, Impairment and Related Charges” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Equity Method Investments: We evaluate our investments for other-than-temporary impairments when circumstances indicate those assets may be impaired. When the decline in value is deemed to be other than temporary, an impairment is recognized to the extent that the fair value is less than the carrying value of the investment. We consider various factors in determining whether a loss in value of an investment is other than temporary including: the length of time and the extent to which the fair value has been below cost; the financial condition of the investees, and our intent and ability to retain the investment for a period of time sufficient to allow for recovery of value. Management makes certain judgments and estimates in its assessment including but not limited to: identifying if circumstances indicate a decline in value is other than temporary, expectations about the business operations of investees, as well as industry, financial and market factors. Any significant changes in assumptions or judgments in assessing impairments could result in an impairment charge.

Restructuring Charges: We have certain restructuring reserves which require significant estimates related to the timing and amount of future employee severance and other exit-related costs to be incurred when the restructuring actions take place. We generally recognize employee severance costs when payments are probable and amounts are estimable. Costs related to contracts without future benefit or contract termination are recognized at the earlier of the contract termination or the cease-use dates. Other exit-related costs are recognized as incurred. In connection with these restructuring actions, we also assess the recoverability of long-lived assets used in the business, and as a result, we may recognize accelerated depreciation reflecting shortened useful lives of the underlying assets.

Income Taxes: Our income tax expense and deferred tax assets and liabilities reflect management’s best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties and include those used to conclude on the tax-free nature of the separation of the Change Healthcare JV. We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, our tax expense and cash flows could be materially impacted.

In addition, the calculation of our tax liabilities includes estimates for uncertainties in the application of complex new tax regulations across multiple global jurisdictions where we conduct our operations.

We recognize liabilities for tax and related interest for issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and related interest will be due. If our current estimate of tax and interest liabilities is less than the ultimate settlement, an additional charge to income tax expense may result. If our current estimate of tax and interest liabilities is more than the ultimate settlement, a reduction to income tax expense may be recognized.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Loss Contingencies: We are subject to various claims, including claims with customers and vendors, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a material loss is reasonably possible or probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided. Legal fees are recognized as incurred when the legal services are provided.

We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the potential loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. In conjunction with the preparation of the accompanying financial statements, we considered matters related to ongoing controlled substances claims to which we are a party. While we are not able to predict the outcome or reasonably estimate a range of possible losses in these matters, an adverse judgment or negotiated resolution in any of these matters could have a material adverse effect on our results of operations, consolidated financial position, cash flows or liquidity. Refer to Financial Note 21, "Commitments and Contingent Liabilities," to the consolidated financial statements included in this Annual Report on Form 10-K for additional information.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We expect our available cash generated from operations and our short-term investment portfolio, together with our existing sources of liquidity from our credit facilities and commercial paper program, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. As described within "Trends and Uncertainties" above, the COVID-19 pandemic is developing rapidly. We continue to monitor its impact on demand within parts of our business, as well as trends potentially impacting the timing or ability for some of our customers to pay amounts owed to us. We remain well-capitalized with access to liquidity from our revolving credit facility. Additionally, long-term debt markets and commercial paper markets, our primary sources of capital after cash flow from operations, have remained open during the COVID-19 pandemic. While there are signs of stress in both markets, we do not have an immediate need to access these markets and could use our revolving credit facility to meet any near-term liquidity needs. We have seen some improvement in conditions in the debt markets and commercial paper markets as the Federal Reserve has taken steps to stabilize the markets. We believe we have the ability to meet the covenants of our credit agreements.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

The following table summarizes the net change in cash, cash equivalents and restricted cash for the periods shown:

<i>(Dollars in millions)</i>	Years Ended March 31,			Change	
	2020	2019	2018	2020	2019
Net cash provided by (used in):					
Operating activities	\$ 4,374	\$ 4,036	\$ 4,345	\$ 338	\$ (309)
Investing activities	(579)	(1,381)	(2,993)	802	1,612
Financing activities	(2,734)	(2,227)	(3,084)	(507)	857
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(19)	(119)	150	100	(269)
Net change in cash, cash equivalents and restricted cash	\$ 1,042	\$ 309	\$ (1,582)	\$ 733	\$ 1,891

Operating Activities

Net cash provided from operating activities was \$4.4 billion, \$4.0 billion and \$4.3 billion for the years ended March 31, 2020, 2019 and 2018. Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers and payments to vendors. Additionally, working capital is primarily a function of sales and purchase volumes, inventory requirements and vendor payment terms. Operating activities for the year ended March 31, 2020 were affected by increases in drafts and accounts payable primarily associated with timing, replenishing inventory stocks and effective working capital management, and an increase in receivables primarily due to revenue growth. Operating activities for the year ended March 31, 2019 were primarily affected by an increase in receivables due to the overall increase in sales volume and timing of receipts, and increases in drafts and accounts payable, primarily due to increased inventory purchases and timing of payments. Operating activities for the year ended March 31, 2018 were primarily affected by a decrease in receivables primarily due to timing of receipts and loss of customers, and increases in drafts and accounts payable reflecting longer payment terms for certain purchases.

During the year ended March 31, 2020, we made a cash payment of \$114 million from the executive benefit retirement plan. Other non-cash items within operating activities for the year ended March 31, 2020 primarily includes fair value remeasurement charges of \$275 million related to our German wholesale business to be contributed to a joint venture, a pension settlement charge of \$122 million and stock-based compensation of \$119 million.

Investing Activities

Net cash used in investing activities was \$579 million, \$1.4 billion and \$3.0 billion for the years ended March 31, 2020, 2019 and 2018. Investing activities for the year ended March 31, 2020 include \$362 million and \$144 million in capital expenditures for property, plant and equipment, and capitalized software and \$133 million of net cash payments for acquisitions.

Investing activities for the year ended March 31, 2019 include \$905 million of net cash payments for acquisitions, including \$784 million for our acquisition of MSD, \$426 million and \$131 million in capital expenditures for property, plant and equipment, and capitalized software, and \$101 million of net cash proceeds from sales of businesses and investments.

Investing activities for the year ended March 31, 2018 include \$2.9 billion of net cash payments for acquisitions, including \$1.3 billion and \$720 million for our acquisitions of CoverMyMeds, LLC and RxCrossroads, \$405 million and \$175 million in capital expenditures for property, plant and equipment, and capitalized software, \$374 million of net cash proceeds from sales of businesses and investments and \$126 million cash payment received related to the Healthcare Technology Net Asset Exchange.

Financing Activities

Net cash used in financing activities was \$2.7 billion, \$2.2 billion and \$3.1 billion for the years ended March 31, 2020, 2019 and 2018. Financing activities for the year ended March 31, 2020 include cash receipts of \$21.4 billion and payments of \$21.4 billion from short-term borrowings, primarily commercial paper. Financing activities for the year ended March 31, 2020 also include \$2.0 billion of cash paid for stock repurchases, repayments of long-term debt of \$298 million and \$294 million of dividends paid.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Financing activities for the year ended March 31, 2019 include cash receipts of \$37.3 billion and payments of \$37.3 billion from short-term borrowings, primarily commercial paper. We received cash from long-term debt issuances of \$1.1 billion and made repayments on long-term debt of \$1.1 billion in 2019. Financing activities for the year ended March 31, 2019 also include \$1.6 billion of cash paid for stock repurchases and \$292 million of dividends paid.

Financing activities for the year ended March 31, 2018 include cash receipts of \$20.5 billion and payments of \$20.7 billion from short-term borrowings, primarily commercial paper. We received cash from long-term debt issuances of \$1.5 billion and made repayments on long-term debt of \$2.3 billion in 2018. Financing activities for the year ended March 31, 2018 also include \$1.7 billion of cash paid for stock repurchases, \$262 million of dividends paid and \$112 million of payments for debt extinguishment.

Share Repurchase Plans

The Company's Board has authorized the repurchase of McKesson's common stock from time-to-time in open market transactions, privately negotiated transactions, ASR programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

In 2018, we repurchased 3.5 million of our shares through open market transactions and 6.7 million of our shares through ASR programs. We received an additional 1.0 million shares in the first quarter of 2019 under the March 2018 ASR program. In 2019, we repurchased 10.4 million of our shares through open market transactions and 2.1 million of our shares through the December 2018 ASR program.

In 2019, we retired 5.0 million or \$542 million of the Company's treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with our accounting policy, we allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. Accordingly, our retained earnings and additional paid-in capital were reduced by \$472 million and \$70 million during 2019.

In 2020, we repurchased 9.2 million of the Company's shares for \$1.3 billion through open market transactions at an average price per share of \$144.68. We also entered into an ASR program with a third-party financial institution to repurchase \$600 million of the Company's common stock. The total number of shares repurchased under this ASR program was 4.7 million shares at an average price per share of \$127.68.

On March 9, 2020, we completed the Split-off of our interest in the Change Healthcare JV. In connection with the Split-off, we distributed all 176.0 million outstanding shares of SpinCo common stock, which held all of the Company's interests in the Change Healthcare JV, to participating holders of the Company's common stock in exchange for 15.4 million shares of McKesson stock, which are now held as treasury stock on our consolidated balance sheet. Following consummation of the exchange offer, on March 10, 2020, SpinCo merged with and into Change with each share of SpinCo common stock converted into one share of Change common stock, par value \$0.001 per share, with cash being paid in lieu of fractional shares of Change common stock. See Note 2, "Investment in Change Healthcare Joint Venture" to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

<i>(In millions, except per share data)</i>	Years Ended March 31,		
	2020	2019	2018
Number of shares repurchased ⁽¹⁾	13.9	13.5	10.5
Average price paid per share	\$ 138.94	\$ 130.72	\$ 151.06
Total value of shares repurchased ⁽¹⁾	\$ 1,934	\$ 1,627	\$ 1,650

(1) Excludes shares surrendered for tax withholding and shares related to the Company's Split-off of the Change Healthcare JV described above.

The total authorization outstanding for repurchase of the Company's common stock was \$1.5 billion at March 31, 2020.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

We believe that our operating cash flow, financial assets and current access to capital and credit markets, including our existing credit facilities, will give us the ability to meet our financing needs for the foreseeable future. However, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing. As described within “Trends and Uncertainties” above, the COVID-19 pandemic is developing rapidly. We continue to monitor its impact on demand within parts of our business, as well as trends potentially impacting the timing or ability for some of our customers to pay amounts owed to us.

Selected Measures of Liquidity and Capital Resources:

	March 31,		
	2020	2019	2018
<i>(Dollars in millions, except ratios)</i>			
Cash, cash equivalents and restricted cash	\$ 4,023	\$ 2,981	\$ 2,672
Working capital	(402)	839	451
Debt to capital ratio ⁽¹⁾	52.1 %	43.3 %	40.6 %
Return on McKesson stockholders' equity ⁽²⁾	13.3 %	0.4 %	0.6 %

(1) Ratio is computed as total debt divided by the sum of total debt and McKesson stockholders' equity, which excludes noncontrolling and redeemable noncontrolling interests and accumulated other comprehensive income (loss).

(2) Ratio is computed as net income attributable to McKesson Corporation for the last four quarters, divided by a five-quarter average of McKesson stockholders' equity, which excludes noncontrolling and redeemable noncontrolling interests.

Cash equivalents, which are readily convertible to known amounts of cash, are carried at fair value. Cash equivalents are primarily invested in AAA-rated U.S. government money market funds and overnight deposits with financial institutions. Deposits with financial institutions are primarily denominated in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling, and Canadian dollars. We mitigate the risk of our short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Our cash and cash equivalents balance as of March 31, 2020 and 2019 included approximately \$1.7 billion and \$1.5 billion of cash held by our subsidiaries outside of the United States. Our primary intent is to utilize this cash for foreign operations for an indefinite period of time. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject us to foreign withholding taxes and state income taxes. Following enactment of the 2017 Tax Cuts and Jobs Act, the repatriation of cash to the United States is generally no longer taxable for federal income tax purposes.

Working capital primarily includes cash and cash equivalents, receivables and inventories net of drafts and accounts payable, short-term borrowings, current portion of long-term debt and other current liabilities. We require a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and other requirements. The COVID-19 pandemic has potential to increase the variations in our working capital, which we will continue to monitor closely.

Consolidated working capital decreased at March 31, 2020 compared to the prior year primarily due to an increase in drafts and accounts payable and an increase in the current portion of long-term debt for term notes due in 2021, partially offset by an increase in receivables and cash and cash equivalents. Consolidated working capital increased at March 31, 2019 compared to the prior year primarily due to an increase in the cash and cash equivalents, receivables, inventories and a decrease in current portion of long-term debt, partially offset by an increase in drafts and accounts payable.

Our debt to capital ratio increased for 2020 primarily due to decrease in stockholders' equity driven by the Split-off of our interest in Change Healthcare JV and share repurchases. Our debt to capital ratio increased for 2019 primarily due to a decrease in stockholder's equity driven by share repurchases.

In July 2019, we raised our quarterly dividend from \$0.39 to \$0.41 per common share for dividends declared on or after such date by the Board. Dividends were \$1.62 per share in 2020, \$1.51 per share in 2019 and \$1.30 per share in 2018. We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon our future earnings, financial condition, capital requirements and other factors. In 2020, 2019 and 2018, we paid total cash dividends of \$294 million, \$292 million and \$262 million. Additionally, as required under the Domination Agreement, we are obligated to pay an annual recurring compensation amount of €0.83 per McKesson Europe share (effective January 1, 2015) to the noncontrolling shareholders of McKesson Europe.

McKESON CORPORATION
FINANCIAL REVIEW (Continued)

Contractual Obligations:

The table and information below presents our significant financial obligations and commitments at March 31, 2020:

<i>(In millions)</i>	Total	Years			
		Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Long-term debt ⁽¹⁾	\$ 7,387	\$ 1,052	\$ 1,517	\$ 1,128	\$ 3,690
Operating lease obligations ⁽²⁾	2,274	398	681	465	730
Other ⁽³⁾	284	39	64	50	131
Off balance sheet					
Interest on borrowings ⁽⁴⁾	1,824	228	384	298	914
Purchase obligations ⁽⁵⁾	6,964	6,889	48	27	—
Other ⁽⁶⁾	403	222	30	42	109
Total	\$ 19,136	\$ 8,828	\$ 2,724	\$ 2,010	\$ 5,574

(1) Represents maturities of the Company's long-term obligations including an immaterial amount of finance lease obligations.

(2) Represents undiscounted minimum operating lease obligations under non-cancelable operating leases having an initial remaining term over one year and is not adjusted for imputed interest. Refer to Financial Note 13, "Leases" to the consolidated financial statements appearing in this Annual Report on Form 10-K for more information.

(3) Includes our estimated benefit payments for the unfunded benefit plans and minimum funding requirements for the pension plans.

(4) Primarily represents interest that will become due on our fixed rate long-term debt obligations.

(5) A purchase obligation is defined as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases and capital commitments.

(6) Includes agreements under which we have guaranteed the repurchase of our customers' inventory and our customers' debt in the event these customers are unable to meet their obligations to those financial institutions.

The contractual obligations table above excludes the following obligations:

At March 31, 2020, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately \$784 million. The ultimate amount and timing of any related future cash settlements cannot be predicted with reasonable certainty.

Our banks and insurance companies have issued \$170 million of standby letters of credit and surety bonds at March 31, 2020. These were issued on our behalf and are mostly related to our customer contracts and to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

The carrying value of redeemable noncontrolling interests related to McKesson Europe was \$1.4 billion at March 31, 2020, which exceeded the maximum redemption value of \$1.2 billion. The balance of redeemable noncontrolling interests is reported at the greater of its carrying value or its maximum redemption value at each reporting date. Upon the effectiveness of the Domination Agreement on December 2, 2014, the noncontrolling shareholders of McKesson Europe received a put right that enables them to put their McKesson Europe shares to McKesson at €22.99 per share, which price is increased annually for interest in the amount of 5 percentage points above a base rate published semiannually by the German Bundesbank, less any compensation amount or guaranteed dividend already paid ("Put Amount"). The redemption value is the Put Amount adjusted for exchange rate fluctuations each period. The ultimate amount and timing of any future cash payments related to the Put Amount are uncertain. Additionally, we are obligated to pay an annual recurring compensation of €0.83 per McKesson Europe share (the "Compensation Amount") to the noncontrolling shareholders of McKesson Europe under the Domination Agreement. The Compensation Amount is recognized ratably during the applicable annual period. The Domination Agreement does not expire, but it may be terminated at the end of any fiscal year by giving at least six month's advance notice.

Refer to Financial Note 9, "Redeemable Noncontrolling Interests and Noncontrolling Interests," to the consolidated financial statements included in this Annual Report on Form 10-K for additional information.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Credit Resources:

We fund our working capital requirements primarily with cash and cash equivalents as well as short-term borrowings from our credit facilities and commercial paper issuances. Funds necessary for future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flow from operations, existing credit sources and other capital market transactions. Detailed information regarding our debt and financing activities is included in Financial Note 15, "Debt and Financing Activities," to the consolidated financial statements included in this Annual Report on Form 10-K.

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in Financial Note 2, "Investment in Change Healthcare Joint Venture," and Financial Note 23, "Related Party Balances and Transactions," to the consolidated financial statements included in this Annual Report on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that we have recently adopted, as well as those that have been recently issued but not yet adopted by us, are included in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION
FINANCIAL REVIEW (Concluded)

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates.

Our cash and cash equivalents balances earn interest at variable rates. At March 31, 2020 and 2019, we had \$4.0 billion and \$3.0 billion and in cash and cash equivalents. The effect of a hypothetical 50 bp increase in the underlying interest rate on our cash and cash equivalents, net of short-term borrowings and variable rate debt, would have resulted in a favorable impact to earnings in 2020 and 2019 of approximately \$6.0 million and \$4.0 million.

Foreign exchange risk: We conduct our business worldwide in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling and Canadian dollars. Changes in foreign currency exchange rates could have a material adverse impact on our financial results that are reported in U.S. dollars. We are also exposed to foreign exchange rate risk related to our foreign subsidiaries, including intercompany loans denominated in non-functional currencies.

We have certain foreign exchange rate risk programs that use foreign currency forward contracts and cross-currency swaps. The forward contracts and cross-currency swaps are designated to reduce the income statement effects from fluctuations in foreign exchange rates and have been designated as cash flow hedges. These programs reduce but do not entirely eliminate foreign exchange risk.

As of March 31, 2020 and 2019, the effect of a hypothetical adverse 10% change in the underlying foreign currency exchange rates would have impacted the fair value of our foreign exchange contracts by approximately \$435 million and \$581 million. However, our risk management programs are designed such that the potential loss in value of these risk management portfolios described above would be largely offset by changes in the value of the underlying exposure. Refer to Financial Note 18, "Hedging Activities," for more information on our foreign currency forward contracts and cross-currency swaps.

The selected hypothetical change in interest rates and foreign currency exchange rates does not reflect what could be considered the best or worst case scenarios.

Item 8. Financial Statements and Supplementary Data.

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McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2020.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2020. This audit report appears on page 52 of this Annual Report on Form 10-K.

May 22, 2020

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

(Principal Executive Officer)

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

McKESSON CORPORATION**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of McKesson Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the “Company”) as of March 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows, for each of the three years in the period ended March 31, 2020, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of March 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2020, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, effective April 1, 2019, the Company adopted the Financial Accounting Standards Board’s (“FASB”) new standard related to leases using the modified retrospective basis.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Contingent Liabilities - Litigation and Claims involving Distribution of Controlled Substances - Refer to Note 21 to the financial statements*Critical Audit Matter Description*

The Company and its affiliates are defendants in many cases asserting claims related to distribution of controlled substances, including opioids. The Company is named as a defendant along with other pharmaceutical wholesale distributors, pharmaceutical manufacturers and retail pharmacy chains. The plaintiffs in these actions include state attorneys general, county and municipal governments, hospitals, Indian tribes, pension funds, third-party payors and individuals. When a loss is considered probable and reasonably estimable, the Company records a liability in the amount of its estimate for the ultimate loss. The Company reviews all loss contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of loss can be made. The Company also performs an assessment of loss contingencies where a loss is reasonably possible. If it is reasonably possible that a loss may have been incurred and the effect on the financial statements could be material, the Company discloses the nature of the loss contingency and an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made within the notes to the financial statements. As of March 31, 2020, the Company has determined that a liability associated with these claims, whether through settlement or litigation, is not probable and a loss or range of loss is not reasonably estimable.

We identified litigation and claims involving the distribution of controlled substances as a critical audit matter because of the challenges auditing management's judgments applied in determining the likelihood of loss related to the resolution of such claims. Specifically, auditing management's determination of whether any contingent loss arising from the related litigation and claims is probable, reasonably possible, or remote, and the related disclosures, is subjective and requires significant judgment due to the large number of parties involved, together with the novelty and complexity of the issues.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to litigation and claims involving distribution of controlled substances included the following, among others:

- We tested the effectiveness of internal controls related to management’s review of litigation and claims involving the distribution of controlled substances, and approval of the accounting treatment and related disclosures based on the most recent facts and circumstances.
- We inquired of the Company’s internal and external legal counsel to understand the basis for the Company’s conclusion that any potential loss from the litigation and claims involving the distribution of controlled substances, including through broad resolution via settlement, is neither probable nor reasonably estimable as of March 31, 2020. In addition, we requested and received a written response from internal and external legal counsel as it relates to litigation and claims involving the distribution of controlled substances.
- We evaluated management’s analysis of litigation and claims involving the distribution of controlled substances, read Board of Directors meeting minutes, including relevant sub-committee meeting minutes, and compared to responses from internal and external counsel. As part of our procedures, we also performed public domain searches for evidence contrary to management’s analysis.
- We compared the Company’s assessment of this matter to relevant history of similar legal contingencies that have been settled or otherwise resolved to evaluate the consistency of the Company’s assessment of litigation and claims involving the distribution of controlled substances at March 31, 2020.
- We consulted with our auditing and accounting experts to assist in our evaluation of the case facts and the Company’s related accounting treatment for the litigation and claims involving the distribution of controlled substances.
- We evaluated any events subsequent to March 31, 2020 that might impact our evaluation of litigation and claims involving the distribution of controlled substances, including any related accrual or disclosure.
- We obtained written representations from executives and internal counsel of the Company.
- We read the Company’s related disclosures and evaluated them for consistency with our testing.

Goodwill - Refer to Note 14 to the financial statements

Critical Audit Matter Description

The Company’s evaluation of goodwill for impairment involves comparing the carrying amount of each reporting unit to its fair value on the first day of the third fiscal quarter or whenever the Company believes a potential indicator of impairment requiring a more frequent assessment has occurred. The Company uses a combination of the income and market approaches to estimate reporting unit fair value. Under the market approach, fair value is estimated by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, the Company uses a discounted cash flow (“DCF”) model where cash flows anticipated over future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate that is commensurate with the risk inherent within the reporting unit. The rate used to discount to present value includes an unsystematic risk premium, which is intended to address uncertainty related to the reporting unit’s future cash flow projections. The goodwill balance was \$9.4 billion as of March 31, 2020, of which \$1.4 billion was allocated to the McKesson Canada reporting unit. The fair value of all reporting units exceeded their respective carrying amounts as of the measurement date and, therefore, no impairment was recognized.

We identified the estimation of the fair value of the McKesson Canada reporting unit used to evaluate the recoverability of goodwill as a critical audit matter because of the challenges auditing significant judgments used in the selection of a discount rate, including the unsystematic risk premium. In particular, the fair value estimate is sensitive to the unsystematic risk premium assumption, which is affected by expected risk of changes in the Canadian business and regulatory environments. Auditing management’s selected discount rate required a high degree of auditor judgment and an increased extent of effort, including the need to involve more senior members of the team and our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's selection of a discount rate, including consideration of the unsystematic risk premium, for the McKesson Canada reporting unit included the following, among others:

- We tested the effectiveness of internal controls related to management's goodwill impairment evaluation, including those related to the selection of a discount rate and consideration of an unsystematic risk premium.
- We evaluated management's ability to accurately forecast operating results for the McKesson Canada reporting unit by comparing actual results to management's historical forecasts, in order to consider the reasonableness and adequacy of management's selected unsystematic risk premium.
- As part of our assessment of the unsystematic risk premium, we evaluated the reasonableness of strategic plans expected to be implemented during the forecast period by comparing the forecasts to:
 - Actual results of historical strategic plans
 - Internal communications to management and the Board of Directors
- With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rate, including the unsystematic risk premium, by developing a range of independent estimates, testing the mathematical accuracy of the calculation and comparing to the discount rate selected by management.

Investment in Change Healthcare Joint Venture - Tax-free Separation of Change Healthcare JV - Refer to Note 2 to the financial statements*Critical Audit Matter Description*

On March 10, 2020, the Company completed the previously announced separation of its interest in the Change Healthcare Joint Venture ("Joint Venture"). The separation was effected through the split-off of a wholly owned subsidiary of the Company ("SpinCo") that held all of the Company's interest in the Joint Venture, to certain of the Company's stockholders through an exchange offer ("Split-off"), followed by the merger of SpinCo with and into Change Healthcare Inc. ("Change"), with Change surviving the merger ("Merger").

In connection with the Split-off, on March 9, 2020, the Company distributed all outstanding shares of common stock of SpinCo to participating stockholders in exchange for shares of the Company common stock. Following consummation of the Split-off, on March 10, 2020 the Merger was consummated. The Split-off and Merger are intended to be generally tax-free transactions for U.S. Federal income tax purposes. Following the Split-off, the Company does not beneficially own any of Change's outstanding securities.

We identified the classification of the Split-off and Merger as a tax-free transaction for US Federal income tax purposes to be a critical audit matter because of the complexity of the interpretation and application of the Internal Revenue Code ("Code"), the materiality of the potential tax consequences, and the need to involve our income tax specialists when performing audit procedures to evaluate the U.S. Federal taxability of the Split-Off and Merger.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the evaluation of the U.S Federal taxability of the Split-Off and Merger included the following, among others:

- We tested the effectiveness of controls over management's evaluation of the Split-Off and Merger as tax free for U.S. Federal income tax.
- We inspected the opinion from the Company's outside legal counsel and external tax advisor that management utilized in forming their conclusions on U.S. Federal taxability of the Split-off and Merger, including certain interpretations of the Code and related statutes.
- We inspected meeting minutes of the Board of Directors and its committees, income tax filings, support from external advisors, historical financial results of the Company and the Joint Venture, and contracts associated with the Split-off and Merger for corroborating or contradictory evidence.

McKESSON CORPORATION

- We obtained written representations from management concerning management's intent associated with future transactions that could affect U.S. Federal taxability and we obtained representations made by Change management that it does not intend to cause any transactions that could affect the Company's U.S. Federal taxability.
- We assessed the key facts in the opinion from the Company's outside legal counsel and tax advisor detailing the requirements under the Code and specifying how such requirements were met.
- With the assistance of our income tax specialists, we evaluated management's conclusion that the requirements were met to qualify the Split-Off and Merger as tax free for U.S. Federal income tax purposes.

/s/ Deloitte & Touche LLP

Dallas, Texas

May 22nd, 2020

We have served as the Company's auditor since 1968.

McKESSEON CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended March 31,		
	2020	2019	2018
Revenues	\$ 231,051	\$ 214,319	\$ 208,357
Cost of Sales	(219,028)	(202,565)	(197,173)
Gross Profit	12,023	11,754	11,184
Operating Expenses			
Selling, distribution and administrative expenses	(9,168)	(8,403)	(8,138)
Research and development	(96)	(71)	(125)
Goodwill impairment charges	(2)	(1,797)	(1,738)
Restructuring, impairment and related charges	(268)	(597)	(567)
Gain from sale of business	—	—	109
Gain on healthcare technology net asset exchange, net	—	—	37
Total Operating Expenses	(9,534)	(10,868)	(10,422)
Operating Income	2,489	886	762
Other Income, Net	12	182	130
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture	(1,108)	(194)	(248)
Loss on Debt Extinguishment	—	—	(122)
Interest Expense	(249)	(264)	(283)
Income from Continuing Operations Before Income Taxes	1,144	610	239
Income Tax (Expense) Benefit	(18)	(356)	53
Income from Continuing Operations	1,126	254	292
Income (Loss) from Discontinued Operations, Net of Tax	(6)	1	5
Net Income	1,120	255	297
Net Income Attributable to Noncontrolling Interests	(220)	(221)	(230)
Net Income Attributable to McKesson Corporation	\$ 900	\$ 34	\$ 67
Earnings (Loss) Per Common Share Attributable to McKesson Corporation			
Diluted			
Continuing operations	\$ 4.99	\$ 0.17	\$ 0.30
Discontinued operations	(0.04)	—	0.02
Total	\$ 4.95	\$ 0.17	\$ 0.32
Basic			
Continuing operations	\$ 5.01	\$ 0.17	\$ 0.30
Discontinued operations	(0.03)	—	0.02
Total	\$ 4.98	\$ 0.17	\$ 0.32
Weighted Average Common Shares			
Diluted	182	197	209
Basic	181	196	208

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years Ended March 31,		
	2020	2019	2018
Net Income	\$ 1,120	\$ 255	\$ 297
Other Comprehensive Income (Loss), Net of Tax			
Foreign currency translation adjustments	(66)	(190)	624
Unrealized gains (losses) on cash flow hedges	86	24	(30)
Changes in retirement-related benefit plans	129	(32)	15
Other Comprehensive Income (Loss), Net of Tax	149	(198)	609
Comprehensive Income	1,269	57	906
Comprehensive Income Attributable to Noncontrolling Interests	(223)	(155)	(415)
Comprehensive Income (Loss) Attributable to McKesson Corporation	\$ 1,046	\$ (98)	\$ 491

See Financial Notes

McKESSON CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,015	\$ 2,981
Receivables, net	19,950	18,246
Inventories, net	16,734	16,709
Assets held for sale	906	—
Prepaid expenses and other	617	529
Total Current Assets	42,222	38,465
Property, Plant and Equipment, Net	2,365	2,548
Operating Lease Right-of-Use Assets	1,886	—
Goodwill	9,360	9,358
Intangible Assets, Net	3,156	3,689
Investment in Change Healthcare Joint Venture	—	3,513
Other Noncurrent Assets	2,258	2,099
Total Assets	\$ 61,247	\$ 59,672
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Current Liabilities		
Drafts and accounts payable	\$ 37,195	\$ 33,853
Current portion of long-term debt	1,052	330
Current portion of operating lease liabilities	354	—
Liabilities held for sale	683	—
Other accrued liabilities	3,340	3,443
Total Current Liabilities	42,624	37,626
Long-Term Debt	6,335	7,265
Long-Term Deferred Tax Liabilities	2,255	2,998
Long-Term Operating Lease Liabilities	1,660	—
Other Noncurrent Liabilities	1,662	2,103
Commitments and Contingent Liabilities (Note 21)		
Redeemable Noncontrolling Interests	1,402	1,393
McKesson Corporation Stockholders' Equity		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 800 shares authorized at March 31, 2020 and 2019, 272 and 271 shares issued at March 31, 2020 and 2019	2	3
Additional Paid-in Capital	6,663	6,435
Retained Earnings	13,022	12,409
Accumulated Other Comprehensive Loss	(1,703)	(1,849)
Other	—	(2)
Treasury Stock, at Cost, 110 and 81 shares at March 31, 2020 and 2019	(12,892)	(8,902)
Total McKesson Corporation Stockholders' Equity	5,092	8,094
Noncontrolling Interests	217	193
Total Equity	5,309	8,287
Total Liabilities, Redeemable Noncontrolling Interests and Equity	\$ 61,247	\$ 59,672

See Financial Notes

McKESSON CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2020, 2019 and 2018
(In millions, except per share amounts)

	McKesson Corporation Stockholders' Equity									
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury		Noncontrolling Interests	Total Equity
	Shares	Amount					Common Shares	Amount		
Balances, March 31, 2017	273	\$ 3	\$ 6,028	\$ (2)	\$ 13,189	\$ (2,141)	(62)	\$ (5,982)	\$ 178	\$ 11,273
Issuance of shares under employee plans	2	—	126	—	—	—	—	(59)	—	67
Share-based compensation	—	—	67	—	—	—	—	—	—	67
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(98)	(98)
Other comprehensive income	—	—	—	—	—	424	—	—	—	424
Net income	—	—	—	—	67	—	—	—	187	254
Repurchase of common stock	—	—	(36)	—	—	—	(11)	(1,614)	—	(1,650)
Exercise of put right by noncontrolling shareholders of McKesson Europe	—	—	3	—	—	—	—	—	—	3
Cash dividends declared, \$1.30 per common share	—	—	—	—	(270)	—	—	—	—	(270)
Other	—	—	—	1	—	—	—	—	(14)	(13)
Balances, March 31, 2018	275	3	6,188	(1)	12,986	(1,717)	(73)	(7,655)	253	10,057
Opening Retained Earnings Adjustments: Adoption of New Accounting Standards	—	—	—	—	154	—	—	—	—	154
Balances, April 1, 2018	275	3	6,188	(1)	13,140	(1,717)	(73)	(7,655)	253	10,211
Issuance of shares under employee plans	1	—	75	—	—	—	—	(12)	—	63
Share-based compensation	—	—	92	—	—	—	—	—	—	92
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(184)	(184)
Other comprehensive loss	—	—	—	—	—	(132)	—	—	—	(132)
Net income	—	—	—	—	34	—	—	—	176	210
Repurchase of common stock	—	—	150	—	—	—	(13)	(1,777)	—	(1,627)
Retirement of common stock	(5)	—	(70)	—	(472)	—	5	542	—	—
Cash dividends declared, \$1.51 per common share	—	—	—	—	(298)	—	—	—	—	(298)
Other	—	—	—	(1)	5	—	—	—	(52)	(48)
Balances, March 31, 2019	271	3	6,435	(2)	12,409	(1,849)	(81)	(8,902)	193	8,287
Opening Retained Earnings Adjustments: Adoption of New Accounting Standards	—	—	—	—	11	—	—	—	—	11
Balances, April 1, 2019	271	3	6,435	(2)	12,420	(1,849)	(81)	(8,902)	193	8,298
Issuance of shares under employee plans	1	—	113	—	—	—	—	(20)	—	93
Share-based compensation	—	—	115	—	—	—	—	—	—	115
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(154)	(154)
Other comprehensive income	—	—	—	—	—	146	—	—	—	146
Net income	—	—	—	—	900	—	—	—	178	1,078
Repurchase of common stock	—	—	—	—	—	—	(14)	(1,934)	—	(1,934)
Change Healthcare share exchange	—	—	—	—	—	—	(15)	(2,036)	—	(2,036)
Cash dividends declared, \$1.62 per common share	—	—	—	—	(294)	—	—	—	—	(294)
Other	—	(1)	—	2	(4)	—	—	—	—	(3)
Balances, March 31, 2020	272	\$ 2	\$ 6,663	\$ —	\$ 13,022	\$ (1,703)	(110)	\$ (12,892)	\$ 217	\$ 5,309

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2020	2019	2018
Operating Activities			
Net income	\$ 1,120	\$ 255	\$ 297
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	321	317	303
Amortization	601	632	648
Gain on Healthcare Technology Net Asset Exchange, net	—	—	(37)
Goodwill and other asset impairment charges	139	2,079	2,217
Equity earnings and charges from investment in Change Healthcare Joint Venture	1,084	194	248
Deferred taxes	(342)	189	(868)
Credits associated with last-in, first-out inventory method	(252)	(210)	(99)
Non-cash operating lease expense	366	—	—
Loss (gain) from sales of businesses and investments	33	(86)	(169)
Other non-cash items	615	52	67
Changes in assets and liabilities, net of acquisitions:			
Receivables	(2,494)	(967)	1,175
Inventories	(376)	(368)	(458)
Drafts and accounts payable	3,952	1,976	271
Operating lease liabilities	(377)	—	—
Taxes	(8)	(95)	671
Other	(8)	68	79
Net cash provided by operating activities	<u>4,374</u>	<u>4,036</u>	<u>4,345</u>
Investing Activities			
Payments for property, plant and equipment	(362)	(426)	(405)
Capitalized software expenditures	(144)	(131)	(175)
Acquisitions, net of cash, cash equivalents and restricted cash acquired	(133)	(905)	(2,893)
Proceeds from sale of businesses and investments, net	37	101	374
Payments received on Healthcare Technology Net Asset Exchange, net	—	—	126
Other	23	(20)	(20)
Net cash used in investing activities	<u>(579)</u>	<u>(1,381)</u>	<u>(2,993)</u>
Financing Activities			
Proceeds from short-term borrowings	21,437	37,265	20,542
Repayments of short-term borrowings	(21,437)	(37,268)	(20,725)
Proceeds from issuances of long-term debt	—	1,099	1,522
Repayments of long-term debt	(298)	(1,112)	(2,287)
Payments for debt extinguishments	—	—	(112)
Common stock transactions:			
Issuances	113	75	132
Share repurchases, including shares surrendered for tax withholding	(1,954)	(1,639)	(1,709)
Dividends paid	(294)	(292)	(262)
Other	(301)	(355)	(185)
Net cash used in financing activities	<u>(2,734)</u>	<u>(2,227)</u>	<u>(3,084)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(19)	(119)	150
Net increase (decrease) in cash, cash equivalents and restricted cash	1,042	309	(1,582)
Cash, cash equivalents and restricted cash at beginning of year	2,981	2,672	4,254
Cash, cash equivalents and restricted cash at end of year	<u>\$ 4,023</u>	<u>\$ 2,981</u>	<u>\$ 2,672</u>

Supplemental Cash Flow Information

Cash paid for:

Interest, net	\$	235	\$	383	\$	298
Income taxes, net of refunds	\$	368	\$	262	\$	144

See Financial Notes
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McKESON CORPORATION

FINANCIAL NOTES

1. Significant Accounting Policies

Nature of Operations: McKesson Corporation (“McKesson,” or the “Company,”) is a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information technology. 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. The Company reports its financial results in three reportable segments: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure are included in Other. Refer to Financial Note 24, “Segments of Business,” for more information.

Basis of Presentation: The consolidated financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). The consolidated financial statements of McKesson include the financial statements of all wholly-owned subsidiaries and majority-owned or controlled companies. For those consolidated subsidiaries where the Company’s ownership is less than 100%, the portion of the net income or loss allocable to the noncontrolling interests is reported as “Net Income Attributable to Noncontrolling Interests” in the consolidated statements of operations. All significant intercompany balances and transactions have been eliminated in consolidation, including the intercompany portion of transactions with equity method investees.

The Company considers itself to control an entity if it is the majority owner of or has voting control over such entity. The Company also assesses control through means other than voting rights (“variable interest entities” or “VIEs”) and determines which business entity is the primary beneficiary of the VIE. The Company consolidates VIEs when it is determined that it is the primary beneficiary of the VIE. Investments in business entities in which the Company does not have control but has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Refer to Financial Note 2, “Investment in Change Healthcare Joint Venture,” for further information on the Company’s investment in Change Healthcare LLC (“Change Healthcare JV”).

Fiscal Period: The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires that the Company make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimated amounts. The severity, magnitude and duration, as well as the economic consequences of the COVID-19 pandemic, are uncertain, rapidly changing and difficult to predict. Therefore, our accounting estimates and assumptions may change over time in response to COVID-19 and may change materially in future periods.

Cash and Cash Equivalents: All highly liquid debt and money market instruments purchased with an original maturity of three months or less at the date of acquisition are included in cash and cash equivalents. Cash equivalents are carried at fair value. Cash equivalents are primarily invested in AAA-rated U.S. government money market funds and overnight deposits with financial institutions. Deposits with financial institutions are primarily denominated in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling and Canadian dollars. Deposits may exceed the amounts insured by the Federal Deposit Insurance Corporation in the U.S. and similar deposit insurance programs in other jurisdictions. The Company mitigates the risk of its short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash and is included in “Prepaid expenses and other” and “Other Noncurrent Assets” in the consolidated balance sheets. Cash, cash equivalents and restricted cash in the Company’s consolidated statements of cash flows at March 31, 2020, includes restricted cash and restricted cash equivalents of \$8 million for 2020 and nil for 2019 and 2018.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Marketable Securities Available-for-Sale: The Company's marketable securities, which are available-for-sale, are carried at fair value and are included in "Prepaid expenses and other" in the consolidated balance sheets. The unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported in stockholders' equity. At March 31, 2020 and 2019, marketable securities were not material. In determining whether an other-than-temporary decline in market value has occurred, the Company considers the duration that, and extent to which, the fair value of the investment is below its cost, the financial condition and future prospects of the issuer or underlying collateral of a security, and its intent and ability to retain the security in order to allow for an anticipated recovery in fair value. Other-than-temporary declines in fair value from amortized cost for available-for-sale equity securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis are charged to other income (expense), net, in the period in which the loss occurs.

Equity Method Investments: Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. The Company evaluates its equity method investments for impairment whenever an event or change in circumstances occurs that may have a significant adverse impact on the carrying value of the investment. If a loss in value has occurred that is deemed to be other-than-temporary, an impairment loss is recorded. Refer to Financial Note 2, "Investment in Change Healthcare Joint Venture," for further information relating to the Company's equity method investment in Change Healthcare which was split-off from McKesson in the fourth quarter of 2020.

Concentrations of Credit Risk and Receivables: The Company's trade accounts receivable are subject to concentrations of credit risk with customers primarily in its U.S. Pharmaceutical and Specialty Solutions segment. During 2020, sales to the Company's ten largest customers, including group purchasing organizations ("GPOs"), accounted for approximately 51% of its total consolidated revenues and approximately 37% of total trade accounts receivable at March 31, 2020. Sales to the Company's largest customer, CVS Health Corporation ("CVS"), accounted for approximately 20% of its total consolidated revenues in 2020 and comprised approximately 20% of total trade accounts receivable at March 31, 2020. As a result, the Company's sales and credit concentration is significant. The Company has agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivables balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. A material default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or customer groups could have a material adverse impact on the Company's financial condition, results of operations and liquidity. In addition, trade receivables are subject to concentrations of credit risk with customers in the institutional, retail and healthcare provider sectors, which can be affected by a downturn in the economy and changes in reimbursement policies. This credit risk is mitigated by the size and diversity of the Company's customer base as well as its geographic dispersion. The Company estimates the receivables for which it does not expect full collection based on historical collection rates and ongoing evaluations of the creditworthiness of its customers. An allowance is recorded in the Company's consolidated financial statements for these estimated amounts.

Financing Receivables: The Company assesses and monitors credit risk associated with financing receivables, primarily notes receivable, through regular review of its collections experience in determining its allowance for loan losses. On an ongoing basis, the Company also evaluates credit quality of its financing receivables utilizing historical collection rates and write-offs, as well as considering existing economic conditions, to determine if an allowance is required. Financing receivables are derecognized if legal title to them has transferred and all related risks and rewards incidental to ownership have passed to the buyer. As of March 31, 2020 and 2019, financing receivables were not material to our consolidated financial statements. Financing receivables and the related allowances are included in Receivables, net and Other Noncurrent Assets in the consolidated balance sheets.

Inventories: Inventories consist of merchandise held for resale. The Company reports inventories at the lower of cost or net realizable value, except for inventories determined using the last-in, first-out ("LIFO") method which are valued at the lower of LIFO cost or market. The LIFO method presumes that the most recent inventory purchases are the first items sold and the inventory cost under LIFO approximates market. The majority of the cost of domestic inventories is determined using the LIFO method. The majority of the cost of inventories held in foreign and certain domestic locations is based on the first-in, first-out ("FIFO") method and weighted average purchase prices. Rebates, cash discounts, and other incentives received from vendors are recognized in cost of sales upon the sale of the related inventory.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The LIFO method was used to value approximately 60% and 62% of the Company's inventories at March 31, 2020 and 2019. If the Company had used the moving average method of inventory valuation, inventories would have been approximately \$444 million and \$696 million higher than the amounts reported at March 31, 2020 and 2019. These amounts are equivalent to the Company's LIFO reserves. The Company's LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. The Company recognized LIFO credits of \$252 million, \$210 million and \$99 million in 2020, 2019 and 2018 in cost of sales in its consolidated statements of operations. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory.

The Company believes that the moving average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., "market"). As such, its LIFO inventory is valued at the lower of LIFO cost or market. As of March 31, 2020 and 2019, inventories at LIFO did not exceed market.

Shipping and Handling Costs: The Company includes costs to pack and deliver inventory to its customers in selling, distribution and administrative expenses. Shipping and handling costs of \$1.0 billion, \$951 million, and \$914 million were recognized in 2020, 2019 and 2018.

Held for Sale: Assets and liabilities to be disposed of by sale ("disposal groups") are reclassified into "held for sale" if their carrying amounts are principally expected to be recovered through a sale transaction rather than through continuing use. The reclassification occurs when the disposal group is available for immediate sale and the sale is highly probable. These criteria are generally met when an agreement to sell exists, or management has committed to a plan to sell the assets within one year. Disposal groups are measured at the lower of carrying amount or fair value less costs to sell and are not depreciated or amortized. When the net realizable value of a disposal group increases during a period, a gain can be recognized to the extent that it does not increase the value of the disposal group beyond its original carrying value when the disposal group was reclassified as held for sale. The fair value of a disposal group, less any costs to sell, is assessed each reporting period it remains classified as held for sale and any remeasurement to the lower of carrying value or fair value less costs to sell is reported as an adjustment to the carrying value of the disposal group. Refer to Financial Note 3, "Held for Sale," for more information.

Property, Plant and Equipment: The Company states its property, plant and equipment ("PPE") at cost and depreciates them under the straight-line method at rates designed to distribute the cost of PPE over estimated service lives, not to exceed 30 years. When certain events or changes in operating conditions occur, an impairment assessment may be performed on the recoverability of the carrying amounts.

Goodwill: Goodwill is tested for impairment on an annual basis in the third quarter or more frequently if indicators of potential impairment exist. Impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or one level below an operating segment (also known as a component), for which discrete financial information is available and segment management regularly reviews the operating results.

The Company applies the goodwill impairment test by comparing the estimated fair value of a reporting unit to its carrying value and recording an impairment charge equal to the amount of excess carrying value above estimated fair value, if any, but not to exceed the amount of goodwill allocated to the reporting unit.

To estimate the fair value of its reporting units, the Company generally uses a combination of the market approach and the income approach. Under the market approach, it estimates fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, it uses a discounted cash flow ("DCF") model in which cash flows anticipated over future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate that is commensurate with the risk inherent within the reporting unit. Other estimates inherent in both the market and income approaches include long-term growth rates, projected revenues and earnings and cash flow forecasts for the reporting units. In addition, the Company compares the aggregate of the reporting units' fair values to the Company's market capitalization as a further corroboration of the fair values. Goodwill testing requires a complex series of assumptions and judgments by management in projecting future operating results, selecting guideline companies for comparisons and assessing risks. The use of alternative assumptions and estimates could affect the fair values and change the impairment determinations.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Intangible Assets: Currently all of the Company's intangible assets are subject to amortization and are amortized based on the pattern of their economic consumption or on a straight-line basis over their estimated useful lives, ranging from one to 38 years. The Company reviews intangible assets for impairment at an asset group level whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated future undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset group over its estimated fair market value.

Capitalized Software Held for Internal Use: The Company capitalizes costs of software held for internal use during the application development stage of a project and amortizes those costs over their estimated useful lives, not to exceed 10 years. As of March 31, 2020 and 2019, capitalized software held for internal use was \$400 million and \$394 million, net of accumulated amortization of \$1.3 billion and \$1.2 billion, and is included in other noncurrent assets in the consolidated balance sheets. Costs incurred during the preliminary project and post-implementation stages are expensed as incurred.

Insurance Programs: Under its insurance programs, the Company obtains coverage for catastrophic exposures as well as those risks required to be insured by law or contract. It is the Company's policy to retain a significant portion of certain losses primarily related to workers' compensation and comprehensive general, product and vehicle liability. Provisions for losses expected under these programs are recorded based on the Company's estimate of the aggregate liability for claims incurred as well as for claims incurred but not yet reported. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

Revenue Recognition: Revenue is recognized when an entity satisfies a performance obligation by transferring control of a promised good or service to a customer in an amount that reflects the consideration to which the entity expects to be entitled for that good or service.

Revenues generated from the distribution of pharmaceutical and medical products represent the majority of the Company's revenues. The Company orders product from the manufacturer, receives and carries the product at its central distribution facilities and delivers the product directly to its customers' warehouses, hospitals or retail pharmacies. The distribution business primarily generates revenue from a contract related to a confirmed purchase order with a customer in a distribution arrangement. Revenue is recognized when control of goods is transferred to the customer which occurs upon the Company's delivery to the customer or upon customer pick-up. The Company also earns revenues from a variety of other sources including its retail, services and technology businesses. Retail revenues are recognized at the point of sale. Service revenues, including technology service revenues, are recognized when services are rendered. Revenues derived from distribution and retail business at the point of sale, and revenues derived from services represent approximately 98% and 2% of total revenues for each of the years ended March 31, 2020 and March 31, 2019.

Revenues are recorded gross when the Company is the principal in the transaction, has the ability to direct the use of the goods or services prior to transfer to a customer, is responsible for fulfilling the promise to its customer, has latitude in establishing prices, and controls the relationship with the customer. The Company records its revenues net of sales taxes. Revenues are measured based on the amount of consideration that the Company expects to receive, reduced by estimates for return allowances, discounts and rebates using historical data. Sales returns from customers were approximately \$3.1 billion in 2020, \$2.9 billion in 2019 and \$3.1 billion in 2018. Assets for the right to recover products from customers and the associated refund liabilities for return allowances were not material as of March 31, 2020. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs. The Company records deferred revenues when payments are received or due in advance of its performance. Deferred revenues are primarily from the Company's services arrangements and are recognized as revenues over the periods when services are performed.

The Company had no material contract assets, contract liabilities or deferred contract costs recorded on its consolidated balance sheets as of March 31, 2020 and 2019. The Company generally expenses costs to obtain a contract as incurred when the amortization period is less than one year.

Supplier Incentives: Fees for services and other incentives received from suppliers, relating to the purchase or distribution of inventory, are considered product discounts and are generally reported as a reduction to cost of sales.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Supplier Reserves: The Company establishes reserves against amounts due from suppliers relating to various fees for services and price and rebate incentives, including deductions taken against payments otherwise due to it. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. The Company evaluates the amounts due from suppliers on a continual basis and adjusts the reserve estimates when appropriate based on changes in facts and circumstances. Adjustments to supplier reserves are generally included in cost of sales unless consideration from the vendor is in exchange for distinct goods or services or for pass-through rebate purchases. The ultimate outcome of any outstanding claims may be different than the Company's estimate. The supplier reserves primarily pertain to the Company's U.S. Pharmaceutical and Specialty Solutions segment.

Income Taxes: The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or the tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlement.

Interest Expense: Interest expense primarily includes interest for the Company's long-term debt obligations, commercial paper, net interest settlements of interest rate swaps, and the amortization of deferred issuance costs and original issue discounts on debt.

Foreign Currency Translation: The reporting currency of the Company and its subsidiaries is the U.S. dollar. Its foreign subsidiaries generally consider their local currency to be their functional currency. Foreign currency-denominated assets and liabilities of these foreign subsidiaries are translated into U.S. dollars at period-end exchange rates, while revenues and expenses are translated at average exchange rates during the corresponding period and stockholders' equity accounts are primarily translated at historical exchange rates. Foreign currency translation adjustments are included in other comprehensive income or loss in the consolidated statements of comprehensive income, and the cumulative effect is included in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in operating expenses in the consolidated statements of operations and were not material to the Company's consolidated results of operations in 2020, 2019 or 2018. The Company releases cumulative translation adjustments from stockholders' equity into earnings as a gain or loss only upon a complete or substantially complete liquidation of a controlling interest in a subsidiary or a group of assets within a foreign entity. It also releases all or a pro rata portion of the cumulative translation adjustments into earnings upon the sale of an equity method investment that is a foreign entity or has a foreign component.

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of foreign currency exchange and interest rate exposures and are recorded in the consolidated balance sheets at fair value. If a derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. The Company uses foreign currency-denominated notes and cross-currency swaps to hedge a portion of its net investment in its foreign subsidiaries. It uses cash flow hedges primarily to reduce the effects of foreign currency exchange rate risk related to intercompany loans denominated in non-functional currencies. If the financial instrument is designated as a cash flow hedge or net investment hedge, the effective portions of changes in the fair value of the derivative are included in other comprehensive income or loss in the consolidated statements of comprehensive income, and the cumulative effect is included in the stockholders' equity section of the consolidated balance sheets. The cumulative changes in fair value are reclassified to the same line as the hedged item in the consolidated statements of operations when the hedged item affects earnings. The Company evaluates hedge effectiveness at inception and on an ongoing basis, and ineffective portions of changes in the fair value of cash flow hedges and net investment hedges are recognized in earnings following the date when ineffectiveness was identified. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change included in earnings.

Comprehensive Income: Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses and gains and losses that under GAAP are recorded as an element of stockholders' equity but are excluded from earnings. The Company's other comprehensive income primarily consists of foreign currency translation adjustments from those subsidiaries where the local currency is the functional currency including gains and losses on net investment hedges, unrealized gains and losses on cash flow hedges, as well as unrealized gains and losses on retirement-related benefit plans.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Noncontrolling Interests and Redeemable Noncontrolling Interests: Noncontrolling interests represent the portion of profit or loss, net assets and comprehensive income that is not allocable to McKesson Corporation. Net income attributable to noncontrolling interests includes recurring compensation that McKesson is obligated to pay to the noncontrolling shareholders of McKesson Europe AG (“McKesson Europe”), formerly known as Celesio AG, under the domination and profit and loss transfer agreement. Net income attributable to noncontrolling interests also includes third-party equity interests in the Company’s consolidated entities including Vantage Oncology Holdings, LLC (“Vantage”) and ClarusONE Sourcing Services LLP (“ClarusONE”), which was established between McKesson and Walmart, Inc in 2017. Noncontrolling interests with redemption features, such as put rights, that are not solely within the Company’s control are considered redeemable noncontrolling interests. Redeemable noncontrolling interests are presented outside of stockholders’ equity in the Company’s consolidated balance sheets. Refer to Financial Note 9, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” for more information.

Share-Based Compensation: The Company accounts for all share-based compensation transactions at fair value. The share-based compensation expense, for the portion of the awards that is ultimately expected to vest, is recognized on a straight-line basis over the requisite service period. The share-based compensation expense recognized is classified in the consolidated statements of operations in the same manner as cash compensation paid to the Company’s employees.

Loss Contingencies: The Company is subject to various claims, including, but not limited to, claims with customers and vendors, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of its business. When a loss is considered probable and reasonably estimable, the Company records a liability in the amount of its best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate the loss or a range of possible loss. When a material loss is reasonably possible or probable, but a reasonable estimate cannot be made, disclosure of the proceeding is provided. The Company recognizes legal fees as incurred when the legal services are provided.

The Company reviews all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or a range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties.

Restructuring Charges: Employee severance costs are generally recognized when payments are probable and amounts are reasonably estimable. Costs related to contracts without future benefit or contract termination are recognized at the earlier of the contract termination or the cease-use dates. Other exit-related costs are recognized as incurred.

Business Combinations: The Company accounts for business combinations using the acquisition method of accounting whereby the identifiable assets and liabilities of the acquired business, as well as any noncontrolling interest in the acquired business, are recorded at their estimated fair values as of the date that the Company obtains control of the acquired business. Any purchase consideration in excess of the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, the Company typically uses a method that is a form or variation of the income approach, whereby a forecast of future cash flows attributable to the asset are discounted to present value using a risk-adjusted discount rate. Some of the more significant estimates and assumptions inherent in the income approach include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset’s expected useful life.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Recently Adopted Accounting Pronouncements

Leases: In the first quarter of 2020, the Company adopted amended guidance for leases using the modified retrospective method and recorded a cumulative-effect adjustment to opening retained earnings on the date of adoption. Under the amended guidance, entities are required to recognize operating lease liabilities and operating lease right-of-use (“ROU”) assets on the balance sheet for all leases with terms longer than 12 months and to provide enhanced disclosures on key information of leasing arrangements.

The Company elected the transition package of practical expedients provided within the amended guidance, which eliminates the requirements to reassess lease identification, lease classification and initial direct costs for leases which commenced before April 1, 2019. The Company also elected not to separate lease from non-lease components for all leases and to exclude short-term leases with an initial term of 12 months or less from its consolidated balance sheets.

Upon adoption of this amended guidance, the Company recorded \$2.2 billion of operating lease liabilities, \$2.1 billion of operating lease ROU assets and a cumulative-effect adjustment of \$69 million to opening retained earnings. The adjustment to opening retained earnings included impairment charges of \$89 million, net of tax to the ROU assets primarily related to previously impaired long-lived assets at the retail pharmacies in the Company’s United Kingdom (“U.K.”) and Canadian businesses, partially offset by derecognition of existing deferred gain on the Company’s sale-leaseback transaction related to its former corporate headquarters building. The adoption of this amended guidance did not have a material impact on the Company’s consolidated statements of operations and cash flows.

Refer to Financial Note 13, “Leases,” for more information.

Derivatives and Hedging: In the first quarter of 2020, the Company prospectively adopted amended guidance that allows it to include the Secured Overnight Financing Rate Overnight Index Swap Rate as a benchmark interest rate for hedge accounting purposes. The adoption of this amended guidance did not have a material effect on the Company’s consolidated financial statements.

Accumulated Other Comprehensive Income: In the first quarter of 2020, the Company adopted amended guidance that allows for a reclassification of only those amounts related to the 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”) to retained earnings thereby eliminating the stranded tax effects. Previous guidance required that deferred tax liabilities and assets be adjusted for a change in tax laws with the effect included in income from continuing operations in the reporting period that includes the enactment date. The Company elected not to reclassify the stranded tax effects within accumulated other comprehensive loss to retained earnings. The adoption of this amended guidance did not affect the Company’s consolidated financial statements.

Premium Amortization of Purchased Callable Debt Securities: In the first quarter of 2020, the Company adopted amended guidance on a modified retrospective basis that shortens the amortization period for certain callable debt securities held at a premium. The amended guidance requires the premium of callable debt securities to be amortized to the earliest call date but does not require an accounting change for securities held at a discount as they would still be amortized to maturity. The adoption of this amended guidance did not affect the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

Income Taxes: In December 2019, amended guidance was issued with the intent to simplify various aspects related to accounting for income taxes. The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies and clarifies certain other aspects of accounting for income taxes. The guidance is effective for the Company in the first quarter of 2022 and early adoption is permitted. The Company is currently evaluating the impact of this amended guidance on its consolidated financial statements.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Intangibles - Goodwill and Other - Internal-Use Software: In August 2018, amended guidance was issued for a customer's accounting for implementation and other upfront costs incurred in a cloud computing arrangement that is a service contract. The amended guidance aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs in a cloud computing arrangement that has a software license. Upon adoption, the Company will begin capitalizing eligible implementation costs for cloud computing arrangement service contracts and recognizing the expense over the service period. The amended guidance is effective for the Company either on a retrospective or prospective basis in the first quarter of 2021. The Company will adopt this guidance prospectively in the first quarter of 2021 and adoption of this guidance will not have a material impact on its financial statements or disclosures.

Compensation - Retirement Benefits - Defined Benefit Plans: In August 2018, amended guidance was issued for defined benefit pension or other postretirement plans. The amended guidance requires the Company to disclose the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, and an explanation of reasons for significant gains and losses related to changes in the benefit obligation for the period. The amended guidance also requires the Company to remove disclosures on the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs over the next fiscal year. The amended guidance is effective for the Company on a retrospective basis in the first quarter of 2021. The adoption of this amended guidance will not have a material effect in the consolidated statements of operations, comprehensive income, balance sheets or cash flows of the Company. This amended guidance will result in changes in disclosures.

Fair Value Measurement: In August 2018, amended guidance was issued to remove, modify and add disclosure requirements on fair value measurements. The amended guidance removes disclosure requirements for transfers between Level 1 and Level 2 measurements and valuation processes for Level 3 measurements but adds new disclosure requirements including changes in unrealized gains or losses in other comprehensive income related to recurring Level 3 measurements. The amended guidance is effective for the Company in the first quarter of 2021. Certain requirements will be applied prospectively while other changes will be applied retrospectively upon the effective date. The adoption of this amended guidance will not have a material effect in the consolidated statements of operations, comprehensive income, balance sheets or cash flows of the Company. This amended guidance will result in changes in disclosures.

Financial Instruments - Credit Losses: In June 2016, amended guidance was issued which will change the impairment model for most financial assets from one based on current losses to a forward-looking model based on expected losses. This model will replace the existing incurred credit loss model, that generally requires a loss to be incurred before it is recognized. The forward-looking model will require the Company to consider historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount in estimating credit losses and is expected to result in earlier recognition of allowances for credit losses. The amended guidance requires financial assets that are measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of financial assets. The guidance will also require enhanced disclosures. The amended guidance is effective for the Company in the first quarter of 2021 and any impact will be applied through a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. The adoption of this guidance will not have a material impact on the Company's financial statements or disclosures.

2. Investment in Change Healthcare Joint Venture

Healthcare Technology Net Asset Exchange

In the fourth quarter of 2017, the Company contributed the majority of its McKesson Technology Solutions businesses to form a joint venture, Change Healthcare JV, under a contribution agreement between McKesson and Change Healthcare Inc. ("Change") and others, including shareholders of Change. In exchange for the contribution, the Company initially owned approximately 70% of the joint venture, with the remaining equity ownership of approximately 30% held by Change Healthcare Inc. The Change Healthcare JV was jointly governed by McKesson and shareholders of Change. The initial investment in the Change Healthcare JV represented the fair value of McKesson's 70% equity interest in the joint venture upon closing of the transaction. In 2018, the Company recorded a pre-tax gain of \$37 million (after-tax gain of \$22 million) in operating expenses upon the finalization of net working capital and other adjustments. During 2018, it received \$126 million in cash from Change representing the final settlement of the net working capital and other adjustments.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Initial Public Offering by Change Healthcare Inc.*

On June 27, 2019, common stock and certain other securities of Change began trading on the NASDAQ (“IPO”). Change was a holding company and did not own any material assets or have any operations other than its interest in the Change Healthcare JV.

On July 1, 2019, upon the completion of its IPO, Change received net cash proceeds of approximately \$888 million. Change contributed the proceeds from its offering of common stock of \$609 million to the Change Healthcare JV in exchange for additional membership interests of the Change Healthcare JV (“LLC Units”) at the equivalent of its offering price of \$13 per share. The proceeds from the concurrent offering of other securities of \$279 million were used by Change to acquire certain securities of the Change Healthcare JV that substantially mirror the terms of other securities included in the offering by Change. The Change Healthcare JV, in return, used the majority of the IPO proceeds to repay a portion of the joint venture’s outstanding debt. As a result, McKesson’s equity interest in the Change Healthcare JV was diluted from approximately 70% to approximately 58.5% while Change owned approximately 41.5% of the outstanding LLC Units. Accordingly, in the second quarter of 2020, the Company recognized a pre-tax dilution loss of \$246 million (\$184 million after-tax) primarily representing the difference between its proportionate share of the IPO proceeds and the dilution effect on the investment’s carrying value. The Company’s proportionate share of income or loss from this investment was subsequently reduced as immaterial settlements of stock option exercises occurred after the IPO. These amounts were included in “Equity Earnings and Charges from Investment in Change Healthcare Joint Venture” in the Company’s consolidated statements of operations for the year ended March 31, 2020.

In the second quarter of 2020, the Company recorded a pre-tax other-than-temporary impairment (“OTTI”) charge of \$1.2 billion (\$864 million after-tax) to its investment in the Change Healthcare JV, representing the difference between the carrying value of the Company’s investment and the fair value derived from the corresponding closing price of Change’s common stock at September 30, 2019. This charge was included in “Equity Earnings and Charges from Investment in Change Healthcare Joint Venture” in the Company’s consolidated statement of operations for the year ended March 31, 2020.

Equity Method Investment in the Change Healthcare Joint Venture

The Company’s investment in the joint venture has been accounted for using the equity method of accounting on a one-month reporting lag. The Company’s accounting policy has been to disclose any intervening events of the joint venture in the lag period that could materially affect its condensed consolidated financial statements. Effective April 1, 2019, the Change Healthcare JV adopted the amended revenue recognition guidance. In the first quarter of 2020, the Company recorded its proportionate share of the joint venture’s adoption impact of the amended revenue recognition guidance of approximately \$80 million, net of tax, in the Company’s opening retained earnings.

The Company recorded its proportionate share of loss from its investment in the Change Healthcare JV of \$119 million, \$194 million and \$248 million in 2020, 2019 and 2018. The Company’s proportionate share of income or loss from this investment includes transaction and integration expenses incurred by the Change Healthcare JV and basis differences between the joint venture and McKesson including amortization of fair value adjustments primarily representing incremental intangible amortization and removal of profit associated with the recognition of deferred revenue. The proportionate share of loss from the joint venture recorded in 2018 was partially offset by a provisional tax benefit of \$76 million recognized by the Change Healthcare JV primarily due to a reduction in the future applicable tax rate related to the December 2017 enactment of the 2017 Tax Cuts and Jobs Act. These amounts were recorded under the caption “Equity Earnings and Charges from Investment in Change Healthcare Joint Venture” in the Company’s consolidated statements of operations.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Separation of the Change Healthcare JV

On March 10, 2020, the Company completed the previously announced separation of its interest in the Change Healthcare JV. The separation was affected through the split-off of PF2 SpinCo, Inc. (“SpinCo”), a wholly owned subsidiary of the Company that held all of the Company’s interest in the Change Healthcare JV, to certain of the Company’s stockholders through an exchange offer (“Split-off”), followed by the merger of SpinCo with and into Change, with Change surviving the merger (“Merger”).

In connection with the Split-off, on March 9, 2020, the Company distributed all 176.0 million outstanding shares of common stock of SpinCo to participating holders of the Company’s common stock in exchange for 15.4 million shares of McKesson common stock which now are held as treasury stock on the Company’s consolidated balance sheet as of March 31, 2020. Refer to Financial Note 22, “Stockholders’ Equity,” for more information. Following consummation of the exchange offer, on March 10, 2020, SpinCo was merged with and into Change Healthcare, and each share of SpinCo common stock converted into one share of Change common stock, par value \$0.001 per share, with cash being paid in lieu of fractional shares of Change common stock. The Split-off and the Merger are intended to be generally tax-free transactions for U.S. federal income tax purposes. Following the Split-off, the Company does not beneficially own any of Change’s outstanding securities. In the fourth quarter of 2020, the Company recognized an estimated gain of \$414 million related to the transaction which is included under the caption “Equity Earnings and Charges from Investment in Change Healthcare Joint Venture” in the Company’s consolidated statements of operations. The estimated gain was calculated as follows:

(In millions, except per share data)

Fair value of McKesson common stock accepted (15.4 million shares at \$131.97 per share on March 9, 2020)	\$	2,036
Investment in the Change Healthcare JV at exchange date		(2,096)
Reversal of deferred tax liability		521
Release of accumulated other comprehensive attributable to the joint venture		(24)
Less: Transaction costs incurred		(23)
Estimated net gain on split-off of the Change Healthcare JV	\$	414

At March 31, 2019, the Company’s carrying value of this investment was \$3.5 billion. The carrying value included equity method intangible assets and goodwill which caused the Company’s investment basis to exceed its proportionate share of the Change Healthcare JV’s book value of net assets by approximately \$4.2 billion at March 31, 2019.

Related Party Transactions

In connection with the formation of the Change Healthcare JV, McKesson, the Change Healthcare JV and certain shareholders of Change entered into various ancillary agreements, including transition services agreements (“TSA”), a transaction and advisory fee agreement (“Advisory Agreement”), a tax receivable agreement (“TRA”) and certain other agreements. Fees incurred or earned from the Advisory Agreement were not material for 2020, 2019 and 2018. Fees incurred or earned from the TSA were \$22 million in 2020, \$60 million in 2019 and \$91 million in 2018. The Advisory Agreement was terminated in 2020.

In 2019, the Company renegotiated the terms of the TRA which resulted in the extinguishment and derecognition of the \$90 million noncurrent liability payable to the shareholders of Change. In exchange for the shareholders of Change agreeing to extinguish the liability, the Company agreed to an allocation of certain tax amortization that had the effect of reducing the amount of a distribution from the Change Healthcare JV that would otherwise have been required to be made to the shareholders of Change. As a result of the renegotiation, McKesson was relieved from any potential future obligations associated with the noncurrent liability and recognized a pre-tax credit of \$90 million (\$66 million after-tax) in operating expenses in its consolidated statement of operations in 2019. At March 31, 2020 and 2019, the Company had no outstanding payable balance to the shareholders of Change under the TRA.

Revenues recognized and expenses incurred under commercial agreements with the Change Healthcare JV were not material during the years ended March 31, 2020, 2019 and 2018. At March 31, 2020 and 2019, receivables due from the Change Healthcare JV were not material.

McKESON CORPORATION**FINANCIAL NOTES (Continued)**

Under the agreement executed in 2019 between the Change Healthcare JV, McKesson, Change, and certain subsidiaries of the Change Healthcare JV, McKesson has the ability to adjust the manner in which certain depreciation or amortization deductions are allocated among Change Healthcare Inc. and McKesson. McKesson exercised its right under the agreement and allocated certain depreciation and amortization deductions to Change for the tax year ended March 31, 2019 and estimated certain depreciation and amortization deductions for the tax year ended March 31, 2020. These allocated depreciation and amortization deductions may change as certain events occur, including the filing of the Change Healthcare JV tax return for the tax year ended March 31, 2020.

After McKesson's separation of its interest in the Change Healthcare JV, the aforementioned TRA agreement requires the Change Healthcare JV to pay McKesson 85% of the net cash tax savings realized, or deemed to be realized, by Change resulting from the depreciation or amortization allocated to Change by McKesson. The receipt of any payments from the Change Healthcare JV under the TRA is dependent upon Change benefiting from this depreciation or amortization in future tax return filings. This creates uncertainty over the amount, timing and probability of the gain recognized. As such, the Company accounts for the TRA as a gain contingency, with no receivable recognized as of March 31, 2020.

Concurrent with the IPO in July 2019, Change Healthcare Inc. appointed two of the Company's executive officers as well as McKesson's former chief executive officer to its Board of Directors. These appointments had no impact on the equity method of accounting the Company applied to its investment in the Change Healthcare JV. Effective as of the time of the Merger, these individuals resigned from the Board of Directors of Change. Aside from the divestiture transaction discussed above, there were no material transactions with Change Healthcare Inc.

3. Held for Sale

Assets and liabilities that have met the classification as held for sale were \$906 million and \$683 million as of March 31, 2020. These amounts primarily consist of the majority of the Company's German pharmaceutical wholesale business described below.

German Wholesale Joint Venture

On December 12, 2019, the Company announced that it had entered into an agreement (the "Contribution Agreement") with a third-party intending to contribute the majority of its German wholesale business to create a joint venture in which McKesson will have a non-controlling interest. This business is within the Company's European Pharmaceutical Solutions segment. The agreement is subject to regulatory approvals and is expected to close within the second half of 2021. The transaction does not meet the criteria to be reported as a discontinued operation as it does not constitute a significant strategic business shift. As of March 31, 2020, \$842 million of assets, and \$656 million of liabilities were classified as "Assets held for sale" and "Liabilities held for sale" in the consolidated balance sheet.

As part of the transaction, during 2020 the Company recorded charges totaling \$275 million (pre-tax and after-tax) to remeasure the disposal group to the lower of carrying value or fair value less costs to sell. This amount is included in operating expenses in the consolidated statements of operations for the year ended March 31, 2020. The Company's measurement of the fair value of the disposal group was based on the total consideration received by the Company as outlined in the Contribution Agreement. Certain components of the total consideration included fair value measurements that fall within Level 3 of the fair value hierarchy.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The total assets and liabilities of the German wholesale joint venture that are classified as held for sale on the Company's consolidated balance sheet as of March 31, 2020, are as follows:

<i>(In millions)</i>	March 31, 2020
Assets	
Current Assets	
Receivables, net	\$ 548
Inventories, net	478
Long-term assets	88
Remeasurement of assets of business held for sale to fair value less cost to sell ⁽¹⁾	(272)
Total Assets held for sale	<u>\$ 842</u>
Liabilities	
Current Liabilities	
Drafts and accounts payable	\$ 450
Other accrued liabilities	40
Long-term liabilities	166
Total Liabilities held for sale	<u>\$ 656</u>

(1) Includes the effect of approximately \$3 million of cumulative foreign currency translation adjustment.

4. Restructuring, Impairment and Related Charges

The Company recorded pre-tax restructuring, impairment and related charges of \$268 million, \$597 million and \$567 million in 2020, 2019 and 2018. These charges are included under the caption "Restructuring, impairment and related charges" within operating expenses in the consolidated statements of operations. There were no material restructuring initiatives announced during 2020.

Fiscal 2019 Initiatives

On April 25, 2018, the Company announced a strategic growth initiative intended to drive long-term incremental profit growth and to increase operational efficiency. The initiative consists of multiple growth priorities and plans to optimize the Company's operating models and cost structures primarily through centralization, cost management and outsourcing of certain administrative functions.

As part of the growth initiative, the Company committed to implement certain actions including a reduction in workforce, facility consolidation and store closures. This set of initiatives was substantially complete by the end of 2020. The Company recorded pre-tax charges of \$15 million (\$12 million after-tax) and \$135 million (\$122 million after-tax) in 2020 and 2019. Any remaining charges primarily consist of exit-related costs.

As previously announced on November 30, 2018, the Company relocated its corporate headquarters, effective April 1, 2019, from San Francisco, California to Irving, Texas to improve efficiency, collaboration and cost competitiveness. The Company anticipates that the relocation will be complete by January 2021. As a result, the Company recorded pre-tax charges of \$44 million (\$32 million after-tax) and \$33 million (\$24 million after-tax) in 2020 and 2019, primarily representing employee retention expenses, asset impairments and accelerated depreciation. The Company expects to record total pre-tax charges of approximately \$80 million to \$130 million, of which \$77 million of pre-tax charges were recorded to date. The estimated remaining charges primarily consist of lease and other exit-related costs and employee-related expenses including retention.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

During the fourth quarter of 2019, the Company committed to additional programs to continue its operating model and cost optimization efforts. The Company continues to implement centralization of certain functions and outsourcing through an expanded arrangement with a third-party vendor to achieve operational efficiency. The programs also include reorganization and consolidation of business operations, related headcount reductions, the further closures of retail pharmacy stores in Europe and closures of other facilities. The Company expects to incur total charges of approximately \$300 million to \$350 million for these programs, of which pre-tax charges of \$72 million (\$55 million after-tax) and \$163 million (\$127 million after-tax) were recorded in 2020 and 2019, primarily representing employee severance, accelerated depreciation expense and project consulting fees. We anticipate these additional programs will be substantially completed by the end of 2021. The estimated remaining charges primarily consist of facility and other exit costs and employee-related costs.

Restructuring, impairment and related charges for the Company's fiscal 2019 initiatives for the year ended March 31, 2020 consisted of the following:

Year Ended March 31, 2020						
<i>(In millions)</i>	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical-Surgical Solutions	Other	Corporate	Total
Severance and employee-related costs, net	\$ 3	\$ 1	\$ 2	\$ 1	\$ 33	\$ 40
Exit and other-related costs ⁽¹⁾	—	11	19	1	44	75
Asset impairments and accelerated depreciation	—	5	1	—	10	16
Total	\$ 3	\$ 17	\$ 22	\$ 2	\$ 87	\$ 131

(1) Exit and other-related costs primarily include project consulting fees.

Restructuring, impairment and related charges for the Company's fiscal 2019 initiatives for the year ended March 31, 2019 consisted of the following:

Year Ended March 31, 2019						
<i>(In millions)</i>	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical-Surgical Solutions	Other	Corporate	Total
Severance and employee-related costs, net	\$ 50	\$ 33	\$ 19	\$ 16	\$ 36	\$ 154
Exit and other-related costs ⁽¹⁾	7	3	20	57	57	144
Asset impairments and accelerated depreciation	6	5	3	18	1	33
Total	\$ 63	\$ 41	\$ 42	\$ 91	\$ 94	\$ 331

(1) Exit and other-related costs primarily include lease and other contract exit costs associated with closures of facilities and retail pharmacy stores as well as project consulting fees.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes the activity related to the restructuring liabilities associated with the fiscal 2019 initiatives for the year ended March 31, 2020:

<i>(In millions)</i>	U.S. Pharmaceutical and Specialty Solutions		European Pharmaceutical Solutions		Medical- Surgical Solutions		Other	Corporate	Total			
Balance, March 31, 2019 ⁽¹⁾	\$	31	\$	38	\$	15	\$	29	\$	37	\$	150
Restructuring charges recognized		3		17		22		2		87		131
Non-cash charges		—		(5)		(1)		—		(10)		(16)
Cash payments		(13)		(26)		(16)		(20)		(61)		(136)
Other		1		—		(2)		(4)		(14)		(19)
Balance, March 31, 2020 ⁽²⁾	\$	22	\$	24	\$	18	\$	7	\$	39	\$	110

(1) As of March 31, 2019, the total reserve balance was \$150 million of which \$117 million was recorded in other accrued liabilities and \$33 million was recorded in other noncurrent liabilities.

(2) As of March 31, 2020, the total reserve balance was \$110 million of which \$99 million was recorded in other accrued liabilities and \$11 million was recorded in other noncurrent liabilities.

Fiscal 2018 McKesson Europe Plan

In the second quarter of 2018, the Company committed to a restructuring plan, which primarily consisted of the closures of underperforming retail pharmacy stores in the U.K. and a reduction in workforce. Under this plan, the Company expected to record total pre-tax charges of approximately \$90 million to \$130 million for its European Pharmaceutical Solutions segment, of which \$92 million of pre-tax charges were recorded through the end of 2019. The plan was substantially completed in 2020 and additional charges and payments in 2020 were not material. In 2019 and 2018, the Company recorded pre-tax charges of \$18 million (\$16 million after-tax) and \$74 million (\$67 million after-tax) in operating expenses primarily representing employee severance and lease exit costs. It made cash payments of \$32 million and \$10 million during 2019 and 2018, primarily related to severance. The reserve balances as of March 31, 2020 and 2019 were \$4 million and \$19 million, recorded in other accrued liabilities in the Company's consolidated balance sheets.

Other Plans

There were no material restructuring, impairment and related charges for other plans recorded during 2020, 2019 and 2018. The restructuring liabilities for other plans as of March 31, 2020 and 2019 were \$43 million and \$68 million.

*Long-Lived Asset Impairments**McKesson Europe*

In 2020, the Company recorded pre-tax charges of \$82 million (\$66 million after-tax) to impair certain long-lived and intangible assets within the Company's European Pharmaceutical Solutions segment. These charges related primarily to intangible assets associated with pharmacy licenses within the U.K retail business due to a decline in estimated future cash flows driven by additional U.K. government reimbursement reductions communicated in the third quarter of 2020. The Company used a combination of an income approach (a DCF method) and a market approach to estimate the fair value of the long-lived and intangible assets. The fair value of the intangible assets is considered a Level 3 fair value measurement due to the significance of unobservable inputs developed using company specific information.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In 2019, the Company recorded pre-tax charges of \$210 million (\$172 million after-tax) to impair certain long-lived assets (primarily pharmacy licenses) for its U.K. retail business primarily driven by government reimbursement reductions and competitive pressures in the U.K. In 2018, the Company recorded pre-tax charges of \$446 million (\$410 million after-tax) to impair the carrying value of certain intangible assets (primarily customer relationships and pharmacy licenses), store assets and capitalized software assets due to continuing declines in estimated future cash flows in its European businesses including consideration of significant government reimbursement reductions in its U.K. retail business. In 2019 and 2018, the Company used an income approach (a DCF method) or a combination of an income approach and a market approach to estimate the fair value of the long-lived assets. The fair value of the intangible assets is considered a Level 3 fair value measurement due to the significance of unobservable inputs developed using company specific information.

Rexall Health

In 2020, the Company performed an interim impairment test of long-lived and intangible assets for its Rexall Health retail business due to the decline in the estimated future cash flows primarily driven by lower than expected growth in both prescription volume and sales of non-prescription goods. As a result, the Company recognized a charge of \$30 million (pre-tax and after-tax) to impair certain long-lived and intangible assets, primarily customer relationships. The Company utilized an income approach (a DCF method) for estimating the fair value of the long-lived and intangible assets. The fair value of these assets is considered a Level 3 fair value measurement due to the significance of unobservable inputs developed using company specific information.

In 2019 and 2018, the Company recorded charges of \$35 million and \$33 million (pre-tax and after-tax) to impair certain intangible assets (primarily customer relationships) for its Rexall Health retail business. The impairments were primarily the result of the decline in estimated future cash flows for this business. The estimated cash flow projections were negatively affected by lower projected overall growth rate from the ongoing impact of government regulations in 2019 and significant generics reimbursement reductions across Canada and minimum wage increases in multiple provinces in 2018. The Company utilized an income approach (a DCF method) for estimating the fair value of long-lived assets. The fair value of the intangible assets is considered a Level 3 fair value measurement due to the significance of unobservable inputs developed using company specific information.

Refer to Financial Note 19, "Fair Value Measurements," for more information on nonrecurring fair value measurements.

5. Business Acquisitions and Divestitures

During 2020, the Company did not complete any material acquisitions. During 2020 and 2019, the Company did not complete any material divestitures aside from the separation of the Change Healthcare JV, as described in more detail in Financial Note 2, "Investment in Change Healthcare Joint Venture."

*Acquisitions**2019 Acquisition**Medical Specialties Distributors LLC ("MSD")*

On June 1, 2018, the Company completed its acquisition of MSD for the net purchase consideration of \$784 million, which was funded from cash on hand. MSD is a leading national distributor of infusion and medical-surgical supplies as well as a provider of biomedical services to alternate site and home health providers. The financial results of MSD have been included in the Company's consolidated statements of operations within its Medical-Surgical Solutions segment since the acquisition date.

The fair value of assets acquired and liabilities assumed as of the acquisition date were finalized upon completion of the measurement period in the first quarter of 2020. The final purchase price allocation included acquired identifiable intangibles of \$326 million primarily representing customer relationships with a weighted average life of 18 years.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes the final recording of the fair value of the assets acquired and liabilities assumed for this acquisition as of the acquisition date as well as adjustments made during the measurement period.

<i>(In millions)</i>	Amounts Previously Recognized as of Acquisition Date (Provisional as Adjusted) ⁽¹⁾	FY20 Measurement Period Adjustments	Amounts Recognized as of the Acquisition Date ⁽²⁾
Receivables	\$ 113	\$ (1)	\$ 112
Other current assets, net of cash and cash equivalents acquired	72	(1)	71
Goodwill	381	7	388
Intangible assets	326	—	326
Other long-term assets	55	1	56
Current liabilities	(72)	—	(72)
Other long-term liabilities	(91)	(6)	(97)
Net assets acquired, net of cash and cash equivalents	\$ 784	\$ —	\$ 784

(1) Provisional amounts as of March 31, 2019.

(2) Final amounts as of May 31, 2019.

*2018 Acquisitions**RxCrossroads*

On January 2, 2018, the Company completed its acquisition of RxCrossroads for the net purchase consideration of \$720 million, which was funded from cash on hand. The financial results of RxCrossroads have been included in the consolidated statements of operations within the Company's U.S. Pharmaceutical and Specialty Solutions segment since the acquisition date.

The fair value of assets acquired and liabilities assumed as of the acquisition date were finalized upon completion of the measurement period. As of December 31, 2018, the final amounts of fair value recognized for assets acquired and liabilities assumed as of the acquisition date, excluding goodwill and intangibles, were \$129 million and \$57 million. Approximately \$386 million of the final purchase price allocation was assigned to goodwill, which reflects the expected future benefits from certain synergies and intangible assets that do not qualify for separate recognition. The final purchase price allocation included acquired identifiable intangibles of \$262 million primarily representing customer relationships and trade names with a weighted average life of 14 years.

CoverMyMeds LLC ("CMM")

On April 3, 2017, the Company completed its acquisition of CMM for the net purchase consideration of \$1.3 billion, which was funded from cash on hand. The fair value of assets acquired and liabilities assumed as of the acquisition date were finalized upon completion of the measurement period in the first quarter of 2019. The financial results of CMM have been included in the Company's consolidated statements of operations within Other since the acquisition date.

Pursuant to the agreement, McKesson may pay up to an additional \$160 million of contingent consideration based on CMM's financial performance for 2018 and 2019. As a result, the Company recorded a liability for this remaining contingent consideration at its estimated fair value of \$113 million as of the acquisition date in its consolidated balance sheet. The contingent consideration was estimated using a Monte Carlo simulation, which utilized Level 3 inputs under the fair value measurement and disclosure guidance, including estimated financial forecasts. The contingent liability was re-measured at fair value at each reporting date until the liability was extinguished and changes in fair value were recorded in the Company's consolidated statements of operations. The initial fair value of this contingent consideration was a non-cash investing activity. Pursuant to the agreement, the Company paid additional contingent consideration of \$69 million and \$68 million in May 2019 and May 2018. As of March 31, 2020 and 2019, the related liability was nil and \$69 million.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Other*

During 2018, the Company also completed acquisitions of intraFUSION, Inc. (“intraFUSION”), BDI Pharma, LLC (“BDI”) and Uniprix Group (“Uniprix”) for net cash consideration of \$485 million, which was funded from cash on hand. The fair value of assets acquired and liabilities assumed of intraFUSION, BDI and Uniprix as of the acquisition dates were finalized upon completion of the measurement period. As of September 30, 2018, the final amounts of fair value recognized for the assets acquired and liabilities assumed for these acquisitions as of the acquisition dates, excluding goodwill and intangibles, were \$292 million and \$160 million. Approximately \$246 million of the final purchase price allocation was assigned to goodwill, which reflects the expected future benefits of certain synergies and intangible assets that do not qualify for separate recognition. The final purchase price allocation included acquired identifiable intangibles of \$118 million primarily representing customer relationships. The financial results of intraFUSION and BDI have been included within the Company’s U.S. Pharmaceutical and Specialty Solutions segment since the acquisition dates. The financial results of Uniprix have been included within Other since the acquisition date.

Other Acquisitions

During the three years presented, the Company also completed a number of other de minimis acquisitions within its operating segments. Financial results for the Company’s business acquisitions have been included in the Company’s consolidated financial statements since their respective acquisition dates. Purchase prices for business acquisitions have been allocated based on estimated fair values at the respective acquisition dates.

Goodwill recognized for business acquisitions is generally not expected to be deductible for tax purposes. However, if the assets of another company are acquired, the goodwill may be deductible for tax purposes.

*Divestiture**Fiscal 2018**Enterprise Information Solutions*

On August 1, 2017, the Company entered into an agreement with a third party to sell its Enterprise Information Solutions (“EIS”) business included in Other for \$185 million, subject to adjustments for net debt and working capital. On October 2, 2017, the transaction closed upon satisfaction of all closing conditions including the termination of the waiting period under U.S. antitrust laws. McKesson received net cash proceeds of \$169 million after \$16 million of assumed net debt by the third party. The Company recognized a pre-tax gain of \$109 million (\$30 million after-tax) upon the disposition of this business in the third quarter of 2018 in operating expenses.

6. Share-Based Compensation

The Company provides share-based compensation to its employees, officers and non-employee directors, including restricted stock units (“RSUs”), performance-based stock units (“PSUs”, formerly referred to as total shareholder return units or “TSRUs”), performance-based restricted stock units (“PeRSUs”), stock options and an employee stock purchase plan (“ESPP”) (collectively, “share-based awards”). Most of the share-based awards are granted in the first quarter of each fiscal year.

Compensation expense for the share-based awards is recognized for the portion of awards ultimately expected to vest. The Company estimates the number of share-based awards that will ultimately vest primarily based on historical experience. The estimated forfeiture rate established upon grant is re-assessed throughout the requisite service period and is adjusted when actual forfeitures occur. The actual forfeitures in future reporting periods could be higher or lower than current estimates.

Compensation expense is classified in the consolidated statements of operations or capitalized in the consolidated balance sheets in the same manner as cash compensation paid to the Company’s employees. No share-based compensation expenses were capitalized as part of the cost of an asset in 2020 and 2019. No material amounts were capitalized in 2018.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Impact on Net Income

The components of share-based compensation expense and related tax benefits are as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Restricted stock unit awards ⁽¹⁾	\$ 104	\$ 75	\$ 46
Stock options	7	12	14
Employee stock purchase plan	8	8	9
Share-based compensation expense	119	95	69
Tax benefit for share-based compensation expense ⁽²⁾	(18)	(12)	(28)
Share-based compensation expense, net of tax	\$ 101	\$ 83	\$ 41

(1) Includes compensation expense recognized for RSUs, PSUs and PeRSUs.

(2) Income tax benefit is computed using the tax rates of applicable tax jurisdictions. Additionally, a portion of pre-tax compensation expense is not tax-deductible. Income tax expense for 2020 and 2019 included discrete income tax expense of \$2 million and \$4 million. 2018 included a discrete income tax benefit of \$8 million related to the adoption of the amended accounting guidance on share-based compensation.

Stock Plans

In July 2013, the Company's stockholders approved the 2013 Stock Plan to replace the 2005 Stock Plan. Under these stock plans, the Company may issue restricted stock, RSUs, PSUs, PeRSUs, stock options and other share-based awards to selected employees, officers and non-employee directors. The 2013 Stock Plan reserves 30 million shares plus unused reserved shares under the 2005 Stock Plan. As of March 31, 2020, 20 million shares remain available for future grant under the 2013 Stock Plan.

Restricted Stock Unit Awards

RSUs entitle the holder to receive a specified number of shares of the Company's common stock which vest over a period of generally three to four years as determined by the Compensation Committee at the time of grant. The fair value of the award is determined based on the market price of the Company's common stock on the grant date and the related compensation expense is recognized over the vesting period on a straight-line basis.

Non-employee directors receive an annual grant of RSUs, which vest immediately and are expensed upon grant. The director may elect to receive the underlying shares immediately or defer receipt of the shares if they meet director stock ownership guidelines. The shares will be automatically deferred for those directors who do not meet the director stock ownership guidelines. At March 31, 2020, approximately 72,000 RSUs for the Company's directors are vested.

PSUs are conditional upon the attainment of market and performance objectives over a specified period. The number of vested PSUs is assessed at the end of a three-year performance period upon attainment of meeting certain earnings per share targets, average return on invested capital and for certain participants, total shareholder return relative to a peer group of companies and for special PSUs granted in 2019 meeting certain cumulative operating profit metrics. The Company uses the Monte Carlo simulation model to measure the fair value of the total shareholder return portion of the PSUs. The earnings per share portion of the PSUs is measured at the grant date market price. PSUs have a requisite service period of generally three years. Expense is attributed to the requisite service period on a straight-line basis based on the fair value of the PSUs, adjusted for the performance modifier at the end of each reporting period. For PSUs that are designated as equity awards, the fair value is measured at the grant date. For PSUs that are eligible for cash settlement and designated as liability awards, the Company re-measures the fair value at the end of each reporting period and adjusts a corresponding liability in its consolidated balance sheets for changes in fair value.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

PeRSUs are awards for which the number of RSUs awarded is conditional upon the attainment of one or more performance objectives over a specified period. The Company did not grant any PeRSUs during the year ended March 31, 2020. The Compensation Committee approves the target number of PeRSUs representing the base number of RSUs that could be awarded if performance goals are attained. PeRSUs are accounted for as variable awards until the performance goals are reached at which time the grant date is established. Total compensation expense for PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, at the inception of the requisite service period. During the performance period, the compensation expense for PeRSUs is re-computed using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the awards are granted and classified as RSUs and accounted for on that basis. The Company recognizes compensation expense for these awards on a straight-line basis over the requisite aggregate service period of generally four years.

The weighted-average assumptions used in the Monte Carlo valuations are as follows:

	Years Ended March 31,		
	2020	2019	2018
Expected stock price volatility	30%	31%	29%
Expected dividend yield	1.3%	0.9%	0.8%
Risk-free interest rate	2.2%	2.6%	1.5%
Expected life (in years)	3	3	3

The following table summarizes activity for restricted stock unit awards (RSUs, PSUs and PeRSUs) during 2020:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, March 31, 2019	2	\$ 142.77
Granted	1	129.90
Cancelled	—	134.28
Vested	—	158.08
Nonvested, March 31, 2020	3	\$ 135.57

The following table provides data related to restricted stock unit award activity:

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Total fair value of shares vested	\$ 67	\$ 59	\$ 156
Total compensation cost, net of estimated forfeitures, related to nonvested restricted stock unit awards not yet recognized, pre-tax	\$ 155	\$ 119	\$ 97
Weighted-average period in years over which restricted stock unit award cost is expected to be recognized	3	2	2

McKESSON CORPORATION
FINANCIAL NOTES (Continued)
Stock Options

Stock options are granted with an exercise price at no less than the fair market value and those options granted under the stock plans generally have a contractual term of seven years and follow a four-year vesting schedule.

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. The Company uses the Black-Scholes options-pricing model to estimate the fair value of its stock options. Once the fair value of an employee stock option is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual.

Weighted-average assumptions used to estimate the fair value of employee stock options were as follow: ⁽¹⁾

	Years Ended March 31,	
	2019	2018
Expected stock price volatility ⁽²⁾	26%	25%
Expected dividend yield ⁽³⁾	0.9%	0.8%
Risk-free interest rate ⁽⁴⁾	2.8%	1.7%
Expected life (in years) ⁽⁵⁾	4.6	4.5

- (1) The Company did not grant any stock options during the year ended March 31, 2020.
- (2) The computation of expected volatility was based on a combination of the historical volatility of the Company's common stock and implied market volatility. The Company believes this market-based input provides a reasonable estimate of its future stock price movements and is consistent with employee stock option valuation considerations.
- (3) Expected dividend yield is based on historical experience and investors' current expectations.
- (4) The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the grant date.
- (5) The expected life of the options is based primarily on historical employee stock option exercises and other behavioral data and reflects the impact of changes in the contractual life of current option grants compared to the Company's historical grants.

The following is a summary of stock options outstanding at March 31, 2020:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding at Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
\$118.41 – \$178.13	1	4	\$ 148.36	—	\$ 148.62
178.14 – 237.86	1	2	198.25	1	199.88
	2			1	

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The following table summarizes stock option activity during 2020:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽²⁾
Outstanding, March 31, 2019	3	\$ 166.72	3	\$ 4
Granted	—	—		
Cancelled	—	171.39		
Exercised	(1)	113.34		
Outstanding, March 31, 2020	2	\$ 180.48	3	\$ 1
Vested and expected to vest ⁽¹⁾	2	\$ 180.52	3	\$ 1
Vested and exercisable, March 31, 2020	2	189.28	2	1

(1) The number of options expected to vest takes into account an estimate of expected forfeitures.

(2) The intrinsic value is calculated as the difference between the period-end market price of the Company's common stock and the exercise price of "in-the-money" options.

The following table provides data related to stock option activity:

<i>(In millions, except per share data)</i>	Years Ended March 31,		
	2020	2019	2018
Weighted-average grant date fair value per stock option	\$ —	\$ 34.98	\$ 34.24
Aggregate intrinsic value on exercise	\$ 17	\$ 16	\$ 60
Cash received upon exercise	\$ 66	\$ 29	\$ 77
Tax benefits realized related to exercise	\$ 4	\$ 4	\$ 22
Total fair value of stock options vested	\$ 16	\$ 16	\$ 20
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	\$ 6	\$ 15	\$ 15
Weighted-average period in years over which stock option compensation cost is expected to be recognized	2	2	2

Employee Stock Purchase Plan

The Company has an ESPP under which 21 million shares have been authorized for issuance. The ESPP allows eligible employees to purchase shares of the Company's common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares. The 15% discount provided to employees on these shares is included in compensation expense. The shares related to funds outstanding at the end of a quarter are included in the calculation of diluted weighted average shares outstanding. These amounts have not been significant for all the years presented. The Company recognizes costs for employer matching contributions as ESPP expense over the relevant purchase period. Shares issued under the ESPP were not material in 2020, 2019, and 2018. At March 31, 2020, 3 million shares remain available for issuance.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

7. Other Income, Net

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Interest income	\$ 49	\$ 39	\$ 48
Equity in earnings, net ⁽¹⁾	36	43	32
Gain from sale of equity investment ⁽²⁾	—	56	43
Actuarial losses from pension plans ⁽³⁾	(127)	—	—
Other, net	54	44	7
Total	\$ 12	\$ 182	\$ 130

(1) Primarily recorded within the Company's European Pharmaceutical Solutions segment.

(2) Amount represented a pre-tax gain from the sale of an equity investment to a third party included in Other during 2019 and in our U.S. Pharmaceutical and Specialty Solutions segment during 2018.

(3) Includes \$116 million from the termination of the U.S. defined benefit pension plan and \$11 million related to a settlement from the executive benefit retirement plan for a recently retired executive. Refer to Financial Note 17, "Pension Benefits."

8. Income Taxes

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Income from continuing operations before income taxes			
U.S.	\$ 216	\$ 1,512	\$ 1,175
Foreign	928	(902)	(936)
Total income from continuing operations before income taxes	\$ 1,144	\$ 610	\$ 239

Income tax expense (benefit) related to continuing operations consists of the following:

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Current			
Federal	\$ 170	\$ (20)	\$ 577
State	48	35	33
Foreign	142	152	205
Total current	360	167	815
Deferred			
Federal	(204)	223	(767)
State	(105)	44	17
Foreign	(33)	(78)	(118)
Total deferred	(342)	189	(868)
Income tax expense (benefit)	\$ 18	\$ 356	\$ (53)

The Company recorded income tax expense of \$18 million and \$356 million in 2020 and 2019, and income tax benefit of \$53 million related to continuing operations in 2018.

The Company's reported income tax expense rates were 1.6% and 58.4% in 2020 and 2019 and an income tax benefit rate of 22.2% in 2018. Fluctuations in the Company's reported income tax rates are primarily due to the impact of the Change Healthcare joint venture divestiture in 2020, the 2017 Tax Act in 2018, the impact of nondeductible impairment charges, and varying proportions of income attributable to foreign countries that have income tax rates different from the U.S. rate.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate of 21% for 2020 and 2019 and 31.6% for 2018 to income before income taxes is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Income tax expense at federal statutory rate	\$ 240	\$ 128	\$ 75
State income taxes, net of federal tax benefit	(41)	70	50
Tax effect of foreign operations	(81)	(86)	(146)
Unrecognized tax benefits and settlements	(7)	20	454
Non-deductible goodwill	7	357	585
Share-based compensation	2	4	(8)
Net tax benefit on intellectual property transfer	—	(42)	(178)
Tax-free gain on investment exit ⁽¹⁾	(87)	—	—
Impact of change in U.S. tax rate on temporary differences	—	(81)	(1,324)
Transition tax on foreign earnings	—	(5)	457
Capital loss carryback	(19)	—	—
Other, net ⁽²⁾	4	(9)	(18)
Income tax expense (benefit)	\$ 18	\$ 356	\$ (53)

(1) Refer to Financial Note 2, “Investment in Change Healthcare Joint Venture,” for additional information regarding the separation of the Change Healthcare JV.

(2) The Company’s effective tax rates were impacted by other favorable U.S. federal permanent differences including research and development credits of \$7 million, \$7 million and \$11 million in 2020, 2019 and 2018.

On March 10, 2020, the Company completed the previously announced separation of its interest in the Change Healthcare JV as described in Financial Note 2, “Investment in Change Healthcare Joint Venture.” The Company’s reported income tax expense rate for 2020 was favorably impacted by this transaction given that it was intended to generally be a tax-free split-off for U.S. federal income tax purposes. In the fourth quarter of 2020, the Company recognized an estimated gain for financial reporting purposes of \$414 million (pre-tax and after-tax) related to the separation transaction.

The Company’s reported income tax expense rate for 2020 was unfavorably impacted by non-cash pre-tax charges of \$275 million (pre-tax and after-tax) to remeasure the carrying value of assets and liabilities held for sale related to the expected formation of a new German wholesale joint venture within the Company’s European Pharmaceutical Solutions segment. Refer to Financial Note 3, “Held for Sale,” for more information.

The Company’s reported income tax expense rate for 2019 was unfavorably impacted by non-cash pre-tax charges of \$1.8 billion (pre-tax and after-tax) to impair the carrying value of goodwill for its European Pharmaceutical Solutions segment, given that these charges are generally not deductible for tax purposes. Its reported income tax benefit rate for 2018 was unfavorably impacted by non-cash charges of \$1.7 billion (pre-tax and after-tax) to impair the carrying value of goodwill, given that generally no tax benefit was recognized for these charges. Refer to Financial Note 14, “Goodwill and Intangible Assets, Net,” for more information.

During 2019, the Company sold software between wholly-owned legal entities within the McKesson group that are based in different tax jurisdictions. The transferor entity recognized a gain on the sale of assets that was not subject to income tax in its local jurisdiction; such gain was eliminated upon consolidation. An entity based in the U.S. was the acquirer of the software and is entitled to amortize the purchase price of the assets for tax purposes. In accordance with the adopted amended accounting guidance on income taxes, a discrete tax benefit of \$42 million was recognized in the second quarter of 2019 with a corresponding increase to a deferred tax asset for the future tax amortization.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

On December 19, 2016, the Company sold various software relating to its technology businesses between wholly owned legal entities within the McKesson group that are based in different tax jurisdictions. The transferor entity recognized a gain on the sale of assets that was not subject to income tax in its local jurisdiction; such gain was eliminated upon consolidation. A McKesson entity based in the U.S. was the recipient of the software and is entitled to amortize the fair value of the assets for book and tax purposes. The tax benefit associated with the amortization of these assets is recognized over the tax lives of the assets. As a result, the Company recognized a net tax benefit of \$178 million in 2018. The Company no longer recognized the tax benefit associated with this amortization in continuing operations upon adoption of the amended guidance related to intra-entity transfer of an asset other than inventory in 2020 or 2019.

Deferred tax balances consisted of the following:

<i>(In millions)</i>	March 31,	
	2020	2019
Assets		
Receivable allowances	\$ 72	\$ 70
Compensation and benefit related accruals	331	377
Net operating loss and credit carryforwards	828	885
Lease obligations	482	—
Other	109	216
Subtotal	1,822	1,548
Less: valuation allowance	(833)	(870)
Total assets	989	678
Liabilities		
Inventory valuation and other assets	(1,947)	(2,016)
Fixed assets and systems development costs	(202)	(170)
Intangibles	(531)	(513)
Change Healthcare equity investment	—	(885)
Lease right-of-use assets	(449)	—
Other	(56)	(34)
Total liabilities	(3,185)	(3,618)
Net deferred tax liability	\$ (2,196)	\$ (2,940)
Long-term deferred tax asset	\$ 59	\$ 58
Long-term deferred tax liability	(2,255)	(2,998)
Net deferred tax liability	\$ (2,196)	\$ (2,940)

The Company assesses the available positive and negative evidence to determine whether deferred tax assets are more likely than not to be realized. As a result of this assessment, valuation allowances have been recorded on certain deferred tax assets in various tax jurisdictions. The valuation allowances were approximately \$833 million and \$870 million in 2020 and 2019 and primarily relate to net operating and capital losses incurred in certain tax jurisdictions for which no tax benefit was recognized. The decrease in the valuation allowance of \$37 million included \$30 million of expense related to foreign losses incurred in 2020, for which no benefit was recognized, offset by the remeasurement of foreign loss carryforwards and their related valuation allowance of \$67 million.

The Company has federal, state and foreign net operating loss carryforwards of \$75 million, \$3.3 billion and \$1.9 billion at March 31, 2020. Federal and state net operating losses will expire at various dates from 2021 through 2041. Substantially all its foreign net operating losses have indefinite lives. In addition, the Company has foreign capital loss carryforwards of \$739 million with indefinite lives.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes the activity related to the Company's gross unrecognized tax benefits for the last three years:

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Unrecognized tax benefits at beginning of period	\$ 1,052	\$ 1,183	\$ 486
Additions based on tax positions related to prior years	20	78	47
Reductions based on tax positions related to prior years	(168)	(234)	(124)
Additions based on tax positions related to current year	82	68	778
Reductions based on settlements	(8)	(13)	(7)
Reductions based on the lapse of the applicable statutes of limitations	(13)	(25)	—
Exchange rate fluctuations	(7)	(5)	3
Unrecognized tax benefits at end of period	\$ 958	\$ 1,052	\$ 1,183

As of March 31, 2020, the Company had \$958 million of unrecognized tax benefits, of which \$763 million would reduce income tax expense and the effective tax rate, if recognized. The decrease in unrecognized tax benefits in 2020 compared to 2019 is primarily attributable to the favorable resolution of an outstanding California tax refund claim which decreased unrecognized tax benefits by \$91 million. The decrease in unrecognized tax benefits in 2019 compared to 2018 is primarily attributable to a \$171 million decrease, with a corresponding increase in taxes payable, due to the issuance of new tax regulations. During the next twelve months, the Company does not expect any material reduction in its unrecognized tax benefits. However, this may change as it continues to have ongoing negotiations with various taxing authorities throughout the year.

The Company reports interest and penalties on income taxes as income tax expense. It recognized income tax expense of \$23 million and \$33 million in 2020 and 2019 and an income tax benefit of \$1 million in 2018, representing interest and penalties, in its consolidated statements of operations. As of March 31, 2020 and 2019, it accrued \$91 million and \$68 million cumulatively in interest and penalties on unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. During the three months ended March 31, 2020, the Company signed the Revenue Agent's Report from the U.S. Internal Revenue Service ("IRS") relating to their audit of the fiscal years 2013 through 2015. During the third quarter of 2018, the Company signed the Revenue Agent's Report from the U.S. IRS relating to their audit of the fiscal years 2010 through 2012. The Company is generally subject to audit by taxing authorities in various U.S. states and in foreign jurisdictions for fiscal years 2013 through the current fiscal year.

Undistributed earnings of the Company's foreign operations of approximately \$5 billion were considered indefinitely reinvested. Following enactment of the 2017 Tax Act, the repatriation of cash to the United States is generally no longer taxable for federal income tax purposes. However, the repatriation of cash held outside the United States could be subject to applicable foreign withholding taxes and state income taxes. The Company may remit foreign earnings to the United States to the extent it is tax efficient to do so. It does not expect the tax impact from remitting these earnings to be material.

9. Redeemable Noncontrolling Interests and Noncontrolling Interests

Redeemable Noncontrolling Interests

The Company's redeemable noncontrolling interests primarily relate to its consolidated subsidiary, McKesson Europe. Under the December 2014 domination and profit and loss transfer agreement (the "Domination Agreement"), the noncontrolling shareholders of McKesson Europe are entitled to receive an annual recurring compensation amount of €0.83 per share. As a result, during 2020, 2019 and 2018, the Company recorded a total attribution of net income to the noncontrolling shareholders of McKesson Europe of \$42 million, \$45 million and \$43 million. All amounts were recorded in net income attributable to noncontrolling interests in the Company's consolidated statements of operations and the corresponding liability balance was recorded in other accrued liabilities in the Company's consolidated balance sheets.

McKESSEON CORPORATION

FINANCIAL NOTES (Continued)

Under the Domination Agreement, the noncontrolling shareholders of McKesson Europe have a right to put (“Put Right”) their noncontrolling shares at €22.99 per share, increased annually for interest in the amount of five percentage points above a base rate published by the German Bundesbank semi-annually, less any compensation amount or guaranteed dividend already paid by McKesson with respect to the relevant time period (“Put Amount”). The exercise of the Put Right will reduce the balance of redeemable noncontrolling interests. During 2020 and 2019, there were no material exercises of the Put Right. During 2018, the Company paid \$50 million to purchase 1.9 million shares of McKesson Europe through the exercises of the Put Right by the noncontrolling shareholders, which decreased the carrying value of redeemable noncontrolling interests by \$53 million. The balance of redeemable noncontrolling interests is reported as the greater of its carrying value or its maximum redemption value at each reporting date. The redemption value is the Put Amount adjusted for exchange rate fluctuations each period. At March 31, 2020 and 2019, the carrying value of redeemable noncontrolling interests of \$1.40 billion and \$1.39 billion exceeded the maximum redemption value of \$1.22 billion and \$1.23 billion. At March 31, 2020 and 2019, the Company owned approximately 77% of McKesson Europe’s outstanding common shares. In April 2020, the Company paid \$46 million to purchase 1.8 million shares of McKesson Europe through the exercises of the Put Right by the noncontrolling shareholders, which increased the Company’s ownership of McKesson Europe’s outstanding common shares to 78%.

Appraisal Proceedings

Subsequent to the Domination Agreement’s registration, certain noncontrolling shareholders of McKesson Europe initiated appraisal proceedings (“Appraisal Proceedings”) with the Stuttgart Regional Court (the “Court”) to challenge the adequacy of the Put Amount, annual recurring compensation amount, and/or the guaranteed dividend. During the pendency of the Appraisal Proceedings, such amount will be paid as specified currently in the Domination Agreement. On September 19, 2018, the Court ruled that the Put Amount shall be increased by €0.51 resulting in an adjusted Put Amount of €23.50. The annual recurring compensation amount and/or the guaranteed dividend remain unadjusted. Noncontrolling shareholders of McKesson Europe appealed this decision. McKesson Europe Holdings GmbH & Co. KGaA also appealed the decision. If upon final resolution of the appeal an upwards adjustment is ordered, the Company would be required to make certain additional payments for any shortfall to all McKesson Europe noncontrolling shareholders who previously received amounts under the Domination Agreement.

Noncontrolling Interests

Noncontrolling interests represent third-party equity interests in the Company’s consolidated entities primarily related to ClarusONE and Vantage, which were \$217 million and \$193 million at March 31, 2020 and 2019 in the Company’s consolidated balance sheets. During 2020, 2019 and 2018, the Company allocated a total of \$178 million, \$176 million and \$187 million of net income to noncontrolling interests.

Changes in redeemable noncontrolling interests and noncontrolling interests for the years ended March 31, 2020 and 2019 were as follows:

<i>(In millions)</i>	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, March 31, 2018	\$ 253	\$ 1,459
Net income attributable to noncontrolling interests	176	45
Other comprehensive loss	—	(66)
Reclassification of recurring compensation to other accrued liabilities	—	(45)
Payments to noncontrolling interests	(184)	—
Other	(52)	—
Balance, March 31, 2019	193	1,393
Net income attributable to noncontrolling interests	178	42
Other comprehensive income	—	3
Reclassification of recurring compensation to other accrued liabilities	—	(42)
Payments to noncontrolling interests	(154)	—
Other	—	6
Balance, March 31, 2020	\$ 217	\$ 1,402

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

There were no material changes in the Company's ownership interests related to redeemable noncontrolling interests during 2020 and 2019. The effect of changes in its ownership interests related to redeemable noncontrolling interests on its equity of \$3 million resulting from exercises of Put Right was recorded as a net increase to McKesson's stockholders' paid-in capital during 2018. Net income attributable to McKesson was \$900 million, \$34 million and \$70 million in 2020, 2019 and 2018.

10. Earnings per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed similar to basic earnings per common share except that the former reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

The computations for basic and diluted earnings per common share are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2020	2019	2018
Income from continuing operations	\$ 1,126	\$ 254	\$ 292
Net income attributable to noncontrolling interests	(220)	(221)	(230)
Income from continuing operations attributable to McKesson	906	33	62
Income (loss) from discontinued operations, net of tax	(6)	1	5
Net income attributable to McKesson	<u>\$ 900</u>	<u>\$ 34</u>	<u>\$ 67</u>
Weighted average common shares outstanding:			
Basic	181	196	208
Effect of dilutive securities:			
Restricted stock units	1	1	1
Diluted	<u>182</u>	<u>197</u>	<u>209</u>
Earnings (loss) per common share attributable to McKesson: ⁽¹⁾			
Diluted			
Continuing operations	\$ 4.99	\$ 0.17	\$ 0.30
Discontinued operations	(0.04)	—	0.02
Total	<u>\$ 4.95</u>	<u>\$ 0.17</u>	<u>\$ 0.32</u>
Basic			
Continuing operations	\$ 5.01	\$ 0.17	\$ 0.30
Discontinued operations	(0.03)	—	0.02
Total	<u>\$ 4.98</u>	<u>\$ 0.17</u>	<u>\$ 0.32</u>

(1) Certain computations may reflect rounding adjustments.

Potentially dilutive securities include outstanding stock options, restricted stock units and performance-based and other restricted stock units. Approximately 2 million, 3 million and 2 million potentially dilutive securities for 2020, 2019 and 2018 were excluded from the computations of diluted net earnings per common share, as they were anti-dilutive.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

11. Receivables, Net

<i>(In millions)</i>	March 31,	
	2020	2019
Customer accounts	\$ 17,201	\$ 14,941
Other	3,014	3,584
Total	20,215	18,525
Allowances	(265)	(279)
Net	\$ 19,950	\$ 18,246

Other receivables primarily include amounts due from suppliers. The allowances are primarily for estimated uncollectible accounts.

12. Property, Plant and Equipment, Net

<i>(In millions)</i>	March 31,	
	2020	2019
Land	\$ 151	\$ 172
Building, machinery, equipment and other	4,043	4,154
Total property, plant and equipment	4,194	4,326
Accumulated depreciation	(1,829)	(1,778)
Property, plant and equipment, net	\$ 2,365	\$ 2,548

13. Leases*Lessee*

The Company leases facilities and equipment primarily under operating leases. The Company recognizes lease expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Remaining terms for facility leases generally range from one to fifteen years, while remaining terms for equipment leases generally range from one to five years. Most real property leases contain renewal options (typically for five-year increments). Generally, the renewal option periods are not included within the lease term as the Company is not reasonably certain to exercise that right at lease commencement. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

ROU assets and operating lease liabilities are recognized at the lease commencement date. ROU assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease liabilities are recognized based on the present value of the future lease payments over the lease term, discounted at the Company's incremental borrowing rate as the implicit rate in the lease is not readily determinable for most of the Company's leases. The Company estimates the discount rate as its incremental borrowing rate based on qualitative factors including Company specific credit rating, lease term, general economics and the interest rate environment. For existing leases that commenced prior to the adoption of the amended leasing guidance, the Company determined the discount rate on April 1, 2019 using the full lease term. Operating lease liabilities are recorded under the captions "Current portion of operating lease liabilities" and "Long-Term Operating Lease Liabilities," and the corresponding lease assets are recorded under the caption "Operating Lease Right-of-Use Assets" in the Company's consolidated balance sheet. Finance lease assets are included in property, plant and equipment, net and finance lease liabilities are included in the Current portion of long-term debt and Long-Term Debt in the Company's consolidated balance sheet.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Supplemental balance sheet information related to leases was as follows:

<i>(In millions, except lease term and discount rate)</i>	March 31, 2020
Operating leases	
Operating Lease Right-of-Use Assets	\$ 1,886
Current portion of operating lease liabilities	\$ 354
Long-Term Operating Lease Liabilities	1,660
Total operating lease liabilities	<u>\$ 2,014</u>
Finance Leases	
Property, Plant and Equipment, net	\$ 180
Current portion of long-term debt	\$ 15
Long-Term Debt	151
Total finance lease liabilities	<u>\$ 166</u>
Weighted Average Remaining Lease Term (Years)	
Operating leases	7.7
Finance leases	12.1
Weighted Average Discount Rate	
Operating leases	3.03%
Finance leases	2.86%

The components of lease cost were as follows:

<i>(In millions)</i>	Year Ended March 31, 2020
Short-term lease cost	\$ 29
Operating lease cost	459
Finance lease cost:	
Amortization of right-of-use assets	14
Interest on lease liabilities	5
Total finance lease cost	<u>19</u>
Variable lease cost ⁽¹⁾	125
Sublease income	(33)
Total lease cost ⁽²⁾	<u>\$ 599</u>

(1) These amounts include payments for maintenance, taxes, payments affected by the consumer price index and other similar metrics and payments contingent on usage.

(2) These amounts were primarily recorded in operating expenses in the consolidated statement of operations.

Rent expense under operating leases was \$576 million and \$568 million in 2019 and 2018.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Supplemental cash flow information related to leases was as follows:

<i>(In millions)</i>	Year Ended March 31, 2020	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	(377)
Operating cash flows from finance leases		(3)
Financing cash flows from finance leases		(18)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases ⁽¹⁾	\$	2,378
Finance leases		166

(1) These amounts include the transition adjustment for the adoption of the amended leasing guidance discussed in Financial Note 1, "Significant Accounting Policies."

Maturities of lease liabilities as of March 31, 2020 were as follows:

<i>(In millions)</i>	Operating Leases		Finance Leases		Total	
2021	\$	398	\$	19	\$	417
2022		371		19		390
2023		310		18		328
2024		252		17		269
2025		213		16		229
Thereafter		730		110		840
Total lease payments ⁽¹⁾		2,274		199		2,473
Less imputed interest		(260)		(33)		(293)
Present value of lease liabilities	\$	2,014	\$	166	\$	2,180

(1) Total lease payments have not been reduced by minimum sublease income of \$178 million due under future noncancelable subleases.

As of March 31, 2020, the Company entered into additional leases primarily for facilities that have not yet commenced with future lease payments of \$149 million that are not reflected in the table above. These operating leases will commence between 2021 and 2024 with noncancelable lease terms of 2 to 15 years.

As previously disclosed in the Company's 2019 Annual Report and under the previous lease accounting, the minimum lease payments required under operating leases were as follows as of March 31, 2019:

<i>(In millions)</i>	Noncancelable Operating Leases	
2020	\$	454
2021		397
2022		343
2023		290
2024		236
Thereafter		936
Total minimum lease payments ^{(1) (2)}	\$	2,656

(1) Amount includes future minimum lease payments for the sale-leaseback transaction of \$49 million.

(2) Total minimum lease payments have not been reduced by minimum sublease income of \$133 million due under future noncancelable subleases.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Lessor

The Company primarily leases certain owned equipment, that are classified as direct financing or sales-type leases, to physician practices. As of March 31, 2020, the total lease receivable was \$272 million with a weighted average remaining lease term of approximately seven years. Interest income from these leases was not material for the year ended March 31, 2020.

14. Goodwill and Intangible Assets, Net**Goodwill**

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical-Surgical Solutions	Other	Total
Balance, March 31, 2018	\$ 4,110	\$ 1,850	\$ 2,070	\$ 2,894	\$ 10,924
Goodwill acquired	17	52	360	13	442
Acquisition accounting, transfers and other adjustments	13	(5)	21	6	35
Impairment charges	—	(1,776)	—	(21)	(1,797)
Foreign currency translation adjustments, net	(62)	(121)	—	(63)	(246)
Balance, March 31, 2019	4,078	—	2,451	2,829	9,358
Goodwill acquired	—	62	—	14	76
Acquisition accounting, transfers and other adjustments	1	4	7	—	12
Other changes/disposals	(1)	—	(5)	—	(6)
Impairment charges	—	—	—	(2)	(2)
Foreign currency translation adjustments, net	(11)	(3)	—	(64)	(78)
Balance, March 31, 2020	\$ 4,067	\$ 63	\$ 2,453	\$ 2,777	\$ 9,360

Goodwill Impairment Charges

The Company evaluates goodwill for impairment on an annual basis each year and at an interim date, if indicators of potential impairment exist. On October 1, 2019, the Company voluntarily changed its annual goodwill impairment testing date from January 1 to October 1 to better align with the timing of the Company's annual long-term planning process. Accordingly, management determined that the change in accounting principle is preferable under the circumstance. This change has been applied prospectively from October 1, 2019 as retrospective application is deemed impracticable due to the inability to objectively determine the assumptions and significant estimates used in earlier periods without the benefit of hindsight. This change was not material to the Company's consolidated financial statements as it did not delay, accelerate, or avoid any potential goodwill impairment charge.

Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or one level below an operating segment (also known as a component), for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The fair value of the reporting unit was determined using a combination of an income approach based on a DCF model and a market approach based on appropriate valuation multiples observed for the reporting unit's guideline public companies. Fair value estimates result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions that have been deemed reasonable by management as of the measurement date. Any material changes in key assumptions, including failure to improve operations of certain retail pharmacy stores, additional government reimbursement reductions, deterioration in the financial markets, an increase in interest rates or an increase in the cost of equity financing by market participants within the industry, or other unanticipated events and circumstances, may affect such estimates. The discount rates are the weighted average cost of capital measuring the reporting unit's cost of debt and equity financing weighted by the percentage of debt and percentage of equity in a company's target capital. The unsystematic risk premium is an input factor used in calculating discount rate that specifically addresses uncertainty related to the reporting unit's future cash flow projections. Fair value assessments of the reporting unit are considered a Level 3 measurement due to the significance of unobservable inputs developed using company specific information.

Goodwill charges listed below were recorded under the caption, "Goodwill impairment charges" in operating expenses in the consolidated statements of operations. Most of the goodwill impairment for these reporting units were generally not deductible for income tax purposes.

Fiscal 2020

The impairment testing performed in 2020 did not indicate any material impairment of goodwill.

Fiscal 2019

(In millions, except rates)

Quarter Ended	Reporting Unit	Segment	Discount Rate	Terminal Growth Rate	Goodwill Impairment	(1)
June 2018	PD	European Pharmaceutical Solutions	8.0%	1.25%	\$ 238	(2)
June 2018	RP	European Pharmaceutical Solutions	8.5%	1.25%	251	(3)
June 2018	PD	European Pharmaceutical Solutions	8.0%	1.25%	81	(3)
March 2019	RP	European Pharmaceutical Solutions	10.0%	1.25%	465	(4)
March 2019	PD	European Pharmaceutical Solutions	9.0%	1.25%	741	(4)
Total					\$ 1,776	

(1) Represents pre-tax and after-tax amounts, except for an aggregate \$20 million of tax charges related to the March 2019 Retail Pharmacy impairment. Total goodwill impairment for 2019 also includes \$21 million related to the Company's Rexall Health business within Other recorded in the third quarter of 2019.

(2) Prior to implementing its new segment reporting structure in the first quarter of 2019, the Company's European operations were considered a single reporting unit. Following the change in reportable segments, its European Pharmaceutical Solutions segment was divided into two distinct reporting units, Retail Pharmacy ("RP"), formerly Consumer Solutions, and Pharmaceutical Distribution ("PD"), formerly Pharmacy Solutions, for the purposes of goodwill impairment testing. This change required performance of a goodwill impairment test for these two new reporting units which resulted in a goodwill impairment charge as PD's estimated fair value was lower than its reassigned carrying value.

(3) Both RP and PD projected a decline in the estimated future cash flows primarily triggered by additional U.K. government actions which were announced on June 29, 2018. An interim goodwill impairment test for these reporting units identified that their carrying values exceeded their estimated fair value and resulted in an impairment charge.

(4) As a result of the annual goodwill impairment test, the carrying values of the PD and RP reporting units exceeded their estimated fair value which required the Company to record impairment charges for the reporting units. These additional impairments were primarily due to declines in the reporting units' estimated future cash flows and the selection of higher discount rates. The declines in estimated future cash flows were primarily attributed to additional government reimbursement reductions and competitive pressures within the U.K. The risk of successfully achieving certain business initiatives was the primary factor in the use of a higher discount rate. As of March 31, 2019 the entire remaining goodwill balances of both reporting units were impaired.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)
Fiscal 2018
(In millions, except rates)

Quarter Ended	Reporting Unit	Segment ⁽³⁾	Discount Rate	Terminal Growth Rate	Goodwill Impairment ⁽¹⁾
September 2017	McKesson Europe ⁽²⁾	European Pharmaceutical Solutions	7.5%	1.25%	\$ 350 ⁽⁴⁾
March 2018	McKesson Europe	European Pharmaceutical Solutions	8.0%	1.25%	933 ⁽⁵⁾
March 2018	Rexall	Other	10.0%	2.00%	455 ⁽⁶⁾
Total					\$ 1,738

(1) Represents pre-tax and after-tax amounts.

(2) This reporting unit was divided into two reporting units in the first quarter of 2019 upon a change in segment reporting structure. See above for more information.

(3) The impairment charges recorded in 2018 were attributable to the former McKesson Distribution Solutions segment. The segment reporting structure which included McKesson Distribution Solutions was reorganized in the first quarter of 2019. The segments presented above for 2018 reflect the revised segment reporting structure.

(4) The reporting unit projected a decline in its estimated future cash flows primarily triggered by government reimbursement reductions in its retail business in the U.K. Accordingly, the Company performed an interim one-step goodwill impairment test prior to its annual impairment test. As a result, the Company determined that the carrying value of this reporting unit exceeded its estimated fair value and recorded a goodwill impairment charge.

(5) As a result of the Company's annual impairment test, it was determined that the carrying value of the reporting unit further exceeded its estimated fair value and recorded a goodwill impairment charge. This reporting unit had a further decline in its estimated future cash flows driven by weakening script growth outlook in the Company's U.K. business and by a more competitive environment in France.

(6) As a result of the Company's annual impairment test, it was determined that the carrying value of the reporting unit exceeded its estimated fair value and recorded a goodwill impairment charge. The impairment was the result of a decline in estimated future cash flows primarily driven by significant generics reimbursement reductions across Canada and minimum wage increases in multiple provinces which could only be partially mitigated through the business' cost saving efforts. As of March 31, 2018, the entire remaining goodwill balance related to the Company's acquisition of Rexall Health was impaired.

Refer to Financial Note 19, "Fair Value Measurements," for more information on these nonrecurring fair value measurements. As of March 31, 2020, accumulated goodwill impairment losses were \$3.1 billion in the Company's European Pharmaceutical Solutions segment and \$478 million in Other. As of March 31, 2019, accumulated goodwill impairment losses were \$3.1 billion in the Company's European Pharmaceutical Solutions segment and \$476 million in Other.

Intangible Assets

Information regarding intangible assets is as follows:

	March 31, 2020				March 31, 2019			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
<i>(Dollars in millions)</i>								
Customer relationships	11	\$ 3,650	\$ (1,950)	\$ 1,700	\$ 3,818	\$ (1,801)	\$ 2,017	
Service agreements	10	994	(480)	514	1,017	(430)	587	
Pharmacy licenses	26	492	(232)	260	513	(209)	304	
Trademarks and trade names	13	808	(242)	566	887	(232)	655	
Technology	3	175	(111)	64	141	(94)	47	
Other	5	273	(221)	52	288	(209)	79	
Total		\$ 6,392	\$ (3,236)	\$ 3,156	\$ 6,664	\$ (2,975)	\$ 3,689	

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Amortization expense of intangible assets was \$462 million, \$485 million and \$503 million for 2020, 2019 and 2018. Estimated annual amortization expense of intangible assets is as follows: \$451 million, \$351 million, \$251 million, \$236 million and \$233 million for 2021 through 2025, and \$1.6 billion thereafter. All intangible assets were subject to amortization as of March 31, 2020 and 2019.

Refer to Financial Note 4, “Restructuring, Impairment and Related Charges,” for more information on intangible asset impairment charges recorded in 2020, 2019 and 2018.

15. Debt and Financing Activities

Long-term debt consisted of the following:

<i>(In millions)</i>	March 31,	
	2020	2019
U.S. Dollar notes ^{(1) (2)}		
3.65% Notes due November 30, 2020	\$ 700	\$ 700
4.75% Notes due March 1, 2021	323	323
2.70% Notes due December 15, 2022	400	400
2.85% Notes due March 15, 2023	400	400
3.80% Notes due March 15, 2024	1,100	1,100
7.65% Debentures due March 1, 2027	167	167
3.95% Notes due February 16, 2028	600	600
4.75% Notes due May 30, 2029	400	400
6.00% Notes due March 1, 2041	282	282
4.88% Notes due March 15, 2044	411	411
Foreign currency notes ^{(1) (3)}		
Floating Rate Euro Notes due February 12, 2020 ⁽⁴⁾	—	280
0.63% Euro Notes due August 17, 2021	662	673
1.50% Euro Notes due November 17, 2025	659	670
1.63% Euro Notes due October 30, 2026	552	560
3.13% Sterling Notes due February 17, 2029	557	586
Lease and other obligations	174	43
Total debt	7,387	7,595
Less: Current portion	1,052	330
Total long-term debt	\$ 6,335	\$ 7,265

(1) These notes are unsecured and unsubordinated obligations of the Company.

(2) Interest on these notes is payable semi-annually.

(3) Interest on these foreign currency notes is payable annually, except the 2020 Floating Rate Euro Notes.

(4) Interest on these notes is payable quarterly.

Long-Term Debt

The Company’s long-term debt includes both U.S. dollar and foreign currency-denominated borrowings. At March 31, 2020 and March 31, 2019, \$7.4 billion and \$7.6 billion of total debt was outstanding, of which \$1.1 billion and \$330 million was included under the caption “Current portion of long-term debt” in the Company’s consolidated balance sheets.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Debt Offerings*

On November 30, 2018, the Company completed a public offering of 3.65% Notes due November 30, 2020 (the “2020 Notes”) in a principal amount of \$700 million and 4.75% Notes due May 30, 2029 (the “2029 Notes”) in a principal amount of \$400 million. Interest on the 2020 Notes and 2029 Notes is payable semi-annually on May 30th and November 30th of each year, commencing on May 30, 2019. The Company utilized the net proceeds from these notes of \$1.1 billion, net of discounts and offering expenses, for general corporate purposes.

Tender Offers and Early Repayments

In 2018, the Company paid \$1.4 billion to redeem the \$1.2 billion principal amount of its outstanding (i) 7.50% Notes due 2019, (ii) 4.75% Notes due 2021, (iii) 7.65% Debentures due 2027, (iv) 6.00% Notes due 2041 and (v) 4.88% Notes due 2044 (collectively referred to herein as the “Tender Offer Notes”), premiums of \$112 million and \$22 million of interest. The Company recorded a pre-tax loss on debt extinguishment of \$122 million (\$78 million after-tax) in connection with the redemption of the Tender Offer Notes.

Repayments at Maturity

In 2020, the Company repaid at maturity its €250 million Floating Rate Euro Notes due February 12, 2020. In 2019, the Company repaid at maturity its \$1.1 billion 2.28% notes due March 15, 2019. In 2018, the Company repaid at maturity its €500 million 4.50% Euro-denominated bonds due April 26, 2017 and its \$500 million 1.40% notes due March 15, 2018.

Each note, which constitutes a “Series”, is an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company’s existing and, from time-to-time, future unsecured and unsubordinated indebtedness outstanding. Each Series is governed by materially similar indentures and officers’ certificates. Upon required notice to holders of notes with fixed interest rates, the Company may redeem those notes at any time prior to maturity, in whole or in part, for cash at redemption prices. In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a Series below an investment grade rating by each of Fitch Inc., Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services within a specified period, an offer must be made to purchase that Series from the holders at a price equal to 101% of the then outstanding principal amount of that Series, plus accrued and unpaid interest to, but not including, the date of repurchase. The indenture and the related officers’ certificate for each Series, subject to the exceptions and in compliance with the conditions as applicable, specify that the Company may not consolidate, merge or sell all or substantially all of its assets, incur liens, or enter into sale-leaseback transactions exceeding specific terms, without the lenders’ consent. The indentures also contain customary events of default provisions.

Other Information

Scheduled principal payments of long-term debt are \$1.1 billion in 2021, \$704 million in 2022, \$813 million in 2023, \$1.1 billion in 2024, \$16 million in 2025 and \$3.7 billion thereafter.

Revolving Credit Facilities

In the second quarter of 2020, the Company entered into a syndicated \$4 billion five-year senior unsecured credit facility (the “2020 Credit Facility”), which has a \$3.6 billion aggregate sublimit of availability in Canadian dollars, British pound sterling and Euro. The 2020 Credit Facility matures in September 2024 and had no borrowings during 2020 and no amounts outstanding as of March 31, 2020. The remaining terms and conditions of the 2020 Credit Facility are substantially similar to those previously in place under the \$3.5 billion five-year senior unsecured revolving credit facility (the “Global Facility”), which was scheduled to mature in October 2020. The Global Facility was terminated in connection with the execution of the 2020 Credit Facility in September 2019 and had no borrowings during the six months ended September 30, 2019 and the year ended March 31, 2018, and had no amounts outstanding as of March 31, 2019.

Borrowings under the 2020 Credit Facility bear interest based upon the London Interbank Offered Rate (“LIBOR”), Canadian Dealer Offered Rate for credit extensions denominated in Canadian dollars, a prime rate, or alternative overnight rates as applicable, plus agreed margins. The 2020 Credit Facility contains a financial covenant which obligates the Company to maintain a debt to capital ratio of no greater than 65% and other customary investment grade covenants. If the Company does not comply with these covenants, its ability to use the 2020 Credit Facility may be suspended and repayment of any outstanding balances under the 2020 Credit Facility may be required. At March 31, 2020, the Company was in compliance with all covenants.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The Company also maintains bilateral credit facilities primarily denominated in Euros with a committed amount of \$12 million and an uncommitted amount of \$166 million as of March 31, 2020. Borrowings and repayments were not material in 2020 and 2019 and amounts outstanding under these credit lines were not material as of March 31, 2020 and 2019.

Commercial Paper

The Company maintains a commercial paper program to support its working capital requirements and for other general corporate purposes. Under the program, the Company can issue up to \$4.0 billion in outstanding commercial paper notes. During 2020 and 2019, it borrowed \$21.4 billion and \$37.3 billion and repaid \$21.4 billion and \$37.3 billion under the program. At March 31, 2020 and 2019, there were no commercial paper notes outstanding.

16. Variable Interest Entities

The Company evaluates its ownership, contractual and other interests in entities to determine if they are VIEs, if it has a variable interest in those entities and the nature and extent of those interests. These evaluations are highly complex and involve management judgment and the use of estimates and assumptions based on available historical information, among other factors. Based on its evaluations, if the Company determines it is the primary beneficiary of such VIEs, it consolidates such entities into its financial statements.

Consolidated Variable Interest Entities

The Company consolidates a VIE when it has the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE and, as a result, is considered the primary beneficiary of the VIE. It consolidates certain single-lessee leasing entities where it, as the lessee, has the majority risk of the leased assets due to its minimum lease payment obligations to these leasing entities. As a result of absorbing this risk, the leases provide the Company with the power to direct the operations of the leased properties and the obligation to absorb losses or the right to receive benefits of the entity. Consolidated VIEs do not have a material impact on the Company's consolidated statements of operations and cash flows. Total assets and liabilities included in its consolidated balance sheets for these VIEs were \$695 million and \$82 million at March 31, 2020 and \$896 million and \$64 million at March 31, 2019.

Investments in Unconsolidated Variable Interest Entities

The Company is involved with VIEs which it does not consolidate because it does not have the power to direct the activities that most significantly impact their economic performance and thus is not considered the primary beneficiary of the entities. Its relationships include equity method investments and lending, leasing, contractual or other relationships with the VIEs. The Company's most significant relationships are with oncology and other specialty practices. Under these practice arrangements, it generally owns or leases all of the real estate and equipment used by the affiliated practices and manages the practices' administrative functions. It also has relationships with certain pharmacies in Europe with whom it may provide financing, have equity ownership and/or a supply agreement whereby it supplies the vast majority of the pharmacies' purchases. The Company's maximum exposure to loss (regardless of probability) as a result of all unconsolidated VIEs was \$1.4 billion at March 31, 2020 and \$1.1 billion at March 31, 2019, which primarily represents the value of intangible assets related to service agreements, equity investments and lease and loan receivables. This amount excludes the customer loan guarantees discussed in Financial Note 20, "Financial Guarantees and Warranties." The Company believes there is no material loss exposure on these assets or from these relationships.

17. Pension Benefits

The Company maintains a number of qualified and nonqualified defined benefit pension plans and defined contribution plans for eligible employees.

Defined Benefit Pension Plans

Eligible U.S. employees who were employed by the Company as of December 31, 1995 are covered under the Company-sponsored defined benefit retirement plan. In 1997, the plan was amended to freeze all plan benefits as of December 31, 1996. Benefits for the defined benefit retirement plan are based primarily on age of employees at date of retirement, years of creditable service and the average of the highest 60 months of pay during the 15 years prior to the plan freeze date. The Company also has defined benefit pension plans for eligible employees outside of the U.S., as well as an unfunded nonqualified supplemental defined benefit plan for certain U.S. executives.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

On May 23, 2018, the Company's Board of Directors approved the termination of its frozen U.S. defined benefit pension plan ("Plan"). During the first quarter of 2020, the Company offered the option of receiving a lump sum payment to certain participants with vested qualified Plan benefits in lieu of receiving monthly annuity payments. Approximately 1,300 participants elected to receive the settlement, and lump sum payments of approximately \$49 million were made from plan assets to these participants in June 2019. The benefit obligation settled approximated payments to plan participants and a pre-tax settlement charge of \$17 million (\$12 million after-tax) was recorded during the first quarter of 2020. During the second quarter of 2020, the Company transferred the remainder of the Plan's pension obligation to a third-party insurance provider by purchasing annuity contracts for approximately \$280 million which was fully funded directly by plan assets. The third-party insurance provider assumed the obligation to pay future pension benefits and provide administrative services on November 1, 2019. As a result, the remaining previously recorded unrecognized losses in accumulated other comprehensive loss for this Plan were recognized as expense and a pre-tax settlement charge of approximately \$105 million (\$78 million after-tax) was recorded in other income (expense), net, in the Company's consolidated statements of operations during the second quarter of 2020. As of March 31, 2020 and 2019, this defined benefit pension plan had an accumulated comprehensive loss of approximately nil and \$121 million.

During the third quarter of 2020, a cash payment of \$114 million was made to settle a participant's liability from the executive benefit retirement plan. As a result, a majority of the remaining recorded unrecognized losses in accumulated other comprehensive loss for this Plan were recognized as expense and a pre-tax settlement charge of approximately \$11 million (\$8 million after-tax) was recorded in other income (expense), net, in the Company's consolidated statements of operations. As of March 31, 2020 and 2019, this plan had an accumulated comprehensive loss of approximately \$1 million and \$12 million.

The Company's non-U.S. defined benefit pension plans cover eligible employees located predominantly in Norway, the United Kingdom, Germany, and Canada. Benefits for these plans are based primarily on each employee's final salary, with annual adjustments for inflation. The obligations in Norway are largely related to the state-regulated pension plan which is managed by the Norwegian Public Service Pension Fund ("SPK"). According to the terms of the SPK, the plan assets of state regulated plans in Norway must correspond very closely to the pension obligation calculated using the principles codified in Norwegian law. In the U.K., the Company has subsidiaries that participate in a joint pension plan. The pension obligation in Germany is unfunded with the exception of the contractual trust arrangement used to fund pensions of McKesson Europe's Management Board.

Defined benefit plan assets and obligations are measured as of the Company's fiscal year-end. The net periodic expense for the Company's pension plans is as follows:

<i>(In millions)</i>	U.S. Plans			Non-U.S. Plans		
	Years Ended March 31,			Years Ended March 31,		
	2020	2019	2018	2020	2019	2018
Service cost - benefits earned during the year	\$ —	\$ —	\$ 3	\$ 16	\$ 15	\$ 15
Interest cost on projected benefit obligation	6	14	14	19	21	22
Expected return on assets	(4)	(16)	(19)	(22)	(23)	(26)
Amortization of unrecognized actuarial loss and prior service costs	2	5	6	6	4	5
Curtailement/settlement loss	127	4	2	—	1	1
Net periodic pension expense	\$ 131	\$ 7	\$ 6	\$ 19	\$ 18	\$ 17

The projected unit credit method is utilized in measuring net periodic pension expense over the employees' service life for the pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation or the market value of assets are amortized straight-line over the average remaining future service period of active employees.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Information regarding the changes in benefit obligations and plan assets for the Company's pension plans is as follows:

<i>(In millions)</i>	U.S. Plans		Non-U.S. Plans	
	Years Ended March 31,		Years Ended March 31,	
	2020	2019	2020	2019
Change in benefit obligations				
Benefit obligation at beginning of period ⁽¹⁾	\$ 439	\$ 485	\$ 990	\$ 1,035
Service cost	—	—	16	15
Interest cost	6	14	19	21
Actuarial loss (gain)	20	4	(36)	35
Benefits paid	(179)	(64)	(43)	(36)
Annuity Premium Transfer	(276)	—	—	—
Expenses paid	—	—	—	(1)
Acquisitions	—	—	2	1
Foreign exchange impact and other	—	—	(52)	(80)
Benefit obligation at end of period ⁽¹⁾	<u>\$ 10</u>	<u>\$ 439</u>	<u>\$ 896</u>	<u>\$ 990</u>
Change in plan assets				
Fair value of plan assets at beginning of period	\$ 322	\$ 335	\$ 642	\$ 687
Actual return on plan assets	27	12	3	18
Employer and participant contributions	116	39	28	23
Benefits paid	(179)	(64)	(43)	(36)
Annuity Premium Transfer	(276)	—	—	—
Expenses paid	—	—	(1)	(1)
Foreign exchange impact and other	(10)	—	(35)	(49)
Fair value of plan assets at end of period	<u>\$ —</u>	<u>\$ 322</u>	<u>\$ 594</u>	<u>\$ 642</u>
Funded status at end of period	<u>\$ (10)</u>	<u>\$ (117)</u>	<u>\$ (302)</u>	<u>\$ (348)</u>
Amounts recognized on the balance sheet				
Assets	\$ —	\$ 7	\$ 49	\$ 20
Current liabilities ⁽²⁾	(1)	(115)	(162)	(13)
Long-term liabilities	(9)	(9)	(189)	(355)
Total	<u>\$ (10)</u>	<u>\$ (117)</u>	<u>\$ (302)</u>	<u>\$ (348)</u>

(1) The benefit obligation is the projected benefit obligation.

(2) Current liabilities includes \$151 million reclassified from long-term liabilities to assets held for sale in 2020 in conjunction with the Company's German wholesale business to be contributed to a joint venture as discussed in Financial Note 3, "Held for Sale".

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The following table provides the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for all the Company's pension plans, including accumulated benefit obligation in excess of plan assets:

<i>(In millions)</i>	U.S. Plans		Non-U.S. Plans	
	March 31,		March 31,	
	2020	2019	2020	2019
Projected benefit obligation	\$ 10	\$ 439	\$ 896	\$ 990
Accumulated benefit obligation	10	439	856	949
Fair value of plan assets	—	322	594	642

Amounts recognized in accumulated other comprehensive income (pre-tax) consist of:

<i>(In millions)</i>	U.S. Plans		Non-U.S. Plans	
	March 31,		March 31,	
	2020	2019	2020	2019
Net actuarial loss	\$ 1	\$ 133	\$ 149	\$ 186
Prior service credit	—	—	(3)	(4)
Total	\$ 1	\$ 133	\$ 146	\$ 182

Other changes in accumulated other comprehensive income (pre-tax) were as follows:

<i>(In millions)</i>	U.S. Plans			Non-U.S. Plans		
	Years Ended March 31,			Years Ended March 31,		
	2020	2019	2018	2020	2019	2018
Net actuarial loss (gain)	\$ (3)	\$ 8	\$ (15)	\$ (24)	\$ 42	\$ (11)
Prior service credit	—	—	—	—	—	(2)
Amortization of:						
Net actuarial loss	(129)	(9)	(8)	(6)	(5)	(6)
Prior service credit (cost)	—	—	—	—	—	—
Foreign exchange impact and other	—	—	—	(6)	(12)	19
Total recognized in other comprehensive loss (income)	\$ (132)	\$ (1)	\$ (23)	\$ (36)	\$ 25	\$ —

The Company expects to amortize \$5 million of actuarial loss for the pension plans from stockholders' equity to pension expense in 2021. The comparable 2020 amount was \$8 million of actuarial loss. In addition, the Company recognized \$127 million in actuarial losses for the pension plans to stockholders' equity in 2020 as a result of \$116 million from the termination of the U.S. defined benefit pension plan and \$11 million from the settlement from the executive benefit retirement plan for a recently retired executive.

Projected benefit obligations related to the Company's unfunded U.S. plans were \$10 million and \$124 million at March 31, 2020 and 2019. Pension obligations for its unfunded plans are based on the recommendations of independent actuaries. Projected benefit obligations relating to the Company's unfunded non-U.S. plans were \$298 million and \$293 million at March 31, 2020 and 2019. Funding obligations for its non-U.S. plans vary based on the laws of each non-U.S. jurisdiction.

Expected benefit payments for the Company's pension plans are as follows: \$36 million, \$35 million, \$36 million, \$36 million and \$38 million for 2021 to 2025 and \$208 million for 2026 through 2030. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for the Company's pension plans are \$33 million for 2021.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Weighted-average assumptions used to estimate the net periodic pension expense and the actuarial present value of benefit obligations were as follows:

	U.S. Plans			Non-U.S. Plans		
	Years Ended March 31,			Years Ended March 31,		
	2020	2019	2018	2020	2019	2018
Net periodic pension expense						
Discount rates	3.66%	3.83%	3.55%	2.03%	2.35%	2.34%
Rate of increase in compensation	N/A ⁽¹⁾	N/A ⁽¹⁾	4.00	2.93	3.13	2.72
Expected long-term rate of return on plan assets	4.00	5.25	6.25	3.01	3.71	4.03
Benefit obligation						
Discount rates	3.08%	3.65%	3.69%	2.03%	2.13%	2.35%
Rate of increase in compensation	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	2.93	3.18	2.59

(1) This assumption is no longer needed in actuarial valuations as U.S. plans are frozen or have fixed benefits for the remaining active participants.

The Company's defined benefit pension plan liabilities are valued using a discount rate based on a yield curve developed from a portfolio of high quality corporate bonds rated AA or better whose maturities are aligned with the expected benefit payments of its plans. For March 31, 2020, the Company's U.S. defined benefit liabilities are valued using a weighted average discount rate of 3.08%, which represents a decrease of 57 basis points from its 2019 weighted-average discount rate of 3.65%. The Company's non-U.S. defined benefit pension plan liabilities are valued using a weighted-average discount rate of 2.03%, which represents a decrease of 10 basis points from its 2019 weighted average discount rate of 2.13%.

Plan Assets

Investment Strategy: The overall objective for U. S. pension plan assets was to generate long-term investment returns consistent with capital preservation and prudent investment practices, with a diversification of asset types and investment strategies. Periodic adjustments were made to provide liquidity for benefit payments and to rebalance plan assets to their target allocations.

In September 2018, a new investment allocation strategy was put in place to protect the funded status of the U.S. plan assets subsequent to Board approval of U.S. pension plan termination. As of March 31, 2020, no assets remained related to the U.S. pension plan. The target allocation for U.S. plan assets at March 31, 2019 was 100% fixed income investments including cash and cash equivalents. Fixed income investments include corporate bonds, government securities, mortgage-backed securities, asset-backed securities, other directly held fixed income investments, and fixed income commingled funds. The real estate investments were in a commingled real estate fund.

For non-U.S. plan assets, the investment strategies are subject to local regulations and the asset/liability profiles of the plans in each individual country. Plan assets of the non-U.S. plans are broadly invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the plans. Plan assets are primarily invested in high-quality corporate and government bond funds and equity securities. Assets are properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

The Company develops the expected long-term rate of return assumption based on the projected performance of the asset classes in which plan assets are invested. The target asset allocation was determined based on the liability and risk tolerance characteristics of the plans and at times may be adjusted to achieve overall investment objectives.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Fair Value Measurements: The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on unadjusted quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs. The following tables represent the Company's pension plan assets as of March 31, 2020 and 2019, using the fair value hierarchy by asset class:

<i>(In millions)</i>	U.S. Plans				Non-U.S. Plans			
	March 31, 2020				March 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 13	\$ —	\$ —	\$ 13
Equity securities:								
Common and preferred stock	—	—	—	—	—	—	—	—
Equity commingled funds	—	—	—	—	53	75	—	128
Fixed income securities:								
Government securities	—	—	—	—	6	139	—	145
Corporate bonds	—	—	—	—	14	17	—	31
Mortgage-backed securities	—	—	—	—	—	—	—	—
Asset-backed securities and other	—	—	—	—	—	—	—	—
Fixed income commingled funds	—	—	—	—	107	101	—	208
Other:								
Real estate funds	—	—	—	—	3	2	3	8
Other	—	—	—	—	19	—	—	19
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 215</u>	<u>\$ 334</u>	<u>\$ 3</u>	<u>\$ 552</u>
Assets held at NAV practical expedient ⁽¹⁾								
Equity commingled funds				—				8
Fixed income commingled funds				—				—
Real estate funds				—				—
Other				—				34
Total plan assets				<u>\$ —</u>				<u>\$ 594</u>

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

<i>(In millions)</i>	U.S. Plans				Non-U.S. Plans			
	March 31, 2019				March 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 11	\$ —	\$ —	\$ 11	\$ 6	\$ —	\$ —	\$ 6
Equity securities:								
Common and preferred stock	—	—	—	—	—	—	—	—
Equity commingled funds	—	—	—	—	62	82	—	144
Fixed income securities:								
Government securities	—	33	—	33	4	135	—	139
Corporate bonds	—	273	—	273	8	18	—	26
Mortgage-backed securities	—	—	—	—	—	—	—	—
Asset-backed securities and other	—	5	—	5	—	—	—	—
Fixed income commingled funds	—	—	—	—	125	110	6	241
Other:								
Real estate funds	—	—	—	—	2	3	—	5
Other	—	—	—	—	21	—	3	24
Total	<u>\$ 11</u>	<u>\$ 311</u>	<u>\$ —</u>	<u>\$ 322</u>	<u>\$ 228</u>	<u>\$ 348</u>	<u>\$ 9</u>	<u>\$ 585</u>
Assets held at NAV practical expedient ⁽¹⁾								
Equity commingled funds				—				8
Fixed income commingled funds				—				—
Real estate funds				—				—
Other				—				49
Total plan assets				<u>\$ 322</u>				<u>\$ 642</u>

(1) Equity commingled funds, fixed income commingled funds, real estate funds and other investments for which fair value is measured using the NAV per share as a practical expedient are not leveled within the fair value hierarchy and are included as a reconciling item to total investments.

Cash and cash equivalents - Cash and cash equivalents include short-term investment funds that maintain daily liquidity and aim to have constant unit values of \$1.00. The funds invest in short-term fixed income securities and other securities with debt-like characteristics emphasizing short-term maturities and high credit quality. Directly held cash and cash equivalents are classified as Level 1 investments. Cash and cash equivalents include money market funds and other commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 1 investments.

Common and preferred stock - This investment class consists of common and preferred shares issued by U.S. and non-U.S. corporations. Common shares are traded actively on exchanges and price quotes are readily available. Preferred shares may not be actively traded. Holdings of common shares are generally classified as Level 1 investments.

Equity commingled funds - Some equity investments are held in commingled funds, which have daily net asset values derived from quoted prices for the underlying securities in active markets; these are classified as Level 1 or Level 2 investments.

Fixed income securities - Government securities consist of bonds and debentures issued by central governments or federal agencies; corporate bonds consist of bonds and debentures issued by corporations; mortgage-backed securities consist of debt obligations secured by a mortgage or pool of mortgages; and asset-backed securities primarily consist of debt obligations secured by an asset or pool of assets other than mortgages. Inputs to the valuation methodology include quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the asset. Multiple prices and price types are obtained from pricing vendors whenever possible, enabling cross-provider price validations. Fixed income securities are generally classified as Level 1 or Level 2 investments.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Fixed income commingled funds - Some fixed income investments are held in exchange traded or commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 1, 2 or 3 investments.

Real estate funds - The value of the real estate funds is reported by the fund manager and is based on a valuation of the underlying properties. Inputs used in the valuation include items such as cost, discounted future cash flows, independent appraisals and market based comparable data. The real estate funds are classified as Level 1, 2, or 3 investments.

Other - At March 31, 2020 and 2019, this includes \$29 million and \$35 million of plan asset value relating to the SPK. In principle, the SPK is organized as a pay-as-you-go system guaranteed by the Norwegian government as it holds no Company-owned assets to back the pension liabilities. The Company pays a pension premium used to fund the plan, which is paid directly to the Norwegian government who establishes an account for each participating employer to keep track of the financial status of the plan, including managing the contributions and the payments. Further, the investment return credited to this account is determined annually by the SPK based on the performance of long-term government bonds.

The activity attributable to Level 3 plan assets was insignificant in the years ended March 31, 2020 and 2019.

Multiemployer Plans

The Company contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover union-represented employees in the U.S. In 2017, it also contributed to the Pensjonsordningen for Apoteketaten ("POA"), a mandatory multiemployer pension scheme for its pharmacy employees in Norway, managed by the association of Norwegian Pharmacies.

The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Actions taken by other participating employers may lead to adverse changes in the financial condition of a multiemployer benefit plan and the Company's withdrawal liability and contributions may increase.

Contributions and amounts accrued for U.S. Plans were not material for the years ended March 31, 2020, 2019, and 2018. Contributions to the POA for non-U.S. Plans exceeding 5% of total plan contributions were \$17 million, \$27 million and \$16 million in 2020, 2019 and 2018. Based on actuarial calculations, the Company estimates the funded status for its non-U.S. Plans to be approximately 76% as of March 31, 2020. No amounts were accrued for liability associated with the POA as the Company has no intention to withdraw from the plan.

Defined Contribution Plans

The Company has a contributory retirement savings plan ("RSP") for U.S. eligible employees. Eligible employees may contribute to the RSP up to 75% of their eligible compensation on a pre-tax or post-tax basis not to exceed IRS limits. The Company makes matching contributions in an amount equal to 100% of the employee's first 3% of pay contributed and 50% for the next 2% of pay contributed. The Company also may make an additional annual matching contribution for each plan year to enable participants to receive a full match based on their annual contribution. The Company also contributed to non-U.S. plans that are available in certain countries. Contribution expenses for the RSP and non-U.S. plans were \$102 million, \$92 million and \$82 million for the years ended March 31, 2020, 2019, and 2018.

Postretirement Benefits

The Company maintains a number of postretirement benefits, primarily consisting of healthcare and life insurance ("welfare") benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retired after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. It also provides postretirement benefits for certain U.S. executives. Defined benefit plan obligations are measured as of the Company's fiscal year-end. The net periodic (credit) expense for the Company's postretirement welfare benefits was not material for the years ended March 31, 2020, 2019, and 2018. The benefit obligation at March 31, 2020 and 2019 was \$65 million and \$73 million.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

18. Hedging Activities

In the normal course of business, the Company is exposed to interest rate and foreign currency exchange rate fluctuations. At times, the Company limits these risks through the use of derivatives such as cross-currency swaps, foreign currency forward contracts and interest rate swaps. In accordance with the Company's policy, derivatives are only used for hedging purposes. It does not use derivatives for trading or speculative purposes.

Foreign currency exchange risk

The Company conducts its business worldwide in U.S. dollars and the functional currencies of its foreign subsidiaries, including Euro, British pound sterling and Canadian dollars. Changes in foreign currency exchange rates could have a material adverse impact on the Company's financial results that are reported in U.S. dollars. The Company is also exposed to foreign currency exchange rate risk related to its foreign subsidiaries, including intercompany loans denominated in non-functional currencies. The Company has certain foreign currency exchange rate risk programs that use foreign currency forward contracts and cross-currency swaps. These forward contracts and cross-currency swaps are generally used to offset the potential income statement effects from intercompany loans and other obligations denominated in non-functional currencies. These programs reduce but do not entirely eliminate foreign currency exchange rate risk.

Non-Derivative Instruments Designated as Hedges

At March 31, 2020 and 2019, the Company had €1.7 billion and €1.95 billion of Euro-denominated notes designated as non-derivative net investment hedges. These hedges are utilized to hedge portions of the Company's net investments in non-U.S. subsidiaries against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. For all notes that are designated as net investment hedges and meet effectiveness requirements, the changes in carrying value of the notes attributable to the change in spot rates are recorded in foreign currency translation adjustments in accumulated other comprehensive loss in the consolidated statement of stockholders' equity where they offset foreign currency translation gains and losses recorded on the Company's net investments. To the extent foreign currency denominated notes designated as net investment hedges are ineffective, changes in carrying value attributable to the change in spot rates are recorded in earnings. In December 2019, the Company prospectively de-designated from net investment hedges €250 million of its Euro-denominated notes which matured in February 2020.

At March 31, 2019, the Company also had £450 million British pound sterling-denominated notes designated as non-derivative net investment hedges. On September 30, 2019, the Company de-designated its £450 million British pound sterling-denominated notes prospectively from net investment hedges as the hedging relationship ceased to be effective.

Gains or losses from net investment hedges recorded in other comprehensive income were gains of \$39 million and \$259 million in 2020 and 2019 and a loss of \$268 million in 2018. Ineffectiveness on the Company's non-derivative net investment hedges during 2020 resulted in gains of \$34 million which were recorded in earnings in other income (expense), net in the consolidated statements of operations. There was no ineffectiveness in the Company's net investment hedges for the years ended March 31, 2019 and 2018.

Derivatives Designated as Hedges

At March 31, 2020 and 2019, the Company had cross-currency swaps designated as net investment hedges with a total gross notional amount of \$1.5 billion Canadian dollars. Under the terms of the cross-currency swap contracts, the Company agrees with third parties to exchange fixed interest payments in one currency for fixed interest payments in another currency at specified intervals and to exchange principal in one currency for principal in another currency, calculated by reference to agreed-upon notional amounts. These swaps are utilized to hedge portions of the Company's net investments denominated in Canadian dollars against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. The changes in the fair value of these derivatives attributable to the changes in spot currency exchange rates and differences between spot and forward interest rates are recorded in accumulated other comprehensive loss in the consolidated statement of stockholders' equity where they offset foreign currency translation gains and losses recorded on the Company's net investments denominated in Canadian dollars. To the extent cross-currency swaps designated as hedges are ineffective, changes in carrying value attributable to the change in spot rates are recorded in earnings. There was no ineffectiveness in the Company's net investment hedges for the years ended March 31, 2020 and 2019.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

At March 31, 2019, the Company also had cross-currency swaps designated as net investment hedges with a total gross notional amount of £932 million British pound sterling. In 2020, the Company terminated these swaps due to ineffectiveness in its British pound sterling hedging program that arose due to 2019 impairments of goodwill and certain long-lived assets in its U.K. businesses. Proceeds from the termination of these swaps totaled \$84 million and resulted in a settlement gain of \$34 million in 2020. This gain was recorded in earnings in other income (expense), net.

Gains or losses from the Company's cross-currency swaps designated as net investment hedges recorded in other comprehensive income were gains of \$76 million and \$53 million in 2020 and 2019 and losses of \$7 million in 2018. There was no ineffectiveness in the Company's hedges for the years ended March 31, 2020 and 2019. These cross-currency swaps will mature between November 2020 and November 2024.

On September 30, 2019, the Company entered into a number of cross-currency swaps designated as fair value hedges with total notional amounts of £450 million British pound sterling. Under the terms of the cross-currency swap contracts, the Company agreed with third parties to exchange fixed interest payments in British pound sterling for floating interest payments in U.S. dollars based on three-month LIBOR plus a spread. These swaps are utilized to hedge the changes in the fair value of the underlying £450 million British pound sterling notes resulting from changes in benchmark interest rates and foreign exchange rates. The changes in the fair value of these derivatives, which are designated as fair value hedges, and the offsetting changes in the fair value of the hedged notes are recorded in earnings. Gains from these fair value hedges recorded in earnings were \$6 million in 2020, largely offsetting the losses recorded in earnings related to the hedged notes. The swaps will mature in February 2023.

At March 31, 2019, the Company had a forward contract to hedge the U.S. dollar against cash flows denominated in Canadian dollars with a total gross notional amount of \$81 million, which was designated as a cash flow hedge. The contract matured in March 2020.

From time to time, the Company also enters into cross-currency swaps to hedge intercompany loans denominated in non-functional currencies. For our cross-currency swap transactions, we agree with third parties to exchange fixed interest payments in one currency for fixed interest payments in another currency at specified intervals and to exchange principal in one currency for principal in another currency, calculated by reference to agreed-upon notional amounts. These cross-currency swaps are designed to reduce the income statement effects arising from fluctuations in foreign exchange rates and have been designated as cash flow hedges. At March 31, 2020 and 2019, the Company had cross-currency swaps with total gross notional amounts of approximately \$2.9 billion, which are designated as cash flow hedges. These swaps will mature between April 2020 and January 2024.

For forward contracts and cross-currency swaps that are designated as cash flow hedges, the effective portion of changes in the fair value of the hedges is recorded in accumulated other comprehensive income and reclassified into earnings in the same period in which the hedged transaction affects earnings. Changes in fair values representing hedge ineffectiveness are recognized in current earnings. Gains or losses from cash flow hedges recorded in other comprehensive income were gains of \$98 million and \$28 million in 2020 and 2019 and losses of \$30 million in 2018. Gains or losses reclassified from accumulated other comprehensive income and recorded in operating expenses in the consolidated statements of operations were not material in 2020, 2019 and 2018. There was no ineffectiveness in the Company's cash flow hedges for the years ended March 31, 2020, 2019 and 2018.

Derivatives Not Designated as Hedges

Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change in value included in earnings.

The Company has a number of forward contracts to hedge the Euro against cash flows denominated in British pound sterling and other European currencies. At March 31, 2020 and 2019, the total gross notional amounts of these contracts were \$29 million and \$28 million. These contracts will mature through December 2020 and none of these contracts were designated for hedge accounting. Changes in the fair values for contracts not designated as hedges are recorded directly into earnings in operating expenses. Changes in the fair values were not material in 2020, 2019 and 2018. Gains or losses from these contracts are largely offset by changes in the value of the underlying intercompany obligations.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

In 2020, the Company also entered into a number of forward contracts and swaps to offset a portion of the earnings impacts from the ineffectiveness of net investment hedges discussed above. These contracts matured through January 2020 and none of these contracts were designated for hedge accounting. In December 2019, the Company entered into a series of forward contracts with a total notional amount of €250 million to offset the earnings impact from its Euro-denominated notes. These contracts and the notes against which they are offsetting matured in February 2020 and were not designated for hedge accounting. Changes in the fair value for contracts not designated as hedges are recorded directly in earnings. In 2020, losses of \$44 million were recorded in earnings in other income (expense), net, which offsets the ineffectiveness on the Company's non-derivative net investment hedges noted above.

Information regarding the fair value of derivatives on a gross basis is as follows:

<i>(In millions)</i>	Balance Sheet Caption	March 31, 2020			March 31, 2019		
		Fair Value of Derivative		U.S. Dollar Notional	Fair Value of Derivative		U.S. Dollar Notional
		Asset	Liability		Asset	Liability	
Derivatives designated for hedge accounting							
Foreign exchange contracts (current)	Prepaid expenses and other	\$ —	\$ —	\$ —	\$ 17	\$ —	\$ 81
Cross-currency swaps (current)	Prepaid expenses and other/Other accrued liabilities	112	19	1,279	—	18	—
Cross-currency swaps (non-current)	Other Noncurrent Assets/Liabilities	182	—	3,313	91	33	5,283
Total		\$ 294	\$ 19		\$ 108	\$ 51	
Derivatives not designated for hedge accounting							
Foreign exchange contracts (current)	Prepaid expenses and other	\$ 2	\$ —	\$ 24	\$ —	\$ —	\$ 14
Foreign exchange contracts (current)	Other accrued liabilities	—	—	5	—	—	14
Total		\$ 2	\$ —		\$ —	\$ —	

Refer to Financial Note 19, "Fair Value Measurements," for more information on these recurring fair value measurements.

19. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a three-level hierarchy that prioritizes the inputs used in determining fair value by their reliability and preferred use, as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2 - Valuations based on quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on inputs that are both significant to the fair value measurement and unobservable.

At March 31, 2020 and 2019, the carrying amounts of cash, certain cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable, short-term borrowings and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The fair value of the Company's commercial paper was determined using quoted prices in active markets for identical liabilities, which are considered Level 1 inputs.

The Company's long-term debt is carried at amortized cost. The carrying amounts and estimated fair values of these liabilities were \$7.4 billion and \$7.8 billion at March 31, 2020 and \$7.6 billion and \$7.9 billion at March 31, 2019. The estimated fair value of its long-term debt was determined using quoted market prices in a less active market and other observable inputs from available market information, which are considered to be Level 2 inputs, and may not be representative of actual values that could have been realized or that will be realized in the future.

Assets Measured at Fair Value on a Recurring Basis

Cash and cash equivalents at March 31, 2020 and 2019 included investments in money market funds of \$2.0 billion and \$1.2 billion, which are reported at fair value. The fair value of money market funds was determined using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosure guidance. The carrying value of all other cash equivalents approximates their fair value due to their relatively short-term nature. Fair values for the Company's marketable securities were not material at March 31, 2020 and 2019.

Fair values of the Company's forward foreign currency contracts were determined using observable inputs from available market information. Fair values of the Company's cross-currency swaps were determined using quoted foreign currency exchange rates and other observable inputs from available market information. These inputs are considered Level 2 under the fair value measurements and disclosure guidance, and may not be representative of actual values that could have been realized or that will be realized in the future. Refer to Financial Note 18, "Hedging Activities," for fair value and other information on the Company's foreign currency derivatives including forward foreign currency contracts and cross-currency swaps.

There were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy during the years ended March 31, 2020 and 2019.

Assets Measured at Fair Value on a Nonrecurring Basis

At March 31, 2020, assets measured at fair value on a nonrecurring basis included long-lived assets for the Company's European Pharmaceuticals Solutions segment and the Rexall Health business within Other. Refer to Financial Note 4, "Restructuring, Impairment and Related Charges" for more information.

At March 31, 2019, assets measured at fair value on a nonrecurring basis primarily consisted of goodwill and long-lived assets for the Company's European Pharmaceutical Solutions segment.

Goodwill

Fair value assessments of the reporting unit and the reporting unit's net assets, which are performed for goodwill impairment tests, are considered a Level 3 measurement due to the significance of unobservable inputs developed using company specific information. The Company considered a market approach as well as an income approach (a DCF model) to determine the fair value of the reporting unit.

Refer to Financial Note 14, "Goodwill and Intangible Assets, Net," for more information regarding goodwill impairment charges recorded for certain reporting units during 2019 and 2018.

Long-lived Assets

The Company utilizes multiple approaches including the DCF model and market approaches for estimating the fair value of intangible assets. The future cash flows used in the analysis are based on internal cash flow projections from its long-range plans and include significant assumptions by management. Accordingly, the fair value assessment of the long-lived assets is considered a Level 3 fair value measurement.

The Company measures certain long-lived and intangible assets at fair value on a nonrecurring basis when events occur that indicate an asset group may not be recoverable. If the carrying amount of an asset group is not recoverable, an impairment charge is recorded to reduce the carrying amount by the excess over its fair value.

Liabilities Measured at Fair Value on a Nonrecurring Basis

There were no liabilities measured at fair value on a nonrecurring basis at March 31, 2020 and 2019.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****20. Financial Guarantees and Warranties***Financial Guarantees*

The Company has agreements with certain of its customers' financial institutions, mainly in Canada and Europe, under which it has guaranteed the repurchase of its customers' inventory or its customers' debt in the event these customers are unable to meet their obligations to those financial institutions. For the Company's inventory repurchase agreements, among other requirements, inventories must be in resalable condition and any repurchase would be at a discount. The inventory repurchase agreements mostly relate to certain Canadian customers and generally range from one to two years. Customers' debt guarantees generally range from one to 10 years and are primarily provided to facilitate financing for certain customers. The majority of the Company's customers' debt guarantees are secured by certain assets of the customer. At March 31, 2020, the maximum amounts of inventory repurchase guarantees and customers' debt guarantees were \$274 million and \$129 million, of which the Company has not accrued any material amounts. The expirations of these financial guarantees are as follows: \$222 million, \$17 million, \$13 million, \$32 million and \$10 million from 2021 through 2025 and \$109 million thereafter.

At March 31, 2020, the Company's banks and insurance companies have issued \$170 million of standby letters of credit and surety bonds, which were issued on the Company's behalf primarily related to its customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and its workers' compensation and automotive liability programs.

The Company's software license agreements generally include certain provisions for indemnifying customers against liabilities if its software products infringe a third party's intellectual property rights. To date, the Company has not incurred any material costs as a result of such indemnification agreements and has not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, the Company may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, the Company has historically not made material payments as a result of these indemnification provisions.

Warranties

In the normal course of business, the Company provides certain warranties and indemnification protection for its products and services. For example, the Company provides warranties that the pharmaceutical and medical-surgical products it distributes are in compliance with the U.S. Food, Drug and Cosmetic Act and other applicable laws and regulations. It has received the same warranties from its suppliers, which customarily are the manufacturers of the products. In addition, the Company has indemnity obligations to its customers for these products, which have also been provided from its suppliers, either through express agreement or by operation of law. Accrued warranty costs were not material to the consolidated balance sheets.

21. Commitments and Contingent Liabilities

In addition to commitments and obligations incurred in the ordinary course of business, the Company is subject to a variety of claims and legal proceedings, including claims from customers and vendors, pending and potential legal actions for damages, governmental investigations and other matters. The Company and its affiliates are parties to the legal claims and proceedings described below. The Company is vigorously defending itself against those claims and in those proceedings. Significant developments in those matters are described below. If the Company is unsuccessful in defending, or if it determines to settle, any of these matters, it may be required to pay substantial sums, be subject to injunction and/or be forced to change how it operates its business, which could have a material adverse impact on its financial position or results of operations.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Unless otherwise stated, the Company is unable to reasonably estimate the loss or a range of possible loss for the matters described below. Often, it is not reasonably possible for the Company to determine that a loss is probable for a claim, or to reasonably estimate the amount of loss or a range of loss, because of the limited information available and the potential effects of future events and decisions by third parties, such as courts and regulators, that will determine the ultimate resolution of the claim. Many of the matters described are at preliminary stages, raise novel theories of liability or seek an indeterminate amount of damages. It is not uncommon for claims to be resolved over many years. The Company reviews loss contingencies at least quarterly, to determine whether the loss probability has changed and whether it can make a reasonable estimate of the possible loss or range of loss. When the Company determines that a loss from a claim is probable and reasonably estimable, it records a liability in the amount of its estimate for the ultimate loss. The Company also provides disclosure when it is reasonably possible that a loss may be incurred or when it is reasonably possible that the amount of a loss will exceed its recorded liability.

I. Litigation and Claims Involving Distribution of Controlled Substances

The Company and its affiliates are defendants in many cases asserting claims related to distribution of controlled substances. They are named as defendants along with other pharmaceutical wholesale distributors, pharmaceutical manufacturers and retail pharmacy chains. The plaintiffs in these actions include state attorneys general, county and municipal governments, hospitals, Indian tribes, pension funds, third-party payors and individuals. These actions have been filed in state and federal courts throughout the United States, and in Puerto Rico and Canada. They seek monetary damages and other forms of relief based on a variety of causes of action, including negligence, public nuisance, unjust enrichment, civil conspiracy, as well as alleging violations of the Racketeer Influenced and Corrupt Organizations Act (“RICO”), state and federal controlled substances laws and other statutes.

Since December 5, 2017, nearly all such cases pending in federal district courts have been transferred for consolidated pre-trial proceedings to a multi-district litigation (“MDL”) in the United States District Court for the Northern District of Ohio captioned *In re: National Prescription Opiate Litigation*, Case No. 17-md-2804. At present, there are approximately 2,800 cases under the jurisdiction of the MDL court. In suits filed against the Company by Cuyahoga County, Ohio, and Summit County, Ohio, the parties finalized a settlement agreement on December 26, 2019. Under the terms of the agreement, the Company did not admit liability and expressly denied wrongdoing, and paid the counties a total of \$82 million on January 9, 2020. This charge was recorded in operating expenses for the year ended March 31, 2020.

Three cases involving McKesson that were previously part of the federal MDL were remanded to other federal courts. On January 14, 2020, the Judicial Panel on Multidistrict Litigation finalized its Conditional Remand Order, ordering that the cases against the three largest distributors brought by Cabell County, West Virginia and the City of Huntington, West Virginia be remanded to the U.S. District Court for the Southern District of West Virginia and a trial date has been scheduled for October 19, 2020. On February 5, 2020, the case brought by the City and County of San Francisco was remanded to the U.S. District Court for the Northern District of California and the case brought by the Cherokee Nation was remanded to the U.S. District Court for the Eastern District of Oklahoma.

The Company is also named in approximately 385 similar state court cases pending in 36 states plus Puerto Rico. These include actions filed by 27 state attorneys general, and some by or on behalf of individuals, including wrongful death lawsuits and putative class action lawsuits brought on behalf of children with neonatal abstinence syndrome due to alleged exposure to opioids in utero. Trial dates have been set in several of these state cases. Trial was previously set to begin in March 2020 in the Supreme Court of New York, Suffolk County for a case brought by the New York attorney general and two New York county governments, but the trial was indefinitely postponed in light of the COVID-19 pandemic.

The Company has been involved in discussions with the objective of achieving broad resolution of opioid-related claims brought by governmental entities. For example, on October 21, 2019, four state attorneys general announced certain terms of a proposed framework for the potential settlement of those opioid claims which they indicated they would find acceptable. The proposed framework would have expected the three largest U.S. pharmaceutical distributors to pay an aggregate amount of up to \$18.0 billion over 18 years, with up to approximately \$6.9 billion over 18 years expected from the Company, with any finally-determined amount being subject to adjustment based on various contingencies, including sufficient resolution with States, political subdivisions and other governmental entities nationwide. The proposed framework also would have required the three distributors, including the Company, to adopt changes to anti-diversion programs and to participate in a program involving the distribution of certain medication used to treat opioid use disorder. Discussions with attorneys general and other parties continue. If the negotiating parties are able to agree on potential terms for a broad resolution, those potential terms would need to be agreed to by numerous other state and local governments before an agreement could be finalized.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Because of the novelty of the claims asserted and the complexity of litigation involving numerous parties across multiple jurisdictions, and the added uncertainty introduced by the economic and other implications of the COVID-19 pandemic, the Company has determined that liability is not probable, and is not able to reasonably estimate a loss or range of loss. To be viable, a broad settlement arrangement would require participation of numerous parties and the resolution of many complex issues. The scope and terms of any settlement framework, including the financial terms, have not been determined. Because of the many uncertainties associated with any potential settlement arrangements, the significance of unresolved elements of a potential settlement and the uncertainty of the scope of potential participation by plaintiffs, the Company has not reached a point where settlement is probable, and as such has not recognized any liability related to any potential settlement framework as of March 31, 2020. The Company believes that it has valid defenses to the claims pending against it and intends to vigorously defend against all such claims. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on the Company's financial position, cash flows or liquidity, or results of operations.

The Company and certain of its current and former directors and officers were defendants in a consolidated shareholder derivative action in the Northern District of California captioned *In re McKesson Corporation Derivative Litigation*, No. 4:17-cv-1850. The consolidated complaint alleged claims of breach of fiduciary duty, waste, and insider trading purportedly on behalf of the Company. The Company was named as a nominal defendant. The consolidated complaint alleged that the defendants violated their fiduciary duties by causing, allowing, or otherwise failing to prevent the purported conduct underlying the Company's previously disclosed agreement with the Drug Enforcement Administration (DEA), Department of Justice (DOJ), and various United States Attorneys' offices to settle potential administrative and civil claims relating to investigations about the Company's suspicious order reporting practices for controlled substances. The consolidated complaint sought unspecified damages, restitution, disgorgement, attorneys' fees, and other equitable relief. The Company and certain of its current and former directors and officers were also defendants in a similar consolidated shareholder derivative action in the Delaware Court of Chancery captioned *In re McKesson Corporation Stockholder Derivative Litigation*, No. 2017-0736. On May 25, 2018, the court stayed further proceedings in this matter in favor of the *In re McKesson Corporation Derivative Litigation* action. The parties reached an agreement to resolve these shareholder derivative actions. The court in the *In re McKesson Corporation Derivative Litigation* action issued a final judgment and order approving the settlement on April 22, 2020. Under that agreement: (i) insurance carriers will pay the Company \$175 million, less \$44 million in attorneys' fees and expenses awarded by the court to plaintiffs' counsel; and (ii) the Company will implement certain corporate governance enhancements that will remain in effect for at least four years. On April 24, 2020, pursuant to the terms of the settlement agreement, the parties to the *In re McKesson Corporation Stockholder Derivative Litigation* action pending in the Delaware Court of Chancery filed a stipulation dismissing that action with prejudice. No cash payment has yet been received by the Company.

On August 8, 2018, the Company was served with a *qui tam* complaint pending in the United States District Court for the District of Massachusetts alleging that the Company violated the federal False Claims Act and various state false claims acts due to the alleged failure of the Company and other defendants to report providers who were engaged in diversion of controlled substances. *United States ex rel. Manchester v. Purdue Pharma, L.P., et al.*, Case No. 1-16-cv-10947. On August 22, 2018, the United States filed a motion to dismiss. The relator died, and on February 25, 2019 the court entered an order staying the matter until a proper party can be substituted, and providing that if no party is substituted within 90 days of February 25, 2019, the case would be dismissed. In April 2019, the widow of the relator filed a motion to substitute their daughter as the relator; the United States and defendants opposed this substitution request. The motion remains pending and the case remains stayed.

In December 2019, the Company was served with two *qui tam* complaints filed by the same two relators alleging violations of the federal False Claims Act, the California False Claims Act, and the California Unfair Business Practices statute based on alleged predicate violations of the Controlled Substances Act and its implementing regulations, *United States ex rel. Kelley*, 19-cv-2233, and *State of California ex rel. Kelley*, CGC-19-576931. The complaints seek relief including treble damages, civil penalties, attorney fees, and costs in unspecified amounts.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

II. Other Litigation and Claims

On May 17, 2013, the Company was served with a complaint filed in the United States District Court for the Northern District of California by True Health Chiropractic Inc., alleging that McKesson sent unsolicited marketing faxes in violation of the Telephone Consumer Protection Act of 1991 (“TCPA”), as amended by the Junk Fax Protection Act of 2005 or JFPA, *True Health Chiropractic Inc., et al. v. McKesson Corporation, et al.*, No. CV-13-02219 (HG). Plaintiffs seek statutory damages from \$500 to \$1,500 per violation plus injunctive relief. True Health Chiropractic later amended its complaint, adding McLaughlin Chiropractic Associates as an additional named plaintiff and McKesson Technologies Inc. as a defendant. Both plaintiffs alleged that defendants violated the TCPA by sending faxes that did not contain notices regarding how to opt out of receiving the faxes. On July 16, 2015, plaintiffs filed a motion for class certification. On August 22, 2016, the court denied plaintiffs’ motion. On July 17, 2018, the United States Court of Appeals for the Ninth Circuit Court affirmed in part and reversed in part the district court’s denial of class certification and remanded the case to the district court for further proceedings. On August 13, 2019, the court granted plaintiffs’ renewed motion for class certification. After class notice and the opt-out period, 9,490 fax numbers remain in the class, representing 48,769 faxes received. On March 5, 2020, McKesson moved to decertify the class and moved for summary judgment on plaintiffs’ claim for treble damages. Plaintiffs’ moved for summary judgment on the same day. The hearing for these motions is scheduled for May 21, 2020.

On December 29, 2017, two investment funds holding shares in Celesio AG filed a complaint against McKesson Europe Holdings (formerly known as “Dragonfly GmbH & Co KGaA”), a subsidiary of the Company, in a German court in Stuttgart, Germany, *Polygon European Equity Opportunity Master Fund et al. v. McKesson Europe Holdings GmbH & Co. KGaA*, No. 18 O 455/17. On December 30, 2017, four investment funds, which had allegedly entered into swap transactions regarding shares in Celesio AG that would have enabled them to decide whether to accept McKesson Europe Holdings’s takeover offer in its acquisition of Celesio AG, filed a complaint, *Davidson Kempner International (BVI) Ltd. et al. v. McKesson Europe Holdings GmbH & Co. KGaA*, No.16 O 475/17. The complaints allege that the public tender offer document published by McKesson Europe in its acquisition of Celesio AG incorrectly stated that McKesson Europe’s acquisition of convertible bonds would not be treated as a relevant acquisition of shares for the purposes of triggering minimum pricing considerations under Section 4 of the German Takeover Offer Ordinance. On May 11, 2018, the court in *Polygon* dismissed the claims against McKesson Europe. Plaintiffs appealed this ruling and, on December 19, 2018, the Higher Regional Court (Oberlandesgericht) of Stuttgart confirmed the full dismissal of the *Polygon* matter. On February 4, 2019, plaintiffs filed a complaint against denial of leave to appeal with the Federal Court of Justice (Bundesgerichtshof). On March 15, 2019, the lower court in *Davidson* similarly dismissed the case. Plaintiffs appealed this ruling and, on October 9, 2019, the Higher Regional Court (Oberlandesgericht) of Stuttgart confirmed the full dismissal of the *Davidson* matter. On November 13, 2019, plaintiffs filed a complaint against denial of leave to appeal with the Federal Court of Justice (Bundesgerichtshof).

On March 5, 2018, the Company’s subsidiary, RxC Acquisition Company (d/b/a RxCrossroads), was served with a *qui tam* complaint filed in July 2017 in the United States District Court for the Southern District of Illinois by a relator against RxC Acquisition Company, among others, alleging that UCB, Inc., provided illegal “kickbacks” to providers, including nurse educator services and reimbursement assistance services provided through RxC Acquisition Company, in violation of the Anti-Kickback Statute, the False Claims Act, and various state false claims statutes. *United States ex rel. CIMZNHCA, LLC v. UCB, Inc., et al.*, No. 17-cv-00765. The complaint seeks treble damages, civil penalties, and further relief. The United States and the states named in the complaint have declined to intervene in the suit. On December 17, 2018, the United States filed a motion to dismiss the complaint in its entirety; this motion was denied on April 15, 2019. On June 7, 2019, the court denied the United States’ motion for reconsideration. On July 8, 2019, the United States appealed to the United States Court of Appeals for the Seventh Circuit seeking interlocutory review of the denial of its motion for reconsideration of the denial of the motion to dismiss the complaint. On September 3, 2019, the United States District Court for the Southern District of Illinois stayed the district court proceedings pending the appeal. The court set a trial date of April 5, 2021.

On April 16, 2013, the Company’s subsidiary, U.S. Oncology, Inc. (“USON”), was served with a third amended *qui tam* complaint filed in the United States District Court for the Eastern District of New York by two relators, purportedly on behalf of the United States, 21 states and the District of Columbia, against USON and five other defendants, alleging that USON solicited and received illegal “kickbacks” from Amgen in violation of the Anti-Kickback Statute, the False Claims Act, and various state false claims statutes, and seeking damages, treble damages, civil penalties, attorneys’ fees and costs of suit, all in unspecified amounts, *United States ex rel. Piacentile v. Amgen Inc., et al.*, CV 04-3983 (SJ). Previously, the United States declined to intervene in the case as to all allegations and defendants except for Amgen. On September 30, 2013, the court granted the United States’ motion to dismiss the claims pled against Amgen. On September 17, 2018, the court granted USON’s motion to dismiss the claims pled against it, with leave to amend. On November 16, 2018, the relators filed a fourth amended complaint.

McKESON CORPORATION

FINANCIAL NOTES (Continued)

On June 17, 2014, U.S. Oncology Specialty, LP (“USOS”) was served with a fifth amended *qui tam* complaint filed in the United States District Court for the Eastern District of New York by a relator alleging that USOS, among others, solicited and received illegal “kickbacks” from Amgen in violation of the Anti-Kickback Statute, the federal False Claims Act, and various state false claims statutes, and seeking damages, treble damages, civil penalties, attorneys’ fees and costs of suit, all in unspecified amounts, *United States ex rel. Hanks v. Amgen, Inc., et al.*, CV-08-03096 (SJ). These claims are based on the same grounds as the *Piacentile* action referenced above. Previously, the United States declined to intervene in the case as to all allegations and defendants except for Amgen. On September 17, 2018, the court granted USOS’s motion to dismiss and gave the relator leave to file another action after the *Piacentile* action is no longer pending. The relator appealed this order to the United States Court of Appeals for the Second Circuit; the parties are awaiting the Court’s decision.

On April 3, 2018, a second amended *qui tam* complaint was filed in the United States District Court for the Eastern District of New York by a relator, purportedly on behalf of the United States, 30 states, the District of Columbia, and two cities against McKesson Corporation, McKesson Specialty Care Distribution Corporation, McKesson Specialty Distribution LLC, McKesson Specialty Care Distribution Joint Venture, L.P., Oncology Therapeutics Network Corporation, Oncology Therapeutics Network Joint Venture, L.P., US Oncology, Inc. and US Oncology Specialty, L.P., alleging that from 2001 through 2010 the defendants repackaged and sold single-dose syringes of oncology medications in a manner that violated the federal False Claims Act and various state and local false claims statutes, and seeking damages, treble damages, civil penalties, attorneys’ fees and costs of suit, all in unspecified amounts, *United States ex rel. Omni Healthcare Inc. v. McKesson Corporation, et al.*, 12-CV-06440 (NG). The United States and the named states have declined to intervene in the case. On October 15, 2018, the Company filed a motion to dismiss the complaint as to all named defendants. On February 4, 2019, the court granted the motion to dismiss in part and denied it in part, leaving the Company and Oncology Therapeutics Network Corporation as the only remaining defendants in the case. On December 9, 2019, the United States District Court for the Eastern District of New York ordered the unsealing of another complaint filed by the same relator, alleging the same misconduct and seeking the same relief with respect to US Oncology, Inc., purportedly on behalf of the same government entities, *United States ex rel. Omni Healthcare, Inc. v. US Oncology, Inc.*, 19-cv-05125. The United States and the named states declined to intervene in the case.

The Company is a defendant in an amended complaint filed on June 15, 2018 in a case pending in the United States District Court for the Southern District of Illinois alleging that the Company’s subsidiary, McKesson Medical-Surgical Inc., among others, violated the Sherman Act by restraining trade in the sale of safety and conventional syringes and safety IV catheters. *Marion Diagnostic Center, LLC v. Becton, Dickinson, et al.*, No. 18:1059. The action is filed on behalf of a purported class of purchasers, and seeks treble damages and further relief, all in unspecified amounts. On July 20, 2018, the defendants filed a motion to dismiss. On November 30, 2018, the district court granted the motion to dismiss, and dismissed the complaint with prejudice. On December 27, 2018, plaintiffs appealed the order to the United States Court of Appeals for the Seventh Circuit. On March 5, 2020, the United States Court of Appeals for the Seventh Circuit vacated the district court’s order, and ruled that dismissal was appropriate on alternative grounds. The case was remanded to the district court to allow the plaintiffs an opportunity to amend their complaint.

On September 25, 2018, plaintiffs filed a complaint in the United States District Court for the Eastern District of Pennsylvania alleging that the Company and its subsidiary, McKesson Medical-Surgical Inc., among others, violated the Sherman Act by restraining trade in the sale of generic drugs. *Marion Diagnostic Center, LLC v. McKesson Corporation, et al.*, No. 2:18-cv-4137. On June 26, 2019, the court granted the Company’s motion to dismiss and authorized plaintiffs to seek leave to amend the claims against the Company. On March 11, 2020, the Company received a complaint alleging that the Company and other distributors violated the Sherman Act by colluding with manufacturers to restrain trade in the sale of generic drugs. *Reliable Pharmacy, et al. v. Actavis Holdco US, et al.*, No. 2:19-cv-6044. The complaint seeks relief including treble damages, disgorgement, attorney fees, and costs in unspecified amounts. On the same date, the plaintiffs moved to amend the new complaint.

On December 12, 2018, the Company received a class action complaint in the United States District Court for the Northern District of California, alleging that McKesson and two of its former officers, CEO John Hammergren and CFO James Beer, violated the Securities Exchange Act of 1934 by reporting profits and revenues from 2013 until early 2017 that were false and misleading, due to an alleged undisclosed conspiracy to fix the prices of generic drugs. *Evanston Police Pension Fund v. McKesson Corporation*, No. 3:18-06525. On February 8, 2019, the court appointed the Pension Trust Fund for Operating Engineers as the lead plaintiff. On April 10, 2019, the lead plaintiff filed an amended complaint that added insider trading allegations against defendant Hammergren.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

On May 21, 2019, Jean E. Henry, a purported Company shareholder, filed a shareholder derivative complaint in the Superior Court of San Francisco, California against certain current and former officers and directors of the Company, and the Company as a nominal defendant, alleging violations of fiduciary duties and waste of corporate assets with respect to an alleged conspiracy to fix the prices of generic drugs, *Henry v. Tyler, et al.*, CGC-19-576119. On May 23, 2019, the Company removed the case to the United States District Court for the Northern District of California, Case No. 19-cv-02869. On August 26, 2019, the plaintiff filed an amended complaint, removing all claims except for an alleged breach of fiduciary duty by the named current and former officers and directors of the Company. On January 21, 2020, the United States District Court for the Northern District of California granted the defendants' motion to dismiss the complaint, and on February 20, 2020, the plaintiff filed an amended complaint.

In July 2015, The Great Atlantic & Pacific Tea Company ("A&P"), a former customer of the Company, filed for reorganization in bankruptcy under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court for the Southern District of New York. *In re The Great Atlantic & Pacific Tea Company, Inc., et al.*, Case No. 15-23007. A suit filed against the Company in this bankruptcy case seeks to recover approximately \$68 million in alleged preferential transfers. *The Official Committee of Unsecured Creditors on behalf of the bankruptcy estate of The Great Atlantic & Pacific Tea Company, Inc., et al. v. McKesson Corporation d/b/a McKesson Drug Co.*, Adv. Proc. No. 17-08264.

In October 2019, the Company's subsidiary RelayHealth Corporation ("RelayHealth") was served with three purported class action complaints filed in the United States District Court for the Northern District of Illinois. The complaints allege that RelayHealth violated the Sherman Act by entering into an agreement with co-defendant Surescripts, LLC not to compete in the electronic prescription routing market, and by conspiring with Surescripts, LLC to monopolize that market, *Powell Prescription Center, et al. v. Surescripts, LLC, et al.*, No. 1:19-cv-06627; *Intergrated Pharmaceutical Solutions LLC v. Surescripts, LLC, et al.*, 1:19-cv-06778; *Falconer Pharmacy, Inc. v. Surescripts LLC, et al.*, No. 1:19-cv-07035. In November 2019, three similar complaints were filed in the United States District Court for the Northern District of Illinois. *Kennebunk Village Pharmacy, Inc. v. SureScripts, LLC, et al.*, 1:19-cv-7445; *Whitman v. SureScripts, LLC et al.*, No. 1:19-cv-7448; *BBK Global Corp. v. SureScripts, LLC et al.*, 1:19-cv-7640. In December 2019, the six actions were consolidated in the Northern District of Illinois. The complaints seek relief including treble damages, attorney fees, and costs.

III. Government Subpoenas and Investigations

From time to time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require time and effort and can result in considerable costs being incurred by the Company. Such subpoenas and requests can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements of claims against the Company. The Company responds to these requests in the ordinary course of business.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

As an example of the type of subpoenas or requests the Company receives from time to time, in August 2015, the Company was served with a Civil Investigative Demand by the U.S. Attorney's Office for the Southern District of New York relating to certain business analytics tools offered to its customers. In May 2017 and August 2018, respectively, the Company was served with two separate Civil Investigative Demands by the U.S. Attorney's Office for the Eastern District of New York relating to the certification the Company obtained for two software products under the U.S. Department of Health and Human Services' Electronic Health Record Incentive Program. In September 2017, the Company received a request for information and documents from a group of approximately 40 state attorneys general related to an investigation into the factors contributing to the increasing number of opioid-related hospitalizations and deaths in the United States. The Company also received civil investigative demands, subpoenas or requests for information from several other state attorneys general on the same issues. In January 2019, the Company was served with a subpoena by the U.S. Department of Health and Human Services, Office of Inspector General, related to the Company's participation in the Medicaid Drug Rebate Program. In April and June 2019, the United States Attorney's Office for the Eastern District of New York served grand jury subpoenas seeking documents related to the Company's anti-diversion policies and procedures and its distribution of Schedule II controlled substances. The Company believes the subpoenas are part of a broader investigation by that office into pharmaceutical manufacturers' and distributors' compliance with the Controlled Substances Act and related statutes. In July 2019, the Drug Enforcement Administration served an administrative inspection warrant on the Company's distribution center in West Sacramento, California seeking information about the Company's compliance with the Controlled Substances Act and related statutes. On November 12, 2019, the New York Department of Financial Services sent a Notice of Intent to Commence Enforcement Action to McKesson Corporation and PSS World Medical, Inc. for alleged violations of the New York Insurance Law and/or New York Financial Services Law, and seeking civil monetary penalties, in connection with manufacturing and distributing opioids in New York. In January 2020, the United States Attorney's Office for the District of Massachusetts served a Civil Investigative Demand on the Company seeking documents related to certain discounts and rebates paid to physician practice customers.

IV. Environmental Matters

Primarily as a result of the operation of the Company's former chemical businesses, which were fully divested by 1987, the Company is involved in various matters pursuant to environmental laws and regulations. The Company has received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at five sites where it, or entities acquired by it, formerly conducted operations and the Company, by administrative order or otherwise, has agreed to take certain actions at those sites, including soil and groundwater remediation.

Based on a determination by the Company's environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of the Company's probable loss associated with the remediation costs for these five sites is \$10 million, net of amounts anticipated from third parties. The \$10 million is expected to be paid out between April 2020 and March 2050. The Company has accrued for the estimated probable loss for these environmental matters.

The Company has been designated as a Potentially Responsible Party ("PRP") under the Superfund law for environmental assessment and cleanup costs as the result of its alleged disposal of hazardous substances at 14 sites. With respect to these sites, numerous other PRPs have similarly been designated and while the current state of the law potentially imposes joint and several liabilities upon PRPs, as a practical matter, costs of these sites are typically shared with other PRPs. At one of these sites, the United States Environmental Protection Agency has selected a preferred remedy with an estimated cost of approximately \$1.38 billion. It is not certain at this point in time what proportion of this estimated liability will be borne by the Company. Accordingly, the Company's estimated probable loss at those 14 sites is approximately \$22.5 million, which has been accrued for in the consolidated balance sheets. However, it is possible that the ultimate costs of these matters may exceed or be less than the reserves.

V. Value Added Tax Assessments

The Company operates in various countries outside the United States which collect value added taxes ("VAT"). The determination of the manner in which a VAT applies to our foreign operations is subject to varying interpretations arising from the complex nature of the tax laws. The Company has received assessments for VAT which are in various stages of appeal. The Company disagrees with these assessments and believes that it has a strong legal argument to defend its tax positions. Certain VAT assessments relate to years covered by an indemnification agreement. Due to the complex nature of the tax laws, it is not possible to estimate the outcome of these matters. However, based on currently available information, the Company believes the ultimate outcome of these matters will not have a material adverse effect on its financial position, cash flows or results of operations.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

VI. Other Matters

The Company is involved in various other litigation, governmental proceedings and claims, not described above, that arise in the normal course of business. While it is not possible to determine the ultimate outcome or the duration of such litigation, governmental proceedings or claims, the Company believes, based on current knowledge and the advice of counsel, that such litigation, proceedings and claims will not have a material impact on the Company's financial position or results of operations.

22. Stockholders' Equity

Each share of the Company's outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company's Board of Directors (the "Board").

In July 2019, the Company's quarterly dividend was raised from \$0.39 to \$0.41 per common share for dividends declared on or after such date by the Board. Dividends were \$1.62 per share in 2020, \$1.51 per share in 2019 and \$1.30 per share in 2018. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Share Repurchase Plans

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including the Company's stock price, corporate and regulatory requirements, restrictions under the Company's debt obligations and other market and economic conditions.

Information regarding the share repurchase activity over the last three years is as follows:

	Share Repurchases ⁽¹⁾		
	Total Number of Shares Purchased ^{(2) (3)}	Average Price Paid Per Share	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share data)</i>			
Balance, March 31, 2017			\$ 2,746
Shares repurchased	10.5	\$ 151.06	(1,650)
Balance, March 31, 2018			1,096
Shares repurchase plans authorized			
May 2018			4,000
Shares repurchased	13.5	\$ 130.72	(1,627)
Balance, March 31, 2019			3,469
Shares repurchased	13.9	\$ 138.94	(1,934)
Balance, March 31, 2020			\$ 1,535

(1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards. It also excludes shares related to the Company's Split-off of the Change Healthcare JV as described below.

(2) All of the shares purchased were part of the publicly announced programs.

(3) The number of shares purchased reflects rounding adjustments.

During the last three years, the Company's share repurchases were transacted through both open market transactions and ASR programs with third party financial institutions.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

In 2018, the Company repurchased 3.5 million of the Company's shares for \$500 million through open market transactions at an average price per share of \$144.43. In June 2017, August 2017 and March 2018, the Company entered into three separate ASR programs with third-party financial institutions to repurchase \$250 million, \$400 million and \$500 million of the Company's common stock. As of March 31, 2018, it completed and received a total of 1.5 million shares under the June 2017 ASR program and a total of 2.7 million shares under the August 2017 ASR program. In addition, the Company received 2.5 million shares representing the initial number of shares due in March 2018 and an additional 1.0 million shares in the first quarter of 2019. The March 2018 ASR program was completed at an average price per share of \$143.66 during the first quarter of 2019. The total authorization outstanding for repurchase of the Company's common stock was \$1.1 billion at March 31, 2018.

In May 2018, the Board authorized the repurchase of up to \$4.0 billion of the Company's common stock. The total authorization outstanding for repurchases of the Company's common stock increased to \$5.1 billion. During 2019, the Company repurchased 10.4 million of the Company's shares for \$1.4 billion through open market transactions at an average price per share of \$132.14. In December 2018, the Company entered into an ASR program with a third-party financial institution to repurchase \$250 million of the Company's common stock. The total number of shares repurchased under this ASR program was 2.1 million shares at an average price per share of \$117.98. The total authorization outstanding for repurchase of the Company's common stock was \$3.5 billion at March 31, 2019.

In 2019, the Company retired 5.0 million or \$542 million of its treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with the Company's accounting policy, it allocates any excess of share repurchase price over par value between additional paid-in capital and retained earnings. Accordingly, its retained earnings and additional paid-in capital were reduced by \$472 million and \$70 million during 2019.

In 2020, the Company repurchased 9.2 million of the Company's shares for \$1.3 billion through open market transactions at an average price per share of \$144.68.

During 2020, the Company entered into an ASR program with a third-party financial institution to repurchase \$600 million of the Company's common stock. The total number of shares repurchased under this ASR program was 4.7 million shares at an average price per share of \$127.68. The total authorization outstanding for repurchase of the Company's common stock was \$1.5 billion at March 31, 2020.

On March 9, 2020, the Company completed the Split-off of its interest in the Change Healthcare JV. In connection with the Split-off, the Company distributed all 176.0 million outstanding shares of SpinCo common stock, which held all of the Company's interests in the Change Healthcare JV, to participating holders of the Company's common stock in exchange for 15.4 million shares of McKesson stock, which are now held as treasury stock on the Company's consolidated balance sheet. Following consummation of the exchange offer, on March 10, 2020, SpinCo merged with and into Change Healthcare, Inc. with each share of SpinCo common stock converted into one share of Change Healthcare, Inc. common stock, par value \$0.001 per share, with cash being paid in lieu of fractional shares of Change common stock. See Note 2, "Investment in Change Healthcare Joint Venture," for more information.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Other Comprehensive Income (Loss)

Information regarding other comprehensive income (loss) including noncontrolling interests and redeemable noncontrolling interests, net of tax, by component is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Foreign currency translation adjustments:⁽¹⁾			
Foreign currency translation adjustments arising during period, net of income tax expense of nil, nil and nil ^{(2) (3)}	\$ (151)	\$ (431)	\$ 804
Reclassified to income statement, net of income tax expense of nil, nil and nil	—	—	—
	(151)	(431)	804
Unrealized gains (losses) on net investment hedges ⁽⁴⁾			
Unrealized gains (losses) on net investment hedges arising during period, net of income tax (expense) benefit of (\$30), (\$71), and \$95	85	241	(180)
Reclassified to income statement, net of income tax expense of nil, nil and nil	—	—	—
	85	241	(180)
Unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) on cash flow hedges arising during period, net of income tax (expense) benefit of (\$12), (\$4), and \$9	86	24	(30)
Reclassified to income statement, net of income tax expense of nil, nil and nil	—	—	—
	86	24	(30)
Changes in retirement-related benefit plans:			
Net actuarial gain (loss) and prior service credit (cost) arising during the period, net of income tax (expense) benefit of (\$8), \$5, and (\$2) ⁽⁵⁾	27	(51)	25
Amortization of actuarial loss, prior service cost and transition obligation, net of income tax (expense) benefit of \$1, nil, and (\$2) ⁽⁶⁾	2	9	5
Foreign currency translation adjustments and other, net of income tax expense of nil, nil and nil	6	10	(15)
Reclassified to income statement, net of income tax expense of (\$33), nil and nil ⁽⁷⁾	94	—	—
	129	(32)	15
Other Comprehensive Income (Loss), net of tax	\$ 149	\$ (198)	\$ 609

- (1) Foreign currency translation adjustments primarily result from the conversion of non-U.S. dollar financial statements of the Company's foreign subsidiary McKesson Europe into the Company's reporting currency, U.S. dollars.
- (2) The 2020 net foreign currency translation losses of \$151 million were primarily due to the weakening of the Euro and Canadian dollar against the U.S. dollar, partially offset by the strengthening of the British pound sterling from April 1, 2019 to March 31, 2020. The 2019 net foreign currency translation losses of \$431 million were primarily due to the weakening of the Euro, British pound sterling and Canadian dollar against the U.S. dollar from April 1, 2018 to March 31, 2019. The 2018 net foreign currency translation gains of \$804 million were primarily due to the strengthening of the Euro, British pound sterling and Canadian dollar against the U.S. dollar from April 1, 2017 to March 31, 2018.
- (3) 2020 and 2018 include net foreign currency translation gains of \$1 million and \$189 million and 2019 includes net foreign currency translation losses of \$61 million attributable to noncontrolling and redeemable noncontrolling interests.
- (4) 2020, 2019 and 2018 include foreign currency gains of \$39 million and \$259 million and losses of \$268 million on the net investment hedges from the Euro and British pound sterling-denominated notes. 2020, 2019 and 2018 also include foreign currency gains of \$76 million and \$53 million and losses of \$7 million on the net investment hedges from the cross-currency swaps.
- (5) The 2020 net actuarial gain of \$2 million and 2019 and 2018 net actuarial losses of \$5 million and \$4 million were attributable to noncontrolling and redeemable noncontrolling interests.
- (6) Pre-tax amount was reclassified into cost of sales and operating expenses in the consolidated statements of operations. The related tax expense was reclassified into income tax expense in the consolidated statements of operations.
- (7) Primarily reflects a reclassification of losses in 2020 upon the termination of the Plan from accumulated other comprehensive loss to other income (expense), net in the Company's consolidated statement of operations.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)
Accumulated Other Comprehensive Income (Loss)

Information regarding changes in the Company's accumulated other comprehensive income (loss) by component are as follows:

	Foreign Currency Translation Adjustments			Unrealized Gains (Losses) on Cash Flow Hedges, Net of Tax	Unrealized Net Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Income (Loss)
	Foreign Currency Translation Adjustments, Net of Tax	Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax				
<i>(In millions)</i>						
Balance at March 31, 2018	\$ (1,258)	\$ (188)	\$ (61)	\$ (210)	\$ (1,717)	
Other comprehensive income (loss) before reclassifications	(431)	241	24	(41)	(207)	
Amounts reclassified to earnings and other	—	—	—	9	9	
Other comprehensive income (loss)	(431)	241	24	(32)	(198)	
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(61)	—	—	(5)	(66)	
Other comprehensive income (loss) attributable to McKesson	(370)	241	24	(27)	(132)	
Balance at March 31, 2019	(1,628)	53	(37)	(237)	(1,849)	
Other comprehensive income (loss) before reclassifications	(151)	85	86	33	53	
Amounts reclassified to earnings and other	—	—	—	96	96	
Other comprehensive income (loss)	(151)	85	86	129	149	
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	1	—	—	2	3	
Other comprehensive income (loss) attributable to McKesson	(152)	85	86	127	146	
Balance at March 31, 2020	\$ (1,780)	\$ 138	\$ 49	\$ (110)	\$ (1,703)	

23. Related Party Balances and Transactions

During the fourth quarter of 2018, a public benefit California foundation ("Foundation") was established to provide opioid education to patients, caregivers, and providers, address policy issues, and increase patient access to life-saving treatments. Certain officers of the Company also serve as directors and officers of the Foundation. In March 2018, the Company made a pledge to the Foundation and incurred a pre-tax charitable contribution expense of \$100 million (\$64 million after-tax) for 2018, which was recorded under the caption, "Selling, distribution and administrative expenses," in the consolidated statement of operations. The Company had a pledge payable balance of \$100 million to the Foundation as of March 31, 2018, which was included under the caption "Other accrued liabilities" in its consolidated balance sheet. The pledge was fully paid in 2019. Additionally, during the fourth quarter of 2020, the Company contributed \$20 million to the McKesson Foundation, which supports the Company's employees and their community involvement efforts, with a special focus on cancer. A portion of this contribution was directed to an emergency employee assistance fund administered by the Emergency Assistance Foundation, an independent nonprofit organization, to provide support for employees impacted by the COVID-19 pandemic.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

McKesson Europe has investments in pharmacies located across Europe that are accounted for under the equity method. McKesson Europe maintains distribution arrangements with these pharmacies for the sale of related goods and services under which revenues of \$141 million, \$137 million, and \$154 million are included in the consolidated statements of operations for the years ended March 31, 2020, 2019 and 2018 and receivables related to these transactions included in the consolidated balance sheets were not material as of March 31, 2020 and 2019.

In 2020 and 2019, the Company's pharmaceutical sales to one of its equity method investees in the U.S. Pharmaceutical and Specialty Solutions segment totaled \$60 million and \$34 million. Trade receivables related to these transactions from this investee were not material as of March 31, 2020 and 2019.

Refer to Financial Note 2, "Investment in Change Healthcare Joint Venture," for information regarding related party balances and transactions with Change Healthcare Inc. and Change Healthcare JV.

24. Segments of Business

The Company reports its financial results in three reportable segments: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure are included in Other. The factors for determining the reportable segments include the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. The Company evaluates the performance of its operating segments on a number of measures, including revenues and operating profit before interest expense and income taxes. Assets by operating segment are not reviewed by management for the purpose of assessing performance or allocating resources.

The Company's U.S. Pharmaceutical and Specialty Solutions segment distributes pharmaceutical and other healthcare-related products and also provides pharmaceutical solutions to life sciences companies in the United States.

The Company's European Pharmaceutical Solutions segment provides distribution and services to wholesale, institutional and retail customers and serves patients and consumers in 13 European countries through its own pharmacies and participating pharmacies that operate under brand partnership and franchise arrangements.

The Company's Medical-Surgical Solutions segment distributes medical-surgical supplies and provides logistics and other services to healthcare providers in the United States.

Other primarily consists of the following:

- McKesson Canada which distributes pharmaceutical and medical products and operates Rexall Health retail pharmacies;
- McKesson Prescription Technology Solutions which provides innovative technologies that support retail pharmacies; and
- the Company's investment in the Change Healthcare JV which was split-off from the Company in the fourth quarter of 2020.

Corporate includes income and expenses associated with administrative functions and projects, and the results of certain investments. Corporate expenses, net are allocated to operating segments to the extent that these items are directly attributable.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Financial information relating to the Company's reportable operating segments and reconciliations to the consolidated totals is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2020	2019	2018
Revenues			
U.S. Pharmaceutical and Specialty Solutions ⁽¹⁾	\$ 183,341	\$ 167,763	\$ 162,587
European Pharmaceutical Solutions ⁽¹⁾	27,390	27,242	27,320
Medical-Surgical Solutions ⁽¹⁾	8,305	7,618	6,611
Other	12,015	11,696	11,839
Total Revenues	\$ 231,051	\$ 214,319	\$ 208,357
Operating profit (loss) ⁽²⁾			
U.S. Pharmaceutical and Specialty Solutions ⁽³⁾	\$ 2,767	\$ 2,697	\$ 2,535
European Pharmaceutical Solutions ⁽⁴⁾	(261)	(1,978)	(1,681)
Medical-Surgical Solutions	499	455	461
Other ^{(5) (6) (7) (8)}	(595)	394	(107)
Total	2,410	1,568	1,208
Corporate Expenses, Net ⁽⁹⁾	(1,017)	(694)	(564)
Loss on Debt Extinguishment	—	—	(122)
Interest Expense	(249)	(264)	(283)
Income from Continuing Operations Before Income Taxes	\$ 1,144	\$ 610	\$ 239
Depreciation and amortization ⁽¹⁰⁾			
U.S. Pharmaceutical and Specialty Solutions	\$ 228	\$ 238	\$ 210
European Pharmaceutical Solutions	235	257	296
Medical-Surgical Solutions	136	118	97
Other	187	214	237
Corporate	136	122	111
Total	\$ 922	\$ 949	\$ 951
Expenditures for long-lived assets ⁽¹¹⁾			
U.S. Pharmaceutical and Specialty Solutions	\$ 94	\$ 88	\$ 126
European Pharmaceutical Solutions	95	85	104
Medical-Surgical Solutions	36	110	34
Other	61	68	42
Corporate	76	75	99
Total	\$ 362	\$ 426	\$ 405
Revenues, net by geographic area			
United States	\$ 192,709	\$ 176,296	\$ 169,943
Foreign	38,342	38,023	38,414
Total Revenues	\$ 231,051	\$ 214,319	\$ 208,357

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

- (1) Revenues from services represent less than 1% of the Company's U.S. Pharmaceutical and Specialty Solutions segment's total revenues, less than 10% of the Company's European Pharmaceutical Solutions segment's total revenues and less than 2% of the Company's Medical-Surgical Solutions segment's total revenues.
- (2) Segment operating profit (loss) includes gross profit, net of operating expenses, as well as other income (expense), net, for the Company's operating segments.
- (3) The Company's U.S. Pharmaceutical and Specialty Solutions segment's operating profit for 2020, 2019 and 2018 includes pre-tax credits of \$252 million, \$210 million and \$99 million (\$186 million, \$156 million and \$64 million after-tax) related to the LIFO method of accounting for inventories. Operating profit for 2020, 2019 and 2018 also includes \$22 million, \$202 million and \$144 million of cash receipts for the Company's share of antitrust legal settlements. In addition, operating profit for 2019 includes a pre-tax charge of \$61 million (\$45 million after-tax) related to a customer bankruptcy and 2018 includes a pre-tax gain of \$43 million (\$26 million after-tax) from the sale of an equity investment.
- (4) European Pharmaceutical Solutions segment's operating loss for 2020 includes a charge of \$275 million (pre-tax and after-tax) to remeasure to fair value the assets and liabilities of the Company's German wholesale business to be contributed to a joint venture, and for 2020, 2019 and 2018 also includes pre-tax long-lived asset impairment charges of \$82 million, \$210 million and \$446 million (\$66 million, \$172 million and \$410 million after-tax). Operating loss for 2019 and 2018 includes pre-tax goodwill impairment charges of \$1.8 billion and \$1.3 billion (pre-tax and after-tax).
- (5) Operating loss for Other for 2020 includes a pre-tax impairment charge of \$1.2 billion (\$864 million after-tax) and a pre-tax dilution loss of \$246 million (\$184 million after-tax) associated with the Company's investment in the Change Healthcare JV, along with an estimated gain of \$414 million (pre-tax and after-tax) related to the split-off of the Change Healthcare JV.
- (6) Operating profit (loss) for Other for 2020, 2019 and 2018 includes pre-tax goodwill and long-lived asset impairment charges of \$32 million, \$56 million and \$488 million (pre-tax and after-tax) recognized for the Company's Rexall Health retail business. The 2019 operating profit for Other also includes a pre-tax gain from an escrow settlement of \$97 million (pre-tax and after-tax) representing certain indemnity and other claims related to the Company's 2017 acquisition of Rexall Health. In addition, operating profit for 2019 includes pre-tax restructuring and asset impairment charges of \$91 million (\$86 million after-tax), primarily associated with lease and other exit-related costs and a pre-tax gain of \$56 million (\$41 million after-tax) recognized from the sale of an equity investment.
- (7) Operating profit for Other for 2019 includes a pre-tax credit of \$90 million (\$66 million after-tax) for the derecognition of the TRA liability payable to the shareholders of Change. Operating profit (loss) for Other also includes the Company's proportionate share of loss from the Change Healthcare JV of \$119 million, \$194 million and \$248 million for 2020, 2019 and 2018.
- (8) Operating loss for Other for 2018 includes a pre-tax gain of \$109 million (\$30 million after-tax) from the sale of the Company's EIS business and a pre-tax credit of \$46 million (\$30 million after-tax) representing a reduction in its TRA liability.
- (9) Corporate expenses, net, for 2020 include pre-tax settlement charges of \$122 million (\$90 million after-tax) for the termination of the Company's defined benefit pension plan and a settlement charge of \$82 million (\$61 million after-tax) related to opioid claims. Corporate expenses, net, for 2019 include pre-tax restructuring and asset impairment charges of \$94 million (\$70 million after-tax) primarily associated with employee severance and other exit-related costs.
- (10) Amounts primarily consist of amortization of acquired intangible assets purchased in connection with business acquisitions and capitalized software for internal use.
- (11) Long-lived assets consist of property, plant and equipment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Segment assets and property, plant and equipment, net by geographic areas were as follows:

<i>(In millions)</i>	March 31,	
	2020	2019
Segment assets		
U.S. Pharmaceutical and Specialty Solutions	\$ 34,927	\$ 32,310
European Pharmaceutical Solutions	9,499	7,829
Medical-Surgical Solutions	5,395	5,260
Other	7,944	11,006
Corporate	3,482	3,267
Total	<u>\$ 61,247</u>	<u>\$ 59,672</u>
Property, plant and equipment, net		
United States	\$ 1,642	\$ 1,698
Foreign	723	850
Total	<u>\$ 2,365</u>	<u>\$ 2,548</u>

McKESSON CORPORATION
FINANCIAL NOTES (Continued)
25. Quarterly Financial Information (Unaudited)

The quarterly results of operations are not necessarily indicative of the results that may be expected for the entire year. Selected quarterly financial information for the last two years is as follows:

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2020				
Revenues	\$ 55,728	\$ 57,616	\$ 59,172	\$ 58,535
Gross Profit ⁽¹⁾	2,787	2,867	3,033	3,336
Income (Loss) After Income Taxes:				
Continuing operations ^{(1) (2) (3) (4) (5) (6)}	\$ 483	\$ (676)	\$ 247	\$ 1,072
Discontinued operations	(6)	(1)	(5)	6
Net Income (Loss)	\$ 477	\$ (677)	\$ 242	\$ 1,078
Net Income (Loss) Attributable to McKesson Corporation	\$ 423	\$ (730)	\$ 186	\$ 1,021
Earnings (loss) Per Common Share Attributable to McKesson Corporation ⁽⁷⁾				
Diluted ⁽⁸⁾				
Continuing operations	\$ 2.27	\$ (3.99)	\$ 1.06	\$ 5.82
Discontinued operations	(0.03)	—	(0.03)	0.03
Total	\$ 2.24	\$ (3.99)	\$ 1.03	\$ 5.85
Basic				
Continuing operations	\$ 2.28	\$ (3.99)	\$ 1.06	\$ 5.86
Discontinued operations	(0.03)	—	(0.02)	0.03
Total	\$ 2.25	\$ (3.99)	\$ 1.04	\$ 5.89

- (1) Gross profit for the first, second, third and fourth quarters of 2020 includes pre-tax credits of \$15 million, \$33 million, \$66 million and \$138 million (\$11 million, \$25 million, \$49 million and \$101 million after-tax) related to the LIFO method of accounting for inventories.
- (2) Financial results for the fourth quarter of 2020 include an estimated gain of \$414 million (pre-tax and after-tax) related to the split-off of the Change Healthcare JV. Financial results for the second quarter of 2020 include a pre-tax impairment charge of \$1.2 billion (\$864 million after-tax) and pre-tax dilution loss of \$246 million (\$184 million after-tax) associated with the Company's investment in the Change Healthcare JV.
- (3) Financial results for the third quarter of 2020 includes a charge of \$282 million (pre-tax and after-tax) to remeasure to fair value the assets and liabilities of the Company's German wholesale business to be contributed to a joint venture, pre-tax long-lived asset impairment charges of \$64 million (\$53 million after-tax) within the Company's European Pharmaceutical Solutions segment, and goodwill and long-lived asset impairment charges of \$32 million (pre-tax and after-tax) recognized for the Company's Rexall Health retail business.
- (4) Financial results for the first, second, third and fourth quarters of 2020 include the Company's proportionate share of income from the Change Healthcare JV of \$4 million and losses of \$51 million, \$28 million and \$44 million.
- (5) Financial results for the second quarter of 2020 includes a pre-tax settlement charge of \$105 million (\$78 million after-tax) for the termination of the Company's defined benefit pension plan.
- (6) Financial results for the second quarter of 2020 includes a pre-tax settlement charge of \$82 million (\$61 million after-tax) related to opioids claims.
- (7) Certain computations may reflect rounding adjustments.
- (8) As a result of the Company's reported net loss for the second quarter of 2020, potentially dilutive securities were excluded from the per share computations for that quarter due to their antidilutive effect.

McKESSON CORPORATION
FINANCIAL NOTES (Concluded)

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2019				
Revenues	\$ 52,607	\$ 53,075	\$ 56,208	\$ 52,429
Gross Profit ⁽¹⁾⁽²⁾	2,779	2,804	2,970	3,201
Income (Loss) after Income Taxes:				
Continuing operations ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	\$ (81)	\$ 552	\$ 527	\$ (744)
Discontinued operations	1	1	(1)	—
Net Income (Loss)	\$ (80)	\$ 553	\$ 526	\$ (744)
Net Income (Loss) Attributable to McKesson Corporation	\$ (138)	\$ 499	\$ 469	\$ (796)
Earnings (Loss) Per Common Share Attributable to McKesson Corporation ⁽⁸⁾				
Diluted ⁽⁹⁾				
Continuing operations	\$ (0.69)	\$ 2.51	\$ 2.41	\$ (4.17)
Discontinued operations	0.01	—	(0.01)	—
Total	\$ (0.68)	\$ 2.51	\$ 2.40	\$ (4.17)
Basic				
Continuing operations	\$ (0.69)	\$ 2.52	\$ 2.42	\$ (4.17)
Discontinued operations	0.01	—	(0.01)	—
Total	\$ (0.68)	\$ 2.52	\$ 2.41	\$ (4.17)

- (1) Gross profit for the first, second, third and fourth quarters of 2019 includes pre-tax credits of \$21 million, \$22 million, \$21 million and \$146 million (\$15 million, \$17 million, \$15 million and \$109 million after-tax) related to the LIFO method of accounting for inventories.
- (2) Gross profit for the first, third and fourth quarters of 2019 includes \$35 million, \$104 million, and \$63 million of cash receipts for the Company's share of antitrust legal settlements.
- (3) Financial results for the first and fourth quarters of 2019 include goodwill impairment charges of \$570 million and \$1.2 billion (both pre-tax and after-tax) within the Company's two reporting units within the European Pharmaceutical Solutions segment.
- (4) Financial results for the first and fourth quarters of 2019 include pre-tax asset impairment charges of \$20 million (\$16 million after-tax) and \$190 million (\$156 million after-tax) primarily for the Company's U.K. retail business. Financial results for the third quarter of 2019 include asset impairment charges of \$35 million (pre-tax and after-tax) for the Company's Rexall Health retail business.
- (5) Financial results for the first, second, third and fourth quarters of 2019 include the Company's proportionate share of loss from the Change Healthcare JV of \$56 million, \$56 million, \$50 million and \$32 million.
- (6) Financial results for the first quarter of 2019 include a gain from an escrow settlement of \$97 million (pre-tax and after-tax) representing certain indemnity and other claims related to the Company's 2017 acquisition of Rexall Health.
- (7) Financial results for the second quarter of 2019 include a pre-tax credit of \$90 million (\$66 million after-tax) for the derecognition of the TRA liability payable to the shareholders of Change.
- (8) Certain computations may reflect rounding adjustments.
- (9) As a result of the Company's reported net loss for the first and fourth quarters of 2019, potentially dilutive securities were excluded from the per share computations for those quarters due to their antidilutive effect.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included in this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Controls

There was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our fourth quarter of 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

McKESSON CORPORATION

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2020 Annual Meeting of Stockholders (the “Proxy Statement”) under the heading “Election of Directors.” Information about our Executive Officers is incorporated by reference from the discussion in Part I of this report under the heading “Information about our Executive Officers.” Information about our Audit Committee, including the members of the committee and our Audit Committee Financial Expert, is incorporated by reference from the discussion under the headings “Audit Committee,” and “Audit Committee Report” in our Proxy Statement.

Information about the Code of Conduct applicable to all employees, officers and directors can be found on our website, www.mckesson.com, under the caption “Investors - Corporate Governance.” The Company’s Corporate Governance Guidelines and Charters for the Audit, Compensation and Governance Committees can also be found on our website under the same caption.

The Company intends to post on its website required information regarding any amendment to, or waiver from, the Code of Conduct that applies to our Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions within four business days after any such amendment or waiver.

Item 11. Executive Compensation.

Information with respect to this item is incorporated by reference from the discussion under the heading “Executive Compensation” in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Principal Shareholders” in our Proxy Statement.

The following table sets forth information as of March 31, 2020 with respect to the plans under which the Company’s common stock is authorized for issuance:

<i>Plan Category</i> <i>(In millions, except per share amounts)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights⁽¹⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	4.8 ⁽²⁾	\$ 180.48	23.1 ⁽³⁾
Equity compensation plans not approved by security holders	—	\$ —	—

(1) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock unit (“RSU”) awards, since recipients are not required to pay an exercise price to receive the shares subject to these awards.

(2) Represents option and RSU awards outstanding under the following plans: (i) 1997 Non-Employee Directors’ Equity Compensation and Deferral Plan; (ii) the 2005 Stock Plan; and (iii) the 2013 Stock Plan.

(3) Represents 2,640,734 shares available for purchase under the 2000 Employee Stock Purchase Plan and 20,423,484 shares available for grant under the 2013 Stock Plan.

The following are descriptions of equity plans that have been approved by the Company’s stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2013 Stock Plan and 2005 Stock Plan related to non-employee directors, which is administered by the Board of Directors or its Governance Committee.

McKESSON CORPORATION

2013 Stock Plan: The 2013 Stock Plan was adopted by the Board of Directors on May 22, 2013 and approved by the Company's stockholders on July 31, 2013. The 2013 Stock Plan permits the grant of awards in the form of stock options, stock appreciation rights, restricted stock ("RS"), restricted stock units ("RSUs"), performance-based restricted stock units ("PeRSUs"), performance shares and other share-based awards. The number of shares reserved for issuance under the 2013 Stock Plan equals the sum of (i) 30,000,000 shares, (ii) the number of shares reserved but unissued under the 2005 Stock Plan as of the effective date of the 2013 Stock Plan, and (iii) the number of shares that become available for reuse under the 2005 Stock Plan following the effective date of the 2013 Stock Plan. For any one share of common stock issued in connection with an RS, RSU, performance share or other full share award, three and one-half shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, including in respect of the payment of applicable taxes, or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2013 Stock Plan. Shares withheld to satisfy tax obligations relating to the vesting of a full-share award shall be returned to the reserve of shares available for issuance under the 2013 Stock Plan.

Stock options are granted at no less than fair market value and those options granted under the 2013 Stock Plan generally have a contractual term of seven years. Options generally become exercisable in four equal annual installments beginning one year after the grant date. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. Beginning with awards granted in fiscal year 2020, RS and RSUs generally vest over three years. RSUs granted under the PeRSU program vest three years following the end of the performance period. The Company's executive officers and other members of senior management are annually granted performance awards called performance stock units ("PSUs"), which have a three-year performance period and are payable in shares without an additional vesting period.

Non-employee directors may be granted an award on the date of each annual meeting of the stockholders for up to 5,000 RSUs, as determined by the Board. Such non-employee director award is fully vested on the date of the grant.

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, RS, RSUs, PeRSUs, performance shares and other share-based awards. For any one share of common stock issued in connection with an RS, RSU, performance share or other full-share award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, shares withheld to satisfy tax obligations relating to the vesting of a full-share award or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan. Stock options were granted at no less than fair market value and options granted under the 2005 Stock Plan generally have a contractual term of seven years.

Following the effectiveness of the 2013 Stock Plan, no further shares were made subject to award under the 2005 Stock Plan. Shares reserved but unissued under the 2005 Stock Plan as of the effective date of the 2013 Stock Plan, and shares that become available for reuse under the 2005 Stock Plan following the effectiveness of the 2013 Stock Plan, will be available for awards under the 2013 Stock Plan.

1997 Non-Employee Directors' Equity Compensation and Deferral Plan: The 1997 Non-Employee Directors' Equity Compensation and Deferral Plan was approved by the Company's stockholders on July 30, 1997; however, stockholder approval of the 2005 Stock Plan on July 27, 2005 had the effect of terminating the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan such that no new awards would be granted under the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan.

2000 Employee Stock Purchase Plan (the "ESPP"): The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company's international and other subsidiaries. As to those employees, the ESPP does not qualify under Section 423 of the Internal Revenue Code. Currently, 21.1 million shares have been approved by stockholders for issuance under the ESPP.

The ESPP is implemented through a continuous series of three-month purchase periods ("Purchase Periods") during which contributions can be made toward the purchase of common stock under the plan.

McKESSON CORPORATION

Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant's compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company's common stock. The purchase price of each share of the Company's common stock is 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

There currently are no equity awards outstanding that were granted under equity plans that were not submitted for approval by the Company's stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information with respect to certain transactions with directors and management is incorporated by reference from the Proxy Statement under the heading "Related Party Transactions Policy and Transactions with Related Persons." Information regarding Director independence is incorporated by reference from the Proxy Statement under the heading "Director Independence." Additional information regarding certain related party balances and transactions is included in the Financial Review section of this report and Financial Note 23, "Related Party Balances and Transactions" to the consolidated financial statements appearing in this report.

Item 14. Principal Accounting Fees and Services.

Information regarding principal accountant fees and services is set forth under the heading "Ratification of Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for Fiscal 2021" in our Proxy Statement and all such information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule.

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(a)(1) Consolidated Financial Statements	
Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm	52
Consolidated Statements of Operations for the years ended March 31, 2020, 2019 and 2018	57
Consolidated Statements of Comprehensive Income for the years ended March 31, 2020, 2019 and 2018	58
Consolidated Balance Sheets as of March 31, 2020 and 2019	59
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2020, 2019 and 2018	60
Consolidated Statements of Cash Flows for the years ended March 31, 2020, 2019 and 2018	61
Financial Notes	62
(a)(2) Financial Statement Schedule	
Schedule II-Valuation and Qualifying Accounts	131
All other schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.	
(a)(3) Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index	132

Item 16. Form 10-K Summary

None.

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2020, 2019 and 2018
(In millions)

Description	Balance at Beginning of Year	Additions		Deductions From Allowance Accounts ⁽¹⁾	Balance at End of Year ⁽²⁾
		Charged to Costs and Expenses	Charged to Other Accounts ⁽³⁾		
Year Ended March 31, 2020					
Allowances for doubtful accounts	\$ 273	\$ 91	\$ (19)	\$ (93)	\$ 252
Other allowances	24	—	—	6	30
	<u>\$ 297</u>	<u>\$ 91</u>	<u>\$ (19)</u>	<u>\$ (87)</u>	<u>\$ 282</u>
Year Ended March 31, 2019					
Allowances for doubtful accounts	\$ 187	\$ 132	\$ (1)	\$ (45)	\$ 273
Other allowances	39	—	(15)	—	24
	<u>\$ 226</u>	<u>\$ 132</u>	<u>\$ (16)</u>	<u>\$ (45)</u>	<u>\$ 297</u>
Year Ended March 31, 2018					
Allowances for doubtful accounts	\$ 243	\$ 44	\$ 13	\$ (113)	\$ 187
Other allowances	42	—	(3)	—	39
	<u>\$ 285</u>	<u>\$ 44</u>	<u>\$ 10</u>	<u>\$ (113)</u>	<u>\$ 226</u>

	2020	2019	2018
(1) Deductions:			
Written off	\$ (93)	\$ (45)	\$ (113)
Credited to other accounts	6	—	—
Total	<u>\$ (87)</u>	<u>\$ (45)</u>	<u>\$ (113)</u>

(2) Amounts shown as deductions from current and non-current receivables (current allowances are \$265 million, \$279 million and \$216 million at March 31, 2020, 2019 and 2018)	<u>\$ 282</u>	<u>\$ 297</u>	<u>\$ 226</u>
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(3) Primarily represents reclassifications to other balance sheet accounts.

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EXHIBIT INDEX

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and;

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibits identified under “Incorporated by Reference” in the table below are on file with the Commission and are incorporated by reference as exhibits hereto.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
2.1	Agreement of Contribution and Sale, dated as of June 28, 2016, by and among McKesson Corporation, PF2 NewCo LLC, PF2 NewCo Intermediate Holdings, LLC, PF2 NewCo Holdings, LLC, HCIT Holdings, Inc., Change Healthcare, Inc., Change Aggregator L.P. and H&F Echo Holdings, L.P.	8-K	1-13252	2.1	July 5, 2016
2.2	Amendment No. 1 to Agreement Contribution and Sale, dated as of March 1, 2017, by and among by and among Change Healthcare LLC, Change Healthcare Intermediate Holdings, LLC, Change Healthcare Holdings, LLC, HCIT Holdings, Inc., Change Healthcare, Inc., a Delaware corporation, for itself and in its capacity as Echo Representative, certain affiliates of The Blackstone Group, L.P., certain affiliates of Hellman & Friedman LLC, and McKesson Corporation, a Delaware corporation.	8-K	1-13252	2.1	March 7, 2017
2.3	Separation and Distribution Agreement by and between McKesson Corporation, PF2 SpinCo, Inc., Change Healthcare Inc., Change Healthcare LLC, Change Intermediate Holdings, LLC and Change Healthcare Holdings, LLC (including form of Tax Matters Agreement)	8-K	1-13252	2.1	February 10, 2020
3.1	Amended and Restated Certificate of Incorporation of the Company, as filed with the Delaware Secretary of State on July 27, 2011.	8-K	1-13252	3.1	August 2, 2011
3.2	Amended and Restated By-Laws of the Company, as amended March 11, 2020	8-K	1-13252	3.1	March 13, 2020
4.1	Indenture, dated as of March 11, 1997, by and between the Company, as issuer, and The First National Bank of Chicago, as trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Officers' Certificate, dated as of March 11, 1997, and related Form of 2027 Note.	S-4	333-30899	4.2	July 8, 1997
4.3	Indenture, dated as of March 5, 2007, by and between the Company, as issuer, and The Bank of New York Trust Company, N.A., as trustee.	8-K	1-13252	4.1	March 5, 2007

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
4.4	First Supplemental Indenture, dated as of February 28, 2011, to the Indenture, dated as of March 5, 2007, among the Company, as issuer, the Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), and Wells Fargo Bank, National Association, as trustee, and related Form of 2021 Note and Form of 2041 Note.	8-K	1-13252	4.2	February 28, 2011
4.5	Indenture, dated as of December 4, 2012, by and between the Company, as issuer, and Wells Fargo Bank, National Association, as trustee.	8-K	1-13252	4.1	December 4, 2012
4.6	Officers' Certificate, dated as of December 4, 2012, and related Form of 2022 Note.	8-K	1-13252	4.2	December 4, 2012
4.7	Officers' Certificate, dated as of March 8, 2013, and related Form of 2023 Note.	8-K	1-13252	4.2	March 8, 2013
4.8	Officers' Certificate, dated as of March 10, 2014, and related Form of 2024 Note, and Form of 2044 Note.	8-K	1-13252	4.2	March 10, 2014
4.9	Officer's Certificate, dated as of February 17, 2017, and related Form of 2021 Euro Note, Form of 2025 Euro Note, and Form of 2029 Sterling Note.	8-K	1-13252	4.1	February 17, 2017
4.10	Officer's Certificate, dated as of February 12, 2018, and related Form of 2026 Euro Note.	8-K	1-13252	4.1	February 13, 2018
4.11	Officer's Certificate, dated as of February 16, 2018, and related Form of 2028 Note.	8-K	1-13252	4.1	February 21, 2018
4.12	Officer's Certificate, dated as of November 30, 2018, and related Form of 2020 Note and Form of 2029 Note.	8-K	1-13252	4.1	November 30, 2018
4.13†	Description of the Company's Securities.	—	—	—	—
10.1*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004
10.2*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated on January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.3*	McKesson Corporation Supplemental Retirement Savings Plan, as amended and restated effective July 30, 2019.	10-Q	1-13252	10.2	October 30, 2019
10.4*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated as of October 28, 2004, and Amendment No. 1 thereto effective July 25, 2007.	10-K	1-13252	10.7	May 7, 2008
10.5*	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated effective July 30, 2019.	10-Q	1-13252	10.1	October 30, 2019
10.6*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of January 20, 2010.	8-K	1-13252	10.1	January 25, 2010
10.7*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated as of April 23, 2013.	10-K	1-13252	10.11	May 7, 2013
10.8*†	McKesson Corporation Change in Control Policy for Selected Executive Employees, as amended and restated as set forth April 28, 2020 effective January 28, 2020.	—	—	—	—
10.9*	McKesson Corporation Management Incentive Plan, effective July 29, 2015.	8-K	1-13252	10.1	July 31, 2015
10.10*	Form of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation Management Incentive Plan, effective May 26, 2015.	10-Q	1-13252	10.1	July 29, 2015

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Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.11*	McKesson Corporation Long-Term Incentive Plan, as amended and restated effective May 26, 2015, as amended effective October 23, 2018.	10-Q	1-13252	10.1	October 25, 2018
10.12*	Forms of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation Long-Term Incentive Plan, effective May 24, 2016.	10-K	1-13252	10.14	May 5, 2016
10.13*	McKesson Corporation 2005 Stock Plan, as amended and restated on July 28, 2010.	10-Q	1-13252	10.4	July 30, 2010
10.14*	Forms of (i) Statement of Terms and Conditions, (ii) Stock Option Grant Notice and (iii), Restricted Stock Unit Agreement, each as applicable to Awards under the McKesson Corporation 2005 Stock Plan.	10-Q	1-13252	10.2	July 26, 2012
10.15*	McKesson Corporation 2013 Stock Plan, as adopted on May 22, 2013.	8-K	1-13252	10.1	August 2, 2013
10.16*†	Forms of Statement of Terms and Conditions and Grant Notices Applicable to Awards Pursuant to the McKesson Corporation 2013 Stock Plan.	—	—	—	—
10.17	Third Amended and Restated Limited Liability Company Agreement of Change Healthcare LLC, dated as of March 1, 2017.	8-K	1-13252	10.1	March 7, 2017
10.18	Form of Commercial Paper Dealer Agreement between McKesson Corporation, as Issuer, and the Dealer.	10-K	1-13252	10.19	May 5, 2016
10.19	Credit Agreement, dated as of October 22, 2015, among the Company and Certain Subsidiaries, as Borrowers, Bank of America, N.A. as Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), Citibank, N.A. and Barclays Bank PLC, as Swing Line Lenders, Wells Fargo Bank, National Association as L/C Issuer, Barclays Bank PLC, Citibank N.A., Wells Fargo Bank, National Association as Co-Syndication Agents, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Co-Documentation Agents, and The Other Lenders Party Thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Bank PLC, Citigroup Global Markets Inc., Goldman Sachs Bank USA, J.P. Morgan Securities, LLC, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Wells Fargo Securities, LLC as Joint Lead Arrangers and Joint Book Runners.	8-K	1-13252	10.1	October 23, 2015
10.20	Amendment No. 2, dated January 30, 2014, and Amendment No. 1, dated November 15, 2013, to the Credit Agreement and the Credit Agreement dated as of September 23, 2011, among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A. as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as Co-Syndication Agents, Wells Fargo Bank, National Association as L/C Issuer, The Bank of Tokyo-Mitsubishi UFJ, LTD., The Bank of Nova Scotia and U.S. Bank National Association as Co-Documentation Agents, and The Other Lenders Party Thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Sole Lead Arranger and Sole Book Manager.	8-K	1-3252	10.1	February 5, 2014
10.21	Credit Agreement dated as of September 25, 2019, among the Company and certain subsidiaries, as borrowers, Bank of America, N.A., as administrative agent, Barclays Bank PLC, Citibank, N.A., Wells Fargo Bank, National Association, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., and HSBC Securities (USA) Inc., as co-syndication agents, the lenders party thereto, the letter of credit issuers party thereto.	10-Q	1-13252	10.1	October 30, 2019

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.22*	Form of Director and Officer Indemnification Agreement.	10-K	1-13252	10.27	May 4, 2010
10.23	Description of Separation Letter between the Company and Bansi Nagji, Executive Vice President and Chief Strategy and Business Development Officer, dated March 17, 2020.	8-K	1-13252	—	March 23, 2020
10.24	Tax Matters Agreement, by and between McKesson Corporation, PF2 SpinCo, Inc., Change Healthcare Inc. and Change Healthcare LLC, dated as of March 9, 2020	8-K	1-13252	10.1	March 13, 2020
21†	List of Subsidiaries of the Registrant.	—	—	—	—
23†	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.	—	—	—	—
31.1†	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2†	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
101†	The following materials from the McKesson Corporation Annual Report on Form 10-K for the fiscal year ended March 31, 2020, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Financial Notes.	—	—	—	—
104†	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).	—	—	—	—

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the registrant, the authorized principal amount of which does not exceed 10% of the total assets of the registrant.

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MCKESSION CORPORATION

Date: May 22, 2020

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Marie L. Knowles

Marie L. Knowles, Director

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Bradley E. Lerman

Bradley E. Lerman, Director

/s/ Sundeep G. Reddy

Sundeep G. Reddy

Senior Vice President and Controller
(Principal Accounting Officer)

/s/ Maria Martinez

Maria Martinez, Director

/s/ Dominic J. Caruso

Dominic J. Caruso, Director

/s/ Edward A. Mueller

Edward A. Mueller, Director

/s/ N. Anthony Coles

N. Anthony Coles, M.D., Director

/s/ Susan R. Salka

Susan R. Salka, Director

/s/ M. Christine Jacobs

M. Christine Jacobs, Director

/s/ Kenneth E. Washington

Kenneth E. Washington, Director

/s/ Donald R. Knauss

Donald R. Knauss, Director

Date: May 22, 2020

**DESCRIPTION OF THE COMPANY'S SECURITIES REGISTERED
PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

The following are brief descriptions of (a) the common stock, \$0.01 par value per share (the "Common Stock"), (b) the 0.625% Notes due 2021 (the "2021 Notes"), (c) the 1.500% Notes due 2025 (the "2025 Notes"), (d) the 1.625% Notes due 2026 (the "2026 Notes") and (e) the 3.125% Notes due 2029 (the "2029 Notes and, collectively with the 2021 Notes, the 2025 Notes and the 2026 Notes, the "Notes"), of McKesson Corporation (the "Company" or "we," "us" or "our"), which are the only securities of the Company registered pursuant to Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act").

Description of Common Stock

General

The following descriptions of the Common Stock and of certain provisions of Delaware law do not purport to be complete and are subject to and qualified in their entirety by reference to our amended and restated certificate of incorporation, our amended and restated by-laws and the Delaware General Corporation Law ("DGCL"). Copies of our amended and restated certificate of incorporation and our amended and restated by-laws have been filed with the Securities and Exchange Commission (the "SEC") and are incorporated by reference herein.

As of the date hereof, our authorized capital stock consists of 900,000,000 shares, of which 800,000,000 shares are Common Stock and 100,000,000 shares are preferred stock, par value \$0.01 per share. We may amend from time to time our amended and restated certificate of incorporation to increase the number of authorized shares of Common Stock and/or preferred stock. Any such amendment would require the approval of the holders of a majority of our shares entitled to vote. All of our outstanding shares of Common Stock are fully paid and non-assessable.

Common Stock

Dividend Rights. Subject to the dividend rights of the holders of any outstanding preferred stock, the holders of shares of Common Stock are entitled to receive ratably dividends out of assets legally available therefor at such times and in such amounts as our board of directors may from time to time determine.

Rights Upon Liquidation. Upon liquidation, dissolution or winding up of our affairs, the holders of Common Stock are entitled to share ratably in our assets that are legally available for distribution, after payment of all debts, other liabilities and any liquidation preferences of outstanding preferred stock.

Conversion, Redemption and Preemptive Rights. Holders of our Common Stock have no conversion, redemption, preemptive or similar rights.

Voting Rights. Each outstanding share of Common Stock is entitled to one vote on all matters submitted to a vote of stockholders. Our amended and restated certificate of incorporation does not provide for cumulative voting in the election of directors.

Anti-Takeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation and Our Amended and Restated By-Laws

Our amended and restated certificate of incorporation and our amended and restated by-laws contain certain provisions that may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Our amended and restated certificate of incorporation also provides that any action required or permitted to be taken by the holders of Common Stock may be effected only at an annual or special meeting of such holders, and that stockholders may act in lieu of such meetings only by unanimous written consent. Our amended and restated by-laws provide that special meetings of holders of Common Stock may be called only by our Chair, Chief Executive Officer or a majority of our board of directors for any purpose at any time. Holders of Common Stock owning at least 15% of the outstanding shares of Common Stock for at least one year are permitted to submit a special meeting request in accordance with the procedures described in our amended and restated by-laws.

Our amended and restated by-laws establish an advance notice procedure for the nomination, other than by or at the direction of our board of directors, of candidates for election as directors as well as for other stockholder proposals to be considered at annual meetings of stockholders. In general, notice of intent to nominate a director or raise business at such meetings must be received by us not less than 90 nor more than 120 days prior to the date of the annual meeting and must contain certain specified information concerning the person to be nominated or the matters to be brought before the meeting and concerning the stockholder submitting the proposal.

Pursuant to our amended and restated certificate of incorporation and the DGLC, our amended and restated certificate of incorporation may be amended by a vote of a majority of our board of directors and by the affirmative vote of a majority of the shares of the corporation entitled to vote thereon. Our amended and restated certificate of incorporation and our amended and restated by-laws provide that our amended and restated by-laws may be amended by a vote of a majority of our board of directors. In addition, our amended and restated by-laws provide that our amended and restated by-laws may be amended by the affirmative vote of a majority of the shares of the corporation entitled to vote thereon.

Section 203 of Delaware General Corporation Law

We are subject to the “business combination” statute of the DGCL. In general, such statute prohibits a publicly held Delaware corporation from engaging in a “business combination” with any “interested stockholder” for a period of three years after the date of the transaction in which the person became an “interested stockholder,” unless:

- (1) such transaction is approved by our board of directors prior to the date the interested stockholder obtains such status,

- (2) upon consummation of such transaction, the “interested stockholder” beneficially owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by (a) persons who are directors and also officers and (b) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer, or
- (3) the “business combination” is approved by our board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66-2/3% of the outstanding voting stock which is not owned by the “interested stockholder.”

A “business combination” includes mergers, asset sales and other transactions resulting in financial benefit to the “interested stockholder.” An “interested stockholder” is a person who, together with affiliates and associates, owns (or within three years, did own) beneficially 15% or more of a corporation’s voting stock. The statute could prohibit or delay mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us.

Certain Effects of Authorized But Unissued Stock

Our authorized but unissued shares of Common Stock and preferred stock may be issued without additional stockholder approval and may be utilized for a variety of corporate purposes, including future offerings to raise additional capital or to facilitate corporate acquisitions.

The issuance of preferred stock could have the effect of delaying or preventing a change in control of us. The issuance of preferred stock could decrease the amount available for distribution to holders of our Common Stock or could adversely affect the rights and powers, including voting rights, of such holders. In certain circumstances, such issuance could have the effect of decreasing the market price of our Common Stock.

One of the effects of the existence of unissued and unreserved Common Stock or preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of management. Such additional shares also could be used to dilute the stock ownership of persons seeking to obtain control of us.

Limitation of Liability of Directors

Our amended and restated certificate of incorporation contains a provision that limits the liability of our directors for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by the Delaware General Corporation Law. Such limitation does not, however, affect the liability of a director (1) for any breach of the director's duty of loyalty to us or our stockholders, (2) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (3) in respect of certain unlawful dividend payments or stock redemptions or purchases and (4) for any transaction from which the director derives an improper personal benefit. The effect of this provision is to eliminate our rights and the rights of our stockholders (through stockholders' derivative suits) to recover monetary damages against a director for breach of the fiduciary duty of care as a director (including breaches resulting from negligent or grossly negligent behavior) except in the situations described in clauses (1) through (4) above. This provision does not limit or eliminate our rights or the rights of our stockholders to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. In addition, our directors and officers have indemnification protection.

Transfer Agent and Registrar

EQ Shareowner Services acts as transfer agent and registrar of our Common Stock.

Listing

Our Common Stock is listed on the New York Stock Exchange under the symbol "MCK".

Description of Notes**General**

On February 17, 2017, we issued £450,000,000 aggregate principal amount of 3.125% Notes due 2029, €600,000,000 aggregate principal amount of 0.625% Notes due 2021 and €600,000,000 aggregate principal amount of 1.500% Notes due 2025, and on February 12, 2018, we issued €500,000,000 aggregate principal amount of 1.625% Notes due 2026. Each series of the Notes was issued pursuant to the Indenture, dated as of December 4, 2012 (the "Indenture") between the Company and Wells Fargo Bank, National Association, as trustee (the "Trustee"), in each case, as supplemented by an Officer's Certificate setting forth certain terms of the applicable series of the Notes (the "Officer's Certificates").

Each series of the Notes is an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company's existing and future unsecured and unsubordinated indebtedness from time to time outstanding.

The following descriptions of the Indenture, the Officer's Certificates and the Notes do not purport to be complete and are subject to and qualified in their entirety by reference to the Indenture, the Officer's Certificates and the Notes, which have been filed with the SEC and are incorporated by reference herein. Unless otherwise specified, all capitalized and undefined terms in this "Description of Notes" have the meanings specified in the Indenture.

General Terms of the Indenture

We may issue, from time to time, debt securities, in one or more series, that will consist of either our senior debt (“Senior Debt Securities”), our senior subordinated debt (“Senior Subordinated Debt Securities”), our subordinated debt (“Subordinated Debt Securities”) or our junior subordinated debt (“Junior Subordinated Debt Securities” and, together with the Senior Subordinated Debt Securities and the Subordinated Debt Securities, the “Subordinated Securities”). The Indenture does not limit the amount of debt securities that we may issue. It provides that we may issue debt securities up to the principal amount that we may authorize and may be in any currency or currency unit designated by us. Except for the limitations on consolidation, merger and sale of all or substantially all of our assets contained in the Indenture, the terms of the Indenture do not contain any covenants or other provisions designed to afford holders of any debt securities protection with respect to our operations, financial condition or transactions involving us.

Consolidation, Merger or Sale. We cannot consolidate or merge with or into, or transfer or lease all or substantially all of our assets to, any person unless (a) we will be the continuing corporation or (b) the successor corporation or person formed by such consolidation or into which we are merged or to which our assets substantially as an entirety are transferred or leased is a corporation, limited liability company or limited partnership organized or existing under the laws of the United States, any state of the United States or the District of Columbia and, if such entity is not a corporation, a co-obligor of the debt securities is a corporation organized or existing under any such laws, and such successor corporation or person, including such co-obligor, if any, expressly assumes our obligations on the debt securities and under the Indenture. In addition, we cannot effect such a transaction unless immediately after giving effect to such transaction, no default or Event of Default under the Indenture shall have occurred and be continuing. Subject to certain exceptions, when the person to whom our assets are transferred or leased has assumed our obligations under the debt securities and the Indenture, we shall be discharged from all our obligations under the debt securities and the Indenture, except in limited circumstances.

This covenant would not apply to any recapitalization transaction, a change of control of the Company or a highly leveraged transaction, unless the transaction or change of control were structured to include a merger or consolidation or transfer or lease of all or substantially all of our assets.

Events of Default. Unless otherwise indicated, the term “Event of Default,” when used in the Indenture with respect to the debt securities of any series, means any of the following:

- failure to pay interest for 30 days after the date payment on any debt security of such series is due and payable; provided that an extension of an interest payment period by the Company in accordance with the terms of the debt securities shall not constitute a failure to pay interest;
- failure to pay principal or premium, if any, on any debt security of such series when due, either at maturity, upon any redemption, by declaration or otherwise;
- failure to perform any other covenant in the Indenture or the debt securities of such series (“other covenants”) for 90 days after notice that performance was required;
- events in bankruptcy, insolvency or reorganization of the Company; or
- any other Event of Default provided in the applicable resolution of our board of directors or the officers’ certificate or supplemental Indenture under which we issue such series of debt securities.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the Indenture. If an Event of Default relating to the payment of interest, principal or any sinking fund installment involving any series of debt securities has occurred and is continuing, the Trustee or the holders of not less than 25% in aggregate principal amount of the debt securities of each affected series may declare the entire principal of all the debt securities of that series to be due and payable immediately.

If an Event of Default relating to the performance of other covenants occurs and is continuing for a period of 90 days after notice of such, or if any other Event of Default occurs and is continuing involving all of the series of Senior Debt Securities, then the Trustee or the holders of not less than 25% in aggregate principal amount of all of the series of Senior Debt Securities may declare the entire principal amount of all of the series of Senior Debt Securities due and payable immediately.

Similarly, if an Event of Default relating to the performance of other covenants occurs and is continuing for a period of 90 days after notice of such, or if any other Event of Default occurs and is continuing involving all of the series of Subordinated Securities, then the Trustee or the holders of not less than 25% in aggregate principal amount of all of the series of Subordinated Securities may declare the entire principal amount of all of the series of Subordinated Securities due and payable immediately.

If, however, the Event of Default relating to the performance of other covenants or any other Event of Default that has occurred and is continuing is for less than all of the series of Senior Debt Securities or Subordinated Securities, as the case may be, then the Trustee or the holders of not less than 25% in aggregate principal amount of each affected series of the Senior Debt Securities or the Subordinated Securities, as the case may be, may declare the entire principal amount of all debt securities of such affected series due and payable immediately. The holders of not less than a majority in aggregate principal amount of the debt securities of a series may, after satisfying conditions, rescind and annul any of the above-described declarations and consequences involving the series.

If an Event of Default relating to events in bankruptcy, insolvency or reorganization of the Company occurs and is continuing, then the principal amount of all of the debt securities outstanding, and any accrued interest, will automatically become due and payable immediately, without any declaration or other act by the Trustee or any holder.

The Indenture imposes limitations on suits brought by holders of debt securities against us. Except as provided below, no holder of debt securities of any series may institute any action against us under the Indenture unless:

- the holder has previously given to the Trustee written notice of default and continuance of that default;
- the holders of at least 25% in principal amount of the outstanding debt securities of the affected series have requested that the Trustee institute the action;
- the requesting holders have offered the Trustee security or indemnity reasonably satisfactory to it for expenses and liabilities that may be incurred by bringing the action;
- the Trustee has not instituted the action within 60 days of the request; and

- the Trustee has not received inconsistent direction by the holders of a majority in principal amount of the outstanding debt securities of the affected series.

Notwithstanding the foregoing, each holder of debt securities of any series has the right, which is absolute and unconditional, to receive payment of the principal of, and premium and interest, if any, on, such debt securities when due and to institute suit for the enforcement of any such payment, and such rights may not be impaired without the consent of that holder of debt securities.

We will be required to file annually with the Trustee a certificate, signed by an officer of the Company, stating whether or not the officer knows of any default by us in the performance, observance or fulfillment of any condition or covenant of the Indenture.

Modification of the Indenture. The Indenture provides that we and the Trustee may enter into supplemental indentures without the consent of the holders of debt securities to:

- secure any debt securities;
- evidence the assumption by a successor corporation of our obligations;
- add covenants for the protection of the holders of debt securities;
- cure any ambiguity or correct any inconsistency in the Indenture;
- establish the forms or terms of debt securities of any series; and
- evidence and provide for the acceptance of appointment by a successor Trustee.

The Indenture also provides that we and the Trustee may, with the consent of the holders of not less than a majority in aggregate principal amount of debt securities of all series of Senior Debt Securities or Subordinated Securities, as the case may be, then outstanding and affected thereby (voting as one class), add any provisions to, or change in any manner, eliminate or modify in any way the provisions of, the Indenture or modify in any manner the rights of the holders of the debt securities. We and the Trustee may not, however, without the consent of the holder of each outstanding debt security affected thereby:

- extend the final maturity of any debt security;
- reduce the principal amount or premium, if any;
- reduce the rate or extend the time of payment of interest;
- reduce any amount payable on redemption;
- change the currency in which the principal (other than as may be provided otherwise with respect to a series), premium, if any, or interest is payable;
- reduce the amount of the principal of any debt security issued with an original issue discount that is payable upon acceleration or provable in bankruptcy;
- modify any of the subordination provisions or the definition of senior indebtedness applicable to any Subordinated Securities in a manner adverse to the holders of those securities;

- alter provisions of the Indenture relating to the debt securities not denominated in U.S. dollars;
- impair the right to institute suit for the enforcement of any payment on any debt security when due; or
- reduce the percentage of holders of debt securities of any series whose consent is required for any modification of the Indenture.

Certain Covenants

Each Officer's Certificate contains the following covenants.

Definitions. The term "Attributable Debt" shall mean in connection with a sale and lease-back transaction the lesser of (a) the fair value of the assets subject to such transaction, as determined by our Board of Directors, or (b) the present value of the remaining obligations of the lessee for net rental payments during the term of any lease discounted at the rate of interest set forth or implicit in the terms of such lease or, if not practicable to determine such rate, the weighted average interest rate per annum borne by the debt securities of each series outstanding pursuant to the Indenture and subject to limitations on sale and lease-back transaction covenants, compounded semi-annually in either case as determined by our principal accounting or financial officer.

The term "Consolidated Subsidiary" shall mean any Subsidiary (as defined in the Indenture), substantially all the property of which is located, and substantially all the operations of which are conducted, in the United States of America whose financial statements are consolidated with our financial statements in accordance with accounting principles generally accepted in the United States of America.

The term "Exempted Debt" shall mean the sum of the following as of the date of determination: (1) Indebtedness of ours and our Consolidated Subsidiaries incurred after the date of issuance of the notes and secured by liens not permitted by the limitation on liens provisions, and (2) Attributable Debt of ours and our Consolidated Subsidiaries in respect of every sale and lease-back transaction entered into after the date of the issuance of the notes, other than leases permitted by the limitation on sale and lease-back provisions.

The term "Indebtedness" shall mean all items classified as indebtedness on our most recently available consolidated balance sheet, in accordance with accounting principles generally accepted in the United States of America.

The term "Qualified Receivables Transaction" shall mean any transaction or series of transactions entered into by us or any of our Subsidiaries pursuant to which we or any of our Subsidiaries sells, conveys or otherwise transfers to (1) a Receivables Subsidiary (in the case of a transfer by us or any of our Subsidiaries) or (2) any other person (in the case of a transfer by a Receivables Subsidiary), or grants a security interest in, any accounts receivable (whether now existing or arising in the future) or inventory of us or any of our Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable or inventory, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving accounts receivable or inventory.

The term “Receivables Subsidiary” shall mean a Subsidiary of ours which engages in no activities other than in connection with the financing of accounts receivable or inventory (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (1) is guaranteed by us or any Subsidiary of ours (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction), (2) is recourse or obligates us or any Subsidiary of ours in any way other than pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction or (3) subjects any property or asset of ours or any Subsidiary of ours (other than accounts receivable or inventory and related assets as provided in the definition of “Qualified Receivables Transaction”), directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction, (b) with which neither we nor any Subsidiary of ours has any material contract, agreement, arrangement or understanding other than on terms customary for securitization of receivables or inventory and (c) with which neither we nor any Subsidiary of ours has any obligations to maintain or preserve such Subsidiary’s financial condition or cause such Subsidiary to achieve certain levels of operating results.

Limitation on Liens. We covenant that, so long as any of the Notes remain outstanding, we will not, and will not permit any Consolidated Subsidiary, to create or assume any Indebtedness for money borrowed which is secured by a mortgage, pledge, security interest or lien (“liens”) of or upon any assets, whether now owned or hereafter acquired, of ours or any such Consolidated Subsidiary without equally and ratably securing the notes by a lien ranking equally to and ratably with (or, at our option, senior to) such secured Indebtedness, except that the foregoing restriction shall not apply to:

- liens on assets of any corporation existing at the time such corporation becomes a Consolidated Subsidiary;
- liens on assets existing at the time of acquisition thereof, or to secure the payment of the purchase price of such assets, or to secure indebtedness incurred or guaranteed by us or a Consolidated Subsidiary for the purpose of financing the purchase price of such assets or improvements or construction thereon, which indebtedness is incurred or guaranteed prior to, at the time of or within 360 days after such acquisition, or in the case of real property, completion of such improvement or construction or commencement of full operation of such property, whichever is later;
- liens securing indebtedness owed by any Consolidated Subsidiary to us or another wholly owned Subsidiary;
- liens on any assets of a corporation existing at the time such corporation is merged into or consolidated with us or a Subsidiary or at the time of a purchase, lease or other acquisition of the assets of the corporation or firm as an entirety or substantially as an entirety by us or a Subsidiary;
- liens on any assets of ours or a Consolidated Subsidiary in favor of the United States of America or any state thereof, or in favor of any other country, or political subdivision thereof, to secure certain payments pursuant to any contract or statute or to secure any indebtedness incurred or guaranteed for the purpose of financing all or any part of the purchase price, or, in the case of real property, the cost of construction, of the assets subject to such liens, including, but not limited to, liens incurred in connection with pollution control, industrial revenue or similar financing;

- any extension, renewal or replacement, or successive extensions, renewals or replacements, in whole or in part, of any lien referred to in the foregoing;
- certain statutory liens or other similar liens arising in the ordinary course of our or a Consolidated Subsidiary's business, or certain liens arising out of government contracts;
- certain pledges, deposits or liens made or arising under the worker's compensation or similar legislation or in certain other circumstances;
- certain liens in connection with legal proceedings, including certain liens arising out of judgments or awards;
- liens for certain taxes or assessments, landlord's liens and liens and charges incidental to the conduct of the business or the ownership of our assets or those of a Consolidated Subsidiary, which were not incurred in connection with the borrowing of money and which do not, in our opinion, materially impair the use of such assets in the operation of our business or that of such Consolidated Subsidiary or the value of such assets for the purposes thereof;
- liens relating to accounts receivable of ours or any of our Subsidiaries which have been sold, assigned or otherwise transferred to another Person in a transaction classified as a sale of accounts receivable in accordance with accounting principles generally accepted in the United States of America, to the extent the sale by us or the applicable Subsidiary is deemed to give rise to a lien in favor of the purchaser thereof in such accounts receivable or the proceeds thereof; or
- liens on any assets of ours or any of our Subsidiaries (including Receivables Subsidiaries) incurred in connection with a Qualified Receivables Transaction.

Notwithstanding the above, we or any of our Consolidated Subsidiaries may, without securing the notes, create or assume any Indebtedness which is secured by a lien which would otherwise be subject to the foregoing restrictions; provided that after giving effect thereto the Exempted Debt then outstanding at such time does not exceed 10% of our total assets on a consolidated basis.

Limitation on Sale and Lease-Back Transactions. Sale and lease-back transactions, except such transactions involving leases for less than three years, by us or any Consolidated Subsidiary of any assets are prohibited unless (a) we or such Consolidated Subsidiary would be entitled to incur Indebtedness secured by a lien on the assets to be leased in an amount at least equal to the Attributable Debt in respect of such transaction without equally and ratably securing the notes, or (b) the proceeds of the sale of the assets to be leased are at least equal to their fair market value (as determined by our Board of Directors) and the proceeds are applied to the purchase or acquisition, or, in the case of real property, the construction, of assets or to the retirement of Indebtedness. The foregoing limitation will not apply, if at the time we or any Consolidated Subsidiary enters into such sale and lease-back transaction, and after giving effect thereto, Exempted Debt does not exceed 10% of our total assets on a consolidated basis.

2021 Notes

The 2021 Notes bear interest at the rate of 0.625% per year. Interest on the 2021 Notes is payable on August 17 of each year. The 2021 Notes will mature on August 17, 2021.

We may redeem the 2021 Notes prior to July 17, 2021, the date that is one month before their maturity date, in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price that includes accrued and unpaid interest and a make-whole premium, as specified in the Indenture and the applicable Officer's Certificate.

On or after July 17, 2021, we may redeem the 2021 Notes in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to, but not including, the redemption date.

In addition, we may redeem the 2021 Notes for cash in whole, but not in part, at any time prior to maturity at a price equal to 100% of, plus accrued and unpaid interest, if certain tax events occur, as specified in the applicable Officer's Certificate.

In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a the 2021 Notes below an investment grade rating by each of the Ratings Agencies (as defined in the applicable Officer's Certificate) within a specified period, unless the Company has previously exercised its optional redemption right with respect to the 2021 Notes in whole, the Company will be required to offer to repurchase the 2021 Notes from the holders at a price in cash equal to 101% of the then outstanding principal amount of 2021 Notes, plus accrued and unpaid interest to, but not including, the date of repurchase.

2025 Notes

The 2025 Notes bear interest at the rate of 1.500% per year. Interest on the 2025 Notes is payable on November 17 of each year. The 2025 Notes will mature on November 17, 2025.

We may redeem the 2025 Notes prior to August 17, 2025, the date that is three months before their maturity date, in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price that includes accrued and unpaid interest and a make-whole premium, as specified in the Indenture and the applicable Officer's Certificate.

On or after August 17, 2025, we may redeem the 2025 Notes in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to, but not including, the redemption date.

In addition, we may redeem the 2025 Notes for cash in whole, but not in part, at any time prior to maturity at a price equal to 100% of, plus accrued and unpaid interest, if certain tax events occur, as specified in the applicable Officer's Certificate.

In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a the 2025 Notes below an investment grade rating by each of the Ratings Agencies (as defined in the applicable Officer's Certificate) within a specified period, unless the Company has previously exercised its optional redemption right with respect to the 2025 Notes in whole, the Company will be required to offer to repurchase the 2025 Notes from the holders at a price in cash equal to 101% of the then outstanding principal amount of 2025 Notes, plus accrued and unpaid interest to, but not including, the date of repurchase.

2026 Notes

The 2026 Notes bear interest at the rate of 1.625% per year. Interest on the 2026 Notes is payable on October 30 of each year. The 2026 Notes will mature on October 30, 2026.

We may redeem the 2026 Notes for cash in whole, at any time, or in part, from time to time, prior to maturity, at a redemption price that includes accrued and unpaid interest and a make-whole premium.

In addition, we may redeem the 2026 Notes for cash in whole, but not in part, at any time prior to maturity at a price equal to 100% of, plus accrued and unpaid interest, if certain tax events occur, as specified in the applicable Officer's Certificate.

In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of the 2026 Notes below an investment grade rating by each of the Ratings Agencies (as defined in the applicable Officer's Certificate) within a specified period, unless the Company has previously exercised its optional redemption right with respect to the 2026 Notes in whole, the Company will be required to offer to repurchase the 2026 Notes from the holders at a price in cash equal to 101% of the then outstanding principal amount of 2026 Notes, plus accrued and unpaid interest to, but not including, the date of repurchase.

2029 Notes

The 2029 Notes bear interest at the rate of 3.125% per year. Interest on the 2029 Notes is payable on February 17 of each year. The 2029 Notes will mature on February 17, 2029.

We may redeem the 2029 Notes prior to November 17, 2028, the date that is three months before their maturity date in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price that includes accrued and unpaid interest and a make-whole premium, as specified in the Indenture and the applicable Officer's Certificate.

On or after November 17, 2028, we may redeem the 2029 Notes in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to, but not including, the redemption date.

In addition, we may redeem the 2029 Notes for cash in whole, but not in part, at any time prior to maturity at a price equal to 100% of, plus accrued and unpaid interest, if certain tax events occur, as specified in the applicable Officer's Certificate.

In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a the 2029 Notes below an investment grade rating by each of the Ratings Agencies (as defined in the applicable Officer's Certificate) within a specified period, unless the Company has previously exercised its optional redemption right with respect to the 2029 Notes in whole, the Company will be required to offer to repurchase the 2029 Notes from the holders at a price in cash equal to 101% of the then outstanding principal amount of 2029 Notes, plus accrued and unpaid interest to, but not including, the date of repurchase.

Concerning the Trustee

Wells Fargo Bank, National Association is the Trustee under the Indenture with respect to the Notes. We may maintain deposit accounts or conduct other banking transactions with the Trustee in the ordinary course of business.

Governing Law

The Indenture and Notes are governed by, and construed in accordance with, the laws of the State of New York, including, without limitation, Sections 5-1401 and 5-1402 of the New York General Obligations Law and New York Civil Practice Law and Rules 327(b).

Listing

Our 2021 Notes are listed on the New York Stock Exchange under the symbol “MCK21A.” Our 2025 Notes are listed on the New York Stock Exchange under the symbol “MCK25.” Our 2026 Notes are listed on the New York Stock Exchange under the symbol “MCK26.” Our 2029 Notes are listed on the New York Stock Exchange under the symbol “MCK29.”

McKESSON CORPORATION
CHANGE IN CONTROL POLICY FOR SELECTED EXECUTIVE EMPLOYEES
(Amended and Restated Effective January 28, 2020)

McKESON CORPORATION

CHANGE IN CONTROL POLICY FOR SELECTED EXECUTIVE EMPLOYEES

(Amended and Restated Effective January 28, 2020)

1. ADOPTION AND PURPOSE OF POLICY.

The McKesson Corporation Change in Control Policy for Selected Executive Employees (the “Policy”) was adopted effective November 1, 2006 by McKesson to provide a program of severance payments to certain employees of McKesson and its designated subsidiaries whose employment is terminated as the result of a Change in Control. The Policy is an “employee welfare benefit plan” within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and Section 2510.3-1 of the regulations issued thereunder. This document constitutes both the plan document and the summary plan description of the Policy. The plan administrator of the Policy for purposes of ERISA is McKesson. The Committee amended and restated this Policy effective as of November 1, 2006, October 29, 2008, April 21, 2009, October 26, 2010, and to read as set forth herein on April 28, 2020, effective January 28, 2020.

If a Participant is entitled to receive payments under this Policy that Participant will be precluded from receiving payment under any other Company-sponsored severance benefit plan or severance benefit policy.

2. CHANGE IN CONTROL BENEFITS.

(a) Basic Change in Control Benefits. In the event of the occurrence of a Change in Control where a Participant’s employment is terminated under circumstances that constitute a Separation from Service (i) proximate to and initiated at the direction of the person or entity that is involved in, or otherwise in connection with, such Change in Control, for any reason other than Cause and occurring within the period six (6) months preceding or twenty-four (24) months following a Change in Control (including any termination without Cause by the Company occurring during the twenty-four (24) months following a Change in Control) or (ii) initiated by the Participant for Good Reason and occurring on or within twenty-four (24) months following the date of such Change in Control, that Participant shall be entitled to a Change in Control benefit equal to the following:

Tier One Participant: 2.99 times Earnings

Tier Two Participant: 2 times Earnings

Tier Three Participant: 1 times Earnings

(b) Other Change in Control Benefits. A Participant who is entitled to the basic Change in Control benefit provided in (a) above also shall be entitled to the following:

(i) A taxable cash payment which is sufficient to provide a net amount, after applicable taxes and withholdings, equal to (A) the Participant’s monthly premium for COBRA continuation coverage for medical, dental and vision coverage under the Company’s group health plan based on the Participant’s coverage elections in effect at the time of the Participant’s Separation from Service, multiplied by (B) the number of months set forth below:

Tier One Participant: 36 months

Tier Two Participant: 24 months

Tier Three Participant: 12 months

(ii) The Participant is eligible to have continued Company-paid life insurance at the level in effect on the date of the Change in Control for the number of months set forth below from the date of termination:

Tier One Participant: 36 months

Tier Two Participant: 24 months

Tier Three Participant: 12 months

(iii) The Participant is eligible for reasonable Company-paid outplacement services, in an amount not to exceed the amount determined by the Executive Vice President and Chief Human Resources Officer as in effect prior to the Change in Control; provided, however, that the expenses for such services must be incurred by the Participant at any time on or before the last day of the second (2nd) taxable year following the taxable year in which the Participant's Separation from Service occurs, and such expenses shall be reimbursed by the Company at any time on or before the last day of the third (3rd) taxable year (but, for the avoidance of doubt, at no time before such expenses are incurred and appropriate documentation has been provided to the Company) following the taxable year in which the Participant's Separation from Service occurs.

(iv) In the event it shall be determined that any payment or distribution to the Participant or for the Participant's benefit which is in the nature of compensation and is contingent on a Change in Control (a "Payment") would constitute a "parachute payment" under Section 280G(b)(2) of the Code and would be subject to the excise tax imposed by Section 4999 of the Code (together with any interest or penalties imposed with respect to such excise tax, the "Excise Tax"), then the Payments shall be reduced to the extent necessary so that no portion thereof shall be subject to the excise tax imposed by Section 4999 of the Code, but only if, by reason of such reduction, the net after-tax benefit received by the Participant shall exceed the net after-tax benefit received by the Participant if no such reduction was made. The specific payments shall be reduced and the order of such reduction shall be determined so as to achieve the most favorable economic impact to the Participant. To the extent such determination by the Participant is permitted by Section 409A of the Code and other tax requirements, the Participant shall determine the ordering of any reduction. To the extent the ordering of the reduction is required by Section 409A of the Code or other tax principles to be done other than by the Participant, the Designated Firm(s) (as hereinafter defined) shall determine the ordering of any reduction to achieve the most favorable economic benefit to the Participant. To the extent the ordering of the reduction is required by Section 409A or other tax principles to be done other than by the Participant and to be more specifically set forth in advance then such reduction to achieve the most favorable economic benefit to the Participant shall be determined by the Designated Firm(s). Any reduction in the Payments as determined by the Designated Firm(s) shall be applied first against the latest scheduled cash payments; then current cash payments; then any equity or equity derivatives that are included under Section 280G of the Code at an accelerated value (and not at full value) shall be reduced with the highest value reduced first (as such values are determined under Treasury Regulation section 1.280G-1, Q&A 24); finally any other non-cash benefits will be reduced. For purposes of this Section 2(b)(v), "net after-tax benefit" shall mean (i) the Payments which the Participant receives or are then entitled to receive from the Company that would constitute "parachute payments" within the meaning of Section 280G of the Code, less (ii) the amount of all federal, state and local income taxes payable with respect to the Payments calculated at the maximum marginal income tax rate for each year in which the Payments shall be paid to the Participant (based on the rate in effect for such year as set forth in the Code as in effect at the time of the first payment of the foregoing), less (iii) the amount of Excise Taxes imposed with respect to the Payments. All determinations required to be made under this Section 2(b)(v) shall be made by such nationally recognized accounting firm and/or a Section 280G valuation specialty firm as may be selected by McKesson before such Change in Control (the "Designated Firm(s)"), provided, that the determination of the Designated Firm(s) shall in all cases apply all methods that may be applied and take account of factors that may be considered to reduce any and all amounts constituting parachute payments, including, without limitation, by considering the value of any reasonable compensation attributable any restrictive covenants, by omitting from consideration performance criteria applicable to incentives for purposes of Treasury Regulation section 1.280G-1, Q&A 24(c) to the extent that such performance criteria have been achieved or are likely to be achieved, and by applying all other methods and considering all other factors that may be applied and considered to reduce amounts constituting parachute payments. The Designated Firm(s) shall provide their determination, together with detailed supporting calculations and documentation, to the Participant and McKesson within 15 business days following the date of termination of the Participant's employment, if applicable, or such other time as requested by the Participant (provided that the Participant reasonably believes that any of the Payments may be subject to the Excise Tax) or McKesson. At the reasonable request of the Participant, the Designated Firm(s) shall confer with the Participant or the Participant's representatives with respect to the determination provided by the Designated Firm(s) and shall recalculate amounts reflected in such determination in any manner reasonably requested by the Participant or the Participant's representative to facilitate full consideration of any reasonable alternative computation of the amounts reflected in the determination provided by the Designated Firm(s) and arrive at a final determination that is optimal to the Participant within the limitations of the applicable tax rules. All fees and expenses of the Designated Firm(s) shall be borne solely by McKesson.

(v) Each benefit provided for in this paragraph (b) is a separate "payment" within the meaning of Treasury Regulation section 1.409A-2(b)(2) (i). The benefit provided in subparagraphs (ii) - (iii) above may be in the form of a reimbursement or an in-kind benefit (payment made directly to the provider of the benefits). Such reimbursements or in-kind benefits provided during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year.

(c) If any of the payments or benefits payable to the Participant under this Policy when considered together with any other payments or benefits which may be considered deferred compensation under Section 409A of Code would result in the imposition of additional tax under Section 409A of the Code if paid to the Participant on or within the six (6) month period following the Participant's Separation from Service, then to the extent such portion of the payments or benefits resulting in the imposition of additional tax would otherwise have been payable on or within the first six (6) months following his or her Separation from Service, shall be paid or reimbursed in a lump sum in the seventh (7th) month following such Separation (or such longer period as is required to avoid the imposition of additional tax under Section 409A of the Code). If any amount due under paragraph (a) above is delayed under this paragraph (c), then such lump sum amount shall include an additional amount representing interest credited at the default interest rate being credited to accounts under McKesson's Deferred Compensation Administration Plan III or the successor to such plan (or, if greater, or if no such interest is being credited at such time, at the default interest rate last credited under such plan prior to the date of the Change in Control) for the period from Participant's Separation from Service until the payment date of such lump sum. All subsequent payment or benefits will be payable in accordance with the payment schedule applicable to each such payment or benefits.

(d) Nothing in this Policy shall alter or impair any rights a Participant may have upon his or her Separation from Service under any other plan or program of the Company; provided, however, if a Participant receives payments under this Policy that Participant will be precluded from receiving payment under any other Company-sponsored severance benefit plan or severance benefit policy. Notwithstanding the foregoing, no individual covered by an agreement with the Company or an affiliate that provides for severance benefits in the event of a change in control or similar event shall be a Participant in this Policy.

(e) Notwithstanding any provision in this Policy, no payments will be made to a Participant under this Policy until the Participant provides to the Company a signed release of claims and does not revoke such release during the applicable statutory period provided to revoke a release, if any (the "revocation period"). For employees based in the United States, such release shall be in the form provided for in Annex A, with such reasonable changes as may be determined by McKesson prior to the Change in Control. For employees based in a jurisdiction other than the United States, such release shall be in such form as determined by the Company in compliance with the local laws of the jurisdiction in which the Participant is based, but shall not require any covenants for the employee in excess of those included in the form attached as Annex A. If the Participant does not revoke his or her signed release by the end of the revocation period (or such equivalent as required under any local laws), then the Participant shall have an "Effective Release" on file with the Company. No payments will be made to a Participant under this Policy unless the Company has an Effective Release from that Participant prior to sixty-five (65) days (or such other period as required by local laws) after the Participant's Separation from Service.

3. FORM OF BENEFIT.

The benefit described in Sections 2(a) and 2(b)(i) shall be paid in a lump sum on the regularly scheduled payroll date that first occurs after the date which is sixty-five (65) days following the date of the Participant's Separation from Service, but no payment shall be made if Participant does not have an Effective Release (as defined in Section 2(e)) on file with the Company prior to that date, subject to Section 2(c).

4. EFFECT OF DEATH OF EMPLOYEE.

Should a Participant die after a Separation from Service and becoming eligible to receive the benefits provided in Sections 2(a) and 2(b)(i) but prior to the benefit being paid to the Participant, the benefit payable under Section 2(a) and 2(b)(i) shall be paid in a lump sum to the Participant's surviving spouse if such spouse is cohabitating with the Participant at the time of the Participant's death, or, if the Participant does not have a spouse cohabitating with the Participant at the time of the Participant's death, to the Participant's estate, as soon as reasonably practicable, but in no event later than ninety (90) days, after the date of death. The benefits set forth in Section 2(b)(ii) shall continue to apply following the Participant's death. If a Participant dies prior to Separation from Service, no payments will be made or benefits provided under this Policy.

5. AMENDMENT AND TERMINATION.

McKesson reserves the right to, at any time, by action of the Board or the Committee, amend the Policy or increase or decrease the amount of any benefit provided under the Policy or terminate the Policy in accordance with Treasury Regulation section 1.409A-3(j)(4)(ix); provided that no such action shall have the effect of decreasing the benefit of a Participant whose Separation from Service following a Change in Control occurred prior to the date of the Board's or Committee's action, and, no action taken within six (6) months before or twenty-four (24) months after a Change in Control shall be effective if the result of such action would be to decrease the protections or benefits under the Policy of any individual who is designated a Participant as of the date of such action.

6. ADMINISTRATION AND FIDUCIARIES.

- (a) Plan Sponsor and Administrator. McKesson is the "plan sponsor" and the "Administrator" of the Policy, within the meaning of ERISA.
- (b) Administrative Responsibilities. McKesson shall be the named fiduciary, within the meaning of ERISA, with the power and sole discretion to determine who is eligible for benefits under the Policy, to determine the value of benefits paid in any form other than cash or the present value of any cash or other benefits paid over time, to interpret the Policy and to prescribe such forms, make such rules, regulations and computations and prescribe such guidelines as it may determine are necessary or appropriate for the operation and administration of the Policy and to change the terms of or rescind such rules, regulations or guidelines. Such determinations of eligibility, rules, regulations, interpretations, computations and guidelines shall be conclusive and binding upon all persons. In administering the Policy, McKesson shall at all times discharge its duties with respect to the Policy in accordance with the standards set forth in Section 404(a)(1) of ERISA.
- (c) Allocation and Delegation of Responsibilities. The Committee may allocate any of McKesson's responsibilities for the operation and administration of the Policy among McKesson's officers, employees and agents. It may also delegate any of McKesson's responsibilities under the Policy by designating, in writing, another person to carry out such responsibilities.
- (d) No Individual Liability. It is declared to be the express purpose and intent of McKesson that no individual liability shall attach to or be incurred by any member of the Board of McKesson, or by any officer, employee representative or agent of the Company, under, or by reason of the operation of, the Policy.
- (e) Employer Identification Number and Policy Number. The employer identification number (EIN) assigned to McKesson by the Internal Revenue Service is 94-3207296. The plan number (PIN) assigned to the Policy by McKesson is 551.
- (f) Policy Year. All records with respect to the Policy are kept on a calendar year basis.
- (g) Legal Actions. No lawsuit can be brought to recover a benefit under the Policy until an individual or his or her representative has done all of the following: (i) filed a written claim as required by the Policy, (ii) received a written denial of the claim (or the claim is deemed denied as described below), (iii) filed a written request for a review of the denied claim with the Administrator, and (iv) received written notification that the denial of the claim has been affirmed (or the denial is deemed to be affirmed as described below).
- (h) Agent for Service of Legal Process. If an individual wishes to take legal action after exhausting the Policy's claims and appeal procedures, legal process should be served on: Executive Vice President and Chief Human Resources Officer, McKesson Corporation, 6555 No. State Highway 161, Irving, Texas 75039. The individual may also serve process on the Policy by serving the Administrator at the address shown above.
- (i) ERISA Rights.
- (i) Participants are entitled to certain rights and protections under Title I of ERISA.
 - (ii) Participants may examine without charge all official Policy documents during business hours in the McKesson Benefits Department. These documents include the legal texts of the plans, Policy descriptions and annual reports that McKesson files with the U.S. Department of Labor.

(iii) Participants may also obtain a copy of any of these documents by writing to the Administrator, and may be charged a reasonable fee for copies.

(iv) Participants have the right to receive a summary of the Policy's annual financial report. The Administrator is required by law to furnish each Participant with a copy of this summary annual report.

(v) Questions about this Policy should be directed to the Administrator. Participants that have any questions about this statement or about his or her rights under ERISA, or if he or she needs assistance in obtaining documents from the Administrator, the Participant should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in the telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. Participants may also obtain certain publications about their rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

(vi) No right to a benefit under the Policy shall depend (or shall be deemed to depend) upon whether a Participant retires or elects to receive retirement benefits under the terms of any employee pension benefit plan.

(vii) The Policy shall contain no terms or provisions except those set forth herein, or as hereafter amended in accordance with the provisions of Section 5. If any description made in any other document is deemed to be in conflict with any provision of the Policy, the provisions of the Policy shall control.

7. CLAIMS AND APPEAL PROCEDURES.

(a) Informal Resolution of Questions. Any Participant who has questions or concerns about his or her benefits under the Policy is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Participant satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section 7.

(b) Formal Benefits Claim - Review by Executive Vice President and Chief Human Resources Officer.¹ For purposes of this Section 7, if the Executive Vice President and Chief Human Resources is the claimant the General Counsel shall perform the claim and appeal functions of the Executive Vice President and Chief Human Resources Officer. A Participant may make a written request for review of any matter concerning his or her benefits under this Policy. The claim must be addressed to the Executive Vice President and Chief Human Resources Officer, McKesson Corporation, 6555 No. State Highway 161, Irving, Texas 75039. The Executive Vice President, Human Resources or his or her delegate ("Executive Vice President") shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The Executive Vice President shall review the request and shall issue his or her decision, in writing, no later than ninety (90) days after the date the request is received, unless the circumstances require an extension of time. If such an extension is required, written notice of the extension shall be furnished to the person making the request within the initial ninety (90) day period, and the notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the request. In no event shall the extension exceed a period of ninety (90) days from the end of the initial period. Any claim under this Policy must be brought within two (2) years of the date the events giving rise to the claim first occurred.

(c) Notice of Denied Request. If the Executive Vice President denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section 7(b). The notice shall set forth the specific reason for the denial, reference to the specific Policy provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Policy's appeal procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

¹ For purposes of this Section 7, if the Executive Vice President and Chief Human Resources is the claimant the General Counsel shall perform the claim and appeal functions of the Executive Vice President and Chief Human Resources Officer.

(d) Appeal to Executive Vice President.

(i) A person whose request has been denied in whole or in part (or such person's authorized representative) may file an appeal of the decision in writing with the Executive Vice President within sixty (60) days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President and Chief Human Resources Officer, McKesson Corporation, 6555 No. State Highway 161, Irving, Texas, 75039. The Executive Vice President, for good cause shown, may extend the period during which the appeal may be filed for another sixty (60) days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant should be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant's claim.

(ii) The Executive Vice President's review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Executive Vice President shall not be restricted in his or her review to those provisions of the Policy cited in the original denial of the claim.

(iii) The Executive Vice President shall issue a written decision within a reasonable period of time but not later than sixty (60) days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than one hundred twenty (120) days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial sixty (60) day period. This notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the appeal.

(iv) If the decision on the appeal denies the claim in whole or in part written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial, including references to specific Policy provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits. The notice shall describe any voluntary appeal procedures offered by the Policy and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.

(v) The decision of the Executive Vice President on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.

(e) Exhaustion of Remedies. No legal or equitable action for benefits under the Policy shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section 7(b), has been notified that the claim is denied in accordance with Section 7(c), has filed a written request for a review of the claim in accordance with Section 7(d), and has been notified in writing that the Executive Vice President has affirmed the denial of the claim in accordance with Section 7(d).

8. GENERAL PROVISIONS.

(a) Basis of Payments to and from Policy. All benefits under the Policy shall be paid by McKesson. The Policy shall be unfunded and benefits hereunder shall be paid only from the general assets of McKesson. Nothing contained in the Policy shall be deemed to create a trust of any kind for the benefit of any employee, or create any fiduciary relationship between the Company and any employee with respect to any assets of the Company. McKesson is under no obligation to fund the benefits provided herein prior to payment, although it may do so if it chooses. Any assets which McKesson chooses to use for advance funding shall not cause the Policy to be a funded plan within the meaning of ERISA.

(b) No Employment Rights. Nothing in the Policy shall be deemed to give any individual the right to remain in the employ of the Company or a subsidiary or to limit in any way the right of the Company or a subsidiary to discharge, demote, reclassify, transfer, relocate an individual or terminate an individual's employment at any time and for any reason, which right is hereby reserved.

(c) Non-alienation of Benefits. No benefit payable under the Policy shall be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do shall be void.

(d) Legal Construction. The Policy shall be governed and interpreted in accordance with ERISA.

(e) Successors to McKesson. McKesson shall require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of McKesson to assume and agree to perform the obligations of McKesson under the Policy in the same manner and to the same extent that McKesson would be required to perform if no such succession or assignment had taken place.

(f) Section 409A Compliance. Notwithstanding any other provision of this Policy, McKesson shall administer and construe this Policy in accordance with Section 409A of the Code, the regulations promulgated thereunder, and any other published interpretive authority, as issued or amended from time to time. McKesson shall have the authority to delay the payment of any amounts under this Policy to the extent it deems necessary or appropriate to comply with Section 409A of the Code.

9. DEFINITIONS.

Whenever used and capitalized in the text of the Policy, the following terms shall have the meaning set forth below:

(a) “Board” shall mean the Board of Directors of McKesson.

(b) “Cause” means termination of the Participant’s employment upon the Participant’s willful engagement in misconduct which is demonstrably and materially injurious to the Employer. No act, or failure to act, on the part of the Participant shall be considered “willful” unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that the Participant’s action or omission was in the best interest of the Employer.

(c) A “Change in Control” means the occurrence of any change in ownership of McKesson, change in effective control of McKesson, or change in the ownership of a substantial portion of the assets of McKesson, as defined in Treasury Regulation section 1.409A-3(i)(5), the regulations thereunder, and any other published interpretive authority, as issued or amended from time to time.

(d) “Code” means the Internal Revenue Code of 1986, as amended.

(e) “Committee” means the Compensation Committee of the Board.

(f) “Company” means McKesson and any affiliate that would be considered a service recipient for purposes of Treasury Regulation section 1.409A-1(g).

(g) “Earnings” means a Participant’s (i) annual base salary at the level in effect as of the date of the Change in Control or, if greater, as of the date of the Participant’s Separation from Service and (ii) the greater of (A) the Participant’s target bonus under the MIP at the level in effect as of the date of the Change in Control or, if greater, as of the date of the Participant’s Separation from Service, or (B) the average of the Participant’s award paid pursuant to the MIP for the latest three years for which the Participant was eligible to receive an award (or such lesser period of time during which the Participant was eligible to receive an award) as of the date of the Change in Control or, if greater, as of the date of the Participant’s Separation from Service.

(h) “Eligible Employee” means, unless otherwise determined by the Committee, an employee of the Company who qualifies as a Tier One Participant, a Tier Two Participant or a Tier Three Participant.

(i) “Employer” means McKesson and any other affiliate that would be considered a service recipient or employer for purposes Treasury Regulation section 1.409A-1(h)(3).

(j) “Good Reason” means any of the following actions, if taken without the express written consent of the Participant, which shall not be affected by the Participant’s incapacity due to physical or mental illness:

(i) Any material diminution by the Company in the Participant’s authority, duties or responsibilities, which change would cause the Participant’s position with the Company to become of less dignity, responsibility, importance, or scope as compared to the position and attributes that applied to the Participant immediately prior to the Change in Control;

(ii) Any material diminution in the Participant’s base annual salary, MIP target opportunity or Long Term Incentive compensation (LTI) target opportunities, which LTI target opportunities include cash awards with performance periods greater than one year and equity based grants;

(iii) Any material failure by the Company to pay any compensation or benefits as and when due to the Participant or any material failure by the Company to comply with any of the provisions of any compensatory agreement between the parties, including any award agreement setting forth any equity award or other LTI compensation, subsequent to a Change in Control;

(iv) The Company's requiring the Participant to be based at any office or location more than 25 miles from the office at which the Participant is based on the date immediately preceding the Change in Control, except for travel reasonably required in the performance of the Participant's responsibilities; and

(v) For a Tier One employee only, the requirement that such Participant report to a position materially inferior in the authority, duties or responsibilities to the position to which the Participant reported immediately prior to the Change in Control, including as the result of a change in structure occasioned by the Change in Control, an affirmative change in reporting or a diminution in the authority, duties or responsibilities of the position to which the Participant is required to report;

provided that, notwithstanding the forgoing, no Separation from Service may be considered for Good Reason unless (A) the Participant gives McKesson notice of the existence of an event described in clauses (i) - (v) above within ninety (90) days following the occurrence thereof, (B) McKesson does not remedy such event described in clauses (i) - (v) above, as applicable, within thirty (30) days of receiving such notice, and (C) the Participant terminates employment within sixty (60) days of the end of the cure period described in clause (B), above.

(k) "Identification Date" means each December 31.

(l) "Individual Target Award" has the same meaning as "Individual Target Award" under the MIP.

(m) "McKesson" means McKesson Corporation, a Delaware corporation.

(n) "MIP" means the McKesson Corporation Management Incentive Plan.

(o) "Participant" means (i) an individual who is an Eligible Employee, and (ii) whose employment is terminated under circumstances that render him or her eligible for the benefits described in Section 2 of the Policy.

(p) "Separation from Service" means termination of employment with the Employer, except in the event of death. A Participant shall be deemed to have had a Separation from Service if the Participant's service with the Employer is reduced to an annual rate that is equal to or less than twenty percent (20%) of the services rendered, on average, during the immediately preceding three (3) years of service with the Employer (or if providing service to the Employer less than three (3) years, such lesser period).

(q) "Specified Employee" means a Participant who, on an Identification Date, is:

(i) An officer of the Company having annual compensation greater than the compensation limit in Section 416(i)(1)(A)(i) of the Code, provided that no more than fifty (50) officers of the Company shall be determined to be Specified Employees as of any Identification Date;

(ii) A five percent (5%) owner of the Company; or

(iii) A one percent (1%) owner of the Company having annual compensation from the Company of more than \$150,000.

For purposes of determining whether a Participant is a Specified Employee, Treasury Regulation section 1.415(c)-2(d)(11)(ii) shall be used to calculate compensation. If a Participant is identified as a Specified Employee on an Identification Date, then such Participant shall be considered a Specified Employee for purposes of the Policy during the period beginning on the first April 1 following the Identification Date and ending on the next March 31.

(r) "Tier One Participant" means any executive officer of Company.

(s) "Tier Two Participant" means any Participant who is classified as having a career level of E2, E3, E4 or E5, but who is not a Tier One Participant.

(t) “Tier Three Participant” means any Participant who is classified as having a career level of E1 and is not a Tier One Participant or a Tier Two Participant.

10. EXECUTION.

This amendment and restatement to the Change in Control Policy was adopted effective January 28, 2020.

McKESSON CORPORATION

By: /s/ Tracy Faber

Tracy Faber
Executive Vice President and Chief Human Resources Officer

OUTSIDE DIRECTOR

McKESSON CORPORATION
STATEMENT OF TERMS AND CONDITIONS APPLICABLE TO
RESTRICTED STOCK UNITS GRANTED TO
OUTSIDE DIRECTORS PURSUANT TO THE 2013 STOCK PLAN

For Grants Beginning May 1, 2020

I. INTRODUCTION

The following terms and conditions shall apply to Restricted Stock Unit Awards granted under the Plan and are subject to the terms and conditions of the Plan. This Statement of Terms and Conditions is intended to meet the requirements of Code Section 409A and any regulations and rules promulgated thereunder. In the event of any inconsistency between this Statement of Terms and Conditions and the Plan, the Plan shall govern. Capitalized terms not otherwise defined in this Statement of Terms and Conditions shall have the meaning set forth in the Plan.

II. RESTRICTED STOCK UNITS

1. Award Agreement. A Restricted Stock Unit Award granted to an Outside Director under the Plan shall be evidenced by a Restricted Stock Unit Award Agreement to be executed by the Outside Director and the Corporation setting forth the terms and conditions of the Restricted Stock Unit Award. Each Restricted Stock Unit Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions and together both documents shall constitute the Restricted Stock Unit Award Agreement. The Restricted Stock Units are also subject to the terms and conditions of the Plan.

2. Terms and Conditions. The Administrator administering the Plan has authority to determine the Outside Directors to whom, and the time or times at which, grants of Restricted Stock Units will be made, the number of Units to be awarded, and all other terms and conditions of such awards. With respect to annual Restricted Stock Unit Awards granted to Outside Directors under the Plan, such awards shall be subject to the following terms, conditions and restrictions.

(A) Grant Date. Each Outside Director may be granted a Restricted Stock Unit Award on the date of each annual meeting of stockholders. An Outside Director that is elected to the Board between annual meetings of stockholders may also be granted a Restricted Stock Unit Award on the date that the Board determines in its sole discretion.

(B) Number of Units. Unless otherwise determined by the Board or the Governance Committee of the Board (the "Governance Committee"), the number of Units granted for the annual meeting grant will be determined by dividing the Fair Market Value of a Share on the date of grant into \$180,000 (with any fractional Unit rounded up to the nearest whole Unit). In addition to such grant, unless otherwise determined by the Board or the Governance Committee, the Independent Chair shall be granted an annual meeting grant determined by dividing the Fair Market Value of a Share on the date of grant into \$120,000 (with any fractional Unit rounded up to the nearest whole Unit). Notwithstanding the foregoing, in no event shall the aggregate number of Units granted to any Outside Director pursuant to such annual meeting grant or grants exceed 5,000. A newly elected Outside Director may receive a prorated annual meeting grant effective upon the date of the Outside Director's election to the Board.

(C) No Restrictions. Each Restricted Stock Unit Award granted to an Outside Director will be fully vested on the date of grant.

3. Dividend Equivalents. Dividend equivalents in respect of Restricted Stock Units may be credited on behalf of an Outside Director to a deferred cash account or converted into additional Restricted Stock Units, which will be subject to all of the terms and conditions of the underlying Restricted Stock Unit Award. Currently, dividend equivalents in respect of Restricted Stock Units granted to Outside Directors are credited to a deferred cash account until such time as the underlying Shares are issued.

4. Assignability. An Outside Director shall not be permitted to sell, transfer, pledge, assign or encumber Restricted Stock Units, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act.

5. No Stockholder Rights. Neither an Outside Director nor any person entitled to exercise an Outside Director's rights in the event of the Outside Director's death shall have any of the rights of a stockholder with respect to a Restricted Stock Unit Award except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to the underlying Shares paid upon the settlement of any Restricted Stock Unit Award as described in Section II.6 below.

6. Time of Payment of Restricted Stock Units. Except as noted in Section II.7 below, Restricted Stock Units granted to Outside Directors shall not be paid until after the Outside Director's separation of service with the Corporation ("Automatic Deferral Requirement"). "Separation of service" shall have the meaning provided under the McKesson Corporation Deferred Compensation Administration Plan III ("DCAP III"). Payment shall be made in Shares in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Outside Director's unrestricted interest in the number of Shares subject to the Restricted Stock Unit Award.

7. Satisfaction of Director Stock Ownership Guidelines. For those Outside Directors who have met the Director Stock Ownership Guidelines in effect at the time, Restricted Stock Unit grants shall not be subject to the Automatic Deferral Requirement and such grants will be immediately converted into Shares and distributed to the Outside Director; provided, however, that the Outside Director may elect to defer receipt of the Shares underlying the Restricted Stock Units.

8. Deferrals of Restricted Stock Units. Deferrals of Restricted Stock Units, whether elective or pursuant to the Automatic Deferral Requirement, shall be subject to the terms and conditions of DCAP III.

III. MISCELLANEOUS

1. No Effect on Terms of Service with the Corporation. Nothing contained in this Statement of Terms and Conditions, the Plan or a Restricted Stock Unit Agreement shall affect the Corporation's right to terminate the service of any Outside Director.

2. Grants to Outside Directors in Foreign Countries. If an Outside Director is not a United States citizen, the Board has the full discretion to deviate from this Statement of Terms and Conditions in order to adjust a Restricted Stock Unit Award to prevailing local conditions, including custom and legal and tax requirements. Furthermore, the Corporation reserves the right to impose other requirements on the Outside Director's participation in the Plan, on the Award and on any Shares acquired under the Plan, to the extent the Corporation determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Outside Director to sign any additional agreements or undertaking that may be necessary to accomplish the foregoing.

3. Information Notification. Any information required to be given under the terms of a Restricted Stock Unit Award shall be addressed to the Corporation in care of its Corporate Secretary at McKesson Corporation, 6555 State Highway 161, Irving, Texas 75039, and any notice to be given to an Outside Director shall be addressed to the Outside Director at the address indicated beneath the Outside Director's name on the Restricted Stock Unit Agreement or such other address as either party may designate in writing to the other. Any such notice shall be deemed to have been duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified and deposited (postage or registration or certification fee prepaid) in a post office or branch post office. The parties may use email delivery, so long as the message is clearly marked, sent to the email address(es) set forth herein. Email delivery will be deemed to occur when the sender receives confirmation that such message has been received and read by the recipient. Emails to the Corporation shall be delivered to CorpSecretary@McKesson.com.

4. Electronic Delivery. The Corporation may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or a third party designated by the Corporation.

5. Administrator Decisions Conclusive. All decisions of the Administrator administering the Plan upon any questions arising under the Plan, under this Statement of Terms and Conditions, or under a Restricted Stock Unit Agreement, shall be conclusive and binding on all persons.

6. No Effect on Other Benefit Plans. Nothing herein contained shall affect an Outside Director's right, if any, to participate in and receive benefits from and in accordance with the then current provisions of any benefit plan or program offered by the Corporation.

7. Withholding. Each Outside Director shall agree to make appropriate arrangements with the Corporation for satisfaction of any applicable federal, state or local income tax withholding requirements or payroll tax requirements, if any is required.

8. ***Data Privacy Information and Consent.***

(A) ***Data Collection and Usage.*** *The Corporation and the Employer may collect, process and use certain personal information about the Outside Director, including, but not limited to, the Outside Director's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number, salary, nationality, job title, any Shares held in the Corporation, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Outside Director's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Outside Director's consent.*

(B) ***Stock Plan Administration Service Providers.*** *The Corporation transfers Data to Fidelity Stock Plan Services LLC and its affiliated companies, an independent service provider based in the United States, which is assisting the Corporation with the implementation, administration and management of the Plan. The Corporation may select a different service provider or additional service providers and share Data with such other provider serving in a similar manner. The Outside Director may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.*

(C) ***International Data Transfers.*** *The Corporation and its service providers are based in the United States. The Outside Director's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program. The Corporation's legal basis, where required, for the transfer of Data is the Outside Director's consent.*

(D) ***Data Retention.*** *The Corporation will hold and use the Data only as long as is necessary to implement, administer and manage the Outside Director's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws. In the latter case, the Outside Director understands and acknowledges that the Corporation's legal basis for the processing of the Outside Director's Data would be compliance with the relevant laws or regulations or the pursuit by the Corporation of respective legitimate interests not outweighed by the Outside Director's interests, rights or freedoms. When the Corporation no longer needs the Outside Director's Data for any of the above purposes, the Outside Director understands the Corporation will remove it from its systems.*

(E) ***Voluntariness and Consequences of Consent Denial or Withdrawal.*** *Participation in the Plan is voluntary and the Outside Director is providing the consents herein on a purely voluntary basis. If the Outside Director does not consent, or if the Outside Director later seeks to revoke the Outside Director's consent, the Outside Director's retainer and fees from or services with the Corporation will not be affected; the only consequence of refusing or withdrawing the Outside Director's consent is that the Corporation would not be able to grant Awards to the Outside Director or administer or maintain such Awards.*

(F) **Data Subject Rights.** *The Outside Director may have a number of rights under data privacy laws in the Outside Director's jurisdiction. Depending on where the Outside Director is based, such rights may include the right to (i) inquire whether and what kind of Data the Corporation holds about the Outside Director and how it is processed, and to request access or copies of Data the Corporation processes, (ii) request the correction or supplementation of Data about the Outside Director that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, processed based on withdrawn consent, processed for legitimate interests that, in the context of the Outside Director's objection, do not prove to be compelling, or processed in non-compliance with applicable legal requirements, (iv) request restrictions on processing of Data in certain situations where the Outside Director feels its processing is inappropriate, (v) request portability of the Outside Director's Data that the Outside Director has actively or passively provided to the Corporation (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Outside Director's service on the Board and is carried out by automated means, (vi) object, in certain circumstances, to the processing of Data for legitimate interests, (vii) lodge complaints with competent authorities in the Outside Director's jurisdiction, and/or (viii) receive a list with the names and addresses of any potential recipients of Data. To receive clarification regarding these rights or to exercise these rights, the Outside Director can contact the Corporate Secretary.*

By accepting the Award and indicating consent via the Corporation's acceptance procedure, the Outside Director is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Corporation and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

9. **Successors.** This Statement of Terms and Conditions and the Restricted Stock Unit Agreements shall be binding upon and inure to the benefit of any successor or successors of the Corporation. "Outside Director" as used herein shall include the Outside Director's Beneficiary.

10. **Delaware Law.** The interpretation, performance, and enforcement of this Statement of Terms and Conditions and all Restricted Stock Unit Agreements shall be governed by the laws of the State of Delaware.

EXECUTIVE OFFICERS

McKESSON CORPORATION
STATEMENT OF TERMS AND CONDITIONS APPLICABLE TO
OPTIONS, RESTRICTED STOCK, RESTRICTED STOCK UNITS
AND PERFORMANCE STOCK UNITS GRANTED TO EXECUTIVE OFFICERS
PURSUANT TO THE 2013 STOCK PLAN

Effective for Grants Beginning May 26, 2020

I. INTRODUCTION

The following terms and conditions shall apply to an Award granted under the Plan and are subject to the terms and conditions of the Plan. This Statement of Terms and Conditions is intended to meet the requirements of Code Section 409A and any rules promulgated thereunder. In the event of any inconsistency between this Statement of Terms and Conditions and the Plan, the Plan shall govern. Capitalized terms not otherwise defined in this Statement of Terms and Conditions shall have the meaning set forth in the Plan.

II. OPTIONS

1. Option Agreement. An Option granted under the Plan shall be evidenced by an Option Agreement setting forth the terms and conditions of the Option, including whether the Option is an Incentive Stock Option or a Nonstatutory Stock Option and the number of Shares subject to the Option. Each Option Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Option Agreement. The Option is also subject to the terms and conditions of the Plan.

2. Exercise Price. The Exercise Price of an Option, as specified in the Option Agreement, shall be equal to or greater than the Fair Market Value of the Shares underlying the Option on the Grant Date.

3. Option Period. An Option shall be exercisable only during the applicable Option Period, and during such Option Period the exercisability of the Option shall be subject to the vesting provisions of Section II.4 as modified by the rules set forth in Sections II.5 and VI. The Option Period shall be not more than seven years from the Grant Date.

4. Vesting of Right to Exercise Options.

(A) Subject to Sections II.5 and VI, an Option shall be exercisable during the Option Period in accordance with the vesting terms and conditions established on the Grant Date and specified in the Option Grant Notice.

(B) Any vested portion of an Option not exercised hereunder shall accumulate and be exercisable at any time on or before the Expiration Date, subject to the rules set forth in Sections II.5 and VI. No Option may be exercised for less than 5% of the total number of Shares then available for exercise under such Option. In no event shall the Corporation be required to issue fractional Shares.

5. Limits on Option Period and Acceleration of Vesting. The Option Period may end before the Expiration Date, and in certain circumstances the vesting schedule of an Option may be accelerated (subject to the provisions of Section VI), as follows:

(A) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period for reasons other than for Cause, Long-Term Disability, Normal Retirement, Early Retirement, Severance under the circumstances provided in Section II.5(F)(ii), or death, the Option Period shall end on the earlier of (i) 90 days after the date of the Participant's termination of employment and (ii) the Expiration Date, and in all cases the Option shall be exercisable only to the extent that it was exercisable at the time of such termination of employment. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Notwithstanding any other provision in this Section II.5, if a Participant's employment is terminated for Cause during the Option Period, the Option Period shall end on the date of such termination of employment and the Option shall thereupon not be exercisable to any extent whatsoever.

(C) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Long-Term Disability, the vesting schedule of the Participant's Option shall be accelerated, the Option shall become fully exercisable and the Option Period shall end on the earlier of (i) three years after the date of the Participant's termination of employment and (ii) the Expiration Date.

(D) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Early Retirement, (i) the Option shall be exercisable only to the extent that it was exercisable at the time of such retirement and (ii) the Option Period for that portion of the Option designated as a Nonstatutory Stock Option shall end on the earlier of (a) three years after the date of such retirement and (b) the Expiration Date.

(E) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Normal Retirement:

(i) If such Normal Retirement occurs prior to the first anniversary of the Grant Date of the Option, such Option shall be subject to the provisions of Section II.5(D) as though the Participant were eligible for Early Retirement; or

(ii) If such Normal Retirement occurs on or after the first anniversary of the Grant Date of an Option, (a) that portion of the Option designated as a Nonstatutory Stock Option shall continue to vest as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such vesting period, and (b) the Option Period for such portion of the Option designated as a Nonstatutory Stock Option shall end on the Expiration Date.

(F) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Severance, and

(i) The Participant has attained the requirements for Normal Retirement on or prior to the Participant's termination date, then such Option shall be subject to the Normal Retirement provisions of Section II.5(E); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, but would have attained the requirements for Normal Retirement within six months after the termination date, and

(a) The first anniversary of the Grant Date of the applicable Award has not occurred on or prior to the termination date, then such Option shall be subject to the Early Retirement provision in Section II.5(D); or

(b) The first anniversary of the Grant Date of the applicable Award has occurred on or prior to the termination date, then (x) that portion of the Option designated as a Nonstatutory Stock Option shall continue to vest as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such vesting period, and (y) the Option Period for such portion of the Option designated as a Nonstatutory Stock Option shall end on the Expiration Date; or

(iii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the termination date, then (a) the vesting schedule of the Participant's Option shall be accelerated as to the portion of the Option that would have vested in accordance with the original vesting schedule as though the Participant had continued to be employed by the Corporation or one of its Affiliates six months after the termination date, and (b) the expiration of the Option Period provided in Section II.5(A) shall apply; provided that if the Participant is also eligible for Early Retirement at the time of the termination of employment, then the expiration of the Option Period provided in Section II.5(D) shall apply.

(G) If a Participant should die (i) while in the employ of the Corporation or an Affiliate and (ii) during the Option Period, the vesting schedule of the Participant's Option shall be accelerated and the Option shall become fully exercisable, the Option Period shall end on the earlier of (a) three years after the date of death and (b) the Expiration Date, and the Participant's Beneficiary may exercise the entire unexercised portion of the then exercisable Shares covered by such Option (or any lesser amount) remaining on the date of death.

(H) If a Participant who ceases to be a bona fide employee of the Corporation or an Affiliate is subsequently rehired prior to the expiration of the Participant's Option, then the Option shall continue to remain outstanding until the earlier of (i) such time as the Participant subsequently terminates employment and (ii) the Expiration Date. Upon the Participant's subsequent termination of employment, the post-termination exercise period calculated pursuant to the terms and conditions of this Section II.5 shall be reduced by the number of days between the date of the Participant's initial termination of employment and the Participant's re-hire date; provided, however, that if the rehired Participant continues to be employed by the Corporation or an Affiliate for at least one year from the Participant's rehire date, then the post termination exercise period for the Option shall be determined in accordance with Sections II.5(A) through (G) and shall not be adjusted as described in this Section II.5(H).

6. Method of Exercise. A Participant may exercise an Option with respect to all or any part of the exercisable Shares as follows:

(A) By giving the Corporation, or its authorized representative designated for this purpose, written notice of such exercise specifying the number of Shares as to which the Option is so exercised. Such notice shall be accompanied by an amount equal to the Exercise Price multiplied by the number of Shares exercised, in the form of any one or combination of the following: cash or a certified check, bank draft, postal or express money order payable to the order of the Corporation in lawful money of the United States. Unless otherwise determined by the Administrator in its sole discretion, the Participant may pay the Exercise Price, in whole or in part, by tendering to the Corporation or its authorized representative Shares, which have been owned by the Participant for at least six months prior to said tender, and having a fair market value, as determined by the Corporation, equal to the Exercise Price, or in lieu of the delivery of actual Shares in such tender, the Corporation may accept an attestation by the Participant, in a form prescribed by the Corporation or its authorized representative, that the Participant owns sufficient Shares of record or in an account in street name to satisfy the Exercise Price, and such attestation will be deemed a tender of Shares for purposes of this method of exercise. The Corporation or its authorized representative may accept payment of the amount due upon the exercise of the Option in the form of a Participant's personal check. Payment may also be made by delivery (including by FAX transmission) to the Corporation or its authorized representative of an executed irrevocable Option exercise form together with irrevocable instructions to an approved registered investment broker to sell Shares in an amount sufficient to pay the Exercise Price plus any applicable Tax-Related Items (as defined in Section VIII.6) and to transfer the proceeds of such sale to the Corporation.

(B) If required by the Corporation, by giving satisfactory assurance in writing, signed by the Participant, the Participant shall give the Participant's assurance that the Shares subject to the Option are being purchased for investment and not with a view to the distribution thereof; provided that such assurance shall be deemed inapplicable to (i) any sale of the Shares by such Participant made in accordance with the terms of a registration statement covering such sale, which has heretofore been (or may hereafter be) filed and become effective under the U.S. Securities Act of 1933, as amended (the "Securities Act") and with respect to which no stop order suspending the effectiveness thereof has been issued, and (ii) any other sale of the Shares with respect to which, in the opinion of counsel for the Corporation, such assurance is not required to be given in order to comply with the provisions of the Securities Act.

(C) As soon as practicable after receipt of the notice and the assurance described in Sections II.6(A) and (B), the Corporation shall, without transfer or issue tax (except for withholding tax arrangements contemplated in Section VIII.6) and without other incidental expense to the Participant, credit the purchased Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then the Corporation shall cause an appropriate book entry to be entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the purchased Shares; provided, however, that the time of such delivery may be postponed by the Corporation for such period as may be required for it with reasonable diligence to comply with applicable registration requirements under the Securities Act, the Exchange Act, any applicable listing requirements of any national securities exchange and requirements under any other law or regulation applicable to the issuance or transfer of the Shares.

7. Limitations on Transfer. An Option shall, during a Participant's lifetime, be exercisable only by the Participant. No Option or any right granted thereunder shall be transferable by the Participant by operation of law or otherwise, other than by will or the laws of descent and distribution. Notwithstanding the foregoing: (A) a Participant may designate a beneficiary to succeed, after the Participant's death, to all of the Participant's Options outstanding on the date of death; (B) a Nonstatutory Stock Option may be transferable pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act; and (C) any Participant, who is a senior executive officer recommended by the Chief Executive Officer of the Corporation and approved by the Administrator may voluntarily transfer any Nonstatutory Stock Option to a Family Member as a gift or through a transfer to an entity in which more than 50% of the voting interests are owned by Family Members (or the Participant) in exchange for an interest in that entity. In the event of any attempt by a Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of an Option or of any right thereunder, except as provided herein, or in the event of the levy of any attachment, execution, or similar process upon the rights or interest hereby conferred, the Corporation at its election may terminate the affected Option by notice to the Participant and the Option shall thereupon become null and void.

8. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to the Shares subject to an Option except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to such Shares upon the exercise of an Option.

III. RESTRICTED STOCK

1. Restricted Stock Agreement. A Restricted Stock Award granted under the Plan shall be evidenced by a Restricted Stock Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Restricted Stock Award. Each Restricted Stock Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Restricted Stock Agreement. The Restricted Stock Award is also subject to the terms and conditions of the Plan.

2. Rights with Respect to Shares of Restricted Stock. Upon written acceptance of a Restricted Stock Award by a Participant, including the restrictions and other terms and conditions described in the Plan and the Restricted Stock Agreement, the Corporation shall cause an appropriate book entry to be entered in the records of the Corporation's transfer agent recording the Participant's interest in the Restricted Stock. From and after the Grant Date, the Participant shall have the rights of Common Stock ownership, including the right to vote and to receive dividends on Shares of Restricted Stock, subject to the terms, conditions and restrictions described in the Plan and the Restricted Stock Agreement.

3. Special Restrictions. Each Restricted Stock Award made under the Plan shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Administrator; provided, however, that no Restricted Stock grant shall be subject to additional terms, conditions and restrictions which are more favorable to a Participant than the terms, conditions and restrictions set forth elsewhere in the Plan or the Restricted Stock Agreement.

(A) Restrictions. Until the restrictions imposed on any Restricted Stock grant shall lapse (the “Restriction Period”), Shares of Restricted Stock granted to a Participant (i) shall not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act and (ii) shall, if the Participant’s continuous employment with the Corporation or any of its Affiliates shall terminate for any reason (except as otherwise provided in the Plan, or in Section III.3(B) or Section III.3(C)) be returned to the Corporation forthwith, and all the rights of the Participant to such Shares shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant’s Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision to the contrary contained in the Restricted Stock Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, then the restrictions imposed on any Restricted Stock Award shall lapse as to all Shares granted to such Participant pursuant to such Restricted Stock Award on the date of such termination; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date of any time-vesting Restricted Stock Award, the restrictions applicable to such Restricted Stock Award shall continue to lapse at such time(s) as are set forth in the applicable Grant Notice, as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such restricted period; provided, that notwithstanding any other provision of the Plan or this Statement of Terms and Conditions, this Section III.3(B)(ii) shall not apply to any Restricted Stock Award the vesting of which is based, in whole or in part, on attainment of performance objectives. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Award due to a Participant’s Normal Retirement eligibility.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary contained in the Restricted Stock Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant’s termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant’s termination date, then any time-vesting Restricted Stock Award shall be subject to the Normal Retirement provisions of Section III.3(B)(ii); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant’s termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant’s termination date, then the restrictions applicable to any time-vesting Restricted Stock Award shall lapse upon the Participant’s termination date, as to such Shares of Restricted Stock that would have vested at such time(s) as are set forth in the applicable Grant Notice as if the Participant had continued to be employed by the Corporation or one of its Affiliates during the six-month period after the Participant’s termination date.

Notwithstanding the foregoing, this Section III.3(C) shall not apply to any Restricted Stock Award the vesting of which is based, in whole or in part, on attainment of performance objectives. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Award due to a Participant’s Normal Retirement eligibility.

(D) Restriction on Sale. The Administrator reserves the right to impose a restriction on the sale of Shares that the Participant receives upon the vesting and settlement of a Restricted Stock Award, unless the Participant has satisfied the ownership targets applicable to the Participant as provided in the Stock Ownership Policy.

4. Dividends. Cash dividends paid with respect to Restricted Stock during the Restriction Period shall be credited on behalf of the Participant to a deferred cash account (in a manner designed to comply with Code Section 409A) and the restrictions on such cash dividends shall lapse at the same time that the restrictions lapse on the associated Restricted Stock Award. Stock dividends paid with respect to Restricted Stock during the Restriction Period shall be treated as Restricted Stock which shall be subject to the same restrictions as the original award for the duration of the Restriction Period.

5. Election to Recognize Gross Income in the Year of Grant. If any Participant validly elects within 30 days of the Grant Date, to include in gross income for federal income tax purposes an amount equal to the fair market value of the Shares of Restricted Stock granted on the Grant Date, such Participant shall (at the same time or prior to the date that the Participant files the Participant's election with the Internal Revenue Service) (A) pay to the Corporation, or make arrangements satisfactory to the Administrator to pay to the Corporation in the year of such grant, any federal, state or local taxes required to be withheld with respect to such Shares in accordance with Section VIII.6, and (B) provide the Administrator with a copy of the election filed with the Internal Revenue Service.

6. Restrictive Legend. Each book entry in the records of the Corporation's transfer agent evidencing Shares granted pursuant to a Restricted Stock grant may bear an appropriate legend referring to the terms, conditions and restrictions described in the Plan and/or the Restricted Stock Agreement.

7. Expiration of Restriction Period. If and when the Restriction Period applicable to the Restricted Stock expires without a prior forfeiture, Shares shall be credited to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then an appropriate book entry recording the Participant's interest in the unrestricted Shares shall be entered on the records of the Corporation's transfer agent.

IV. RESTRICTED STOCK UNITS

1. Restricted Stock Unit Agreement. Restricted Stock Units granted under the Plan shall be evidenced by a Restricted Stock Unit Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Restricted Stock Units. Each Restricted Stock Unit Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Restricted Stock Unit Agreement. The Restricted Stock Units are also subject to the terms and conditions of the Plan.

2. Special Restrictions. Restricted Stock Units granted under the Plan shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Administrator, consistent with the terms of the Plan.

(A) Restrictions. If a Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan, or in Section IV.2(B) or Section IV.2(C)) prior to the lapse of the restrictions imposed on the Award, the unvested Restricted Stock Units shall be canceled, and all the rights of the Participant to such Awards shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained to the contrary in the Restricted Stock Unit Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of such Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, then the restrictions imposed on any Award of Restricted Stock Units shall lapse on the date of such termination; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date of any time-vesting Restricted Stock Units, the restrictions applicable to such Restricted Stock Units shall continue to lapse at such time(s) as are set forth in the applicable Grant Notice, as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such restricted period.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary contained in the Restricted Stock Unit Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Unit Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant's termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant's termination date, then any time-vesting Restricted Stock Unit Award shall be subject to the Normal Retirement provisions of Section IV.2(B)(ii); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant's termination date, then the restrictions applicable to any time-vesting Restricted Stock Unit Award shall lapse upon the termination date, as to such Restricted Stock Units that would have vested at such time(s) as are set forth in the applicable Grant Notice as if the Participant had continued to be employed by the Corporation or one of its Affiliates during the six-month period after the termination date.

(D) Restriction on Sale. The Administrator reserves the right to impose a restriction on the sale of Shares that the Participant receives upon the settlement of Restricted Stock Units, unless the Participant has satisfied the ownership targets applicable to the Participant as provided in the Stock Ownership Policy.

3. Dividend Equivalents. Subject to the discretion of the Compensation Committee, dividend equivalents shall be credited in respect of Restricted Stock Units. Cash dividends shall be credited on behalf of the Participant to a deferred cash account (in a manner designed to comply with Code Section 409A) and the restrictions on such cash dividends shall lapse at the same time that the restrictions lapse on the associated Award of Restricted Stock Units, and cash dividends shall be paid in a lump sum at the same time that the Shares underlying the Restricted Stock Unit Award, and to which the cash dividends relate, are distributed. Stock dividends shall be converted into additional Restricted Stock Units, which will be subject to all of the terms and conditions of the underlying Restricted Stock Units, including the same vesting restrictions as the underlying Award.

4. Assignability. A Participant shall not be permitted to sell, transfer, pledge, assign or encumber Restricted Stock Units, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act.

5. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to an Award of Restricted Stock Units except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to the Shares paid upon the settlement of any vested Restricted Stock Units.

6. Time of Payment of Restricted Stock Units. Upon the lapse of the restriction imposed on Restricted Stock Units, all Restricted Stock Units that were not forfeited pursuant to Section IV.2(A), Section IV.2(B)(i), Section IV.2(C)(i), or Section VI shall be paid to the Participant as soon as reasonably practicable after the restrictions lapse. Payment shall be made in Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the number of Shares subject to the Restricted Stock Units.

Notwithstanding the foregoing, if a Participant becomes eligible for Normal Retirement, or is eligible for additional vesting under Section IV.2(C)(ii), prior to the date of the lapse of restrictions imposed on Restricted Stock Units and the vesting provisions of Section IV.2(B)(ii) or Section IV.2(C)(ii) apply, then such Restricted Stock Units shall be paid to the Participant's brokerage account of record as soon as reasonably practicable after the earlier of the Participant's Separation from Service or the originally scheduled vesting date (in any event before the end of the calendar year in which such date occurs), subject to the delay of payment (if applicable) provided in Section VIII.14. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Unit Award due to a Participant's Normal Retirement eligibility or additional vesting as provided in Section IV.2(C)(ii).

V. PERFORMANCE STOCK UNITS

1. Award Agreement. Performance Stock Unit Awards shall be evidenced by a Performance Stock Unit Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Performance Stock Unit Award. Performance Stock Unit Awards are “Other Share-Based Awards” as provided under Section 11 of the Plan. Each Performance Stock Unit Agreement shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant’s country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Performance Stock Unit Agreement. Performance Stock Unit Awards are also subject to the terms and conditions of the Plan.

2. Number of Shares Granted Based on Performance. The performance period of a Performance Stock Unit Award shall be greater than one year, and performance shall be based on such criteria as the Compensation Committee shall determine in its discretion at the beginning of the performance period. Following the end of the performance period, the Compensation Committee shall determine the extent to which the criteria have been achieved, and shall authorize the grant and issuance of Shares in respect of the Performance Stock Unit Award.

3. Special Conditions. Performance Stock Unit Awards shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Compensation Committee, consistent with the terms of the Plan.

(A) Forfeiture. If a Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan or in Section V.3(B) or Section V.3(C)) prior to the end of the performance period, any then-outstanding Performance Stock Units shall be canceled, and all the rights of the Participant to such Award shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Compensation Committee may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained herein or in the Plan or the Award Agreement to the contrary, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of such Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, the Participant shall be eligible to receive, following completion of the applicable performance period, a prorated portion of each such Performance Stock Unit Award, equal to (1) the target number of Performance Stock Units subject to such Award, *multiplied by* (2) the performance criteria determined by the Compensation Committee to apply to such Award, *multiplied by* (3) a fraction, the numerator of which is the number of whole calendar months, rounded down to the nearest whole month, during which the Participant provided Service to the Corporation or an Affiliate during the performance period applicable to such Award, and the denominator of which is the number of calendar months in such performance period; provided, that for purposes of this clause (3), “whole calendar months” shall be calculated commencing on the applicable Grant Date; provided, however, that in no event shall such amount exceed any applicable cap or limitation set forth in the Performance Stock Unit Grant Notice; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date, the Participant shall be eligible to vest in such Performance Stock Unit Award following completion of the applicable performance period, as though the Participant had continued to be employed by the Corporation or one of its Affiliates through the date on which the Compensation Committee determines performance against the applicable performance goals.

Amounts, if any, to be paid under this Section V.3(B) shall be paid in accordance with Section V.7 and, if applicable, Section VIII. 14.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary, if the Participant has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date and ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant's termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant's termination date, then any Performance Stock Unit Award shall be subject to the Normal Retirement provisions of Section V.3(B)(ii); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant's termination date, then if such Participant's termination date is no greater than six months prior to the date on which the Compensation Committee determines performance against the applicable performance goals, such Participant shall be eligible to vest in such Performance Stock Unit Award following completion of the applicable performance period, as though the Participant had continued to be employed by the Corporation or one of its Affiliates through such performance determination date.

Amounts, if any, to be paid under this Section V.3(C) shall be paid in accordance with Section V.7 and, if applicable, Section VIII. 14.

(D) Restriction on Sale of Shares. The Administrator reserves the right to impose a restriction on the sale of Shares that the Participant receives with respect to the settlement of a Performance Stock Unit Award, unless the Participant has satisfied the ownership targets applicable to the Participant as provided in the Stock Ownership Policy.

4. Dividend Equivalents. Unless otherwise determined by the Compensation Committee in its sole discretion, Dividend Equivalents shall not be accrued with respect to Performance Stock Unit Awards during the performance period.

5. Assignability. A Participant shall not be permitted to sell, transfer, pledge, assign or encumber all or any portion of a Performance Stock Unit Award.

6. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to a Performance Stock Unit Award, except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to the Shares paid upon the settlement of any Performance Stock Unit Award.

7. Time of Payment of Performance Stock Units. The Compensation Committee shall determine the extent to which Shares are payable pursuant to a Performance Stock Unit Award as soon as practicable following the end of the performance period, and such Shares shall be paid as soon as practicable thereafter and in any event no later than the end of the period under which payment would be deemed to be a "short-term deferral" as defined in the regulations under Code Section 409A. Payment shall be made in the form of Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the number of Shares earned pursuant to the Performance Stock Unit Award.

VI. SPECIAL FORFEITURE AND REPAYMENT RULES

Any other provision of this Statement of Terms and Conditions to the contrary notwithstanding, if the Administrator determines that a Participant has engaged in any of the actions described in 3 below, the consequences set forth in 1 and 2 below shall result:

1. Any outstanding Option shall immediately and automatically terminate, be forfeited and shall cease to be exercisable, without limitation. In addition, any Award of Restricted Stock or Restricted Stock Units as to which the restrictions have not lapsed shall immediately and automatically be forfeited, Performance Stock Unit Awards shall immediately and automatically be forfeited and any such Shares of Restricted Stock shall be returned to the Corporation and all of the rights of the Participant to such Awards and the underlying Shares shall immediately terminate.

2. If the Participant exercised an Option within 12 months prior to the date upon which the Corporation discovered that the Participant engaged in any actions described in 3 below, the Participant, upon written notice from the Corporation, shall immediately pay to the Corporation the economic value realized or obtained by the exercise of such Option measured at the date of exercise. In addition, if the restrictions imposed on any Award of Restricted Stock or Restricted Stock Units (including any unpaid dividends or Dividend Equivalents) lapsed, or any Performance Stock Unit Award was settled, within 12 months prior to the date the Corporation discovered that the Participant engaged in any action described in 3 below, the Participant, upon written notice from the Corporation, shall immediately pay to the Corporation the economic value realized or obtained with respect to such Award, measured at the date such Award vested.

3. The consequences described in 1 and 2 above shall apply if the Participant, either before or after termination of employment with the Corporation or its Affiliates:

(A) Discloses to others, or takes or uses for the Participant's own purpose or the purpose of others, any trade secrets, confidential information, knowledge, data or know-how or any other proprietary information or intellectual property belonging to the Corporation or its Affiliates and obtained by the Participant during the term of the Participant's employment, whether or not they are the Participant's work product. Examples of such confidential information or trade secrets include, without limitation, customer lists, supplier lists, pricing and cost data, computer programs, delivery routes, advertising plans, wage and salary data, financial information, research and development plans, processes, equipment, product information and all other types and categories of information as to which the Participant knows or has reason to know that the Corporation or its Affiliates intends or expects secrecy to be maintained;

(B) Fails to promptly return all documents and other tangible items belonging to the Corporation or its Affiliates in the Participant's possession or control, including all complete or partial copies, recordings, abstracts, notes or reproductions of any kind made from or about such documents or information contained therein, upon termination of employment, whether pursuant to retirement or otherwise;

(C) Fails to provide the Corporation with at least 30 days' written notice prior to directly or indirectly engaging in, becoming employed by, or rendering services, advice or assistance to any business in competition with the Corporation or its Affiliates. As used herein, "business in competition" means any person, organization or enterprise which is engaged in or is about to become engaged in any line of business engaged in by the Corporation or its Affiliates at the time of the termination of the Participant's employment with the Corporation or its Affiliates;

(D) Fails to inform any new employer, before accepting employment, of the terms of this paragraph and of the Participant's continuing obligation to maintain the confidentiality of the trade secrets and other confidential information belonging to the Corporation or its Affiliates and obtained by the Participant during the term of the Participant's employment with the Corporation or any of its Affiliates;

(E) Induces or attempts to induce, directly or indirectly, any of the customers of the Corporation or its Affiliates, employees, representatives or consultants to terminate, discontinue or cease working with or for the Corporation or its Affiliates, or to breach any contract with the Corporation or any of its Affiliates, in order to work with or for, or enter into a contract with, the Participant or any third party;

(F) Engages in conduct which is not in good faith and which disrupts, damages, impairs or interferes with the business, reputation or employees of the Corporation or its Affiliates; or

(G) Fails to meet the Participant's continuing obligations with respect to non-disclosure, non-competition and/or non-solicitation under the Participant's agreement with the Corporation or any Affiliate.

The Administrator shall determine in its sole discretion whether the Participant has engaged in any of the acts set forth in (A) through (G) above, and its determination shall be conclusive and binding on all interested persons.

Any provision of this Section VI which is determined by a court of competent jurisdiction to be invalid or unenforceable should be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by such invalid or unenforceable provision, without invalidating or rendering unenforceable the remaining provisions of this Section VI.

VII. CHANGE IN CONTROL

If as a result of a Change in Control, the Common Stock ceases to be listed for trading on a national securities exchange (an “Exchange”), any Option, Restricted Stock Award, Restricted Stock Unit Award or Performance Stock Unit Award that is unvested on the effective date of the Change in Control shall continue to vest according to the terms and conditions of such Award, provided that such Award is replaced with an award for voting securities of the resulting corporation or the acquiring corporation, as the case may be, (including without limitation, the voting securities of any corporation which as a result of the Change in Control owns the Corporation or all or substantially all of the Corporation’s assets either directly or through one or more subsidiaries) (the “Surviving Company”) which are traded on an Exchange (a “Replacement Award”), which Replacement Award, (i) in the case of an Option, shall consist of an option with the number of underlying shares and exercise price determined in a manner consistent with Code Section 424(a) with vesting and any other terms continuing in the same manner as the replaced Option; (ii) in the case of a Performance Stock Unit Award, shall consist of restricted stock or restricted stock units with a value (determined using the Surviving Company’s stock price as of the effective date of the Change in Control) equal to the value of the Performance Stock Unit Award (determined using the Corporation’s stock price and assuming attainment of target performance or actual performance achieved, if greater, as of the effective date of the Change in Control), with any restrictions on such Replacement Award lapsing at the end of the measuring period over which performance for the replaced Performance Stock Unit Award was to be measured prior to the granting of the Replacement Award; and (iii) in the case of a Restricted Stock Award or Restricted Stock Unit Award, shall consist of restricted stock or restricted stock units with a value (determined using the Surviving Company’s stock price as of the effective date of the Change in Control) equal to the value of the Restricted Stock Award or Restricted Stock Unit Award (determined using the Corporation’s stock price as of the effective date of the Change in Control), with any restrictions on such restricted stock or restricted stock units lapsing at the same time and manner as the replaced Award; provided, however, that in the event of the Participant’s involuntary Separation from Service by the Corporation without Cause or Separation from Service by the Participant for Good Reason during the vesting period of any Replacement Award, the Replacement Award shall immediately vest and be paid as soon as practicable following such Separation from Service (subject to Section VIII.14), based on the fair market value of the underlying shares on the vesting date, or in the case of options, based on the excess of the fair market value of the underlying shares over the option exercise price on the vesting date. If any Option, Restricted Stock Award, Restricted Stock Unit Award or Performance Stock Unit Award that is unvested at the effective time of the Change in Control is not replaced with a Replacement Award, such Award shall immediately vest and, in the case of a Performance Stock Unit Award, shall vest based upon deemed attainment of target performance or actual performance achieved, if greater.

If as a result of a Change in Control, the Common Stock continues to be listed for trading on an Exchange, any unvested Option, Restricted Stock Award, or Restricted Stock Unit Award shall continue to vest according to the terms and conditions of such Award and any Performance Stock Unit Award shall be replaced with a Restricted Stock Unit Award where the number of shares subject to such Restricted Stock Unit Award shall be equal to the number of Shares assuming attainment of target performance or actual performance achieved, if greater, as of the effective date of the Change in Control with any restrictions on such Restricted Stock Unit Award lapsing at the end of the measuring period over which performance for the replaced Performance Stock Unit Award was to be measured prior to the granting of the replacement Award; provided however, that, in the event of the Participant’s involuntary Separation from Service by the Corporation without Cause or Separation from Service by the Participant for Good Reason during the vesting period of an Award, such Award shall immediately vest and be paid as soon as practicable following such Separation from Service (subject to Section VIII.14).

VIII. MISCELLANEOUS

1. No Effect on Terms of Employment. Participation in the Plan shall not create a right to further employment with the Participant’s employer (the “Employer”) and shall not interfere with the ability of the Employer to terminate, with or without cause, or change the terms of employment of a Participant at any time.

2. Grants to Participants in Foreign Countries. In making grants to Participants in foreign countries, the Administrator has the full discretion to deviate from this Statement of Terms and Conditions in order to adjust grants under the Plan to prevailing local conditions, including custom and legal and tax requirements. Furthermore, the Corporation reserves the right to impose other requirements on the Participant’s participation in the Plan on the Award and on any Shares acquired under the Plan, to the extent the Corporation determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertaking that may be necessary to accomplish the foregoing.

3. Information Notification. Any information required to be given under the terms of an Award shall be addressed to the Corporation in care of its Corporate Secretary at McKesson Corporation, 6555 North Highway 161, Irving, Texas 75039, and any notice to be given to a Participant shall be addressed to such Participant at the address indicated beneath the Participant's name on the Award Agreement or such other address as either party may designate in writing to the other. Any such notice shall be deemed to have been duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified and deposited (postage or registration or certification fee prepaid) in a post office or branch post office. The parties may use email delivery, so long as the message is clearly marked, sent to the email address(es) set forth herein, and a delivery receipt and a read receipt are made part of the message. Email delivery will be deemed to occur when the sender receives confirmation that such message has been received and read by the recipient. Emails to the Corporation shall be delivered to CorpSecretary@mckesson.com.

4. Administrator Decisions Conclusive. All decisions of the Administrator administering the Plan upon any questions arising under the Plan or under an Award Agreement, shall be conclusive and binding on all interested persons.

5. No Effect on Other Benefit Plans. Nothing herein contained shall affect a Participant's right to participate in and receive benefits from and in accordance with the then current provisions of any pensions, insurance or other employment welfare plan or program offered by the Corporation.

6. Withholding. Regardless of any action the Corporation or the Employer takes with respect to any federal, state or local income tax, social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Corporation or the Employer. The Participant further acknowledges that the Corporation and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant, vesting or exercise of the Award, as applicable, the subsequent sale of Shares acquired pursuant to the Plan and the receipt of any dividends and/or dividend equivalents; and (2) do not commit and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, the Participant acknowledges that the Corporation and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Participant will pay or make adequate arrangements satisfactory to the Corporation and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (1) withholding from the Participant's wages or other cash compensation paid to the Participant by the Corporation and/or the Employer; (2) withholding from proceeds of the sale of Shares acquired under the Plan either through a voluntary sale or through a mandatory sale arranged by the Corporation (on the Participant's behalf pursuant to this authorization and any other authorization the Corporation and/or the broker designated by the Corporation may require the Participant to sign in connection with the sale of Shares); or (3) withholding Shares to be issued upon grant, vesting/settlement or exercise, as applicable. Calculation of the number of Shares to be withheld shall be made based on the closing price of the Common Stock on the New York Stock Exchange on the date that the amount of tax to be withheld is determined. In no event, however, shall the Corporation be required to issue fractional Shares. With respect to an Award other than an Option, if adequate arrangements to satisfy the obligations with regard to all Tax-Related Items are not made by the Participant with the Corporation and/or the Employer prior to the relevant taxable event, the Corporation will satisfy such obligations as provided above in clause (3) of this paragraph.

To avoid negative accounting treatment, the Corporation may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant will be deemed to have been issued the full number of Shares subject to the Award, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the Plan.

Finally, the Participant shall pay to the Corporation or the Employer any amount of Tax-Related Items that the Corporation or the Employer may be required to withhold or account for as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Corporation may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

The Administrator shall be authorized to establish such rules, forms and procedures as it deems necessary to implement the foregoing.

7. Successors. The Award Agreements shall be binding upon and inure to the benefit of any successor or successors of the Corporation. "Participant" as used herein shall include the Participant's Beneficiary.

8. Delaware Law. The interpretation, performance, and enforcement of all Award Agreements shall be governed by the laws of the State of Delaware.

9. Nature of Grant. In accepting the grant, the Participant acknowledges that:

(A) the Plan is established voluntarily by the Corporation, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Corporation at any time;

(B) the grant of the Award is exceptional, voluntary and occasional and does not create any contractual or other right to receive future Award grants, or benefits in lieu of Awards, even if Awards have been granted repeatedly in the past;

(C) all decisions with respect to future Awards, if any, will be at the sole discretion of the Corporation;

(D) the Participant is voluntarily participating in the Plan;

(E) the Award and the Shares subject to the Award, and the income from and value of same, are not part of normal or expected compensation for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments;

(F) the Award will not be interpreted to form an employment contract or relationship with the Corporation; and furthermore, the Award will not be interpreted to form an employment contract with any subsidiary or Affiliate of the Corporation;

(G) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(H) if the underlying Shares do not increase in value, the Options will have no value;

(I) in consideration of the grant of the Award, no claim or entitlement to compensation or damages shall arise from forfeiture of the Award which results from termination of the Participant's employment with the Employer or the Corporation or one of its Affiliates (for any reason whatsoever, and whether or not such forfeiture is later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any) and the Participant irrevocably releases the Corporation or its Affiliates from any such claim that may arise; provided that, notwithstanding the foregoing, in the event any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting the Award, the Participant shall be deemed irrevocably to have waived the Participant's entitlement to pursue such claim;

(J) for purposes of an Award, the Participant's employment relationship will be considered terminated as of the date the Participant is no longer a bona fide employee of the Corporation, the Employer or one of the Corporation's other Affiliates (regardless of the reason for such termination and whether or not later found to be invalid or in breach of the employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), and unless otherwise expressly provided in this Award Agreement or determined by the Corporation in its sole discretion, the Participant's right to receive Awards and vest in Awards under the Plan, if any, will terminate effective as of such date and will not be extended by any notice period mandated under local law (for example, the Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any); similarly, any right to exercise Options under the Plan after termination of employment will be measured as of the date the Participant is no longer a bona fide employee of the Corporation, the Employer or one of the Corporation's other Affiliates and will not be extended by any notice period mandated under local law; the Administrator shall have the sole discretion to determine when the Participant is no longer a bona fide employee for purposes of an Award (including whether the Participant may still be considered to be providing services while on a leave of absence);

(K) the Corporation is not providing any tax, legal or financial advice, nor is the Corporation making any recommendations regarding participation in the Plan or the Participant's acquisition or sale of Shares; and

(L) Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

10. Data Privacy Information and Consent.

(A) **Data Collection and Usage.** *The Corporation and the Employer may collect, process and use certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number, salary, nationality, job title, any Shares or directorships held in the Corporation, details of all Options, Restricted Stock, Restricted Stock Units, Performance Shares, Other Share-Based Awards, or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Employee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Participant's consent.*

(B) **Stock Plan Administration Service Providers.** *The Corporation transfers Data to Fidelity Stock Plan Services LLC and its affiliated companies, an independent service provider based in the United States, which is assisting the Corporation with the implementation, administration and management of the Plan. The Corporation may select a different service provider or additional service providers and share Data with such other provider serving in a similar manner. The Participant may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.*

(C) **International Data Transfers.** *The Corporation and its service providers are based in the United States. The Participant's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program. The Corporation's legal basis, where required, for the transfer of Data is the Participant's consent.*

(D) **Data Retention.** *The Corporation will hold and use the Data only as long as is necessary to implement, administer and manage the Participant's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws. In the latter case, the Participant understands and acknowledges that the Corporation's legal basis for the processing of the Participant's Data would be compliance with the relevant laws or regulations or the pursuit by the Corporation of respective legitimate interests not outweighed by the Participant's interests, rights or freedoms. When the Corporation no longer needs the Participant's Data for any of the above purposes, the Participant understands the Corporation will remove it from its systems.*

(E) **Voluntariness and Consequences of Consent Denial or Withdrawal.** *Participation in the Plan is voluntary and the Participant is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke the Participant's consent, the Participant's salary from or employment with the Employer will not be affected; the only consequence of refusing or withdrawing the Participant's consent is that the Corporation would not be able to grant Awards to the Participant or administer or maintain such Awards.*

(F) **Data Subject Rights.** *The Participant may have a number of rights under data privacy laws in the Participant's jurisdiction. Depending on where the Participant is based, such rights may include the right to (i) inquire whether and what kind of Data the Corporation holds about the Participant and how it is processed, and to request access or copies of Data the Corporation processes, (ii) request the correction or supplementation of Data about the Participant that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, processed based on withdrawn consent, processed for legitimate interests that, in the context of the Participant's objection, do not prove to be compelling, or processed in non-compliance with applicable legal requirements, (iv) request restrictions on processing of Data in certain situations where the Participant feels its processing is inappropriate, (v) request portability of the Participant's Data that the Participant has actively or passively provided to the Corporation (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Participant's employment and is carried out by automated means, (vi) object, in certain circumstances, to the processing of Data for legitimate interests, (vii) lodge complaints with competent authorities in the Participant's jurisdiction, and/or (viii) receive a list with the names and addresses of any potential recipients of Data. To receive clarification regarding these rights or to exercise these rights, the Participant can contact his or her local human resources representative.*

By accepting the Award and indicating consent via the Corporation's acceptance procedure, the Participant is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Corporation and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

11. **Severability.** The provisions in this Statement of Terms and Conditions are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

12. **Language.** The Participant acknowledges that the Participant is proficient in the English language and, accordingly, understands the provisions of the Plan and this Statement of Terms and Conditions. If the Participant has received this Statement of Terms and Conditions or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

13. **Electronic Delivery.** The Corporation may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or a third party designated by the Corporation.

14. **Section 409A.** If (A) the Participant is a Specified Employee at the time of the Participant's Separation from Service, and (B) some or any portion of the amounts payable to the Participant, if any, when considered together with any other payments or benefits which may be considered deferred compensation under section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") and subject to the plan aggregation rules under Treasury Regulation section 1.409A-1(c)(3)(viii) (together, the "Deferred Compensation Benefits") would result in the imposition of additional tax under Section 409A if paid to the Participant on or within the six month period following the Separation from Service, then to the extent such portion of the Deferred Compensation Benefits resulting in the imposition of additional tax would otherwise have been payable on or within the first six months following the Separation from Service, it will instead become payable on the first payroll date that occurs in the seventh month following the Separation from Service (or such longer period as is required to avoid the imposition of additional tax under Section 409A). All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit.

IX. DEFINITIONS

When capitalized in this Statement of Terms and Conditions, the following terms shall have the meaning set forth below:

1. "**Award Agreement**" means an agreement between the Participant and the Corporation evidencing the grant of an Option, Restricted Stock Award, Restricted Stock Award, Performance Shares or Other Share-Based Award, as applicable.

2. "**Cause**" means termination of the Participant's employment with the Corporation or an Affiliate upon the Participant's negligent or willful engagement in misconduct which, in the sole determination of the Chief Executive Officer of the Corporation (or the Chief Executive Officer's designee), is injurious to the Corporation, its employees, or its customers.

3. “Early Retirement” means a termination of employment (other than due to death, Long-Term Disability or for Cause) which occurs prior to Normal Retirement but on or after the date on which the Participant’s age (expressed in terms of years and completed months) plus service with the Corporation or an Affiliate equals 65. For purposes of determining eligibility for Early Retirement, the term “service” shall include years and completed whole months of service.

4. “Family Member” means any person identified as an “immediate family” member in Rule 16(a)-1(e) of the Exchange Act, as such Rule may be amended from time to time. Notwithstanding the foregoing, the Administrator may designate any other person(s) or entity(ies) as a “family member.”

5. “Good Reason” means any of the following actions, if taken without the express written consent of the Participant:

(A) Any material change by the Corporation in the Participant’s functions, duties, or responsibilities, which change would cause the Participant’s position with the Corporation to become of less dignity, responsibility, importance, or scope from the position and attributes that applied to the Participant immediately prior to the Change in Control;

(B) Any significant reduction in the Participant’s aggregate base annual salary and target incentive opportunity, as in effect immediately prior to the Change in Control;

(C) Any material failure by the Corporation to comply with any of the provisions of an Award subsequent to a Change in Control;

(D) The Corporation’s requiring the Participant to be based at any location which would increase the Participant’s regular one-way commute by more than 25 miles from that in effect immediately preceding the Change in Control, except for travel reasonably required in the performance of the Participant’s responsibilities; or

(E) Any change in the person to whom the Participant reports, as this relationship existed immediately prior to a Change in Control;

Provided that the Participant gives notice to the Corporation of the existence of the Good Reason condition within 30 days of the initial existence of the Good Reason condition and the Corporation is provided 30 days after receipt of the Participant’s notice to remedy the Good Reason condition; provided further that the Participant’s Separation from Service must occur within six months from the initial existence of the Good Reason condition if the Corporation does not remedy such condition for such separation to be considered to be for Good Reason.

6. “Expiration Date” means the date that an Option expires as set forth in the Option Grant Notice as the “Expiration Date.”

7. “Grant Date” means the date the Administrator grants the Award.

8. “Grant Notice” means the notice of an Award granted to the Participant, which sets forth certain terms of such Award.

9. “Long-Term Disability” means a physical or mental condition in respect of which the administrator of the Corporation’s long-term disability plan has determined that the Participant is eligible to receive income replacement benefits; or, if the Participant is not then a participant in the Corporation’s long-term disability plan, a physical or mental condition that the administrator of the Corporation’s long-term disability plan determines would have rendered the Participant eligible to receive income replacement benefits, had the Participant been enrolled in such plan.

10. “Normal Retirement” means termination of employment (other than due to death, Long-Term Disability or for Cause) at or after age 60 (57, in the case of a participant in the McKesson Corporation 1984 Executive Benefit Retirement Plan) with at least 10 years of service with the Corporation or an Affiliate. For purposes of determining eligibility for Normal Retirement, “service” shall mean completed whole years of service (12 consecutive months).

11. “Option Period” means the period commencing on the Grant Date of an Option and, except at otherwise provided in Section II.5, ending on the Expiration Date.

12. "Separation from Service" means termination of employment with the Corporation or an affiliate. A Participant shall be deemed to have had a Separation from Service if the Participant's service with the Corporation or an affiliate is reduced to an annual rate that is equal to or less than 20% of the services rendered, on average, during the immediately preceding three years of service with the Corporation or an affiliate (or, if providing service to the Corporation or an affiliate for less than three years, such lesser period).

13. "Severance" means termination of employment with the Corporation or an affiliate, and qualified for participation in and entitlement to benefits under the McKesson Corporation Severance Pay Plan, in accordance with the terms and conditions of such plan.

14. "Short-Term Disability" means short-term disability as defined in the Corporation's short-term disability plan.

15. "Specified Employee" means those employees identified by the Corporation as "Specified Employees" for purposes of Code Section 409A.

16. "Stock Ownership Policy" means the Corporation's Stock Ownership Policy, as amended from time to time, which can be found on McKNet. A Participant or a Participant's beneficiary may also request a copy of the Stock Ownership Policy by writing to the Corporate Secretary at McKesson Corporation, 6555 North Highway 161, Irving, Texas 75039.

EMPLOYEES SUBJECT TO STOCK OWNERSHIP POLICY

McKESSON CORPORATION
STATEMENT OF TERMS AND CONDITIONS APPLICABLE TO
OPTIONS, RESTRICTED STOCK, RESTRICTED STOCK UNITS
AND PERFORMANCE STOCK UNITS GRANTED TO EMPLOYEES SUBJECT TO STOCK OWNERSHIP POLICY
PURSUANT TO THE 2013 STOCK PLAN

Effective for Grants Beginning May 26, 2020

I. INTRODUCTION

The following terms and conditions shall apply to an Award granted under the Plan and are subject to the terms and conditions of the Plan. This Statement of Terms and Conditions is intended to meet the requirements of Code Section 409A and any rules promulgated thereunder. In the event of any inconsistency between this Statement of Terms and Conditions and the Plan, the Plan shall govern. Capitalized terms not otherwise defined in this Statement of Terms and Conditions shall have the meaning set forth in the Plan.

II. OPTIONS

1. Option Agreement. An Option granted under the Plan shall be evidenced by an Option Agreement setting forth the terms and conditions of the Option, including whether the Option is an Incentive Stock Option or a Nonstatutory Stock Option and the number of Shares subject to the Option. Each Option Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Option Agreement. The Option is also subject to the terms and conditions of the Plan.

2. Exercise Price. The Exercise Price of an Option, as specified in the Option Agreement, shall be equal to or greater than the Fair Market Value of the Shares underlying the Option on the Grant Date.

3. Option Period. An Option shall be exercisable only during the applicable Option Period, and during such Option Period the exercisability of the Option shall be subject to the vesting provisions of Section II.4 as modified by the rules set forth in Sections II.5 and VI. The Option Period shall be not more than seven years from the Grant Date.

4. Vesting of Right to Exercise Options.

(A) Subject to Sections II.5 and VI, an Option shall be exercisable during the Option Period in accordance with the vesting terms and conditions established on the Grant Date and specified in the Option Grant Notice.

(B) Any vested portion of an Option not exercised hereunder shall accumulate and be exercisable at any time on or before the Expiration Date, subject to the rules set forth in Sections II.5 and VI. No Option may be exercised for less than 5% of the total number of Shares then available for exercise under such Option. In no event shall the Corporation be required to issue fractional Shares.

5. Limits on Option Period and Acceleration of Vesting. The Option Period may end before the Expiration Date, and in certain circumstances the vesting schedule of an Option may be accelerated (subject to the provisions of Section VI), as follows:

(A) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period for reasons other than for Cause, Long-Term Disability, Normal Retirement, Early Retirement, Severance under the circumstances provided in Section II.5(F)(ii), or death, the Option Period shall end on the earlier of (i) 90 days after the date of the Participant's termination of employment and (ii) the Expiration Date, and in all cases the Option shall be exercisable only to the extent that it was exercisable at the time of such termination of employment. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Notwithstanding any other provision in this Section II.5, if a Participant's employment is terminated for Cause during the Option Period, the Option Period shall end on the date of such termination of employment and the Option shall thereupon not be exercisable to any extent whatsoever.

(C) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Long-Term Disability, the vesting schedule of the Participant's Option shall be accelerated, the Option shall become fully exercisable and the Option Period shall end on the earlier of (i) three years after the date of the Participant's termination of employment and (ii) the Expiration Date.

(D) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Early Retirement, (i) the Option shall be exercisable only to the extent that it was exercisable at the time of such retirement and (ii) the Option Period for that portion of the Option designated as a Nonstatutory Stock Option shall end on the earlier of (a) three years after the date of such retirement and (b) the Expiration Date.

(E) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Normal Retirement:

(i) If such Normal Retirement occurs prior to the first anniversary of the Grant Date of the Option, such Option shall be subject to the provisions of Section II.5(D) as though the Participant were eligible for Early Retirement; or

(ii) If such Normal Retirement occurs on or after the first anniversary of the Grant Date of an Option, (a) that portion of the Option designated as a Nonstatutory Stock Option shall continue to vest as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such vesting period, and (b) the Option Period for such portion of the Option designated as a Nonstatutory Stock Option shall end on the Expiration Date.

(F) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Severance, and

(i) The Participant has attained the requirements for Normal Retirement on or prior to the Participant's termination date, then such Option shall be subject to the Normal Retirement provisions of Section II.5(E); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, but would have attained the requirements for Normal Retirement within six months after the termination date, and

(a) The first anniversary of the Grant Date of the applicable Award has not occurred on or prior to the termination date, then such Option shall be subject to the Early Retirement provision in Section II.5(D); or

(b) The first anniversary of the Grant Date of the applicable Award has occurred on or prior to the termination date, then (x) that portion of the Option designated as a Nonstatutory Stock Option shall continue to vest as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such vesting period, and (y) the Option Period for such portion of the Option designated as a Nonstatutory Stock Option shall end on the Expiration Date; or

(iii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the termination date, then (a) the vesting schedule of the Participant's Option shall be accelerated as to the portion of the Option that would have vested in accordance with the original vesting schedule as though the Participant had continued to be employed by the Corporation or one of its Affiliates six months after the termination date, and (b) the expiration of the Option Period provided in Section II.5(A) shall apply; provided that if the Participant is also eligible for Early Retirement at the time of the termination of employment, then the expiration of the Option Period provided in Section II.5(D) shall apply.

(G) If a Participant should die (i) while in the employ of the Corporation or an Affiliate and (ii) during the Option Period, the vesting schedule of the Participant's Option shall be accelerated and the Option shall become fully exercisable, the Option Period shall end on the earlier of (a) three years after the date of death and (b) the Expiration Date, and the Participant's Beneficiary may exercise the entire unexercised portion of the then exercisable Shares covered by such Option (or any lesser amount) remaining on the date of death.

(H) If a Participant who ceases to be a bona fide employee of the Corporation or an Affiliate is subsequently rehired prior to the expiration of the Participant's Option, then the Option shall continue to remain outstanding until the earlier of (i) such time as the Participant subsequently terminates employment and (ii) the Expiration Date. Upon the Participant's subsequent termination of employment, the post-termination exercise period calculated pursuant to the terms and conditions of this Section II.5 shall be reduced by the number of days between the date of the Participant's initial termination of employment and the Participant's re-hire date; provided, however, that if the rehired Participant continues to be employed by the Corporation or an Affiliate for at least one year from the Participant's rehire date, then the post termination exercise period for the Option shall be determined in accordance with Sections II.5(A) through (G) and shall not be adjusted as described in this Section II.5(H).

6. Method of Exercise. A Participant may exercise an Option with respect to all or any part of the exercisable Shares as follows:

(A) By giving the Corporation, or its authorized representative designated for this purpose, written notice of such exercise specifying the number of Shares as to which the Option is so exercised. Such notice shall be accompanied by an amount equal to the Exercise Price multiplied by the number of Shares exercised, in the form of any one or combination of the following: cash or a certified check, bank draft, postal or express money order payable to the order of the Corporation in lawful money of the United States. Unless otherwise determined by the Administrator in its sole discretion, the Participant may pay the Exercise Price, in whole or in part, by tendering to the Corporation or its authorized representative Shares, which have been owned by the Participant for at least six months prior to said tender, and having a fair market value, as determined by the Corporation, equal to the Exercise Price, or in lieu of the delivery of actual Shares in such tender, the Corporation may accept an attestation by the Participant, in a form prescribed by the Corporation or its authorized representative, that the Participant owns sufficient Shares of record or in an account in street name to satisfy the Exercise Price, and such attestation will be deemed a tender of Shares for purposes of this method of exercise. The Corporation or its authorized representative may accept payment of the amount due upon the exercise of the Option in the form of a Participant's personal check. Payment may also be made by delivery (including by FAX transmission) to the Corporation or its authorized representative of an executed irrevocable Option exercise form together with irrevocable instructions to an approved registered investment broker to sell Shares in an amount sufficient to pay the Exercise Price plus any applicable Tax-Related Items (as defined in Section VIII.6) and to transfer the proceeds of such sale to the Corporation.

(B) If required by the Corporation, by giving satisfactory assurance in writing, signed by the Participant, the Participant shall give the Participant's assurance that the Shares subject to the Option are being purchased for investment and not with a view to the distribution thereof; provided that such assurance shall be deemed inapplicable to (i) any sale of the Shares by such Participant made in accordance with the terms of a registration statement covering such sale, which has heretofore been (or may hereafter be) filed and become effective under the U.S. Securities Act of 1933, as amended (the "Securities Act") and with respect to which no stop order suspending the effectiveness thereof has been issued, and (ii) any other sale of the Shares with respect to which, in the opinion of counsel for the Corporation, such assurance is not required to be given in order to comply with the provisions of the Securities Act.

(C) As soon as practicable after receipt of the notice and the assurance described in Sections II.6(A) and (B), the Corporation shall, without transfer or issue tax (except for withholding tax arrangements contemplated in Section VIII.6) and without other incidental expense to the Participant, credit the purchased Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then the Corporation shall cause an appropriate book entry to be entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the purchased Shares; provided, however, that the time of such delivery may be postponed by the Corporation for such period as may be required for it with reasonable diligence to comply with applicable registration requirements under the Securities Act, the Exchange Act, any applicable listing requirements of any national securities exchange and requirements under any other law or regulation applicable to the issuance or transfer of the Shares.

7. Limitations on Transfer. An Option shall, during a Participant's lifetime, be exercisable only by the Participant. No Option or any right granted thereunder shall be transferable by the Participant by operation of law or otherwise, other than by will or the laws of descent and distribution. Notwithstanding the foregoing: (A) a Participant may designate a beneficiary to succeed, after the Participant's death, to all of the Participant's Options outstanding on the date of death; (B) a Nonstatutory Stock Option may be transferable pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act; and (C) any Participant, who is a senior executive officer recommended by the Chief Executive Officer of the Corporation and approved by the Administrator may voluntarily transfer any Nonstatutory Stock Option to a Family Member as a gift or through a transfer to an entity in which more than 50% of the voting interests are owned by Family Members (or the Participant) in exchange for an interest in that entity. In the event of any attempt by a Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of an Option or of any right thereunder, except as provided herein, or in the event of the levy of any attachment, execution, or similar process upon the rights or interest hereby conferred, the Corporation at its election may terminate the affected Option by notice to the Participant and the Option shall thereupon become null and void.

8. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to the Shares subject to an Option except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to such Shares upon the exercise of an Option.

III. RESTRICTED STOCK

1. Restricted Stock Agreement. A Restricted Stock Award granted under the Plan shall be evidenced by a Restricted Stock Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Restricted Stock Award. Each Restricted Stock Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Restricted Stock Agreement. The Restricted Stock Award is also subject to the terms and conditions of the Plan.

2. Rights with Respect to Shares of Restricted Stock. Upon written acceptance of a Restricted Stock Award by a Participant, including the restrictions and other terms and conditions described in the Plan and the Restricted Stock Agreement, the Corporation shall cause an appropriate book entry to be entered in the records of the Corporation's transfer agent recording the Participant's interest in the Restricted Stock. From and after the Grant Date, the Participant shall have the rights of Common Stock ownership, including the right to vote and to receive dividends on Shares of Restricted Stock, subject to the terms, conditions and restrictions described in the Plan and the Restricted Stock Agreement.

3. Special Restrictions. Each Restricted Stock Award made under the Plan shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Administrator; provided, however, that no Restricted Stock grant shall be subject to additional terms, conditions and restrictions which are more favorable to a Participant than the terms, conditions and restrictions set forth elsewhere in the Plan or the Restricted Stock Agreement.

(A) Restrictions. Until the restrictions imposed on any Restricted Stock grant shall lapse (the “Restriction Period”), Shares of Restricted Stock granted to a Participant (i) shall not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act and (ii) shall, if the Participant’s continuous employment with the Corporation or any of its Affiliates shall terminate for any reason (except as otherwise provided in the Plan, or in Section III.3(B) or Section III.3(C)) be returned to the Corporation forthwith, and all the rights of the Participant to such Shares shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant’s Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision to the contrary contained in the Restricted Stock Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, then the restrictions imposed on any Restricted Stock Award shall lapse as to all Shares granted to such Participant pursuant to such Restricted Stock Award on the date of such termination; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date of any time-vesting Restricted Stock Award, the restrictions applicable to such Restricted Stock Award shall continue to lapse at such time(s) as are set forth in the applicable Grant Notice, as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such restricted period; provided, that notwithstanding any other provision of the Plan or this Statement of Terms and Conditions, this Section III.3(B)(ii) shall not apply to any Restricted Stock Award the vesting of which is based, in whole or in part, on attainment of performance objectives. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Award due to a Participant’s Normal Retirement eligibility.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary contained in the Restricted Stock Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant’s termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant’s termination date, then any time-vesting Restricted Stock Award shall be subject to the Normal Retirement provisions of Section III.3(B)(ii); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant’s termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant’s termination date, then the restrictions applicable to any time-vesting Restricted Stock Award shall lapse upon the Participant’s termination date, as to such Shares of Restricted Stock that would have vested at such time(s) as are set forth in the applicable Grant Notice as if the Participant had continued to be employed by the Corporation or one of its Affiliates during the six-month period after the Participant’s termination date.

Notwithstanding the foregoing, this Section III.3(C) shall not apply to any Restricted Stock Award the vesting of which is based, in whole or in part, on attainment of performance objectives. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Award due to a Participant’s Normal Retirement eligibility.

(D) Restriction on Sale. The Administrator reserves the right to impose a restriction on the sale of Shares that the Participant receives upon the vesting and settlement of a Restricted Stock Award, unless the Participant has satisfied the ownership targets applicable to the Participant as provided in the Stock Ownership Policy.

4. Dividends. Cash dividends paid with respect to Restricted Stock during the Restriction Period shall be credited on behalf of the Participant to a deferred cash account (in a manner designed to comply with Code Section 409A) and the restrictions on such cash dividends shall lapse at the same time that the restrictions lapse on the associated Restricted Stock Award. Stock dividends paid with respect to Restricted Stock during the Restriction Period shall be treated as Restricted Stock which shall be subject to the same restrictions as the original award for the duration of the Restriction Period.

5. Election to Recognize Gross Income in the Year of Grant. If any Participant validly elects within 30 days of the Grant Date, to include in gross income for federal income tax purposes an amount equal to the fair market value of the Shares of Restricted Stock granted on the Grant Date, such Participant shall (at the same time or prior to the date that the Participant files the Participant's election with the Internal Revenue Service) (A) pay to the Corporation, or make arrangements satisfactory to the Administrator to pay to the Corporation in the year of such grant, any federal, state or local taxes required to be withheld with respect to such Shares in accordance with Section VIII.6, and (B) provide the Administrator with a copy of the election filed with the Internal Revenue Service.

6. Restrictive Legend. Each book entry in the records of the Corporation's transfer agent evidencing Shares granted pursuant to a Restricted Stock grant may bear an appropriate legend referring to the terms, conditions and restrictions described in the Plan and/or the Restricted Stock Agreement.

7. Expiration of Restriction Period. If and when the Restriction Period applicable to the Restricted Stock expires without a prior forfeiture, Shares shall be credited to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then an appropriate book entry recording the Participant's interest in the unrestricted Shares shall be entered on the records of the Corporation's transfer agent.

IV. RESTRICTED STOCK UNITS

1. Restricted Stock Unit Agreement. Restricted Stock Units granted under the Plan shall be evidenced by a Restricted Stock Unit Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Restricted Stock Units. Each Restricted Stock Unit Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Restricted Stock Unit Agreement. The Restricted Stock Units are also subject to the terms and conditions of the Plan.

2. Special Restrictions. Restricted Stock Units granted under the Plan shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Administrator, consistent with the terms of the Plan.

(A) Restrictions. If a Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan, or in Section IV.2(B) or Section IV.2(C)) prior to the lapse of the restrictions imposed on the Award, the unvested Restricted Stock Units shall be canceled, and all the rights of the Participant to such Awards shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained to the contrary in the Restricted Stock Unit Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of such Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, then the restrictions imposed on any Award of Restricted Stock Units shall lapse on the date of such termination; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date of any time-vesting Restricted Stock Units, the restrictions applicable to such Restricted Stock Units shall continue to lapse at such time(s) as are set forth in the applicable Grant Notice, as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such restricted period.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary contained in the Restricted Stock Unit Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Unit Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant's termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant's termination date, then any time-vesting Restricted Stock Unit Award shall be subject to the Normal Retirement provisions of Section IV.2(B)(ii); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant's termination date, then the restrictions applicable to any time-vesting Restricted Stock Unit Award shall lapse upon the termination date, as to such Restricted Stock Units that would have vested at such time(s) as are set forth in the applicable Grant Notice as if the Participant had continued to be employed by the Corporation or one of its Affiliates during the six-month period after the termination date.

(D) Restriction on Sale. The Administrator reserves the right to impose a restriction on the sale of Shares that the Participant receives upon the settlement of Restricted Stock Units, unless the Participant has satisfied the ownership targets applicable to the Participant as provided in the Stock Ownership Policy.

3. Dividend Equivalents. Subject to the discretion of the Compensation Committee, dividend equivalents shall be credited in respect of Restricted Stock Units. Cash dividends shall be credited on behalf of the Participant to a deferred cash account (in a manner designed to comply with Code Section 409A) and the restrictions on such cash dividends shall lapse at the same time that the restrictions lapse on the associated Award of Restricted Stock Units, and cash dividends shall be paid in a lump sum at the same time that the Shares underlying the Restricted Stock Unit Award, and to which the cash dividends relate, are distributed. Stock dividends shall be converted into additional Restricted Stock Units, which will be subject to all of the terms and conditions of the underlying Restricted Stock Units, including the same vesting restrictions as the underlying Award.

4. Assignability. A Participant shall not be permitted to sell, transfer, pledge, assign or encumber Restricted Stock Units, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act.

5. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to an Award of Restricted Stock Units except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to the Shares paid upon the settlement of any vested Restricted Stock Units.

6. Time of Payment of Restricted Stock Units. Upon the lapse of the restriction imposed on Restricted Stock Units, all Restricted Stock Units that were not forfeited pursuant to Section IV.2(A), Section IV.2(B)(i), Section IV.2(C)(i), or Section VI shall be paid to the Participant as soon as reasonably practicable after the restrictions lapse. Payment shall be made in Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the number of Shares subject to the Restricted Stock Units.

Notwithstanding the foregoing, if a Participant becomes eligible for Normal Retirement, or is eligible for additional vesting under Section IV.2(C)(ii), prior to the date of the lapse of restrictions imposed on Restricted Stock Units and the vesting provisions of Section IV.2(B)(ii) or Section IV.2(C)(ii) apply, then such Restricted Stock Units shall be paid to the Participant's brokerage account of record as soon as reasonably practicable after the earlier of the Participant's Separation from Service or the originally scheduled vesting date (in any event before the end of the calendar year in which such date occurs), subject to the delay of payment (if applicable) provided in Section VIII.14. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Unit Award due to a Participant's Normal Retirement eligibility or additional vesting as provided in Section IV.2(C)(ii).

V. PERFORMANCE STOCK UnitS

1. Award Agreement. Performance Stock Unit Awards shall be evidenced by a Performance Stock Unit Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Performance Stock Unit Award. Performance Stock Unit Awards are “Other Share-Based Awards” as provided under Section 11 of the Plan. Each Performance Stock Unit Agreement shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant’s country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Performance Stock Unit Agreement. Performance Stock Unit Awards are also subject to the terms and conditions of the Plan.

2. Number of Shares Granted Based on Performance. The performance period of a Performance Stock Unit Award shall be greater than one year, and performance shall be based on such criteria as the Compensation Committee shall determine in its discretion at the beginning of the performance period. Following the end of the performance period, the Compensation Committee shall determine the extent to which the criteria have been achieved, and shall authorize the grant and issuance of Shares in respect of the Performance Stock Unit Award.

3. Special Conditions. Performance Stock Unit Awards shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Compensation Committee, consistent with the terms of the Plan.

(A) Forfeiture. If a Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan or in Section V.3(B) or Section V.3(C)) prior to the end of the performance period, any then-outstanding Performance Stock Units shall be canceled, and all the rights of the Participant to such Award shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Compensation Committee may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained herein or in the Plan or the Award Agreement to the contrary, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of such Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, the Participant shall be eligible to receive, following completion of the applicable performance period, a prorated portion of each such Performance Stock Unit Award, equal to (1) the target number of Performance Stock Units subject to such Award, *multiplied by* (2) the performance criteria determined by the Compensation Committee to apply to such Award, *multiplied by* (3) a fraction, the numerator of which is the number of whole calendar months, rounded down to the nearest whole month, during which the Participant provided Service to the Corporation or an Affiliate during the performance period applicable to such Award, and the denominator of which is the number of calendar months in such performance period; provided, that for purposes of this clause (3), “whole calendar months” shall be calculated commencing on the applicable Grant Date; provided, however, that in no event shall such amount exceed any applicable cap or limitation set forth in the Performance Stock Unit Grant Notice; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date, the Participant shall be eligible to vest in such Performance Stock Unit Award following completion of the applicable performance period, as though the Participant had continued to be employed by the Corporation or one of its Affiliates through the date on which the Compensation Committee determines performance against the applicable performance goals.

Amounts, if any, to be paid under this Section V.3(B) shall be paid in accordance with Section V.7 and, if applicable, Section VIII. 14.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary, if the Participant has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date and ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant's termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant's termination date, then any Performance Stock Unit Award shall be subject to the Normal Retirement provisions of Section V.3(B)(ii); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant's termination date, then if such Participant's termination date is no greater than six months prior to the date on which the Compensation Committee determines performance against the applicable performance goals, such Participant shall be eligible to vest in such Performance Stock Unit Award following completion of the applicable performance period, as though the Participant had continued to be employed by the Corporation or one of its Affiliates through such performance determination date.

Amounts, if any, to be paid under this Section V.3(C) shall be paid in accordance with Section V.7 and, if applicable, Section VIII. 14.

(D) Restriction on Sale of Shares. The Administrator reserves the right to impose a restriction on the sale of Shares that the Participant receives with respect to the settlement of a Performance Stock Unit Award, unless the Participant has satisfied the ownership targets applicable to the Participant as provided in the Stock Ownership Policy.

4. Dividend Equivalents. Unless otherwise determined by the Compensation Committee in its sole discretion, Dividend Equivalents shall not be accrued with respect to Performance Stock Unit Awards during the performance period.

5. Assignability. A Participant shall not be permitted to sell, transfer, pledge, assign or encumber all or any portion of a Performance Stock Unit Award.

6. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to a Performance Stock Unit Award, except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to the Shares paid upon the settlement of any Performance Stock Unit Award.

7. Time of Payment of Performance Stock Units. The Compensation Committee shall determine the extent to which Shares are payable pursuant to a Performance Stock Unit Award as soon as practicable following the end of the performance period, and such Shares shall be paid as soon as practicable thereafter and in any event no later than the end of the period under which payment would be deemed to be a "short-term deferral" as defined in the regulations under Code Section 409A. Payment shall be made in the form of Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the number of Shares earned pursuant to the Performance Stock Unit Award.

VI. SPECIAL FORFEITURE AND REPAYMENT RULES

Any other provision of this Statement of Terms and Conditions to the contrary notwithstanding, if the Administrator determines that a Participant has engaged in any of the actions described in 3 below, the consequences set forth in 1 and 2 below shall result:

1. Any outstanding Option shall immediately and automatically terminate, be forfeited and shall cease to be exercisable, without limitation. In addition, any Award of Restricted Stock or Restricted Stock Units as to which the restrictions have not lapsed shall immediately and automatically be forfeited, Performance Stock Unit Awards shall immediately and automatically be forfeited and any such Shares of Restricted Stock shall be returned to the Corporation and all of the rights of the Participant to such Awards and the underlying Shares shall immediately terminate.

2. If the Participant exercised an Option within 12 months prior to the date upon which the Corporation discovered that the Participant engaged in any actions described in 3 below, the Participant, upon written notice from the Corporation, shall immediately pay to the Corporation the economic value realized or obtained by the exercise of such Option measured at the date of exercise. In addition, if the restrictions imposed on any Award of Restricted Stock or Restricted Stock Units (including any unpaid dividends or Dividend Equivalents) lapsed, or any Performance Stock Unit Award was settled, within 12 months prior to the date the Corporation discovered that the Participant engaged in any action described in 3 below, the Participant, upon written notice from the Corporation, shall immediately pay to the Corporation the economic value realized or obtained with respect to such Award, measured at the date such Award vested.

3. The consequences described in 1 and 2 above shall apply if the Participant, either before or after termination of employment with the Corporation or its Affiliates:

(A) Discloses to others, or takes or uses for the Participant's own purpose or the purpose of others, any trade secrets, confidential information, knowledge, data or know-how or any other proprietary information or intellectual property belonging to the Corporation or its Affiliates and obtained by the Participant during the term of the Participant's employment, whether or not they are the Participant's work product. Examples of such confidential information or trade secrets include, without limitation, customer lists, supplier lists, pricing and cost data, computer programs, delivery routes, advertising plans, wage and salary data, financial information, research and development plans, processes, equipment, product information and all other types and categories of information as to which the Participant knows or has reason to know that the Corporation or its Affiliates intends or expects secrecy to be maintained;

(B) Fails to promptly return all documents and other tangible items belonging to the Corporation or its Affiliates in the Participant's possession or control, including all complete or partial copies, recordings, abstracts, notes or reproductions of any kind made from or about such documents or information contained therein, upon termination of employment, whether pursuant to retirement or otherwise;

(C) Fails to provide the Corporation with at least 30 days' written notice prior to directly or indirectly engaging in, becoming employed by, or rendering services, advice or assistance to any business in competition with the Corporation or its Affiliates. As used herein, "business in competition" means any person, organization or enterprise which is engaged in or is about to become engaged in any line of business engaged in by the Corporation or its Affiliates at the time of the termination of the Participant's employment with the Corporation or its Affiliates;

(D) Fails to inform any new employer, before accepting employment, of the terms of this paragraph and of the Participant's continuing obligation to maintain the confidentiality of the trade secrets and other confidential information belonging to the Corporation or its Affiliates and obtained by the Participant during the term of the Participant's employment with the Corporation or any of its Affiliates;

(E) Induces or attempts to induce, directly or indirectly, any of the customers of the Corporation or its Affiliates, employees, representatives or consultants to terminate, discontinue or cease working with or for the Corporation or its Affiliates, or to breach any contract with the Corporation or any of its Affiliates, in order to work with or for, or enter into a contract with, the Participant or any third party;

(F) Engages in conduct which is not in good faith and which disrupts, damages, impairs or interferes with the business, reputation or employees of the Corporation or its Affiliates; or

(G) Fails to meet the Participant's continuing obligations with respect to non-disclosure, non-competition and/or non-solicitation under the Participant's agreement with the Corporation or any Affiliate.

The Administrator shall determine in its sole discretion whether the Participant has engaged in any of the acts set forth in (A) through (G) above, and its determination shall be conclusive and binding on all interested persons.

Any provision of this Section VI which is determined by a court of competent jurisdiction to be invalid or unenforceable should be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by such invalid or unenforceable provision, without invalidating or rendering unenforceable the remaining provisions of this Section VI.

VII. CHANGE IN CONTROL

If as a result of a Change in Control, the Common Stock ceases to be listed for trading on a national securities exchange (an “Exchange”), any Option, Restricted Stock Award, Restricted Stock Unit Award or Performance Stock Unit Award that is unvested on the effective date of the Change in Control shall continue to vest according to the terms and conditions of such Award, provided that such Award is replaced with an award for voting securities of the resulting corporation or the acquiring corporation, as the case may be, (including without limitation, the voting securities of any corporation which as a result of the Change in Control owns the Corporation or all or substantially all of the Corporation’s assets either directly or through one or more subsidiaries) (the “Surviving Company”) which are traded on an Exchange (a “Replacement Award”), which Replacement Award, (i) in the case of an Option, shall consist of an option with the number of underlying shares and exercise price determined in a manner consistent with Code Section 424(a) with vesting and any other terms continuing in the same manner as the replaced Option; (ii) in the case of a Performance Stock Unit Award, shall consist of restricted stock or restricted stock units with a value (determined using the Surviving Company’s stock price as of the effective date of the Change in Control) equal to the value of the Performance Stock Unit Award (determined using the Corporation’s stock price and assuming attainment of target performance or actual performance achieved, if greater, as of the effective date of the Change in Control), with any restrictions on such Replacement Award lapsing at the end of the measuring period over which performance for the replaced Performance Stock Unit Award was to be measured prior to the granting of the Replacement Award; and (iii) in the case of a Restricted Stock Award or Restricted Stock Unit Award, shall consist of restricted stock or restricted stock units with a value (determined using the Surviving Company’s stock price as of the effective date of the Change in Control) equal to the value of the Restricted Stock Award or Restricted Stock Unit Award (determined using the Corporation’s stock price as of the effective date of the Change in Control), with any restrictions on such restricted stock or restricted stock units lapsing at the same time and manner as the replaced Award; provided, however, that in the event of the Participant’s involuntary Separation from Service by the Corporation without Cause or Separation from Service by the Participant for Good Reason during the vesting period of any Replacement Award, the Replacement Award shall immediately vest and be paid as soon as practicable following such Separation from Service (subject to Section VIII.14), based on the fair market value of the underlying shares on the vesting date, or in the case of options, based on the excess of the fair market value of the underlying shares over the option exercise price on the vesting date. If any Option, Restricted Stock Award, Restricted Stock Unit Award or Performance Stock Unit Award that is unvested at the effective time of the Change in Control is not replaced with a Replacement Award, such Award shall immediately vest and, in the case of a Performance Stock Unit Award, shall vest based upon deemed attainment of target performance or actual performance achieved, if greater.

If as a result of a Change in Control, the Common Stock continues to be listed for trading on an Exchange, any unvested Option, Restricted Stock Award, or Restricted Stock Unit Award shall continue to vest according to the terms and conditions of such Award and any Performance Stock Unit Award shall be replaced with a Restricted Stock Unit Award where the number of shares subject to such Restricted Stock Unit Award shall be equal to the number of Shares assuming attainment of target performance or actual performance achieved, if greater, as of the effective date of the Change in Control with any restrictions on such Restricted Stock Unit Award lapsing at the end of the measuring period over which performance for the replaced Performance Stock Unit Award was to be measured prior to the granting of the Replacement Award; provided however, that, in the event of the Participant’s involuntary Separation from Service by the Corporation without Cause or Separation from Service by the Participant for Good Reason during the vesting period of an Award, such Award shall immediately vest and be paid as soon as practicable following such Separation from Service (subject to Section VIII.14).

VIII. MISCELLANEOUS

1. No Effect on Terms of Employment. Participation in the Plan shall not create a right to further employment with the Participant’s employer (the “Employer”) and shall not interfere with the ability of the Employer to terminate, with or without cause, or change the terms of employment of a Participant at any time.

2. Grants to Participants in Foreign Countries. In making grants to Participants in foreign countries, the Administrator has the full discretion to deviate from this Statement of Terms and Conditions in order to adjust grants under the Plan to prevailing local conditions, including custom and legal and tax requirements. Furthermore, the Corporation reserves the right to impose other requirements on the Participant’s participation in the Plan on the Award and on any Shares acquired under the Plan, to the extent the Corporation determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertaking that may be necessary to accomplish the foregoing.

3. Information Notification. Any information required to be given under the terms of an Award shall be addressed to the Corporation in care of its Corporate Secretary at McKesson Corporation, 6555 North Highway 161, Irving, Texas 75039, and any notice to be given to a Participant shall be addressed to such Participant at the address indicated beneath the Participant's name on the Award Agreement or such other address as either party may designate in writing to the other. Any such notice shall be deemed to have been duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified and deposited (postage or registration or certification fee prepaid) in a post office or branch post office. The parties may use email delivery, so long as the message is clearly marked, sent to the email address(es) set forth herein, and a delivery receipt and a read receipt are made part of the message. Email delivery will be deemed to occur when the sender receives confirmation that such message has been received and read by the recipient. Emails to the Corporation shall be delivered to CorpSecretary@mckesson.com.

4. Administrator Decisions Conclusive. All decisions of the Administrator administering the Plan upon any questions arising under the Plan or under an Award Agreement, shall be conclusive and binding on all interested persons.

5. No Effect on Other Benefit Plans. Nothing herein contained shall affect a Participant's right to participate in and receive benefits from and in accordance with the then current provisions of any pensions, insurance or other employment welfare plan or program offered by the Corporation.

6. Withholding. Regardless of any action the Corporation or the Employer takes with respect to any federal, state or local income tax, social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Corporation or the Employer. The Participant further acknowledges that the Corporation and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant, vesting or exercise of the Award, as applicable, the subsequent sale of Shares acquired pursuant to the Plan and the receipt of any dividends and/or dividend equivalents; and (2) do not commit and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, the Participant acknowledges that the Corporation and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Participant will pay or make adequate arrangements satisfactory to the Corporation and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (1) withholding from the Participant's wages or other cash compensation paid to the Participant by the Corporation and/or the Employer; (2) withholding from proceeds of the sale of Shares acquired under the Plan either through a voluntary sale or through a mandatory sale arranged by the Corporation (on the Participant's behalf pursuant to this authorization and any other authorization the Corporation and/or the broker designated by the Corporation may require the Participant to sign in connection with the sale of Shares); or (3) withholding Shares to be issued upon grant, vesting/settlement or exercise, as applicable. Calculation of the number of Shares to be withheld shall be made based on the closing price of the Common Stock on the New York Stock Exchange on the date that the amount of tax to be withheld is determined. In no event, however, shall the Corporation be required to issue fractional Shares. With respect to an Award other than an Option, if adequate arrangements to satisfy the obligations with regard to all Tax-Related Items are not made by the Participant with the Corporation and/or the Employer prior to the relevant taxable event, the Corporation will satisfy such obligations as provided above in clause (3) of this paragraph.

To avoid negative accounting treatment, the Corporation may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant will be deemed to have been issued the full number of Shares subject to the Award, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the Plan.

Finally, the Participant shall pay to the Corporation or the Employer any amount of Tax-Related Items that the Corporation or the Employer may be required to withhold or account for as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Corporation may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

The Administrator shall be authorized to establish such rules, forms and procedures as it deems necessary to implement the foregoing.

7. Successors. The Award Agreements shall be binding upon and inure to the benefit of any successor or successors of the Corporation. "Participant" as used herein shall include the Participant's Beneficiary.

8. Delaware Law. The interpretation, performance, and enforcement of all Award Agreements shall be governed by the laws of the State of Delaware.

9. Nature of Grant. In accepting the grant, the Participant acknowledges that:

(A) the Plan is established voluntarily by the Corporation, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Corporation at any time;

(B) the grant of the Award is exceptional, voluntary and occasional and does not create any contractual or other right to receive future Award grants, or benefits in lieu of Awards, even if Awards have been granted repeatedly in the past;

(C) all decisions with respect to future Awards, if any, will be at the sole discretion of the Corporation;

(D) the Participant is voluntarily participating in the Plan;

(E) the Award and the Shares subject to the Award, and the income from and value of same, are not part of normal or expected compensation for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments;

(F) the Award will not be interpreted to form an employment contract or relationship with the Corporation; and furthermore, the Award will not be interpreted to form an employment contract with any subsidiary or Affiliate of the Corporation;

(G) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(H) if the underlying Shares do not increase in value, the Options will have no value;

(I) in consideration of the grant of the Award, no claim or entitlement to compensation or damages shall arise from forfeiture of the Award which results from termination of the Participant's employment with the Employer or the Corporation or one of its Affiliates (for any reason whatsoever, and whether or not such forfeiture is later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any) and the Participant irrevocably releases the Corporation or its Affiliates from any such claim that may arise; provided that, notwithstanding the foregoing, in the event any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting the Award, the Participant shall be deemed irrevocably to have waived the Participant's entitlement to pursue such claim;

(J) for purposes of an Award, the Participant's employment relationship will be considered terminated as of the date the Participant is no longer a bona fide employee of the Corporation, the Employer or one of the Corporation's other Affiliates (regardless of the reason for such termination and whether or not later found to be invalid or in breach of the employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), and unless otherwise expressly provided in this Award Agreement or determined by the Corporation in its sole discretion, the Participant's right to receive Awards and vest in Awards under the Plan, if any, will terminate effective as of such date and will not be extended by any notice period mandated under local law (for example, the Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any); similarly, any right to exercise Options under the Plan after termination of employment will be measured as of the date the Participant is no longer a bona fide employee of the Corporation, the Employer or one of the Corporation's other Affiliates and will not be extended by any notice period mandated under local law; the Administrator shall have the sole discretion to determine when the Participant is no longer a bona fide employee for purposes of an Award (including whether the Participant may still be considered to be providing services while on a leave of absence);

(K) the Corporation is not providing any tax, legal or financial advice, nor is the Corporation making any recommendations regarding participation in the Plan or the Participant's acquisition or sale of Shares; and

(L) Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

10. Data Privacy Information and Consent.

(A) **Data Collection and Usage.** *The Corporation and the Employer may collect, process and use certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number, salary, nationality, job title, any Shares or directorships held in the Corporation, details of all Options, Restricted Stock, Restricted Stock Units, Performance Shares, Other Share-Based Awards, or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Employee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Participant's consent.*

(B) **Stock Plan Administration Service Providers.** *The Corporation transfers Data to Fidelity Stock Plan Services LLC and its affiliated companies, an independent service provider based in the United States, which is assisting the Corporation with the implementation, administration and management of the Plan. The Corporation may select a different service provider or additional service providers and share Data with such other provider serving in a similar manner. The Participant may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.*

(C) **International Data Transfers.** *The Corporation and its service providers are based in the United States. The Participant's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program. The Corporation's legal basis, where required, for the transfer of Data is the Participant's consent.*

(D) **Data Retention.** *The Corporation will hold and use the Data only as long as is necessary to implement, administer and manage the Participant's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws. In the latter case, the Participant understands and acknowledges that the Corporation's legal basis for the processing of the Participant's Data would be compliance with the relevant laws or regulations or the pursuit by the Corporation of respective legitimate interests not outweighed by the Participant's interests, rights or freedoms. When the Corporation no longer needs the Participant's Data for any of the above purposes, the Participant understands the Corporation will remove it from its systems.*

(E) **Voluntariness and Consequences of Consent Denial or Withdrawal.** *Participation in the Plan is voluntary and the Participant is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke the Participant's consent, the Participant's salary from or employment with the Employer will not be affected; the only consequence of refusing or withdrawing the Participant's consent is that the Corporation would not be able to grant Awards to the Participant or administer or maintain such Awards.*

(F) **Data Subject Rights.** *The Participant may have a number of rights under data privacy laws in the Participant's jurisdiction. Depending on where the Participant is based, such rights may include the right to (i) inquire whether and what kind of Data the Corporation holds about the Participant and how it is processed, and to request access or copies of Data the Corporation processes, (ii) request the correction or supplementation of Data about the Participant that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, processed based on withdrawn consent, processed for legitimate interests that, in the context of the Participant's objection, do not prove to be compelling, or processed in non-compliance with applicable legal requirements, (iv) request restrictions on processing of Data in certain situations where the Participant feels its processing is inappropriate, (v) request portability of the Participant's Data that the Participant has actively or passively provided to the Corporation (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Participant's employment and is carried out by automated means, (vi) object, in certain circumstances, to the processing of Data for legitimate interests, (vii) lodge complaints with competent authorities in the Participant's jurisdiction, and/or (viii) receive a list with the names and addresses of any potential recipients of Data. To receive clarification regarding these rights or to exercise these rights, the Participant can contact his or her local human resources representative.*

By accepting the Award and indicating consent via the Corporation's acceptance procedure, the Participant is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Corporation and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

11. **Severability.** The provisions in this Statement of Terms and Conditions are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

12. **Language.** The Participant acknowledges that the Participant is proficient in the English language and, accordingly, understands the provisions of the Plan and this Statement of Terms and Conditions. If the Participant has received this Statement of Terms and Conditions or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

13. **Electronic Delivery.** The Corporation may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or a third party designated by the Corporation.

14. **Section 409A.** If (A) the Participant is a Specified Employee at the time of the Participant's Separation from Service, and (B) some or any portion of the amounts payable to the Participant, if any, when considered together with any other payments or benefits which may be considered deferred compensation under section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") and subject to the plan aggregation rules under Treasury Regulation section 1.409A-1(c)(3)(viii) (together, the "Deferred Compensation Benefits") would result in the imposition of additional tax under Section 409A if paid to the Participant on or within the six month period following the Separation from Service, then to the extent such portion of the Deferred Compensation Benefits resulting in the imposition of additional tax would otherwise have been payable on or within the first six months following the Separation from Service, it will instead become payable on the first payroll date that occurs in the seventh month following the Separation from Service (or such longer period as is required to avoid the imposition of additional tax under Section 409A). All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit.

IX. DEFINITIONS

When capitalized in this Statement of Terms and Conditions, the following terms shall have the meaning set forth below:

1. "**Award Agreement**" means an agreement between the Participant and the Corporation evidencing the grant of an Option, Restricted Stock Award, Restricted Stock Award, Performance Shares or Other Share-Based Award, as applicable.

2. "**Cause**" means termination of the Participant's employment with the Corporation or an Affiliate upon the Participant's negligent or willful engagement in misconduct which, in the sole determination of the Chief Executive Officer of the Corporation (or the Chief Executive Officer's designee), is injurious to the Corporation, its employees, or its customers.

3. “Early Retirement” means a termination of employment (other than due to death, Long-Term Disability or for Cause) which occurs prior to Normal Retirement but on or after the date on which the Participant’s age (expressed in terms of years and completed months) plus service with the Corporation or an Affiliate equals 65. For purposes of determining eligibility for Early Retirement, the term “service” shall include years and completed whole months of service.

4. “Family Member” means any person identified as an “immediate family” member in Rule 16(a)-1(e) of the Exchange Act, as such Rule may be amended from time to time. Notwithstanding the foregoing, the Administrator may designate any other person(s) or entity(ies) as a “family member.”

5. “Good Reason” means any of the following actions, if taken without the express written consent of the Participant:

(A) Any material change by the Corporation in the Participant’s functions, duties, or responsibilities, which change would cause the Participant’s position with the Corporation to become of less dignity, responsibility, importance, or scope from the position and attributes that applied to the Participant immediately prior to the Change in Control; provided, however, that, any such change attributable to the Corporation’s no longer being a company with publicly traded common stock shall not constitute Good Reason; and provided, further, that a reduction in the Participant’s functions, duties or responsibilities solely by virtue of the Corporation being acquired and made part of a larger entity (for example, if following a Change in Control the Participant retains the Participant’s position, or has a comparable position, with respect to a division or subsidiary of the acquirer that contains the Corporation’s business) shall not constitute Good Reason;

(B) Any significant reduction in the Participant’s aggregate base annual salary and target incentive opportunity, as in effect immediately prior to the Change in Control;

(C) Any material failure by the Corporation to comply with any of the provisions of an Award subsequent to a Change in Control; or

(D) The Corporation’s requiring the Participant to be based at any location which would increase the Participant’s regular one-way commute by more than 25 miles from that in effect immediately preceding the Change in Control, except for travel reasonably required in the performance of the Participant’s responsibilities;

Provided that the Participant gives notice to the Corporation of the existence of the Good Reason condition within 30 days of the initial existence of the Good Reason condition and the Corporation is provided 30 days after receipt of the Participant’s notice to remedy the Good Reason condition; provided further that the Participant’s Separation from Service must occur within six months from the initial existence of the Good Reason condition if the Corporation does not remedy such condition for such separation to be considered to be for Good Reason.

6. “Expiration Date” means the date that an Option expires as set forth in the Option Grant Notice as the “Expiration Date.”

7. “Grant Date” means the date the Administrator grants the Award.

8. “Grant Notice” means the notice of an Award granted to the Participant, which sets forth certain terms of such Award.

9. “Long-Term Disability” means a physical or mental condition in respect of which the administrator of the Corporation’s long-term disability plan has determined that the Participant is eligible to receive income replacement benefits; or, if the Participant is not then a participant in the Corporation’s long-term disability plan, a physical or mental condition that the administrator of the Corporation’s long-term disability plan determines would have rendered the Participant eligible to receive income replacement benefits, had the Participant been enrolled in such plan.

10. “Normal Retirement” means termination of employment (other than due to death, Long-Term Disability or for Cause) at or after age 60 (57, in the case of a participant in the McKesson Corporation 1984 Executive Benefit Retirement Plan) with at least 10 years of service with the Corporation or an Affiliate. For purposes of determining eligibility for Normal Retirement, “service” shall mean completed whole years of service (12 consecutive months).

11. “Option Period” means the period commencing on the Grant Date of an Option and, except at otherwise provided in Section II.5, ending on the Expiration Date.

12. "Separation from Service" means termination of employment with the Corporation or an affiliate. A Participant shall be deemed to have had a Separation from Service if the Participant's service with the Corporation or an affiliate is reduced to an annual rate that is equal to or less than 20% of the services rendered, on average, during the immediately preceding three years of service with the Corporation or an affiliate (or, if providing service to the Corporation or an affiliate for less than three years, such lesser period).

13. "Severance" means termination of employment with the Corporation or an affiliate, and qualified for participation in and entitlement to benefits under the McKesson Corporation Severance Pay Plan, in accordance with the terms and conditions of such plan.

14. "Short-Term Disability" means short-term disability as defined in the Corporation's short-term disability plan.

15. "Specified Employee" means those employees identified by the Corporation as "Specified Employees" for purposes of Code Section 409A.

16. "Stock Ownership Policy" means the Corporation's Stock Ownership Policy, as amended from time to time, which can be found on McKNet. A Participant or a Participant's beneficiary may also request a copy of the Stock Ownership Policy by writing to the Corporate Secretary at McKesson Corporation, 6555 North Highway 161, Irving, Texas 75039.

EMPLOYEES

McKESSON CORPORATION
STATEMENT OF TERMS AND CONDITIONS APPLICABLE TO
OPTIONS, RESTRICTED STOCK, RESTRICTED STOCK UNITS
AND PERFORMANCE STOCK UNITS GRANTED TO EMPLOYEES
PURSUANT TO THE 2013 STOCK PLAN

Effective for Grants Beginning May 26, 2020

I. INTRODUCTION

The following terms and conditions shall apply to an Award granted under the Plan and are subject to the terms and conditions of the Plan. This Statement of Terms and Conditions is intended to meet the requirements of Code Section 409A and any rules promulgated thereunder. In the event of any inconsistency between this Statement of Terms and Conditions and the Plan, the Plan shall govern. Capitalized terms not otherwise defined in this Statement of Terms and Conditions shall have the meaning set forth in the Plan.

II. OPTIONS

1. Option Agreement. An Option granted under the Plan shall be evidenced by an Option Agreement setting forth the terms and conditions of the Option, including whether the Option is an Incentive Stock Option or a Nonstatutory Stock Option and the number of Shares subject to the Option. Each Option Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Option Agreement. The Option is also subject to the terms and conditions of the Plan.

2. Exercise Price. The Exercise Price of an Option, as specified in the Option Agreement, shall be equal to or greater than the Fair Market Value of the Shares underlying the Option on the Grant Date.

3. Option Period. An Option shall be exercisable only during the applicable Option Period, and during such Option Period the exercisability of the Option shall be subject to the vesting provisions of Section II.4 as modified by the rules set forth in Sections II.5 and VI. The Option Period shall be not more than seven years from the Grant Date.

4. Vesting of Right to Exercise Options.

(A) Subject to Sections II.5 and VI, an Option shall be exercisable during the Option Period in accordance with the vesting terms and conditions established on the Grant Date and specified in the Option Grant Notice.

(B) Any vested portion of an Option not exercised hereunder shall accumulate and be exercisable at any time on or before the Expiration Date, subject to the rules set forth in Sections II.5 and VI. No Option may be exercised for less than 5% of the total number of Shares then available for exercise under such Option. In no event shall the Corporation be required to issue fractional Shares.

5. Limits on Option Period and Acceleration of Vesting. The Option Period may end before the Expiration Date, and in certain circumstances the vesting schedule of an Option may be accelerated (subject to the provisions of Section VI), as follows:

(A) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period for reasons other than for Cause, Long-Term Disability, Normal Retirement, Early Retirement, Severance under the circumstances provided in Section II.5(F)(ii), or death, the Option Period shall end on the earlier of (i) 90 days after the date of the Participant's termination of employment and (ii) the Expiration Date, and in all cases the Option shall be exercisable only to the extent that it was exercisable at the time of such termination of employment. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Notwithstanding any other provision in this Section II.5, if a Participant's employment is terminated for Cause during the Option Period, the Option Period shall end on the date of such termination of employment and the Option shall thereupon not be exercisable to any extent whatsoever.

(C) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Long-Term Disability, the vesting schedule of the Participant's Option shall be accelerated, the Option shall become fully exercisable and the Option Period shall end on the earlier of (i) three years after the date of the Participant's termination of employment and (ii) the Expiration Date.

(D) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Early Retirement, (i) the Option shall be exercisable only to the extent that it was exercisable at the time of such retirement and (ii) the Option Period for that portion of the Option designated as a Nonstatutory Stock Option shall end on the earlier of (a) three years after the date of such retirement and (b) the Expiration Date.

(E) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Normal Retirement:

(i) If such Normal Retirement occurs prior to the first anniversary of the Grant Date of the Option, such Option shall be subject to the provisions of Section II.5(D) as though the Participant were eligible for Early Retirement; or

(ii) If such Normal Retirement occurs on or after the first anniversary of the Grant Date of an Option, (a) that portion of the Option designated as a Nonstatutory Stock Option shall continue to vest as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such vesting period, and (b) the Option Period for such portion of the Option designated as a Nonstatutory Stock Option shall end on the Expiration Date.

(F) If a Participant ceases to be a bona fide employee of the Corporation or of its Affiliates during the Option Period by reason of Severance, and

(i) The Participant has attained the requirements for Normal Retirement on or prior to the Participant's termination date, then such Option shall be subject to the Normal Retirement provisions of Section II.5(E); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, but would have attained the requirements for Normal Retirement within six months after the termination date, and

(a) The first anniversary of the Grant Date of the applicable Award has not occurred on or prior to the termination date, then such Option shall be subject to the Early Retirement provision in Section II.5(D); or

(b) The first anniversary of the Grant Date of the applicable Award has occurred on or prior to the termination date, then (x) that portion of the Option designated as a Nonstatutory Stock Option shall continue to vest as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such vesting period, and (y) the Option Period for such portion of the Option designated as a Nonstatutory Stock Option shall end on the Expiration Date; or

(iii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the termination date, then (a) the vesting schedule of the Participant's Option shall be accelerated as to the portion of the Option that would have vested in accordance with the original vesting schedule as though the Participant had continued to be employed by the Corporation or one of its Affiliates six months after the termination date, and (b) the expiration of the Option Period provided in Section II.5(A) shall apply; provided that if the Participant is also eligible for Early Retirement at the time of the termination of employment, then the expiration of the Option Period provided in Section II.5(D) shall apply.

(G) If a Participant should die (i) while in the employ of the Corporation or an Affiliate and (ii) during the Option Period, the vesting schedule of the Participant's Option shall be accelerated and the Option shall become fully exercisable, the Option Period shall end on the earlier of (a) three years after the date of death and (b) the Expiration Date, and the Participant's Beneficiary may exercise the entire unexercised portion of the then exercisable Shares covered by such Option (or any lesser amount) remaining on the date of death.

(H) If a Participant who ceases to be a bona fide employee of the Corporation or an Affiliate is subsequently rehired prior to the expiration of the Participant's Option, then the Option shall continue to remain outstanding until the earlier of (i) such time as the Participant subsequently terminates employment and (ii) the Expiration Date. Upon the Participant's subsequent termination of employment, the post-termination exercise period calculated pursuant to the terms and conditions of this Section II.5 shall be reduced by the number of days between the date of the Participant's initial termination of employment and the Participant's re-hire date; provided, however, that if the rehired Participant continues to be employed by the Corporation or an Affiliate for at least one year from the Participant's rehire date, then the post termination exercise period for the Option shall be determined in accordance with Sections II.5(A) through (G) and shall not be adjusted as described in this Section II.5(H).

6. Method of Exercise. A Participant may exercise an Option with respect to all or any part of the exercisable Shares as follows:

(A) By giving the Corporation, or its authorized representative designated for this purpose, written notice of such exercise specifying the number of Shares as to which the Option is so exercised. Such notice shall be accompanied by an amount equal to the Exercise Price multiplied by the number of Shares exercised, in the form of any one or combination of the following: cash or a certified check, bank draft, postal or express money order payable to the order of the Corporation in lawful money of the United States. Unless otherwise determined by the Administrator in its sole discretion, the Participant may pay the Exercise Price, in whole or in part, by tendering to the Corporation or its authorized representative Shares, which have been owned by the Participant for at least six months prior to said tender, and having a fair market value, as determined by the Corporation, equal to the Exercise Price, or in lieu of the delivery of actual Shares in such tender, the Corporation may accept an attestation by the Participant, in a form prescribed by the Corporation or its authorized representative, that the Participant owns sufficient Shares of record or in an account in street name to satisfy the Exercise Price, and such attestation will be deemed a tender of Shares for purposes of this method of exercise. The Corporation or its authorized representative may accept payment of the amount due upon the exercise of the Option in the form of a Participant's personal check. Payment may also be made by delivery (including by FAX transmission) to the Corporation or its authorized representative of an executed irrevocable Option exercise form together with irrevocable instructions to an approved registered investment broker to sell Shares in an amount sufficient to pay the Exercise Price plus any applicable Tax-Related Items (as defined in Section VIII.6) and to transfer the proceeds of such sale to the Corporation.

(B) If required by the Corporation, by giving satisfactory assurance in writing, signed by the Participant, the Participant shall give the Participant's assurance that the Shares subject to the Option are being purchased for investment and not with a view to the distribution thereof; provided that such assurance shall be deemed inapplicable to (i) any sale of the Shares by such Participant made in accordance with the terms of a registration statement covering such sale, which has heretofore been (or may hereafter be) filed and become effective under the U.S. Securities Act of 1933, as amended (the "Securities Act") and with respect to which no stop order suspending the effectiveness thereof has been issued, and (ii) any other sale of the Shares with respect to which, in the opinion of counsel for the Corporation, such assurance is not required to be given in order to comply with the provisions of the Securities Act.

(C) As soon as practicable after receipt of the notice and the assurance described in Sections II.6(A) and (B), the Corporation shall, without transfer or issue tax (except for withholding tax arrangements contemplated in Section VIII.6) and without other incidental expense to the Participant, credit the purchased Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then the Corporation shall cause an appropriate book entry to be entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the purchased Shares; provided, however, that the time of such delivery may be postponed by the Corporation for such period as may be required for it with reasonable diligence to comply with applicable registration requirements under the Securities Act, the Exchange Act, any applicable listing requirements of any national securities exchange and requirements under any other law or regulation applicable to the issuance or transfer of the Shares.

7. Limitations on Transfer. An Option shall, during a Participant's lifetime, be exercisable only by the Participant. No Option or any right granted thereunder shall be transferable by the Participant by operation of law or otherwise, other than by will or the laws of descent and distribution. Notwithstanding the foregoing: (A) a Participant may designate a beneficiary to succeed, after the Participant's death, to all of the Participant's Options outstanding on the date of death; (B) a Nonstatutory Stock Option may be transferable pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act; and (C) any Participant, who is a senior executive officer recommended by the Chief Executive Officer of the Corporation and approved by the Administrator may voluntarily transfer any Nonstatutory Stock Option to a Family Member as a gift or through a transfer to an entity in which more than 50% of the voting interests are owned by Family Members (or the Participant) in exchange for an interest in that entity. In the event of any attempt by a Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of an Option or of any right thereunder, except as provided herein, or in the event of the levy of any attachment, execution, or similar process upon the rights or interest hereby conferred, the Corporation at its election may terminate the affected Option by notice to the Participant and the Option shall thereupon become null and void.

8. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to the Shares subject to an Option except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to such Shares upon the exercise of an Option.

III. RESTRICTED STOCK

1. Restricted Stock Agreement. A Restricted Stock Award granted under the Plan shall be evidenced by a Restricted Stock Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Restricted Stock Award. Each Restricted Stock Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Restricted Stock Agreement. The Restricted Stock Award is also subject to the terms and conditions of the Plan.

2. Rights with Respect to Shares of Restricted Stock. Upon written acceptance of a Restricted Stock Award by a Participant, including the restrictions and other terms and conditions described in the Plan and the Restricted Stock Agreement, the Corporation shall cause an appropriate book entry to be entered in the records of the Corporation's transfer agent recording the Participant's interest in the Restricted Stock. From and after the Grant Date, the Participant shall have the rights of Common Stock ownership, including the right to vote and to receive dividends on Shares of Restricted Stock, subject to the terms, conditions and restrictions described in the Plan and the Restricted Stock Agreement.

3. Special Restrictions. Each Restricted Stock Award made under the Plan shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Administrator; provided, however, that no Restricted Stock grant shall be subject to additional terms, conditions and restrictions which are more favorable to a Participant than the terms, conditions and restrictions set forth elsewhere in the Plan or the Restricted Stock Agreement.

(A) Restrictions. Until the restrictions imposed on any Restricted Stock grant shall lapse (the “Restriction Period”), Shares of Restricted Stock granted to a Participant (i) shall not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act and (ii) shall, if the Participant’s continuous employment with the Corporation or any of its Affiliates shall terminate for any reason (except as otherwise provided in the Plan, or in Section III.3(B) or Section III.3(C)) be returned to the Corporation forthwith, and all the rights of the Participant to such Shares shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant’s Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision to the contrary contained in the Restricted Stock Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, then the restrictions imposed on any Restricted Stock Award shall lapse as to all Shares granted to such Participant pursuant to such Restricted Stock Award on the date of such termination; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date of any time-vesting Restricted Stock Award, the restrictions applicable to such Restricted Stock Award shall continue to lapse at such time(s) as are set forth in the applicable Grant Notice, as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such restricted period; provided, that notwithstanding any other provision of the Plan or this Statement of Terms and Conditions, this Section III.3(B)(ii) shall not apply to any Restricted Stock Award the vesting of which is based, in whole or in part, on attainment of performance objectives. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Award due to a Participant’s Normal Retirement eligibility.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary contained in the Restricted Stock Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant’s termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant’s termination date, then any time-vesting Restricted Stock Award shall be subject to the Normal Retirement provisions of Section III.3(B)(ii); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant’s termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant’s termination date, then the restrictions applicable to any time-vesting Restricted Stock Award shall lapse upon the Participant’s termination date, as to such Shares of Restricted Stock that would have vested at such time(s) as are set forth in the applicable Grant Notice as if the Participant had continued to be employed by the Corporation or one of its Affiliates during the six-month period after the Participant’s termination date.

Notwithstanding the foregoing, this Section III.3(C) shall not apply to any Restricted Stock Award the vesting of which is based, in whole or in part, on attainment of performance objectives. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Award due to a Participant’s Normal Retirement eligibility.

4. Dividends. Cash dividends paid with respect to Restricted Stock during the Restriction Period shall be credited on behalf of the Participant to a deferred cash account (in a manner designed to comply with Code Section 409A) and the restrictions on such cash dividends shall lapse at the same time that the restrictions lapse on the associated Restricted Stock Award. Stock dividends paid with respect to Restricted Stock during the Restriction Period shall be treated as Restricted Stock which shall be subject to the same restrictions as the original award for the duration of the Restriction Period.

5. Election to Recognize Gross Income in the Year of Grant. If any Participant validly elects within 30 days of the Grant Date, to include in gross income for federal income tax purposes an amount equal to the fair market value of the Shares of Restricted Stock granted on the Grant Date, such Participant shall (at the same time or prior to the date that the Participant files the Participant's election with the Internal Revenue Service) (A) pay to the Corporation, or make arrangements satisfactory to the Administrator to pay to the Corporation in the year of such grant, any federal, state or local taxes required to be withheld with respect to such Shares in accordance with Section VIII.6, and (B) provide the Administrator with a copy of the election filed with the Internal Revenue Service.

6. Restrictive Legend. Each book entry in the records of the Corporation's transfer agent evidencing Shares granted pursuant to a Restricted Stock grant may bear an appropriate legend referring to the terms, conditions and restrictions described in the Plan and/or the Restricted Stock Agreement.

7. Expiration of Restriction Period. If and when the Restriction Period applicable to the Restricted Stock expires without a prior forfeiture, Shares shall be credited to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then an appropriate book entry recording the Participant's interest in the unrestricted Shares shall be entered on the records of the Corporation's transfer agent.

IV. RESTRICTED STOCK UNITS

1. Restricted Stock Unit Agreement. Restricted Stock Units granted under the Plan shall be evidenced by a Restricted Stock Unit Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Restricted Stock Units. Each Restricted Stock Unit Grant Notice shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant's country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Restricted Stock Unit Agreement. The Restricted Stock Units are also subject to the terms and conditions of the Plan.

2. Special Restrictions. Restricted Stock Units granted under the Plan shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Administrator, consistent with the terms of the Plan.

(A) Restrictions. If a Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan, or in Section IV.2(B) or Section IV.2(C)) prior to the lapse of the restrictions imposed on the Award, the unvested Restricted Stock Units shall be canceled, and all the rights of the Participant to such Awards shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained to the contrary in the Restricted Stock Unit Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of such Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, then the restrictions imposed on any Award of Restricted Stock Units shall lapse on the date of such termination; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date of any time-vesting Restricted Stock Units, the restrictions applicable to such Restricted Stock Units shall continue to lapse at such time(s) as are set forth in the applicable Grant Notice, as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such restricted period.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary contained in the Restricted Stock Unit Grant Notice, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of a Restricted Stock Unit Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant's termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant's termination date, then any time-vesting Restricted Stock Unit Award shall be subject to the Normal Retirement provisions of Section IV.2(B)(ii); or;

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant's termination date, then the restrictions applicable to any time-vesting Restricted Stock Unit Award shall lapse upon the termination date, as to such Restricted Stock Units that would have vested at such time(s) as are set forth in the applicable Grant Notice as if the Participant had continued to be employed by the Corporation or one of its Affiliates during the six-month period after the termination date.

3. Dividend Equivalents. Subject to the discretion of the Compensation Committee, dividend equivalents shall be credited in respect of Restricted Stock Units. Cash dividends shall be credited on behalf of the Participant to a deferred cash account (in a manner designed to comply with Code Section 409A) and the restrictions on such cash dividends shall lapse at the same time that the restrictions lapse on the associated Award of Restricted Stock Units, and cash dividends shall be paid in a lump sum at the same time that the Shares underlying the Restricted Stock Unit Award, and to which the cash dividends relate, are distributed. Stock dividends shall be converted into additional Restricted Stock Units, which will be subject to all of the terms and conditions of the underlying Restricted Stock Units, including the same vesting restrictions as the underlying Award.

4. Assignability. A Participant shall not be permitted to sell, transfer, pledge, assign or encumber Restricted Stock Units, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act.

5. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to an Award of Restricted Stock Units except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to the Shares paid upon the settlement of any vested Restricted Stock Units.

6. Time of Payment of Restricted Stock Units. Upon the lapse of the restriction imposed on Restricted Stock Units, all Restricted Stock Units that were not forfeited pursuant to Section IV.2(A), Section IV.2(B)(i), Section IV.2(C)(i), or Section VI shall be paid to the Participant as soon as reasonably practicable after the restrictions lapse. Payment shall be made in Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the number of Shares subject to the Restricted Stock Units.

Notwithstanding the foregoing, if a Participant becomes eligible for Normal Retirement, or is eligible for additional vesting under Section IV.2(C)(ii), prior to the date of the lapse of restrictions imposed on Restricted Stock Units and the vesting provisions of Section IV.2(B)(ii) or Section IV.2(C)(ii) apply, then such Restricted Stock Units shall be paid to the Participant's brokerage account of record as soon as reasonably practicable after the earlier of the Participant's Separation from Service or the originally scheduled vesting date (in any event before the end of the calendar year in which such date occurs), subject to the delay of payment (if applicable) provided in Section VIII.14. The procedures set forth in Section VIII.6 will be applied for any taxes due upon the lapse of restrictions imposed on a Restricted Stock Award due to a Participant's Normal Retirement eligibility or additional vesting as provided in Section IV.2(C)(ii).

V. PERFORMANCE STOCK UNITS

1. Award Agreement. Performance Stock Unit Awards shall be evidenced by a Performance Stock Unit Agreement to be executed by the Participant and the Corporation setting forth the terms and conditions of the Performance Stock Unit Award. Performance Stock Unit Awards are “Other Share-Based Awards” as provided under Section 11 of the Plan. Each Performance Stock Unit Agreement shall incorporate by reference and be subject to this Statement of Terms and Conditions, including the special terms and conditions in the Appendix for the Participant’s country (if any) which forms part of this Statement of Terms and Conditions, and together both documents shall constitute the Performance Stock Unit Agreement. Performance Stock Unit Awards are also subject to the terms and conditions of the Plan.

2. Number of Shares Granted Based on Performance. The performance period of a Performance Stock Unit Award shall be greater than one year, and performance shall be based on such criteria as the Compensation Committee shall determine in its discretion at the beginning of the performance period. Following the end of the performance period, the Compensation Committee shall determine the extent to which the criteria have been achieved, and shall authorize the grant and issuance of Shares in respect of the Performance Stock Unit Award.

3. Special Conditions. Performance Stock Unit Awards shall be subject to the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Compensation Committee, consistent with the terms of the Plan.

(A) Forfeiture. If a Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan or in Section V.3(B) or Section V.3(C)) prior to the end of the performance period, any then-outstanding Performance Stock Units shall be canceled, and all the rights of the Participant to such Award shall immediately terminate. If a Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Compensation Committee may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained herein or in the Plan or the Award Agreement to the contrary, if a Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of such Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of:

(i) Death or Long-Term Disability, the Participant shall be eligible to receive, following completion of the applicable performance period, a prorated portion of each such Performance Stock Unit Award, equal to (1) the target number of Performance Stock Units subject to such Award, *multiplied by* (2) the performance criteria determined by the Compensation Committee to apply to such Award, *multiplied by* (3) a fraction, the numerator of which is the number of whole calendar months, rounded down to the nearest whole month, during which the Participant provided Service to the Corporation or an Affiliate during the performance period applicable to such Award, and the denominator of which is the number of calendar months in such performance period; provided, that for purposes of this clause (3), “whole calendar months” shall be calculated commencing on the applicable Grant Date; provided, however, that in no event shall such amount exceed any applicable cap or limitation set forth in the Performance Stock Unit Grant Notice; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date, the Participant shall be eligible to vest in such Performance Stock Unit Award following completion of the applicable performance period, as though the Participant had continued to be employed by the Corporation or one of its Affiliates through the date on which the Compensation Committee determines performance against the applicable performance goals.

Amounts, if any, to be paid under this Section V.3(B) shall be paid in accordance with Section V.7 and, if applicable, Section VIII. 14.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary, if the Participant has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date and ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and:

(i) The Participant either (a) has attained the requirements for Normal Retirement on or prior to the Participant's termination date or (b) would have attained the requirements for Normal Retirement within six months after the Participant's termination date, then any Performance Stock Unit Award shall be subject to the Normal Retirement provisions of Section V.3(B)(ii); or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant's termination date, and would not have attained the requirements for Normal Retirement within six months after the Participant's termination date, then if such Participant's termination date is no greater than six months prior to the date on which the Compensation Committee determines performance against the applicable performance goals, such Participant shall be eligible to vest in such Performance Stock Unit Award following completion of the applicable performance period, as though the Participant had continued to be employed by the Corporation or one of its Affiliates through such performance determination date.

Amounts, if any, to be paid under this Section V.3(C) shall be paid in accordance with Section V.7 and, if applicable, Section VIII. 14.

4. Dividend Equivalents. Unless otherwise determined by the Compensation Committee in its sole discretion, Dividend Equivalents shall not be accrued with respect to Performance Stock Unit Awards during the performance period.

5. Assignability. A Participant shall not be permitted to sell, transfer, pledge, assign or encumber all or any portion of a Performance Stock Unit Award.

6. No Stockholder Rights. Neither a Participant nor any person entitled to exercise a Participant's rights in the event of the Participant's death shall have any of the rights of a stockholder with respect to a Performance Stock Unit Award, except to the extent that a book entry has been entered in the records of the Corporation's transfer agent with respect to the Shares paid upon the settlement of any Performance Stock Unit Award.

7. Time of Payment of Performance Stock Units. The Compensation Committee shall determine the extent to which Shares are payable pursuant to a Performance Stock Unit Award as soon as practicable following the end of the performance period, and such Shares shall be paid as soon as practicable thereafter and in any event no later than the end of the period under which payment would be deemed to be a "short-term deferral" as defined in the regulations under Code Section 409A. Payment shall be made in the form of Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the number of Shares earned pursuant to the Performance Stock Unit Award.

VI. SPECIAL FORFEITURE AND REPAYMENT RULES

Any other provision of this Statement of Terms and Conditions to the contrary notwithstanding, if the Administrator determines that a Participant has engaged in any of the actions described in 3 below, the consequences set forth in 1 and 2 below shall result:

1. Any outstanding Option shall immediately and automatically terminate, be forfeited and shall cease to be exercisable, without limitation. In addition, any Award of Restricted Stock or Restricted Stock Units as to which the restrictions have not lapsed shall immediately and automatically be forfeited, Performance Stock Unit Awards shall immediately and automatically be forfeited and any such Shares of Restricted Stock shall be returned to the Corporation and all of the rights of the Participant to such Awards and the underlying Shares shall immediately terminate.

2. If the Participant exercised an Option within 12 months prior to the date upon which the Corporation discovered that the Participant engaged in any actions described in 3 below, the Participant, upon written notice from the Corporation, shall immediately pay to the Corporation the economic value realized or obtained by the exercise of such Option measured at the date of exercise. In addition, if the restrictions imposed on any Award of Restricted Stock or Restricted Stock Units (including any unpaid dividends or Dividend Equivalents) lapsed, or any Performance Stock Unit Award was settled, within 12 months prior to the date the Corporation discovered that the Participant engaged in any action described in 3 below, the Participant, upon written notice from the Corporation, shall immediately pay to the Corporation the economic value realized or obtained with respect to such Award, measured at the date such Award vested.

3. The consequences described in 1 and 2 above shall apply if the Participant, either before or after termination of employment with the Corporation or its Affiliates:

(A) Discloses to others, or takes or uses for the Participant's own purpose or the purpose of others, any trade secrets, confidential information, knowledge, data or know-how or any other proprietary information or intellectual property belonging to the Corporation or its Affiliates and obtained by the Participant during the term of the Participant's employment, whether or not they are the Participant's work product. Examples of such confidential information or trade secrets include, without limitation, customer lists, supplier lists, pricing and cost data, computer programs, delivery routes, advertising plans, wage and salary data, financial information, research and development plans, processes, equipment, product information and all other types and categories of information as to which the Participant knows or has reason to know that the Corporation or its Affiliates intends or expects secrecy to be maintained;

(B) Fails to promptly return all documents and other tangible items belonging to the Corporation or its Affiliates in the Participant's possession or control, including all complete or partial copies, recordings, abstracts, notes or reproductions of any kind made from or about such documents or information contained therein, upon termination of employment, whether pursuant to retirement or otherwise;

(C) Fails to provide the Corporation with at least 30 days' written notice prior to directly or indirectly engaging in, becoming employed by, or rendering services, advice or assistance to any business in competition with the Corporation or its Affiliates. As used herein, "business in competition" means any person, organization or enterprise which is engaged in or is about to become engaged in any line of business engaged in by the Corporation or its Affiliates at the time of the termination of the Participant's employment with the Corporation or its Affiliates;

(D) Fails to inform any new employer, before accepting employment, of the terms of this paragraph and of the Participant's continuing obligation to maintain the confidentiality of the trade secrets and other confidential information belonging to the Corporation or its Affiliates and obtained by the Participant during the term of the Participant's employment with the Corporation or any of its Affiliates;

(E) Induces or attempts to induce, directly or indirectly, any of the customers of the Corporation or its Affiliates, employees, representatives or consultants to terminate, discontinue or cease working with or for the Corporation or its Affiliates, or to breach any contract with the Corporation or any of its Affiliates, in order to work with or for, or enter into a contract with, the Participant or any third party;

(F) Engages in conduct which is not in good faith and which disrupts, damages, impairs or interferes with the business, reputation or employees of the Corporation or its Affiliates; or

(G) Fails to meet the Participant's continuing obligations with respect to non-disclosure, non-competition and/or non-solicitation under the Participant's agreement with the Corporation or any Affiliate.

The Administrator shall determine in its sole discretion whether the Participant has engaged in any of the acts set forth in (A) through (G) above, and its determination shall be conclusive and binding on all interested persons.

Any provision of this Section VI which is determined by a court of competent jurisdiction to be invalid or unenforceable should be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by such invalid or unenforceable provision, without invalidating or rendering unenforceable the remaining provisions of this Section VI.

VII. CHANGE IN CONTROL

If as a result of a Change in Control, the Common Stock ceases to be listed for trading on a national securities exchange (an “Exchange”), any Option, Restricted Stock Award, Restricted Stock Unit Award or Performance Stock Unit Award that is unvested on the effective date of the Change in Control shall continue to vest according to the terms and conditions of such Award, provided that such Award is replaced with an award for voting securities of the resulting corporation or the acquiring corporation, as the case may be, (including without limitation, the voting securities of any corporation which as a result of the Change in Control owns the Corporation or all or substantially all of the Corporation’s assets either directly or through one or more subsidiaries) (the “Surviving Company”) which are traded on an Exchange (a “Replacement Award”), which Replacement Award, (i) in the case of an Option, shall consist of an option with the number of underlying shares and exercise price determined in a manner consistent with Code Section 424(a) with vesting and any other terms continuing in the same manner as the replaced Option; (ii) in the case of a Performance Stock Unit Award, shall consist of restricted stock or restricted stock units with a value (determined using the Surviving Company’s stock price as of the effective date of the Change in Control) equal to the value of the Performance Stock Unit Award (determined using the Corporation’s stock price and assuming attainment of target performance or actual performance achieved, if greater, as of the effective date of the Change in Control), with any restrictions on such Replacement Award lapsing at the end of the measuring period over which performance for the replaced Performance Stock Unit Award was to be measured prior to the granting of the Replacement Award; and (iii) in the case of a Restricted Stock Award or Restricted Stock Unit Award, shall consist of restricted stock or restricted stock units with a value (determined using the Surviving Company’s stock price as of the effective date of the Change in Control) equal to the value of the Restricted Stock Award or Restricted Stock Unit Award (determined using the Corporation’s stock price as of the effective date of the Change in Control), with any restrictions on such restricted stock or restricted stock units lapsing at the same time and manner as the replaced Award; provided, however, that in the event of the Participant’s involuntary Separation from Service by the Corporation without Cause or Separation from Service by the Participant for Good Reason during the vesting period of any Replacement Award, the Replacement Award shall immediately vest and be paid as soon as practicable following such Separation from Service (subject to Section VIII.14), based on the fair market value of the underlying shares on the vesting date, or in the case of options, based on the excess of the fair market value of the underlying shares over the option exercise price on the vesting date. If any Option, Restricted Stock Award, Restricted Stock Unit Award or Performance Stock Unit Award that is unvested at the effective time of the Change in Control is not replaced with a Replacement Award, such Award shall immediately vest and, in the case of a Performance Stock Unit Award, shall vest based upon deemed attainment of target performance or actual performance achieved, if greater.

If as a result of a Change in Control, the Common Stock continues to be listed for trading on an Exchange, any unvested Option, Restricted Stock Award, or Restricted Stock Unit Award shall continue to vest according to the terms and conditions of such Award and any Performance Stock Unit Award shall be replaced with a Restricted Stock Unit Award where the number of shares subject to such Restricted Stock Unit Award shall be equal to the number of Shares assuming attainment of target performance or actual performance achieved, if greater, as of the effective date of the Change in Control with any restrictions on such Restricted Stock Unit Award lapsing at the end of the measuring period over which performance for the replaced Performance Stock Unit Award was to be measured prior to the granting of the Replacement Award; provided however, that, in the event of the Participant’s involuntary Separation from Service by the Corporation without Cause or Separation from Service by the Participant for Good Reason during the vesting period of an Award, such Award shall immediately vest and be paid as soon as practicable following such Separation from Service (subject to Section VIII.14).

VIII. MISCELLANEOUS

1. No Effect on Terms of Employment. Participation in the Plan shall not create a right to further employment with the Participant’s employer (the “Employer”) and shall not interfere with the ability of the Employer to terminate, with or without cause, or change the terms of employment of a Participant at any time.

2. Grants to Participants in Foreign Countries. In making grants to Participants in foreign countries, the Administrator has the full discretion to deviate from this Statement of Terms and Conditions in order to adjust grants under the Plan to prevailing local conditions, including custom and legal and tax requirements. Furthermore, the Corporation reserves the right to impose other requirements on the Participant’s participation in the Plan on the Award and on any Shares acquired under the Plan, to the extent the Corporation determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertaking that may be necessary to accomplish the foregoing.

3. Information Notification. Any information required to be given under the terms of an Award shall be addressed to the Corporation in care of its Corporate Secretary at McKesson Corporation, 6555 North Highway 161, Irving, Texas 75039, and any notice to be given to a Participant shall be addressed to such Participant at the address indicated beneath the Participant's name on the Award Agreement or such other address as either party may designate in writing to the other. Any such notice shall be deemed to have been duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified and deposited (postage or registration or certification fee prepaid) in a post office or branch post office. The parties may use email delivery, so long as the message is clearly marked, sent to the email address(es) set forth herein, and a delivery receipt and a read receipt are made part of the message. Email delivery will be deemed to occur when the sender receives confirmation that such message has been received and read by the recipient. Emails to the Corporation shall be delivered to CorpSecretary@mckesson.com.

4. Administrator Decisions Conclusive. All decisions of the Administrator administering the Plan upon any questions arising under the Plan or under an Award Agreement, shall be conclusive and binding on all interested persons.

5. No Effect on Other Benefit Plans. Nothing herein contained shall affect a Participant's right to participate in and receive benefits from and in accordance with the then current provisions of any pensions, insurance or other employment welfare plan or program offered by the Corporation.

6. Withholding. Regardless of any action the Corporation or the Employer takes with respect to any federal, state or local income tax, social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Corporation or the Employer. The Participant further acknowledges that the Corporation and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant, vesting or exercise of the Award, as applicable, the subsequent sale of Shares acquired pursuant to the Plan and the receipt of any dividends and/or dividend equivalents; and (2) do not commit and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, the Participant acknowledges that the Corporation and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Participant will pay or make adequate arrangements satisfactory to the Corporation and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (1) withholding from the Participant's wages or other cash compensation paid to the Participant by the Corporation and/or the Employer; (2) withholding from proceeds of the sale of Shares acquired under the Plan either through a voluntary sale or through a mandatory sale arranged by the Corporation (on the Participant's behalf pursuant to this authorization and any other authorization the Corporation and/or the broker designated by the Corporation may require the Participant to sign in connection with the sale of Shares); or (3) withholding Shares to be issued upon grant, vesting/settlement or exercise, as applicable. Calculation of the number of Shares to be withheld shall be made based on the closing price of the Common Stock on the New York Stock Exchange on the date that the amount of tax to be withheld is determined. In no event, however, shall the Corporation be required to issue fractional Shares. With respect to an Award other than an Option, if adequate arrangements to satisfy the obligations with regard to all Tax-Related Items are not made by the Participant with the Corporation and/or the Employer prior to the relevant taxable event, the Corporation will satisfy such obligations as provided above in clause (3) of this paragraph.

To avoid negative accounting treatment, the Corporation may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant will be deemed to have been issued the full number of Shares subject to the Award, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the Plan.

Finally, the Participant shall pay to the Corporation or the Employer any amount of Tax-Related Items that the Corporation or the Employer may be required to withhold or account for as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Corporation may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

The Administrator shall be authorized to establish such rules, forms and procedures as it deems necessary to implement the foregoing.

7. Successors. The Award Agreements shall be binding upon and inure to the benefit of any successor or successors of the Corporation. "Participant" as used herein shall include the Participant's Beneficiary.

8. Delaware Law. The interpretation, performance, and enforcement of all Award Agreements shall be governed by the laws of the State of Delaware.

9. Nature of Grant. In accepting the grant, the Participant acknowledges that:

(A) the Plan is established voluntarily by the Corporation, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Corporation at any time;

(B) the grant of the Award is exceptional, voluntary and occasional and does not create any contractual or other right to receive future Award grants, or benefits in lieu of Awards, even if Awards have been granted repeatedly in the past;

(C) all decisions with respect to future Awards, if any, will be at the sole discretion of the Corporation;

(D) the Participant is voluntarily participating in the Plan;

(E) the Award and the Shares subject to the Award, and the income from and value of same, are not part of normal or expected compensation for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments;

(F) the Award will not be interpreted to form an employment contract or relationship with the Corporation; and furthermore, the Award will not be interpreted to form an employment contract with any subsidiary or Affiliate of the Corporation;

(G) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(H) if the underlying Shares do not increase in value, the Options will have no value;

(I) in consideration of the grant of the Award, no claim or entitlement to compensation or damages shall arise from forfeiture of the Award which results from termination of the Participant's employment with the Employer or the Corporation or one of its Affiliates (for any reason whatsoever, and whether or not such forfeiture is later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any) and the Participant irrevocably releases the Corporation or its Affiliates from any such claim that may arise; provided that, notwithstanding the foregoing, in the event any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting the Award, the Participant shall be deemed irrevocably to have waived the Participant's entitlement to pursue such claim;

(J) for purposes of an Award, the Participant's employment relationship will be considered terminated as of the date the Participant is no longer a bona fide employee of the Corporation, the Employer or one of the Corporation's other Affiliates (regardless of the reason for such termination and whether or not later found to be invalid or in breach of the employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), and unless otherwise expressly provided in this Award Agreement or determined by the Corporation in its sole discretion, the Participant's right to receive Awards and vest in Awards under the Plan, if any, will terminate effective as of such date and will not be extended by any notice period mandated under local law (for example, the Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any); similarly, any right to exercise Options under the Plan after termination of employment will be measured as of the date the Participant is no longer a bona fide employee of the Corporation, the Employer or one of the Corporation's other Affiliates and will not be extended by any notice period mandated under local law; the Administrator shall have the sole discretion to determine when the Participant is no longer a bona fide employee for purposes of an Award (including whether the Participant may still be considered to be providing services while on a leave of absence);

(K) the Corporation is not providing any tax, legal or financial advice, nor is the Corporation making any recommendations regarding participation in the Plan or the Participant's acquisition or sale of Shares; and

(L) Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

10. Data Privacy Information and Consent.

(A) **Data Collection and Usage.** *The Corporation and the Employer may collect, process and use certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number, salary, nationality, job title, any Shares or directorships held in the Corporation, details of all Options, Restricted Stock, Restricted Stock Units, Performance Shares, Other Share-Based Awards, or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Employee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Participant's consent.*

(B) **Stock Plan Administration Service Providers.** *The Corporation transfers Data to Fidelity Stock Plan Services LLC and its affiliated companies, an independent service provider based in the United States, which is assisting the Corporation with the implementation, administration and management of the Plan. The Corporation may select a different service provider or additional service providers and share Data with such other provider serving in a similar manner. The Participant may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.*

(C) **International Data Transfers.** *The Corporation and its service providers are based in the United States. The Participant's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program. The Corporation's legal basis, where required, for the transfer of Data is the Participant's consent.*

(D) **Data Retention.** *The Corporation will hold and use the Data only as long as is necessary to implement, administer and manage the Participant's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws. In the latter case, the Participant understands and acknowledges that the Corporation's legal basis for the processing of the Participant's Data would be compliance with the relevant laws or regulations or the pursuit by the Corporation of respective legitimate interests not outweighed by the Participant's interests, rights or freedoms. When the Corporation no longer needs the Participant's Data for any of the above purposes, the Participant understands the Corporation will remove it from its systems.*

(E) **Voluntariness and Consequences of Consent Denial or Withdrawal.** *Participation in the Plan is voluntary and the Participant is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke the Participant's consent, the Participant's salary from or employment with the Employer will not be affected; the only consequence of refusing or withdrawing the Participant's consent is that the Corporation would not be able to grant Awards to the Participant or administer or maintain such Awards.*

(F) **Data Subject Rights.** *The Participant may have a number of rights under data privacy laws in the Participant's jurisdiction. Depending on where the Participant is based, such rights may include the right to (i) inquire whether and what kind of Data the Corporation holds about the Participant and how it is processed, and to request access or copies of Data the Corporation processes, (ii) request the correction or supplementation of Data about the Participant that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, processed based on withdrawn consent, processed for legitimate interests that, in the context of the Participant's objection, do not prove to be compelling, or processed in non-compliance with applicable legal requirements, (iv) request restrictions on processing of Data in certain situations where the Participant feels its processing is inappropriate, (v) request portability of the Participant's Data that the Participant has actively or passively provided to the Corporation (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Participant's employment and is carried out by automated means, (vi) object, in certain circumstances, to the processing of Data for legitimate interests, (vii) lodge complaints with competent authorities in the Participant's jurisdiction, and/or (viii) receive a list with the names and addresses of any potential recipients of Data. To receive clarification regarding these rights or to exercise these rights, the Participant can contact his or her local human resources representative.*

By accepting the Award and indicating consent via the Corporation's acceptance procedure, the Participant is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Corporation and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

11. **Severability.** The provisions in this Statement of Terms and Conditions are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

12. **Language.** The Participant acknowledges that the Participant is proficient in the English language and, accordingly, understands the provisions of the Plan and this Statement of Terms and Conditions. If the Participant has received this Statement of Terms and Conditions or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

13. **Electronic Delivery.** The Corporation may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or a third party designated by the Corporation.

14. **Section 409A.** If (A) the Participant is a Specified Employee at the time of the Participant's Separation from Service, and (B) some or any portion of the amounts payable to the Participant, if any, when considered together with any other payments or benefits which may be considered deferred compensation under section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") and subject to the plan aggregation rules under Treasury Regulation section 1.409A-1(c)(3)(viii) (together, the "Deferred Compensation Benefits") would result in the imposition of additional tax under Section 409A if paid to the Participant on or within the six month period following the Separation from Service, then to the extent such portion of the Deferred Compensation Benefits resulting in the imposition of additional tax would otherwise have been payable on or within the first six months following the Separation from Service, it will instead become payable on the first payroll date that occurs in the seventh month following the Separation from Service (or such longer period as is required to avoid the imposition of additional tax under Section 409A). All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit.

IX. DEFINITIONS

When capitalized in this Statement of Terms and Conditions, the following terms shall have the meaning set forth below:

1. "**Award Agreement**" means an agreement between the Participant and the Corporation evidencing the grant of an Option, Restricted Stock Award, Restricted Stock Award, Performance Shares or Other Share-Based Award, as applicable.

2. "**Cause**" means termination of the Participant's employment with the Corporation or an Affiliate upon the Participant's negligent or willful engagement in misconduct which, in the sole determination of the Chief Executive Officer of the Corporation (or the Chief Executive Officer's designee), is injurious to the Corporation, its employees, or its customers.

3. “Early Retirement” means a termination of employment (other than due to death, Long-Term Disability or for Cause) which occurs prior to Normal Retirement but on or after the date on which the Participant’s age (expressed in terms of years and completed months) plus service with the Corporation or an Affiliate equals 65. For purposes of determining eligibility for Early Retirement, the term “service” shall include years and completed whole months of service.

4. “Family Member” means any person identified as an “immediate family” member in Rule 16(a)-1(e) of the Exchange Act, as such Rule may be amended from time to time. Notwithstanding the foregoing, the Administrator may designate any other person(s) or entity(ies) as a “family member.”

5. “Good Reason” means any of the following actions, if taken without the express written consent of the Participant:

(A) Any material change by the Corporation in the Participant’s functions, duties, or responsibilities, which change would cause the Participant’s position with the Corporation to become of less dignity, responsibility, importance, or scope from the position and attributes that applied to the Participant immediately prior to the Change in Control; provided, however, that, any such change attributable to the Corporation’s no longer being a company with publicly traded common stock shall not constitute Good Reason; and provided, further, that a reduction in the Participant’s functions, duties or responsibilities solely by virtue of the Corporation being acquired and made part of a larger entity (for example, if following a Change in Control the Participant retains the Participant’s position, or has a comparable position, with respect to a division or subsidiary of the acquirer that contains the Corporation’s business) shall not constitute Good Reason;

(B) Any significant reduction in the Participant’s aggregate base annual salary and target incentive opportunity, as in effect immediately prior to the Change in Control;

(C) Any material failure by the Corporation to comply with any of the provisions of an Award subsequent to a Change in Control; or

(D) The Corporation’s requiring the Participant to be based at any location which would increase the Participant’s regular one-way commute by more than 25 miles from that in effect immediately preceding the Change in Control, except for travel reasonably required in the performance of the Participant’s responsibilities;

Provided that the Participant gives notice to the Corporation of the existence of the Good Reason condition within 30 days of the initial existence of the Good Reason condition and the Corporation is provided 30 days after receipt of the Participant’s notice to remedy the Good Reason condition; provided further that the Participant’s Separation from Service must occur within six months from the initial existence of the Good Reason condition if the Corporation does not remedy such condition for such separation to be considered to be for Good Reason.

6. “Expiration Date” means the date that an Option expires as set forth in the Option Grant Notice as the “Expiration Date.”

7. “Grant Date” means the date the Administrator grants the Award.

8. “Grant Notice” means the notice of an Award granted to the Participant, which sets forth certain terms of such Award.

9. “Long-Term Disability” means a physical or mental condition in respect of which the administrator of the Corporation’s long-term disability plan has determined that the Participant is eligible to receive income replacement benefits; or, if the Participant is not then a participant in the Corporation’s long-term disability plan, a physical or mental condition that the administrator of the Corporation’s long-term disability plan determines would have rendered the Participant eligible to receive income replacement benefits, had the Participant been enrolled in such plan.

10. “Normal Retirement” means termination of employment (other than due to death, Long-Term Disability or for Cause) at or after age 60 (57, in the case of a participant in the McKesson Corporation 1984 Executive Benefit Retirement Plan) with at least 10 years of service with the Corporation or an Affiliate. For purposes of determining eligibility for Normal Retirement, “service” shall mean completed whole years of service (12 consecutive months).

11. “Option Period” means the period commencing on the Grant Date of an Option and, except at otherwise provided in Section II.5, ending on the Expiration Date.

12. "Separation from Service" means termination of employment with the Corporation or an affiliate. A Participant shall be deemed to have had a Separation from Service if the Participant's service with the Corporation or an affiliate is reduced to an annual rate that is equal to or less than 20% of the services rendered, on average, during the immediately preceding three years of service with the Corporation or an affiliate (or, if providing service to the Corporation or an affiliate for less than three years, such lesser period).

13. "Severance" means termination of employment with the Corporation or an affiliate, and qualified for participation in and entitlement to benefits under the McKesson Corporation Severance Pay Plan, in accordance with the terms and conditions of such plan.

14. "Short-Term Disability" means short-term disability as defined in the Corporation's short-term disability plan.

15. "Specified Employee" means those employees identified by the Corporation as "Specified Employees" for purposes of Code Section 409A.

SPECIAL INCENTIVE AWARD

McKESSON CORPORATION
STATEMENT OF TERMS AND CONDITIONS APPLICABLE TO
FY 2019 SPECIAL INCENTIVE AWARD
PERFORMANCE STOCK UNITS AND RESTRICTED STOCK UNITS
GRANTED PURSUANT TO THE 2013 STOCK PLAN

I. INTRODUCTION; GRANT DATE

The following terms and conditions shall apply to the special incentive (the “Special Incentive Award”) of Performance Stock Units (“PSUs”) and Restricted Stock Units (“RSUs”) granted under the Plan and subject to the terms and conditions of the Plan. The Grant Date of the Special Incentive Award is [], 2018. This Statement of Terms and Conditions is intended to meet the requirements of Code Section 409A and any rules promulgated thereunder. In the event of any inconsistency between this Statement of Terms and Conditions and the Plan, the Plan shall govern. Capitalized terms not otherwise defined in this Statement of Terms and Conditions shall have the meaning set forth in the Plan.

II. PERFORMANCE STOCK UNITS

1. The Special Incentive Award includes a target Award of [] Performance Stock Units (the “PSU Award”), which is subject to the terms and conditions set forth herein. The PSU Award is an “Other Share-Based Award” as provided under Section 11 of the Plan. The PSU Award is also subject to the terms and conditions of the Plan.

2. Lapse of Performance Restrictions.

(A) Performance Goals. The performance goals applicable to the PSU Award are attached as Exhibit A to this Statement of Terms and Conditions. The vesting and payment of the PSU Award is also subject to Section II.3, Section II.4 and Section IV.

(B) Payment of Earned PSUs. As soon as practicable following the end of the performance period, Compensation Committee shall determine the extent to which the performance goals have been achieved, and shall determine the number of PSUs that have been earned.

Fifty percent (50%) of the Shares underlying earned PSUs shall be paid as soon as practicable thereafter and in any event no later than the end of the period under which payment would be deemed to be a “short-term deferral” as defined in the regulations under Code Section 409A. The remaining fifty percent (50%) of such earned PSUs shall be subject to one additional year of vesting service and shall be evidenced by the issuance of a One-Year RSU Award on the terms and conditions set forth in Section II.4.

3. Termination of Service Prior to Determination of Performance Against Goals.

(A) Restrictions. If the Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan, or in Section II.3(B) or Section II.3(C)) prior to the lapse of the performance restrictions imposed on the PSU Award, this PSU Award shall be canceled, and all the rights of the Participant to the PSU Award shall immediately terminate. If the Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained herein or in the Plan, if the Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of the PSU Award ceases to be a bona fide employee of the Corporation or an Affiliate prior to completion of the performance period as a result of:

(i) Death or Long-Term Disability, the Participant shall be eligible to receive, following completion of the performance period, an amount in cash equal to the value of a prorated portion of the PSU Award, equal to (1) the target number of PSUs subject to the PSU Award, *multiplied by* (2) the performance results determined by the Compensation Committee to apply to such Award, *multiplied by* (3) a fraction, the numerator of which is the number of whole calendar months, rounded down to the nearest whole month, during which the Participant provided Service to the Corporation or an Affiliate during the performance period, and the denominator of which is the number of calendar months in such performance period; provided, that for purposes of this clause (3), “whole calendar months” shall be calculated commencing on April 1, 2018; provided, however, that in no event shall such amount exceed any applicable cap or limitation set forth in Exhibit A; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date, the Participant shall be eligible to receive, following completion of the performance period, an amount in cash equal to the value of the earned PSUs, paid in installments at the same times as actively employed holders of PSU Awards and calculated as though the Participant had continued to be employed by the Corporation or one of its Affiliates during the entire performance period and additional one-year vesting period applicable to the One-Year RSU Award as set forth in Section II.4.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary, if the Participant has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date and ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and the Participant’s termination date is within six months prior to the date on which the Compensation Committee determines performance against the applicable performance goals, and:

(i) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant’s termination date, and would not have attained the requirements for Normal Retirement within six months after the termination date, then the Participant shall be eligible to receive an amount in cash equal to one-half (1/2) of the value of the earned PSUs, paid at the same time as actively employed holders of PSU Awards are paid the first installment of Shares, and calculated as though the Participant had continued to be employed by the Corporation or one of its Affiliates during the entire performance period; or

(ii) The Participant has not attained the requirements for Normal Retirement on or prior to the Participant’s termination date, but would have attained the requirements for Normal Retirement within six months after the termination date, such Participant shall be eligible for the Normal Retirement benefit set forth in Section II.3(B)(ii).

4. Grant of One-Year RSU Award. Once the Compensation Committee has determined the number of PSUs that have been earned pursuant to the PSU Award, if any, an award of Restricted Stock Units with respect to one-half (50%) of such earned PSUs (the “One-Year RSU Award”) will be granted to the Participant on the terms and conditions set forth below and subject to the terms and conditions of the Plan.

(A) The restrictions applicable to the One-Year RSU Award shall lapse with respect to 100% of the underlying Shares on the first anniversary of the Grant Date with respect to such One-Year RSU Award, subject to Section II.4(C) and Section IV.

(B) Dividend Equivalents. Dividend equivalents shall be credited in respect of the One-Year RSU Award. Cash dividends shall be credited on behalf of the Participant to a deferred cash account (in a manner designed to comply with Code Section 409A) and the restrictions on such cash dividends shall lapse at the same time that the restrictions lapse on the One-Year RSU Award, and cash dividends, along with accrued interest (if any) on such cash dividends, shall be paid in a lump sum at the same time that the Shares underlying the One-Year RSU Award are distributed. Stock dividends shall be converted into additional Restricted Stock Units, which will be subject to all of the terms and conditions of the One-Year RSU Award.

(C) Termination of Service.

(i) Restrictions. If the Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan, or in Section II.4(C)(ii) or Section II.4(C)(iii)) prior to the lapse of the restrictions imposed on the One-Year RSU Award, any unvested Restricted Stock Units subject to the One-Year RSU Award shall be canceled, and all the rights of the Participant to the One-Year RSU Award shall immediately terminate. If the Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(ii) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained to the contrary herein, if the Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of the One-Year RSU Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of

(a) Death or Long-Term Disability, then the restrictions imposed on the One-Year RSU Award shall lapse on the date of such termination; or

(b) Normal Retirement, the One-Year RSU Award shall not be cancelled and will vest and be paid on the first anniversary of such Grant Date, as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such restricted period.

(iii) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary, if the Participant has been in the continuous employment of the Corporation or any of its Affiliates since the applicable Grant Date and ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and the Participant's termination date is within six months prior to the date on which such RSU Award is scheduled to vest and be paid, the restrictions applicable to such RSU Award shall lapse upon the termination date.

5. Payment of Performance Stock Units and Restricted Stock Units. Except as provided with respect to the payment of earned PSUs in cash following certain terminations of employment under Section II.3, payment shall be made in Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the number of Shares subject to the Performance Stock Units or Restricted Stock Units, as applicable.

III. THREE-YEAR RESTRICTED STOCK UNITS

1. Award Agreement. The Special Incentive Award includes an Award of [] Restricted Stock Units (the "RSU Award"), which is subject to the terms and conditions set forth herein. The RSU Award also subject to the terms and conditions of the Plan.

2. Lapse of Restrictions. The restrictions applicable to the RSU Award shall lapse with respect to 100% of the underlying Shares on the third anniversary of the Grant Date, subject to Sections III.4 and IV.

3. Dividend Equivalents. Dividend equivalents shall be credited in respect of the RSU Award granted under this Section III. Cash dividends shall be credited on behalf of the Participant to a deferred cash account (in a manner designed to comply with Code Section 409A) and the restrictions on such cash dividends shall lapse at the same time that the restrictions lapse on such RSU Award, and cash dividends, along with accrued interest (if any) on such cash dividends, shall be paid in a lump sum at the same time that the Shares underlying such RSU Award are distributed. Stock dividends shall be converted into additional Restricted Stock Units, which will be subject to all of the terms and conditions of the applicable RSU Award, including the same vesting restrictions as the RSU Award.

4. Termination of Service.

(A) Restrictions. If the Participant ceases to be a bona fide employee of the Corporation or any Affiliate (except as otherwise provided in the Plan, or in Section III.4(B) or Section III.4(C)) prior to the lapse of the restrictions imposed on the Award, any unvested Restricted Stock Units subject to the RSU Award shall be canceled, and all the rights of the Participant to such portion of the RSU Award shall immediately terminate. If the Participant is absent from work with the Corporation or an Affiliate because of the Participant's Short-Term Disability or because the Participant is on an approved leave of absence, the Participant shall not be deemed during the period of any such absence, by virtue of such absence alone, to have terminated employment with the Corporation or an Affiliate except as the Administrator may otherwise expressly determine.

(B) Termination of Employment by Reason of Death, Long-Term Disability or Normal Retirement. Notwithstanding any provision contained to the contrary herein, if the Participant who has been in the continuous employment of the Corporation or any of its Affiliates since the Grant Date of the RSU Award ceases to be a bona fide employee of the Corporation or an Affiliate as a result of

(i) Death or Long-Term Disability, then the restrictions imposed on any Award of Restricted Stock Units shall lapse on the date of such termination; or

(ii) Normal Retirement on or after the first anniversary of the Grant Date of the RSU Award, such award shall not be cancelled and will vest and be paid on the third anniversary of such Grant Date, as though the Participant had continued to be employed by the Corporation or one of its Affiliates during such restricted period.

(C) Termination of Employment by Reason of Severance. Notwithstanding any provision to the contrary, if the Participant has been in the continuous employment of the Corporation or any of its Affiliates since the applicable Grant Date and ceases to be a bona fide employee of the Corporation or an Affiliate as a result of Severance, and the Participant's termination date is within six months prior to the date on which such RSU Award is scheduled to vest and be paid, the restrictions applicable to such RSU Award shall lapse upon the termination date.

5. Time of Payment of Restricted Stock Units. Upon the lapse of the restriction imposed on the Restricted Stock Units, such units that were not otherwise forfeited pursuant to the terms of the Plan and this Award Agreement shall be paid to the Participant as soon as reasonably practicable after the restrictions lapse. Payment shall be made in Shares to the Participant's brokerage account of record. If the Participant does not have a brokerage account of record, then in the form of an appropriate book entry entered in the records of the Corporation's transfer agent recording the Participant's unrestricted interest in the number of Shares subject to the Restricted Stock Units.

IV. SPECIAL FORFEITURE AND REPAYMENT RULES

Any other provision of this Statement of Terms and Conditions to the contrary notwithstanding, if the Administrator determines that the Participant has engaged in any of the actions described in 3 below, the consequences set forth in 1 and 2 below shall result:

1. Performance Stock Units and Restricted Stock Units, to the extent the restrictions have not lapsed, shall immediately and automatically be forfeited.

2. If the restrictions imposed on an RSU Award (including any unpaid Dividend Equivalents) lapsed within 12 months prior to the date the Corporation discovered that the Participant engaged in any action described in 3 below, the Participant, upon written notice from the Corporation, shall immediately pay to the Corporation the economic value realized or obtained with respect to the PSU Award and any RSU Award, measured at the date on which Shares (or cash, if applicable) was paid in respect of the PSU Award or on which such RSU Award vested.

3. The consequences described in 1 and 2 above shall apply if the Participant, either before or after termination of employment with the Corporation or its Affiliates:

(A) Discloses to others, or takes or uses for the Participant's own purpose or the purpose of others, any trade secrets, confidential information, knowledge, data or know-how or any other proprietary information or intellectual property belonging to the Corporation or its Affiliates and obtained by the Participant during the term of the Participant's employment, whether or not they are the Participant's work product. Examples of such confidential information or trade secrets include, without limitation, customer lists, supplier lists, pricing and cost data, computer programs, delivery routes, advertising plans, wage and salary data, financial information, research and development plans, processes, equipment, product information and all other types and categories of information as to which the Participant knows or has reason to know that the Corporation or its Affiliates intends or expects secrecy to be maintained;

(B) Fails to promptly return all documents and other tangible items belonging to the Corporation or its Affiliates in the Participant's possession or control, including all complete or partial copies, recordings, abstracts, notes or reproductions of any kind made from or about such documents or information contained therein, upon termination of employment, whether pursuant to retirement or otherwise;

(C) Fails to provide the Corporation with at least 30 days' written notice prior to directly or indirectly engaging in, becoming employed by, or rendering services, advice or assistance to any business in competition with the Corporation or its Affiliates. As used herein, "business in competition" means any person, organization or enterprise which is engaged in or is about to become engaged in any line of business engaged in by the Corporation or its Affiliates at the time of the termination of the Participant's employment with the Corporation or its Affiliates;

(D) Fails to inform any new employer, before accepting employment, of the terms of this paragraph and of the Participant's continuing obligation to maintain the confidentiality of the trade secrets and other confidential information belonging to the Corporation or its Affiliates and obtained by the Participant during the term of the Participant's employment with the Corporation or any of its Affiliates;

(E) Induces or attempts to induce, directly or indirectly, any of the customers of the Corporation or its Affiliates, employees, representatives or consultants to terminate, discontinue or cease working with or for the Corporation or its Affiliates, or to breach any contract with the Corporation or any of its Affiliates, in order to work with or for, or enter into a contract with, the Participant or any third party;

(F) Engages in conduct which is not in good faith and which disrupts, damages, impairs or interferes with the business, reputation or employees of the Corporation or its Affiliates; or

(G) Fails to meet the Participant's continuing obligations with respect to non-disclosure, non-competition and/or non-solicitation under the Participant's agreement with the Corporation or any Affiliate.

The Administrator shall determine in its sole discretion whether the Participant has engaged in any of the acts set forth in (A) through (G) above, and its determination shall be conclusive and binding on all interested persons.

Any provision of this Section IV which is determined by a court of competent jurisdiction to be invalid or unenforceable should be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by such invalid or unenforceable provision, without invalidating or rendering unenforceable the remaining provisions of this Section IV.

V. CHANGE IN CONTROL

If as a result of a Change in Control, the Common Stock ceases to be listed for trading on a national securities exchange (an “Exchange”), any portion of the PSU Award or an RSU Award granted hereby (for purposes of this Section V, “RSU Award” shall include time-vesting RSU awards granted under Section III or Section IV) that is unvested on the effective date of the Change in Control shall continue to vest according to the terms and conditions of such Award, provided that such Award is replaced with an award for voting securities of the resulting corporation or the acquiring corporation, as the case may be (including without limitation, the voting securities of any corporation which as a result of the Change in Control owns the Corporation or all or substantially all of the Corporation’s assets either directly or through one or more subsidiaries) (the “Surviving Company”), which are traded on an Exchange (a “Replacement Award”), which Replacement Award, (i) in the case of the PSU Award, shall consist of restricted stock units with a value (determined using the Surviving Company’s stock price as of the effective date of the Change in Control) equal to the value of the PSU Award (determined using the Corporation’s stock price and assuming attainment of target performance or actual performance achieved, if greater, as of the effective date of the Change in Control), with any restrictions on such restricted stock units lapsing at the end of the PSU Award’s performance period, with continued vesting after the Change in Control based only on continued service to the Corporation or an Affiliate, as though a time-based vesting award; and (ii) in the case of an RSU Award, shall consist of restricted stock units with a value (determined using the Surviving Company’s stock price as of the effective date of the Change in Control) equal to the value of the RSU Award (determined using the Corporation’s stock price as of the effective date of the Change in Control), with any restrictions on such restricted stock units lapsing at the same time and manner as the replaced Award; provided, however, that in the event of the Participant’s involuntary Separation from Service by the Corporation without Cause or Separation from Service by the Participant for Good Reason during the vesting period of any Replacement Award, the Replacement Award shall immediately vest and be paid as soon as practicable following such Separation from Service (subject to Section VI.17), based on the fair market value of the underlying shares on the vesting date. If any portion of the PSU Award or an RSU Award that is unvested at the effective time of the Change in Control is not replaced with a Replacement Award, such Award shall immediately vest and, in the case of the PSU Award, such Award shall vest based upon deemed attainment of target performance or actual performance achieved, if greater, if such Change in Control occurs during the performance period.

If as a result of a Change in Control, the Common Stock continues to be listed for trading on an Exchange, (i) any unvested portion of the PSU Award shall continue to vest with respect to that number of Shares that reflects the deemed attainment of target performance or actual performance achieved, if greater, as of the effective date of the Change in Control, such vesting occurring at such time or times as (x) performance would have been measured and (y) the related RSU Award would have vested absent such Change in Control, and (ii) any unvested portion of an RSU Award shall continue to vest according to the terms and conditions of such Award and; provided however, that, in the event of the Participant’s involuntary Separation from Service by the Corporation without Cause or Separation from Service by the Participant for Good Reason during the vesting period of this PSU Award or an RSU Award, such Award shall immediately vest and be paid as soon as practicable following such Separation from Service (subject to Section VI.17), based on the fair market value of the underlying Shares on the vesting date.

VI. PARTICIPANT RIGHTS; MISCELLANEOUS

1. Restriction on Sale. If the Participant is covered by the Stock Ownership Policy at the time of settlement of an Award granted hereunder, the Compensation Committee reserves the right to impose a restriction on the sale of Shares that the Participant receives upon the settlement of the Performance Stock Units and Restricted Stock Units granted hereunder, unless the Participant has satisfied the ownership targets applicable to the Participant as provided in such policy.

2. Assignability. The Participant shall not be permitted to sell, transfer, pledge, assign or encumber the Performance Stock Units or Restricted Stock Units granted hereby, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the U.S. Employee Retirement Income Security Act.

3. No Stockholder Rights. Neither the Participant nor any person entitled to exercise the Participant’s rights in the event of the Participant’s death shall have any of the rights of a stockholder with respect to the Performance Stock Units or Restricted Stock Units except to the extent that a book entry has been entered in the records of the Corporation’s transfer agent with respect to the Shares paid upon the settlement of any such Award.

4. No Effect on Terms of Employment. Participation in the Plan shall not create a right to further employment with the Participant’s employer (the “Employer”) and shall not interfere with the ability of the Employer to terminate, with or without cause, or change the terms of employment of the Participant at any time.

5. Participants in Foreign Countries. The Administrator has the full discretion to deviate from this Award Agreement in order to adjust the Awards granted hereby to prevailing local conditions, including custom and legal and tax requirements. Furthermore, the Corporation reserves the right to impose other requirements on the Participant's participation in the Plan, on the Awards granted hereby and on any Shares acquired under the Plan, to the extent the Corporation determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertaking that may be necessary to accomplish the foregoing.

6. Information Notification. Any information required to be given under the terms of the Awards granted hereby shall be addressed to the Corporation in care of its Corporate Secretary at McKesson Corporation, One Post Street, San Francisco, California 94104, and any notice to be given to the Participant shall be addressed to such Participant at the address indicated beneath the Participant's name on the Award Agreement or such other address as either party may designate in writing to the other. Any such notice shall be deemed to have been duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified and deposited (postage or registration or certification fee prepaid) in a post office or branch post office.

7. Administrator Decisions Conclusive. All decisions of the Administrator administering the Plan upon any questions arising under the Plan or under this Award Agreement, shall be conclusive and binding on all interested persons.

8. No Effect on Other Benefit Plans. Nothing herein contained shall affect the Participant's right to participate in and receive benefits from and in accordance with the then current provisions of any pensions, insurance or other employment welfare plan or program offered by the Corporation.

9. Withholding. Regardless of any action the Corporation or the Employer takes with respect to any federal, state or local income tax, social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Corporation or the Employer. The Participant further acknowledges that the Corporation and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant or vesting of the Award, the subsequent sale of Shares acquired pursuant to the Plan and the receipt of any dividends and/or dividend equivalents; and (ii) do not commit and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, the Participant acknowledges that the Corporation and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Participant will pay or make adequate arrangements satisfactory to the Corporation and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (i) withholding from the Participant's wages or other cash compensation paid to the Participant by the Corporation and/or the Employer; (ii) withholding from proceeds of the sale of Shares acquired under the Plan either through a voluntary sale or through a mandatory sale arranged by the Corporation (on the Participant's behalf pursuant to this authorization and any other authorization the Corporation and/or the broker designated by the Corporation may require the Participant to sign in connection with the sale of Shares); or (iii) withholding Shares to be issued upon grant, vesting/settlement or exercise, as applicable. Calculation of the number of Shares to be withheld shall be made based on the closing price of the Common Stock on the New York Stock Exchange on the date that the amount of tax to be withheld is determined. In no event, however, shall the Corporation be required to issue fractional Shares. If adequate arrangements to satisfy the obligations with regard to all Tax-Related Items are not made by the Participant with the Corporation and/or the Employer prior to the relevant taxable event, the Corporation will satisfy such obligations as provided above in clause (iii) of this paragraph.

To avoid negative accounting treatment, the Corporation may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant will be deemed to have been issued the full number of Shares subject to the Award, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the Plan.

Finally, the Participant shall pay to the Corporation or the Employer any amount of Tax-Related Items that the Corporation or the Employer may be required to withhold or account for as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Corporation may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

The Administrator shall be authorized to establish such rules, forms and procedures as it deems necessary to implement the foregoing.

10. Successors. The Plan, this Statement of Terms and Conditions and applicable Grant Notices shall be binding upon and inure to the benefit of any successor or successors of the Corporation. "Participant" as used herein shall include the Participant's Beneficiary.

11. Delaware Law. The interpretation, performance, and enforcement of all Award Agreements shall be governed by the laws of the State of Delaware.

12. Nature of Grant. In accepting the grant, the Participant acknowledges that:

(A) the Plan is established voluntarily by the Corporation, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Corporation at any time;

(B) the grant of the Awards is voluntary and occasional and does not create any contractual or other right to receive future Award grants, or benefits in lieu of Awards, even if Awards have been granted repeatedly in the past;

(C) all decisions with respect to future Awards, if any, will be at the sole discretion of the Corporation;

(D) the Participant is voluntarily participating in the Plan;

(E) the Special Incentive Award is not part of normal or expected compensation for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments;

(F) the Awards will not be interpreted to form an employment contract or relationship with the Corporation; and furthermore, the Awards will not be interpreted to form an employment contract with any subsidiary or Affiliate of the Corporation;

(G) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(H) in consideration of the grant of the Awards, no claim or entitlement to compensation or damages shall arise from forfeiture of the Awards which results from termination of the Participant's employment with the Employer or the Corporation or one of its Affiliates (for any reason whatsoever) and the Participant irrevocably releases the Corporation or its Affiliates from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting the Awards, the Participant shall be deemed irrevocably to have waived the Participant's entitlement to pursue such claim;

(I) for purposes of the Awards, the Participant's employment relationship will be considered terminated as of the date the Participant is no longer a bona fide employee of the Corporation or one of its Affiliates (regardless of the reason for such termination and whether or not later found to be invalid or in breach of the employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), and unless otherwise expressly provided in this Award Agreement or determined by the Corporation in its sole discretion, the Participant's right to receive Awards and vest in Awards under the Plan, if any, will terminate effective as of such date and will not be extended by any notice period mandated under local law; the Administrator shall have the sole discretion to determine when the Participant is no longer a bona fide employee;

(J) the Corporation is not providing any tax, legal or financial advice, nor is the Corporation making any recommendations regarding participation in the Plan or the Participant's acquisition or sale of Shares; and

(K) Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

13. **Data Privacy Information and Consent.**

(A) ***Data Collection and Usage.*** *The Corporation and the Employer may collect, process and use certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number, salary, nationality, job title, any Shares or directorships held in the Corporation, details of all Options, Restricted Stock, Restricted Stock Units, Performance Shares, Other Share-Based Awards, or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Employee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Participant's consent.*

(B) ***Stock Plan Administration Service Providers.*** *The Corporation transfers Data to Merrill Lynch and its affiliated companies, an independent service provider based in the United States, which is assisting the Corporation with the implementation, administration and management of the Plan. The Corporation may select a different service provider or additional service providers and share Data with such other provider serving in a similar manner. The Participant may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.*

(C) ***International Data Transfers.*** *The Corporation and its service providers are based in the United States. The Participant's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program. The Corporation's legal basis, where required, for the transfer of Data is the Participant's consent.*

(D) ***Data Retention.*** *The Corporation will hold and use the Data only as long as is necessary to implement, administer and manage the Participant's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.*

(E) ***Voluntariness and Consequences of Consent Denial or Withdrawal.*** *Participation in the Plan is voluntary and the Participant is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke the Participant's consent, the Participant's salary from or employment with the Employer will not be affected; the only consequence of refusing or withdrawing the Participant's consent is that the Corporation would not be able to grant Awards to the Participant or administer or maintain such Awards.*

(F) ***Data Subject Rights.*** *The Participant may have a number of rights under data privacy laws in the Participant's jurisdiction. Depending on where the Participant is based, such rights may include the right to (i) request access or copies of Data the Corporation processes, (ii) rectification of incorrect Data, (iii) deletion of Data, (iv) restrictions on processing of Data, (v) portability of Data, (vi) lodge complaints with competent authorities in the Participant's jurisdiction, and/or (vii) receive a list with the names and addresses of any potential recipients of Data. To receive clarification regarding these rights or to exercise these rights, the Participant can contact his or her local human resources representative.*

By accepting the Award and indicating consent via the Corporation's acceptance procedure, the Participant is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Corporation and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

14. **Severability.** The provisions in this Award Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

15. **Language.** If the Participant has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

16. Electronic Delivery. The Corporation may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or a third party designated by the Corporation.

17. Section 409A. If (i) the Participant is a Specified Employee at the time of the Participant's Separation from Service, and (ii) some or any portion of the amounts payable to the Participant, if any, when considered together with any other payments or benefits which may be considered deferred compensation under section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") and subject to the plan aggregation rules under Treasury Regulation section 1.409A-1(c)(3)(viii) (together, the "Deferred Compensation Benefits") would result in the imposition of additional tax under Section 409A if paid to the Participant on or within the six month period following the Separation from Service, then to the extent such portion of the Deferred Compensation Benefits resulting in the imposition of additional tax would otherwise have been payable on or within the first six months following the Separation from Service, it will instead become payable on the first payroll date that occurs in the seventh month following the Separation from Service (or such longer period as is required to avoid the imposition of additional tax under Section 409A). All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit.

VII. DEFINITIONS

When capitalized in this Award Agreement, the following terms shall have the meaning set forth below:

1. "Award Agreement" means the documents between the Participant and the Corporation evidencing the grant of the PSU Award and the RSU Award, the terms of which are set forth herein and in the Plan.

2. "Cause" means termination of the Participant's employment with the Corporation or an Affiliate upon the Participant's negligent or willful engagement in misconduct which, in the sole determination of the Chief Executive Officer of the Corporation (or the Chief Executive Officer's designee), is injurious to the Corporation, its employees, or its customers.

3. "Family Member" means any person identified as an "immediate family" member in Rule 16(a)-1(e) of the Exchange Act, as such Rule may be amended from time to time. Notwithstanding the foregoing, the Administrator may designate any other person(s) or entity(ies) as a "family member."

4. "Good Reason" means any of the following actions, if taken without the express written consent of the Participant:

(A) Any material change by the Corporation in the Participant's functions, duties, or responsibilities, which change would cause the Participant's position with the Corporation to become of less dignity, responsibility, importance, or scope from the position and attributes that applied to the Participant immediately prior to the Change in Control;

(B) Any significant reduction in the Participant's aggregate base annual salary and target incentive opportunity, as in effect immediately prior to the Change in Control;

(C) Any material failure by the Corporation to comply with any of the provisions of an Award subsequent to a Change in Control;

(D) The Corporation's requiring the Participant to be based at any location which would increase the Participant's regular one-way commute by more than 25 miles from that in effect immediately preceding the Change in Control, except for travel reasonably required in the performance of the Participant's responsibilities; or

(E) Any change in the person to whom the Participant reports, as this relationship existed immediately prior to a Change in Control;

Provided that the Participant gives notice to the Corporation of the existence of the Good Reason condition within 30 days of the initial existence of the Good Reason condition and the Corporation is provided 30 days after receipt of the Participant's notice to remedy the Good Reason condition; provided further that the Participant's Separation from Service must occur within six months from the initial existence of the Good Reason condition if the Corporation does not remedy such condition for such separation to be considered to be for Good Reason.

5. "Grant Date" means the date the Administrator grants the Award.

6. "Long-Term Disability" means a physical or mental condition in respect of which the administrator of the Corporation's long-term disability plan has determined that the Participant is eligible to receive income replacement benefits; or, if the Participant is not then a participant in the Corporation's long-term disability plan, a physical or mental condition that the administrator of the Corporation's long-term disability plan determines would have rendered the Participant eligible to receive income replacement benefits, had the Participant been enrolled in such plan.

7. "Separation from Service" means termination of employment with the Corporation or an Affiliate. A Participant shall be deemed to have had a Separation from Service if the Participant's service with the Corporation or an Affiliate is reduced to an annual rate that is equal to or less than 20% of the services rendered, on average, during the immediately preceding three years of service with the Corporation or an Affiliate (or, if providing service to the Corporation or an Affiliate for less than three years, such lesser period).

8. "Short-Term Disability" means short-term disability as defined in the Corporation's short-term disability plan.

9. "Specified Employee" means those employees identified by the Corporation as "Specified Employees" for purposes of Code Section 409A.

10. "Stock Ownership Policy" means the Corporation's Stock Ownership Policy, as amended from time to time, which can be found on McKNet. A Participant or the Participant's beneficiary may also request a copy of the Stock Ownership Policy by writing to the Corporate Secretary at McKesson Corporation, One Post Street, San Francisco, CA 94104.

OUTSIDE DIRECTOR

**FORM OF
MCKESSON CORPORATION 2013 STOCK PLAN
RESTRICTED STOCK UNIT GRANT NOTICE**

Grantee Name:	
Number of RSUs Granted:	
Date of Grant:	

Vesting Schedule: 100% vested on grant date.

McKesson Corporation (the "Company") is pleased to grant you restricted stock units ("RSUs") under the Company's 2013 Stock Plan, as may be amended from time to time (the "Plan") to receive shares of common stock of the Company ("Shares"). This Grant Notice ("Notice"), together with the Statement of Terms and Conditions, as provided as an attachment to this Notice (the "ST&Cs"), constitute your Restricted Stock Unit Agreement, which along with the Plan set forth the terms of your grant.

Below is a list of documents that are made available to you in connection with this Notice. **PLEASE BE SURE TO READ THESE DOCUMENTS BECAUSE THEY CONTAIN IMPORTANT INFORMATION SPECIFIC TO THIS GRANT OF RSUs.** This grant, along with any other outstanding awards under the Plan, can be viewed on the Fidelity web site at www.Netbenefits.com.

By signing below, I acknowledge that:

1. I agree to receive copies of the stockholder information, including copies of any annual report, proxy and Form 10-K, from the Investor Resources section of the McKesson website at www.mckesson.com; and
2. I also acknowledge that copies of the Plan, Plan prospectus, Plan information and stockholder information are available upon written or telephonic request to the Corporate Secretary (1-800-826-9360); and
3. I have access to the Company's web site; and
4. I consent to receiving electronically a copy of the documents set forth above and attachments to this Notice; and
5. The Plan and ST&Cs are incorporated by reference to this Notice; and
6. The Company recommends that the Grantee consult with a tax advisor prior to accepting or vesting of this grant of RSUs; and
7. I accept ALL the terms and conditions as set forth in the Plan and the ST&Cs applicable to this grant of RSUs.

IN WITNESS WHEREOF, the Grantee has executed this Agreement, and the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

By:

Brian S. Tyler
Chief Executive Officer
McKesson Corporation

Grantee Signature Date

ATTACHMENTS:

- * 2013 Stock Plan
- * 2013 Stock Plan Prospectus for Non-Employee Directors
- * ST&Cs
- * Hedging and Pledging Policy

July 2019

Employee

**FORM OF
MCKESSON CORPORATION 2013 STOCK PLAN
RESTRICTED STOCK UNIT GRANT NOTICE**

Grantee Name:	
Number of RSUs Granted:	
Date of Grant:	
Vesting Schedule:	Please see Appendix

McKesson Corporation (the "Company") is pleased to grant you restricted stock units ("RSUs") under the Company's 2013 Stock Plan (the "Plan") which represent the contingent right to receive shares of common stock of the Company ("Shares"). This Grant Notice ("Notice"), together with the Statement of Terms and Conditions, as provided as an attachment to this Notice (the "ST&Cs"), constitute your Restricted Stock Unit Agreement. Your Restricted Stock Unit Agreement and your RSUs are subject to the terms of the Plan, which incorporates by reference the Company's Compensation Recoupment Policy (the "Recoupment Policy") and the Company's Stock Ownership Policy (the "Stock Ownership Policy"), as both are amended from time to time).

Below is a list of documents that are made available to you in connection with this Notice. **PLEASE BE SURE TO READ THESE DOCUMENTS BECAUSE THEY CONTAIN IMPORTANT INFORMATION SPECIFIC TO THIS GRANT OF RSUs.** This grant, along with any other outstanding awards under the Plan, can be viewed on the Fidelity web site at www.Netbenefits.com.

By signing below, I acknowledge that:

1. I agree to receive copies of the Plan, the Plan prospectus and other Plan information, including information prepared to comply with the laws outside the United States, from the Company's website and stockholder information, including copies of any annual report, proxy and Form 10-K, from the Investor Resources section of the McKesson website at www.mckesson.com; and
2. I also acknowledge that copies of the Plan, Plan prospectus, Plan information and stockholder information are available upon written or telephonic request to the Corporate Secretary (1-800-826-9360); and
3. I have access to the Company's web site; and
4. I consent to receiving electronically a copy of the documents set forth above and attachments to this Notice; and
5. The Plan (including the Recoupment Policy and Stock Ownership Policy) and ST&Cs are incorporated by reference to this Notice; and
6. The Company recommends that the Grantee consult with a tax advisor prior to accepting or vesting of this grant of RSUs; and
7. I accept ALL the terms and conditions as set forth in the Plan and ST&Cs applicable to this grant of RSUs.

IN WITNESS WHEREOF, the Grantee has executed this Agreement, and the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

Brian S. Tyler
Chief Executive Officer
McKesson Corporation

Grantee Signature

Date

ATTACHMENTS:

- * 2013 Stock Plan
 - * 2013 Stock Plan Prospectus
 - * ST&Cs
 - * Compensation Recoupment Policy
 - * Hedging and Pledging Policy (Section 16 only)
 - * Stock Ownership Policy (EOT only)
 - * Appendix (Outside U.S. - country-specific)
- May 2019

**FORM OF
MCKESSON CORPORATION 2013 STOCK PLAN
PERFORMANCE STOCK UNIT GRANT NOTICE**

Grantee Name:	
Target PSUs Granted:	
Date of Grant:	
Performance Period:	FY 2020 - FY 2022

McKesson Corporation (the "Company") is pleased to grant you target performance stock units ("PSUs") under the Company's 2013 Stock Plan (the "Plan"). This Grant Notice ("Notice"), together with the Statement of Terms and Conditions, as provided with this Notice (the "ST&Cs"), constitute your Performance Stock Unit Agreement. Your Performance Stock Unit Agreement and your PSUs are subject to the terms of the Plan, which incorporates by reference the Company's Compensation Recoupment Policy (the "Recoupment Policy"), and the Company's Stock Ownership Policy (the "Stock Ownership Policy"), as both are amended from time to time.

Your PSUs will be earned subject to the Company's attainment of performance goals that have been pre-established by the Compensation Committee (the "Committee") of the Company's Board of Directors. You may receive 0% - 200% of the target number of PSUs set forth above. PSUs, if earned, will be paid in the form of shares of the Company's Common Stock ("Shares") that are not subject to any further vesting restrictions. The Committee has the sole discretion to determine the Company's performance against the pre-established goals after completion of the performance period, and to authorize the grant of Shares.

Below is a list of documents that are made available to you in connection with this Notice. **PLEASE BE SURE TO READ THESE DOCUMENTS BECAUSE THEY CONTAIN IMPORTANT INFORMATION SPECIFIC TO THIS GRANT OF PSUs.** This grant, along with any other outstanding awards under the Plan, can be viewed on the Fidelity web site at www.Netbenefits.com.

By signing below, I acknowledge that:

8. I agree to receive copies of the Plan, the Plan prospectus and other Plan information, including information prepared to comply with the laws outside the United States, from the Company's website and stockholder information, including copies of any annual report, proxy and Form 10-K, from the Investor Resources section of the McKesson website at www.mckesson.com; and
9. I also acknowledge that copies of the Plan, Plan prospectus, Plan information and stockholder information are available upon written or telephonic request to the Corporate Secretary (1-800-826-9360); and
10. I have access to the Company's web site; and
11. I consent to receiving electronically a copy of the documents set forth above and attachments to this Notice; and
12. The Plan (including the Recoupment Policy and Stock Ownership Policy) and ST&Cs are incorporated by reference to this Notice; and
13. I should consult with a tax advisor prior to accepting this grant of PSUs or taking any other action with respect to this grant of PSUs; and
14. I accept ALL the terms and conditions as set forth in the Plan and ST&Cs applicable to this grant of PSUs.

IN WITNESS WHEREOF, the Grantee has executed this Agreement, and the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

Brian S. Tyler

Chief Executive Officer
McKesson Corporation

Grantee Signature

Date

Plan Documents and Related Policies

- * 2013 Stock Plan
 - * 2013 Stock Plan Prospectus
 - * ST&Cs
 - * Compensation Recoupment Policy
 - * Hedging and Pledging Policy (Section 16 only)
 - * Stock Ownership Policy (EOT only)
 - * Appendix (Outside U.S. - country specific)
- May 2019

SUBSIDIARIES OF THE REGISTRANT

There is no parent of the Company. The following is a listing of the significant subsidiaries of the Company.

	JURISDICTION OF ORGANIZATION
ClarusONE Sourcing Services LLP	United Kingdom
McKesson Europe AG	Germany
McKesson International Bermuda IP5A Limited	Bermuda
McKesson Medical-Surgical Inc.	United States
McKesson Medical-Surgical Supply Chain Services LLC	United States
McKesson Sourcing Services Inc.	United States
McKesson Specialty Care Distribution LLC	United States
McKesson Strategic Services Limited	United Kingdom
McKesson UK Finance I Limited	United Kingdom
McKesson US Finance Corporation	United States
Northstar Healthcare Holdings Unlimited Company	Ireland
US Oncology Holdings, Inc.	United States

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in McKesson Corporation Registration Statement Nos. 333-163642, 333-190847, 333-190848, and 333-213488 on Form S-8, and Registration Statement No. 333-236808 on Form S-3, of our report dated May 22, 2020, relating to the consolidated financial statements and consolidated financial statement schedule of McKesson Corporation and subsidiaries, and the effectiveness of McKesson Corporation's internal control over financial reporting appearing in this Annual Report on Form 10-K of McKesson Corporation for the year ended March 31, 2020.

/s/ Deloitte & Touche LLP

Dallas, Texas

May 22, 2020

CERTIFICATION PURSUANT TO

RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Brian S. Tyler, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 22, 2020

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

CERTIFICATION PURSUANT TO

RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Britt J. Vitalone, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 22, 2020

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of McKesson Corporation (the "Company") on Form 10-K for the year ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian S. Tyler

Brian S. Tyler
Chief Executive Officer
May 22, 2020

/s/ Britt J. Vitalone

Britt J. Vitalone
Executive Vice President and Chief Financial Officer
May 22, 2020

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.