

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

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

☐ **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
(State or other jurisdiction
of incorporation or organization)

94-3207296
(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

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.

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 is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 160,564,425 shares of the issuer's common stock were outstanding as of September 30, 2020.

McKESSON CORPORATION

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McKESSEON CORPORATION

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (In millions, except per share amounts) (Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 60,808	\$ 57,616	\$ 116,487	\$ 113,344
Cost of sales	(57,808)	(54,749)	(110,787)	(107,690)
Gross profit	3,000	2,867	5,700	5,654
Operating expenses	(2,237)	(2,196)	(4,203)	(4,326)
Goodwill impairment charges	(69)	—	(69)	—
Restructuring, impairment, and related charges	(60)	(45)	(116)	(68)
Total operating expenses	(2,366)	(2,241)	(4,388)	(4,394)
Operating income	634	626	1,312	1,260
Other income (expense), net	71	(78)	98	(41)
Equity earnings and charges from investment in Change Healthcare Joint Venture	—	(1,454)	—	(1,450)
Interest expense	(50)	(64)	(110)	(120)
Income (loss) from continuing operations before income taxes	655	(970)	1,300	(351)
Income tax benefit (expense)	(28)	294	(178)	158
Income (loss) from continuing operations	627	(676)	1,122	(193)
Loss from discontinued operations, net of tax	—	(1)	(1)	(7)
Net income (loss)	627	(677)	1,121	(200)
Net income attributable to noncontrolling interests	(50)	(53)	(100)	(107)
Net income (loss) attributable to McKesson Corporation	\$ 577	\$ (730)	\$ 1,021	\$ (307)
Earnings (loss) per common share attributable to McKesson Corporation				
Diluted				
Continuing operations	\$ 3.54	\$ (3.99)	\$ 6.26	\$ (1.62)
Discontinued operations	—	—	—	(0.03)
Total	\$ 3.54	\$ (3.99)	\$ 6.26	\$ (1.65)
Basic				
Continuing operations	\$ 3.56	\$ (3.99)	\$ 6.31	\$ (1.62)
Discontinued operations	—	—	(0.01)	(0.03)
Total	\$ 3.56	\$ (3.99)	\$ 6.30	\$ (1.65)
Weighted-average common shares outstanding				
Diluted	163	183	163	185
Basic	162	183	162	185

See Financial Notes

McKESSON CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(In millions)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 627	\$ (677)	\$ 1,121	\$ (200)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	41	(32)	74	12
Unrealized gains (losses) on cash flow hedges	(19)	13	(24)	25
Changes in retirement-related benefit plans	(9)	75	(8)	96
Other comprehensive income, net of tax	13	56	42	133
Comprehensive income (loss)	640	(621)	1,163	(67)
Comprehensive (income) loss attributable to noncontrolling interests	75	(35)	(36)	(95)
Comprehensive income (loss) attributable to McKesson Corporation	<u>\$ 715</u>	<u>\$ (656)</u>	<u>\$ 1,127</u>	<u>\$ (162)</u>

See Financial Notes

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

	September 30, 2020	March 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,091	\$ 4,015
Receivables, net	19,285	19,950
Inventories, net	18,435	16,734
Assets held for sale	833	906
Prepaid expenses and other	701	617
Total current assets	42,345	42,222
Property, plant, and equipment, net	2,471	2,365
Operating lease right-of-use assets	1,895	1,886
Goodwill	9,414	9,360
Intangible assets, net	3,030	3,156
Other non-current assets	2,403	2,258
Total assets	<u>\$ 61,558</u>	<u>\$ 61,247</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
Current liabilities		
Drafts and accounts payable	\$ 36,255	\$ 37,195
Current portion of long-term debt	1,760	1,052
Current portion of operating lease liabilities	367	354
Liabilities held for sale	537	683
Other accrued liabilities	3,805	3,340
Total current liabilities	42,724	42,624
Long-term debt	5,848	6,335
Long-term deferred tax liabilities	2,293	2,255
Long-term operating lease liabilities	1,669	1,660
Other non-current liabilities	1,669	1,662
Redeemable noncontrolling interests	1,265	1,402
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 and 273 and 272 shares issued at September 30, 2020 and March 31, 2020, respectively	2	2
Additional paid-in capital	6,780	6,663
Retained earnings	13,890	13,022
Accumulated other comprehensive loss	(1,597)	(1,703)
Treasury shares, at cost, 112 and 110 shares at September 30, 2020 and March 31, 2020, respectively	(13,185)	(12,892)
Total McKesson Corporation stockholders' equity	5,890	5,092
Noncontrolling interests	200	217
Total equity	6,090	5,309
Total liabilities, redeemable noncontrolling interests, and equity	<u>\$ 61,558</u>	<u>\$ 61,247</u>

See Financial Notes

McKESSEON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (In millions, except per share amounts) (Unaudited)

Three Months Ended September 30, 2020										
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Equity
	Shares	Amount					Common Shares	Amount		
Balances, June 30, 2020	272	\$ 2	\$ 6,711	\$ —	\$ 13,384	\$ (1,735)	(110)	\$ (12,916)	\$ 207	\$ 5,653
Issuance of shares under employee plans	1	—	18	—	—	—	—	—	—	18
Share-based compensation	—	—	36	—	—	—	—	—	—	36
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(50)	(50)
Other comprehensive income	—	—	—	—	—	138	—	—	—	138
Net income	—	—	—	—	577	—	—	—	40	617
Repurchase of common stock	—	—	—	—	—	—	(2)	(269)	—	(269)
Cash dividends declared, \$0.42 per common share	—	—	—	—	(69)	—	—	—	—	(69)
Other	—	—	15	—	(2)	—	—	—	3	16
Balances, September 30, 2020	<u>273</u>	<u>\$ 2</u>	<u>\$ 6,780</u>	<u>\$ —</u>	<u>\$ 13,890</u>	<u>\$ (1,597)</u>	<u>(112)</u>	<u>\$ (13,185)</u>	<u>\$ 200</u>	<u>\$ 6,090</u>

Six Months Ended September 30, 2020										
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Equity
	Shares	Amount					Common Shares	Amount		
Balances, March 31, 2020	272	\$ 2	\$ 6,663	\$ —	\$ 13,022	\$ (1,703)	(110)	\$ (12,892)	\$ 217	\$ 5,309
Opening retained earnings adjustment: adoption of new accounting standard	—	—	—	—	(13)	—	—	—	—	(13)
Balances, April 1, 2020	272	2	6,663	—	13,009	(1,703)	(110)	(12,892)	217	5,296
Issuance of shares under employee plans	1	—	39	—	—	—	—	(24)	—	15
Share-based compensation	—	—	59	—	—	—	—	—	—	59
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(93)	(93)
Other comprehensive income	—	—	—	—	—	106	—	—	—	106
Net income	—	—	—	—	1,021	—	—	—	79	1,100
Exercise of put right by noncontrolling shareholders of McKesson Europe	—	—	3	—	—	—	—	—	—	3
Repurchase of common stock	—	—	—	—	—	—	(2)	(269)	—	(269)
Cash dividends declared, \$0.83 per common share	—	—	—	—	(136)	—	—	—	—	(136)
Other	—	—	16	—	(4)	—	—	—	(3)	9
Balances, September 30, 2020	<u>273</u>	<u>\$ 2</u>	<u>\$ 6,780</u>	<u>\$ —</u>	<u>\$ 13,890</u>	<u>\$ (1,597)</u>	<u>(112)</u>	<u>\$ (13,185)</u>	<u>\$ 200</u>	<u>\$ 6,090</u>

See Financial Notes

McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (In millions, except per share amounts) (Unaudited)

Three Months Ended September 30, 2019											
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Equity	
	Shares	Amount					Common Shares	Amount			
Balances, June 30, 2019	271	\$ 3	\$ 6,483	\$ (1)	\$ 12,770	\$ (1,778)	(86)	\$ (9,603)	\$ 194	\$ 8,068	
Issuance of shares under employee plans	1	—	56	—	—	—	—	—	—	56	
Share-based compensation	—	—	34	—	—	—	—	—	—	34	
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(37)	(37)	
Other comprehensive income	—	—	—	—	—	74	—	—	—	74	
Net income (loss)	—	—	—	—	(730)	—	—	—	42	(688)	
Repurchase of common stock	—	—	—	—	—	—	(6)	(750)	—	(750)	
Cash dividends declared, \$0.41 per common share	—	—	—	—	(75)	—	—	—	—	(75)	
Other	—	—	—	(1)	—	—	—	—	11	10	
Balances, September 30, 2019	272	\$ 3	\$ 6,573	\$ (2)	\$ 11,965	\$ (1,704)	(92)	\$ (10,353)	\$ 210	\$ 6,692	

Six Months Ended September 30, 2019											
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Equity	
	Shares	Amount					Common Shares	Amount			
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	—	78	—	—	—	—	(17)	—	61	
Share-based compensation	—	—	60	—	—	—	—	—	—	60	
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(76)	(76)	
Other comprehensive income	—	—	—	—	—	145	—	—	—	145	
Net income (loss)	—	—	—	—	(307)	—	—	—	85	(222)	
Repurchase of common stock	—	—	—	—	—	—	(11)	(1,434)	—	(1,434)	
Cash dividends declared, \$0.80 per common share	—	—	—	—	(148)	—	—	—	—	(148)	
Other	—	—	—	—	—	—	—	—	8	8	
Balances, September 30, 2019	272	\$ 3	\$ 6,573	\$ (2)	\$ 11,965	\$ (1,704)	(92)	\$ (10,353)	\$ 210	\$ 6,692	

See Financial Notes

McKESSON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended September 30,	
	2020	2019
OPERATING ACTIVITIES		
Net income (loss)	\$ 1,121	\$ (200)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation	154	160
Amortization	285	303
Goodwill and other asset impairment charges	104	12
Equity earnings and charges from investment in Change Healthcare Joint Venture	—	1,450
Deferred taxes	(35)	(380)
Credits associated with last-in, first-out inventory method	(104)	(48)
Non-cash operating lease expense	172	180
Loss (gain) from sales of businesses and investments	1	(1)
Other non-cash items	17	145
Changes in assets and liabilities, net of acquisitions:		
Receivables	981	(866)
Inventories	(1,396)	331
Drafts and accounts payable	(1,305)	(1,203)
Operating lease liabilities	(185)	(189)
Taxes	(58)	70
Other	207	77
Net cash used in operating activities	(41)	(159)
INVESTING ACTIVITIES		
Payments for property, plant, and equipment	(174)	(126)
Capitalized software expenditures	(91)	(58)
Acquisitions, net of cash, cash equivalents, and restricted cash acquired	(8)	(95)
Proceeds from sales of businesses and investments, net	9	3
Other	(14)	(9)
Net cash used in investing activities	(278)	(285)
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	5,303	8,670
Repayments of short-term borrowings	(5,303)	(8,122)
Repayments of long-term debt	(5)	(5)
Common stock transactions:		
Issuances	39	78
Share repurchases, including shares surrendered for tax withholding	(272)	(1,452)
Dividends paid	(140)	(148)
Other	(23)	(224)
Net cash used in financing activities	(401)	(1,203)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(63)	22
Net decrease in cash, cash equivalents, and restricted cash	(783)	(1,625)
Cash, cash equivalents, and restricted cash at beginning of period	4,023	2,981
Cash, cash equivalents, and restricted cash at end of period	3,240	1,356
Less: Restricted cash at end of period included in Prepaid expenses and other	(149)	—
Cash and cash equivalents at end of period	\$ 3,091	\$ 1,356

See Financial Notes

McKESSON CORPORATION
FINANCIAL NOTES
(UNAUDITED)

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 solutions. McKesson partners with life sciences companies, manufacturers, providers, pharmacies, governments, and other healthcare organizations to help provide the right medicines, medical products, and healthcare services to the right patients at the right time, safely, and cost-effectively. Commencing in the second quarter of 2021, the Company reports its financial results in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and Prescription Technology Solutions (“RxTS”). The Company’s equity method investment in Change Healthcare LLC (“Change Healthcare JV”), which was split-off from McKesson in the fourth quarter of 2020, has been included in Other for retrospective periods presented. All prior segment information has been recast to reflect the Company’s new segment structure and current period presentation. Refer to Financial Note 15, “Segments of Business,” for more information.

Basis of Presentation: The condensed consolidated financial statements of McKesson include the financial statements of all wholly-owned subsidiaries and 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 Condensed 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 has voting control over such entity. The Company also assesses control through means other than voting rights and determines which business entity is the primary beneficiary of the variable interest entity (“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.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S.”) of America (“GAAP”) for interim financial reporting and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) and therefore do not include all information and disclosures normally included in the annual consolidated financial statements.

To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of these financial statements and income and expenses during the reporting period. Actual amounts may differ from these estimated amounts. The severity, magnitude, and duration, as well as the economic consequences of the coronavirus disease 2019 (“COVID-19”) pandemic, are uncertain, rapidly changing and difficult to predict. Therefore, the Company’s accounting estimates and assumptions may change over time in response to COVID-19 and may change materially in future periods. In the opinion of management, the unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows of McKesson for the interim periods presented.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted on March 27, 2020 in the U.S., and includes several provisions related to employment and income taxes, including provisions for the deferral of the employer portion of social security taxes through December 31, 2020. The Company continues to evaluate the legislation for future impacts to its consolidated financial statements, however it did not cause a material impact to the Company’s financial results for the three and six months ended September 30, 2020.

The results of operations for the three and six months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies, and financial notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2020 previously filed with the SEC on May 22, 2020 (“2020 Annual Report”).

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.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

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

Recently Adopted Accounting Pronouncements

In the first quarter of 2021, the Company prospectively adopted Accounting Standards Update (“ASU”) 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which 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. As a result, the Company began capitalizing eligible implementation costs for such contracts and recognizing the expense over the service period. The adoption of this amended guidance did not have a material impact on the Company’s condensed consolidated financial statements or disclosures.

In the first quarter of 2021, the Company retrospectively adopted ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans*, which 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 adoption of this amended guidance resulted in changes in disclosures but did not have an impact on the Company’s Condensed Consolidated Statements of Operations, Comprehensive Income, Balance Sheets, or Cash Flows.

In the first quarter of 2021, the Company adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, to remove, modify and add disclosure requirements on fair value measurements. Certain requirements were applied prospectively while other changes were applied retrospectively on the effective date. 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 and requirements to disclose the range, and weighted-average used to develop significant unobservable inputs for Level 3 fair value measurements. The adoption of this amended guidance resulted in changes in disclosures but did not have an impact on the Company’s Condensed Consolidated Statements of Operations, Comprehensive Income, Balance Sheets, or Cash Flows.

In the first quarter of 2021, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which changed the impairment model for most financial assets from one based on current losses to a forward-looking model based on expected losses. The forward-looking model requires 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. The amended guidance requires financial assets that are measured at amortized cost be presented at the net amount expected to be collected. An allowance for credit losses is established as a valuation account that is deducted from the amortized cost basis of financial assets. The guidance also requires enhanced disclosures. This guidance was adopted on a modified retrospective basis and did not have a material impact on the Company’s condensed consolidated financial statements or disclosures. Upon adoption of the amended guidance in the first quarter of 2021, the Company recorded a cumulative-effect adjustment of \$13 million to the opening balance of retained earnings, primarily as a result of adjustments to allowances for trade accounts receivable.

Allowance for Credit Losses: Upon the adoption of ASU 2016-13 in the first quarter of 2021, the Company began using the Current Expected Credit Losses (“CECL”) methodology to determine an allowance for credit losses related to financial assets measured at amortized cost. The Company considers historical experience, the current economic environment, customer credit ratings or bankruptcies, and reasonable and supportable forecasts to develop its allowance for credit losses. Management reviews these factors quarterly to determine if any adjustments are needed to the allowance. Trade accounts receivable represent the majority of the Company’s financial assets, for which an allowance for credit losses of \$219 million was included in Receivables, net on the Condensed Consolidated Balance Sheet as of September 30, 2020. Changes in the allowance were not material for the three and six months ended September 30, 2020.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, 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 condensed consolidated financial statements.

2. Investment in Change Healthcare Joint Venture

Until the separation of its interest in the Change Healthcare JV on March 10, 2020, the Company accounted for its interest in the joint venture using the equity method of accounting with a one-month reporting lag, with disclosure made for 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, to the Company's opening retained earnings.

On June 27, 2019, common stock and certain other securities of Change Healthcare Inc. ("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 of \$609 million from its offering of common stock 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 of \$279 million from the concurrent offering of other securities were used by Change to acquire certain securities of the Change Healthcare JV that substantially mirrored the terms of other securities included in the offering by Change. 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 primarily representing the difference between its proportionate share of the IPO proceeds and the dilution effect on the investment's carrying value. These items were included in Equity earnings and charges from investment in Change Healthcare Joint Venture in the Company's Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2019. 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.

In the second quarter of 2020, the Company recorded a pre-tax other-than-temporary impairment ("OTTI") charge of \$1.2 billion 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 Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2019.

The Company recorded its proportionate share of loss from its investment in Change Healthcare JV of \$51 million and \$47 million, respectively, for the three and six months ended September 30, 2019. The Company's proportionate share of income or loss from this investment included integration expenses incurred by Change Healthcare JV and basis differences between the joint venture and McKesson, including amortization of fair value adjustments primarily representing incremental intangible assets. These amounts were included within Equity earnings and charges from investment in Change Healthcare Joint Venture in the Company's Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2019.

On March 10, 2020, the Company completed the previously announced separation of its interest in the Change Healthcare JV which eliminated the Company's investment in the joint venture.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Related Party Transactions

While a party to the joint venture, the Company had various ancillary agreements related to the Change Healthcare JV, including transition services agreements (“TSA”), a transaction and advisory fee agreement (“Advisory Agreement”), a tax receivable agreement (“TRA”), and certain other agreements. Revenues recognized and expenses incurred under these agreements with the Change Healthcare JV were not material during the three and six months ended September 30, 2020 and 2019.

Under the agreement executed in 2019 between the Change Healthcare JV, McKesson, Change, and certain subsidiaries of the Change Healthcare JV, McKesson had the ability to adjust the manner in which certain depreciation or amortization deductions are allocated among Change 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 September 30, 2020.

During the fourth quarter of 2020 in conjunction with the separation transaction, the Company recorded a reversal of the deferred tax liability related to its investment. Under the agreement with the Change Healthcare JV, McKesson, Change, and certain subsidiaries of the Change Healthcare JV, there may be changes in future periods to the amount reversed. Any such change is not expected to have a material impact on the Company’s condensed consolidated financial statements.

3. 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. 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 cost to sell is reported as an adjustment to the carrying value of the disposal group. Assets and liabilities that have met the classification of held for sale were \$833 million and \$537 million, respectively, at September 30, 2020 and \$906 million and \$683 million, respectively, at March 31, 2020. These amounts primarily consist of the majority of the Company’s German pharmaceutical wholesale business described below.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

German Pharmaceutical Wholesale Joint Venture

On December 12, 2019, the Company announced that it had entered into an agreement (the “Contribution Agreement”) with Walgreens Boots Alliance intending to contribute the majority of its German pharmaceutical wholesale business to create a joint venture in which McKesson will have a noncontrolling interest. This business is within the Company’s International segment. The agreement was subject to regulatory approvals, which were received in the second quarter of 2021, and the contribution was completed on November 1, 2020, as noted below. The transaction does not meet the criteria to be reported as a discontinued operation as it does not constitute a significant strategic business shift. For the three and six months ended September 30, 2020, the Company recorded a charge of \$10 million to remeasure the held for sale assets and liabilities to fair value less costs to sell. 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.

The total assets and liabilities of the German pharmaceutical wholesale joint venture that have met the classification of held for sale on the Company’s Condensed Consolidated Balance Sheets are as follows:

<i>(In millions)</i>	September 30, 2020	March 31, 2020
Assets		
Current assets		
Receivables, net and other current assets	\$ 519	\$ 548
Inventories, net	463	478
Long-term assets	95	88
Remeasurement of assets of business held for sale to fair value less costs to sell ⁽¹⁾	(296)	(272)
Total assets held for sale	<u>\$ 781</u>	<u>\$ 842</u>
Liabilities		
Current liabilities		
Drafts and accounts payable	\$ 292	\$ 450
Other accrued liabilities	38	40
Long-term liabilities	176	166
Total liabilities held for sale	<u>\$ 506</u>	<u>\$ 656</u>

(1) Includes the effect of approximately \$11 million unfavorable and \$3 million favorable cumulative foreign currency translation adjustments as of September 30, 2020 and March 31, 2020, respectively.

On November 1, 2020, the Company completed the contribution of the disposal group to the joint venture. The Company accounted for this transaction as a sale of the German pharmaceutical wholesale business and a subsequent purchase of a 30% interest in the newly formed joint venture in the third quarter of 2021. As a result of finalization of working capital amounts contributed and other adjustments, the Company may record additional gains or losses in future periods. These adjustments are not expected to have a material impact on the Company’s condensed consolidated financial statements.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

4. Restructuring, Impairment, and Related Charges

The Company recorded restructuring, impairment, and related charges of \$60 million and \$116 million during the three and six months ended September 30, 2020, respectively, and \$45 million and \$68 million during the three and six months ended September 30, 2019, respectively. These charges are included under the caption, “Restructuring, impairment, and related charges” in Operating expenses in the Condensed Consolidated Statements of Operations. In addition, charges related to restructuring initiatives are included under the caption “Cost of sales” in its Condensed Consolidated Statements of Operations and were not material for the three and six months ended September 30, 2020 and 2019.

Restructuring Initiatives

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 expects to record total charges of approximately \$90 million to \$125 million, of which \$90 million of charges were recorded to date. Charges recorded in the three and six months ended September 30, 2020 and 2019 were not material. The estimated remaining charges primarily consist of lease and other exit-related costs, and employee-related expenses. The Company anticipates that the relocation will be complete by January 2021.

During the fourth quarter of 2019, the Company committed to certain 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 \$320 million for these programs, of which \$271 million of charges were recorded to date. Charges recorded in the three and six months ended September 30, 2020 and 2019 were not material and primarily represented employee severance, accelerated depreciation expense, and project consulting fees. The Company anticipates these additional programs will be substantially completed in 2022. The estimated remaining charges primarily consist of facility and other exit costs and employee-related costs.

During the first quarter of 2021, the Company committed to an initiative within the United Kingdom (“U.K.”), which is included in the Company’s International segment, to further drive transformational changes in technologies and business processes, operational efficiencies, and cost savings. The initiative includes reducing the number of retail pharmacy stores, decommissioning obsolete technologies and processes, reorganizing and consolidating certain business operations, and related headcount reductions. The Company expects to incur total charges of approximately \$100 million to \$120 million. The Company recorded charges of \$27 million and \$41 million, respectively, in the three and six months ended September 30, 2020, primarily related to asset impairments and accelerated depreciation expense as well as employee severance and other employee-related costs. The initiative is expected to be substantially complete by the end of 2021 and estimated remaining charges primarily consist of accelerated amortization and impairments of long-lived assets, facility and other exit costs, and employee-related costs.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Fiscal 2021

Restructuring, impairment, and related charges during the three and six months ended September 30, 2020 consisted of the following:

Three Months Ended September 30, 2020						
<i>(In millions)</i>	U.S. Pharmaceutical	International ⁽¹⁾	Medical-Surgical Solutions	Prescription Technology Solutions	Corporate ⁽²⁾	Total
Severance and employee-related costs, net	\$ 6	\$ 3	\$ 3	\$ —	\$ 4	\$ 16
Exit and other-related costs ⁽³⁾	4	5	(1)	—	7	15
Asset impairments and accelerated depreciation	—	27	1	—	1	29
Total	\$ 10	\$ 35	\$ 3	\$ —	\$ 12	\$ 60

(1) Primarily represents costs associated with the operating model and cost optimization efforts described above.

(2) Represents costs associated with the operating model cost optimization efforts and with the relocation of the Company's corporate headquarters described above.

(3) Exit and other-related costs primarily consist of project consulting fees.

Six Months Ended September 30, 2020						
<i>(In millions)</i>	U.S. Pharmaceutical	International ⁽¹⁾	Medical-Surgical Solutions	Prescription Technology Solutions	Corporate ⁽²⁾	Total
Severance and employee-related costs, net	\$ 7	\$ 20	\$ 3	\$ —	\$ 24	\$ 54
Exit and other-related costs ⁽³⁾	5	7	2	—	14	28
Asset impairments and accelerated depreciation	—	31	1	—	2	34
Total	\$ 12	\$ 58	\$ 6	\$ —	\$ 40	\$ 116

(1) Primarily represents costs associated with the operating model and cost optimization efforts described above.

(2) Represents costs associated with the operating model cost optimization efforts and with the relocation of the Company's corporate headquarters described above.

(3) Exit and other-related costs primarily consist of project consulting fees.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Fiscal 2020

Restructuring, impairment, and related charges during the three and six months ended September 30, 2019 consisted of the following:

Three Months Ended September 30, 2019						
<i>(In millions)</i>	U.S. Pharmaceutical ⁽¹⁾	International ⁽²⁾	Medical-Surgical Solutions ⁽³⁾	Prescription Technology Solutions	Corporate ⁽⁴⁾	Total
Severance and employee-related costs, net	\$ 3	\$ 5	\$ 1	\$ —	\$ 10	\$ 19
Exit and other-related costs ⁽⁵⁾	—	4	2	—	13	19
Asset impairments and accelerated depreciation	—	3	—	—	4	7
Total	\$ 3	\$ 12	\$ 3	\$ —	\$ 27	\$ 45

(1) Primarily represents costs associated with the relocation of the Company's corporate headquarters described above.

(2) Primarily represents costs associated with the operating model and cost optimization efforts described above.

(3) Primarily represents costs associated with a growth initiative which included a reduction in workforce, facility consolidation, and store closures. These initiatives were substantially completed in the year ended March 31, 2020.

(4) Represents costs associated with the operating model cost optimization efforts and with the relocation of the Company's corporate headquarters described above.

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

Six Months Ended September 30, 2019						
<i>(In millions)</i>	U.S. Pharmaceutical ⁽¹⁾	International ⁽²⁾	Medical-Surgical Solutions ⁽³⁾	Prescription Technology Solutions	Corporate ⁽⁴⁾	Total
Severance and employee-related costs, net	\$ 2	\$ 4	\$ 1	\$ —	\$ 16	\$ 23
Exit and other-related costs ⁽⁵⁾	—	6	4	—	23	33
Asset impairments and accelerated depreciation	—	6	1	—	5	12
Total	\$ 2	\$ 16	\$ 6	\$ —	\$ 44	\$ 68

(1) Primarily represents costs associated with the relocation of the Company's corporate headquarters described above.

(2) Primarily represents costs associated with the operating model and cost optimization efforts described above.

(3) Primarily represents costs associated with a growth initiative which included a reduction in workforce, facility consolidation, and store closures. These initiatives were substantially completed in the year ended March 31, 2020.

(4) Represents costs associated with the operating model cost optimization efforts and with the relocation of the Company's corporate headquarters described above.

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

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The following table summarizes the activity related to the restructuring liabilities associated with the Company's restructuring initiatives for the six months ended September 30, 2020:

<i>(In millions)</i>	U.S. Pharmaceutical	International	Medical-Surgical Solutions	Prescription Technology Solutions	Corporate	Total
Balance, March 31, 2020 ⁽¹⁾	\$ 29	\$ 66	\$ 22	\$ 1	\$ 39	\$ 157
Restructuring, impairment, and related charges	12	58	6	—	40	116
Non-cash charges	—	(31)	(1)	—	(2)	(34)
Cash payments	(15)	(16)	(11)	(1)	(34)	(77)
Other	—	(1)	(1)	—	(5)	(7)
Balance, September 30, 2020 ⁽²⁾	\$ 26	\$ 76	\$ 15	\$ —	\$ 38	\$ 155

(1) As of March 31, 2020, the total reserve balance was \$157 million, of which \$118 million was recorded in Other accrued liabilities and \$39 million was recorded in Other non-current liabilities.

(2) As of September 30, 2020, the total reserve balance was \$155 million, of which \$128 million was recorded in Other accrued liabilities and \$27 million was recorded in Other non-current liabilities.

5. Income Taxes

During the three months ended September 30, 2020 and 2019, the Company recorded income tax expense of \$28 million and an income tax benefit of \$294 million, respectively, related to continuing operations. During the six months ended September 30, 2020 and 2019, the Company recorded income tax expense of \$178 million and an income tax benefit of \$158 million, respectively, related to continuing operations. The Company's reported income tax rates were expense of 4.3% and benefit of 30.3% for the three months ended September 30, 2020 and 2019, respectively and expense of 13.7% and benefit of 45.0% for the six months ended September 30, 2020 and 2019, respectively. Fluctuations in the Company's reported income tax rates are primarily due to changes within the mix of earnings between various taxing jurisdictions and discrete items recognized in the quarters, primarily due to the impact of an intercompany sale of intellectual property during the three months ended September 30, 2020.

During the second quarter of 2021, the Company sold intellectual property between wholly-owned legal entities within McKesson that are based in different tax jurisdictions. The transferor entity recognized a gain on the sale of assets which was not subject to income tax in its local jurisdiction; such gain was eliminated upon consolidation. The acquiring entity of the intellectual property is entitled to amortize the purchase price of the assets for tax purposes. In accordance with ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," a discrete tax benefit of \$105 million, which reduced the Company's reported income tax rates by 16.0 percentage points and 8.1 percentage points for the three and six months ended September 30, 2020, respectively, was recognized with a corresponding increase to a deferred tax asset for the temporary difference arising from the buyer's excess tax basis.

As of September 30, 2020, the Company had \$1 billion of unrecognized tax benefits, of which \$882 million would reduce income tax expense and the effective tax rate if recognized. During the next twelve months, it is reasonably possible that the Company's unrecognized tax benefits may decrease by as much as \$105 million due to settlements of tax examinations and statute of limitations expirations in the U.S. federal and state jurisdictions and in foreign jurisdictions. However, this amount may change as the Company continues to have ongoing negotiations with various taxing authorities throughout the year.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions, and various foreign jurisdictions. The Internal Revenue Service ("IRS") is currently examining the Company's U.S. corporation income tax returns for 2016 through 2019. 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.

McKESON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

6. Redeemable Noncontrolling Interests and Noncontrolling Interests

Redeemable Noncontrolling Interests

The Company's redeemable noncontrolling interests primarily relate to its consolidated subsidiary, McKesson Europe AG ("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, the Company recorded a total attribution of net income to the noncontrolling shareholders of McKesson Europe of \$10 million and \$21 million during the three and six months ended September 30, 2020, respectively, and \$11 million and \$22 million during the three and six months ended September 30, 2019, respectively. All amounts were recorded in Net income attributable to noncontrolling interests in the Company's Condensed Consolidated Statements of Operations and the corresponding liability balance was recorded in Other accrued liabilities in the Company's Condensed Consolidated Balance Sheets.

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 the six months ended September 30, 2020, the Company paid \$49 million to purchase 1.8 million shares of McKesson Europe through exercises of the Put Right by the noncontrolling shareholders. This decreased the carrying value of the noncontrolling interests by \$49 million, and the associated effect of the increase in the Company's ownership interest on its equity of \$3 million was recorded as a net increase to McKesson's stockholders paid-in capital during 2021. During the three months ended September 30, 2020 and the three and six months ended September 30, 2019, there were no material exercises of the Put Right. The balance of the associated liability for 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. The Redeemable noncontrolling interest is also adjusted each period for the proportion of other comprehensive income, primarily due to changes in foreign currency exchange rates, attributable to the noncontrolling shareholders. At September 30, 2020 and March 31, 2020, the carrying value of redeemable noncontrolling interests of \$1.3 billion and \$1.4 billion, respectively, exceeded the maximum redemption value of \$1.2 billion. At September 30, 2020 and March 31, 2020, the Company owned approximately 78% and 77%, respectively, of McKesson Europe's outstanding common shares.

Noncontrolling Interests

Noncontrolling interests represent third-party equity interests in the Company's consolidated entities primarily related to ClarusONE Sourcing Services LLP, Vantage Oncology Holdings, LLC, and McKesson Europe, which were \$200 million and \$217 million at September 30, 2020 and March 31, 2020, respectively, in the Company's Condensed Consolidated Balance Sheets. The Company allocated a total of \$40 million and \$79 million of net income to noncontrolling interests during the three and six months ended September 30, 2020, respectively, and \$42 million and \$85 million during the three and six months ended September 30, 2019, respectively.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Changes in redeemable noncontrolling interests and noncontrolling interests for the three and six months ended September 30, 2020 were as follows:

<i>(In millions)</i>	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, June 30, 2020	\$ 207	\$ 1,414
Net income attributable to noncontrolling interests	40	10
Other comprehensive loss	—	(151)
Reclassification of recurring compensation to other accrued liabilities	—	(10)
Payments to noncontrolling interests	(50)	—
Other	3	2
Balance, September 30, 2020	\$ 200	\$ 1,265

<i>(In millions)</i>	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, March 31, 2020	\$ 217	\$ 1,402
Net income attributable to noncontrolling interests	79	21
Other comprehensive loss	—	(90)
Reclassification of recurring compensation to other accrued liabilities	—	(21)
Payments to noncontrolling interests	(93)	—
Exercises of Put Right	—	(49)
Other	(3)	2
Balance, September 30, 2020	\$ 200	\$ 1,265

Changes in redeemable noncontrolling interests and noncontrolling interests for the three and six months ended September 30, 2019 were as follows:

<i>(In millions)</i>	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, June 30, 2019	\$ 194	\$ 1,399
Net income attributable to noncontrolling interests	42	11
Other comprehensive loss	—	(18)
Reclassification of recurring compensation to other accrued liabilities	—	(11)
Payments to noncontrolling interests	(37)	—
Other	11	3
Balance, September 30, 2019	\$ 210	\$ 1,384

<i>(In millions)</i>	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, March 31, 2019	\$ 193	\$ 1,393
Net income attributable to noncontrolling interests	85	22
Other comprehensive loss	—	(12)
Reclassification of recurring compensation to other accrued liabilities	—	(22)
Payments to noncontrolling interests	(76)	—
Other	8	3
Balance, September 30, 2019	\$ 210	\$ 1,384

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

7. 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. The computation of diluted earnings per common share is similar to that of 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. Diluted loss per common share for the three and six months ended September 30, 2019 was calculated by excluding potentially dilutive securities from the denominator of the share computation due to their anti-dilutive effects.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
<i>(In millions, except per share amounts)</i>				
Income (loss) from continuing operations	\$ 627	\$ (676)	\$ 1,122	\$ (193)
Net income attributable to noncontrolling interests	(50)	(53)	(100)	(107)
Income (loss) from continuing operations attributable to McKesson	577	(729)	1,022	(300)
Loss from discontinued operations, net of tax	—	(1)	(1)	(7)
Net income (loss) attributable to McKesson	<u>\$ 577</u>	<u>\$ (730)</u>	<u>\$ 1,021</u>	<u>\$ (307)</u>
Weighted-average common shares outstanding:				
Basic	162	183	162	185
Effect of dilutive securities:				
Restricted stock units	1	—	1	—
Diluted	<u>163</u>	<u>183</u>	<u>163</u>	<u>185</u>
Earnings (loss) per common share attributable to McKesson: ⁽¹⁾				
Diluted				
Continuing operations	\$ 3.54	\$ (3.99)	\$ 6.26	\$ (1.62)
Discontinued operations	—	—	—	(0.03)
Total	<u>\$ 3.54</u>	<u>\$ (3.99)</u>	<u>\$ 6.26</u>	<u>\$ (1.65)</u>
Basic				
Continuing operations	\$ 3.56	\$ (3.99)	\$ 6.31	\$ (1.62)
Discontinued operations	—	—	(0.01)	(0.03)
Total	<u>\$ 3.56</u>	<u>\$ (3.99)</u>	<u>\$ 6.30</u>	<u>\$ (1.65)</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 of potentially dilutive securities for the three months and six months ended September 30, 2020 were excluded from the computations of diluted net earnings per common share as they were anti-dilutive.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

8. Goodwill and Intangible Assets, Net

In the second quarter of 2021, the Company implemented a new segment reporting structure which resulted in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and RxTS. These reportable segments encompass all operating segments of the Company. This segment change prompted changes in multiple reporting units across the Company. As a result, goodwill included in impacted reporting units was reallocated using a relative fair value approach and assessed for impairment both before and after the reallocation.

The Company recorded a goodwill impairment charge of \$69 million (pre-tax and after-tax) in the three and six months ended September 30, 2020 as the estimated fair value of the Europe Retail Pharmacy reporting unit was lower than its reassigned carrying value based on changes in the composition of the Europe Retail Pharmacy reporting unit within the International segment. This impairment charge is included under the caption, "Goodwill impairment charges" in the Condensed Consolidated Statements of Operations. At September 30, 2020, the reporting units in Europe had no remaining balance of goodwill and the remaining balance of goodwill in the International segment relates to one of its reporting units in Canada.

Refer to Financial Note 12, "Fair Value Measurements," for more information.

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	U.S. Pharmaceutical	International	Medical-Surgical Solutions	Prescription Technology Solutions	Total
Balance, March 31, 2020	\$ 3,924	\$ 1,443	\$ 2,453	\$ 1,540	\$ 9,360
Goodwill acquired	—	1	—	—	1
Acquisition accounting, transfers and other adjustments	—	—	—	2	2
Impairment charges	—	(69)	—	—	(69)
Foreign currency translation adjustments, net	39	81	—	—	120
Balance, September 30, 2020	\$ 3,963	\$ 1,456	\$ 2,453	\$ 1,542	\$ 9,414

Information regarding intangible assets is as follows:

<i>(Dollars in millions)</i>	Weighted-Average Remaining Amortization Period (Years)	September 30, 2020			March 31, 2020		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	12	\$ 3,736	\$ (2,127)	\$ 1,609	\$ 3,650	\$ (1,950)	\$ 1,700
Service agreements	10	997	(506)	491	994	(480)	514
Pharmacy licenses	26	502	(222)	280	492	(232)	260
Trademarks and trade names	12	894	(314)	580	808	(242)	566
Technology	5	147	(113)	34	175	(111)	64
Other	5	253	(217)	36	273	(221)	52
Total		\$ 6,529	\$ (3,499)	\$ 3,030	\$ 6,392	\$ (3,236)	\$ 3,156

Amortization expense of intangible assets was \$106 million and \$212 million during the three and six months ended September 30, 2020, respectively, and \$118 million and \$230 million during the three and six months ended September 30, 2019, respectively. Estimated amortization expense of these assets is as follows: \$196 million, \$367 million, \$265 million, \$248 million, and \$245 million for the remainder of 2021 and each of the succeeding years through 2025 and \$1.7 billion thereafter. All intangible assets were subject to amortization as of September 30, 2020 and March 31, 2020.

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9. Debt and Financing Activities

Long-term debt consisted of the following:

<i>(In millions)</i>	September 30, 2020	March 31, 2020
<u>U.S. Dollar notes</u> ^{(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
<u>Foreign currency notes</u> ^{(1) (3)}		
0.63% Euro Notes due August 17, 2021	703	662
1.50% Euro Notes due November 17, 2025	700	659
1.63% Euro Notes due October 30, 2026	586	552
3.13% Sterling Notes due February 17, 2029	597	557
Lease and other obligations	239	174
Total debt	7,608	7,387
Less: Current portion	1,760	1,052
Total long-term debt	\$ 5,848	\$ 6,335

(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.

Long-Term Debt

The Company's long-term debt includes both U.S. dollar and foreign currency-denominated borrowings. Debt outstanding totaled \$7.6 billion and \$7.4 billion at September 30, 2020 and March 31, 2020, respectively, of which \$1.8 billion and \$1.1 billion, respectively, was included under the caption "Current portion of long-term debt" within the Company's Condensed Consolidated Balance Sheets.

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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 the three and six months ended September 30, 2020 and no amounts outstanding as of September 30, 2020 and 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.

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 September 30, 2020, the Company was in compliance with all covenants.

The Company also maintains bilateral credit facilities primarily denominated in Euro with a committed amount of \$9 million and an uncommitted amount of \$176 million as of September 30, 2020. Borrowings and repayments were not material during the three and six months ended September 30, 2020 and 2019, and amounts outstanding under these credit lines were not material as of September 30, 2020 and March 31, 2020.

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 the six months ended September 30, 2020 and 2019, the Company borrowed \$5.3 billion and \$8.7 billion, respectively, and repaid \$5.3 billion and \$8.1 billion, respectively, under the program. At September 30, 2020 and March 31, 2020, there were no commercial paper notes outstanding.

10. Pension Benefits

The net periodic expense for defined benefit pension plans was \$7 million and \$14 million for the three and six months ended September 30, 2020, respectively, and \$111 million and \$135 million for the three and six months ended September 30, 2019, respectively.

Cash contributions to these plans were \$4 million and \$11 million for the three and six months ended September 30, 2020, respectively, and \$7 million and \$13 million for the three and six months ended September 30, 2019, respectively. 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 on a straight-line basis over the average remaining future service periods and expected life expectancy.

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 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 benefits and provide administrative services on November 1, 2019. As a result, the remaining previously recorded unrecognized losses in accumulated other comprehensive loss for the Plan were recognized as expense and a pre-tax settlement charge of approximately \$105 million was recorded in Other income (expense), net in the Company’s Condensed Consolidated Statements of Operations during the second quarter of 2020.

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11. 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 September 30, 2020 and March 31, 2020, the Company had €1.7 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 within Accumulated other comprehensive loss in the Condensed Consolidated Statements 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.

Gains or losses from net investment hedges recorded within Other comprehensive income were losses of \$83 million and \$117 million during the three and six months ended September 30, 2020, respectively, and gains of \$91 million and \$67 million during the three and six months ended September 30, 2019, respectively. There was no ineffectiveness in non-derivative net investment hedges during the three and six months ended September 30, 2020. Ineffectiveness on the Company's non-derivative net investment hedges during the three and six months ended September 30, 2019 resulted in gains of \$20 million and \$30 million, respectively, which were recorded in earnings in Other income (expense), net in the Condensed Consolidated Statements of Operations.

Derivatives Designated as Hedges

At September 30, 2020 and March 31, 2020, 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 Condensed Consolidated Statements 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 three and six months ended September 30, 2020 and 2019.

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During the first quarter of 2020, the Company terminated cross-currency swaps with a total gross notional amount of £932 million British pound sterling due to ineffectiveness in its British pound sterling hedging program that arose due to 2019 impairments of goodwill and certain long-lived assets in the U.K. businesses. Proceeds from the termination of these swaps totaled \$84 million and resulted in a settlement gain of \$34 million for the six months ended September 30, 2019. This gain was recorded in earnings in Other income (expense), net, net in the Condensed Consolidated Statements of Operations.

Gains or losses from the Company's cross-currency swaps designated as net investment hedges recorded in Other comprehensive income were losses of \$12 million and \$63 million during the three and six months ended September 30, 2020, respectively, and gains of \$20 million and \$9 million during the three and six months ended September 30, 2019, respectively. There was no ineffectiveness in the Company's cross-currency swap hedges for the three and six months ended September 30, 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 for the three and six months September 30, 2020 and 2019 were largely offset by the losses recorded in earnings related to these notes. The swaps will mature in February 2023.

From time to time, the Company also enters into cross-currency swaps to hedge intercompany loans denominated in non-functional currencies. For cross-currency swap transactions, 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 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 September 30, 2020 and March 31, 2020, the Company had cross-currency swaps with total gross notional amounts of approximately \$2.6 billion and \$2.9 billion, respectively, which are designated as cash flow hedges. These swaps will mature between February 2021 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 loss 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.

On April 27, 2020, the Company entered into forward starting interest rate swaps designated as cash flow hedges, with combined notional amounts of \$500 million and €600 million, to hedge the variability of future benchmark interest rates on planned bond issuances. Under the terms of the forward interest rate swap contracts, the Company agreed with third parties to pay fixed interest payments for the \$500 million swaps for floating interest payments in U.S. dollars based on three-month LIBOR and to pay fixed interest payments for floating interest payments in Euros based on six-month Euro Interbank Offered Rate ("EURIBOR") for the €600 million swaps.

Gains or losses from cash flow hedges recorded in Other comprehensive income were losses of \$23 million and \$28 million during the three and six months ended September 30, 2020, respectively, and were gains of \$17 million and \$35 million during the three and six months ended September 30, 2019, respectively. Gains or losses reclassified from Accumulated other comprehensive income and recorded in Operating expenses in the Condensed Consolidated Statements of Operations were not material in the three and six months ended September 30, 2020 and 2019. There was no ineffectiveness in the Company's cash flow hedges for the three and six months ended September 30, 2020 and 2019.

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 fair value included in earnings.

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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 September 30, 2020 and March 31, 2020, the total gross notional amounts of these contracts were \$44 million and \$29 million, respectively. These contracts will predominantly 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 the three and six months ended September 30, 2020 and 2019. Gains or losses from these contracts are largely offset by changes in the value of the underlying intercompany obligations.

During the three and six months ended September 30, 2019, the Company also entered into a number of forward contracts to offset a portion of the earnings impacts from the ineffectiveness of the net investment hedges discussed above. These contracts matured in September 2019 and none of these contracts were designated for hedge accounting. Changes in the fair values for contracts not designated as hedges are recorded directly in earnings. During the three and six months ended September 30, 2019, losses of \$20 million and \$39 million, respectively, were recorded in earnings within Other income (expense), net in the Condensed Consolidated Statements of Operations.

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

(In millions)	Balance Sheet Caption	September 30, 2020			March 31, 2020		
		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							
Cross-currency swaps (current)	Prepaid expenses and other/Other accrued liabilities	\$ 20	\$ 12	\$ 925	\$ 112	\$ 19	\$ 1,279
Cross-currency swaps (non-current)	Other non-current assets/liabilities	81	42	3,313	182	—	3,313
Forward starting interest rate swaps (current)	Other accrued liabilities	—	11	1,203	—	—	—
Total		<u>\$ 101</u>	<u>\$ 65</u>		<u>\$ 294</u>	<u>\$ 19</u>	
Derivatives not designated for hedge accounting							
Foreign exchange contracts (current)	Prepaid expenses and other	\$ 1	\$ —	\$ 32	\$ 2	\$ —	\$ 24
Foreign exchange contracts (current)	Other accrued liabilities	—	—	13	—	—	5
Total		<u>\$ 1</u>	<u>\$ —</u>		<u>\$ 2</u>	<u>\$ —</u>	

Refer to Financial Note 12, "Fair Value Measurements," for more information on these recurring fair value measurements.

12. Fair Value Measurements

At September 30, 2020 and March 31, 2020, 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.

The Company determines the fair value of commercial paper using quoted prices in active markets for identical instruments, 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 \$7.6 billion and \$8.4 billion at September 30, 2020, respectively, and \$7.4 billion and \$7.8 billion at March 31, 2020, respectively. The estimated fair value of the Company's 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.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Cash and cash equivalents at September 30, 2020 and March 31, 2020 included investments in money market funds of \$129 million and \$2.0 billion, respectively, 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 of the Company's foreign currency forward 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. Fair values of the Company's interest rate swaps were determined using 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 11, "Hedging Activities," for fair value and other information on the Company's foreign currency derivatives including forward foreign currency contracts and cross-currency swaps.

The Company holds investments in equity securities of U.S. growth stage companies that address both current and emerging business challenges in the healthcare industry. These investments, with a carrying value of \$235 million and \$170 million, respectively, at September 30, 2020 and March 31, 2020, and primarily consisting of investments without readily determinable fair values, are included within Other non-current assets in the Condensed Consolidated Balance Sheets. In the second quarter of 2021, three of the companies in which McKesson holds investments in equity securities were converted into shares of public common stock through initial public offerings and an acquisition. Net gains related to the Company's investments in equity securities, primarily representing unrealized gains on the publicly traded securities discussed above, were \$49 million and \$59 million for the three and six months ended September 30, 2020, respectively. These gains were recorded under the caption, "Other income (expense), net," in the Condensed Consolidated Income Statements. There were no other material changes in the carrying value of these investments during the three or six months ended September 30, 2020. The carrying value of publicly traded investments was determined using quoted prices for identical investments in active markets and are considered to be Level 1 inputs.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis as of September 30, 2020 included long-lived assets in the U.K. as discussed in more detail in Financial Note 4, "Restructuring, Impairment, and Related Charges," and goodwill of the Company's Europe Retail Pharmacy reporting unit within the International segment. Refer to Financial Note 8, "Goodwill and Intangible Assets, Net," for more information. At March 31, 2020, assets measured at fair value on a nonrecurring basis included long-lived assets of the Company's European and Rexall Health businesses within the International segment.

The aforementioned investments in equity securities includes the carrying value of investments without readily determinable fair values, which were determined using a measurement alternative and are recorded at cost less impairment, plus or minus any changes in observable price from orderly transactions of the same or similar security of the same issuer. 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.

There were no liabilities measured at fair value on a nonrecurring basis at September 30, 2020 and March 31, 2020.

Restricted Cash

Restricted cash, included within Prepaid expenses and other on the Company's Condensed Consolidated Balance Sheet as of September 30, 2020, primarily consists of funds temporarily held on behalf of unaffiliated medical practice groups related to their COVID-19 business continuity borrowings. The amounts have been designated as restricted cash due to contractual provisions requiring their segregation from all other funds until utilized by the medical practices for a limited list of qualified activities. Corresponding deposit liabilities associated with these funds have been recorded by the Company within Other accrued liabilities on the Company's Condensed Consolidated Balance Sheet as of September 30, 2020.

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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 using a discounted cash flow ("DCF") model to determine the fair value of the reporting unit.

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.

13. 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 and in [Financial Note 21 to the Company's 2020 Annual Report](#) and [Financial Note 13 to the Company's 10-Q filing for the quarterly period ended June 30, 2020](#), which disclosure is incorporated in this footnote by this reference. 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.

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 U.S., 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, and 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.

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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 the suits filed against the Company by Cuyahoga County, Ohio in October 2017 and Summit County, Ohio in December 2017, the parties reached an agreement in principle on October 21, 2019 to settle all claims against the Company. *County of Cuyahoga v. Purdue Pharma L.P., et al.*, Case No. 1:17-op-45004-DAP (N.D. Ohio); *County of Summit, Ohio et al. v. Purdue Pharma L.P., et al.*, Case No. 1:18-op-45090-DAP (N.D. Ohio). The Company does not admit liability and expressly denies wrongdoing. As a result, the Company recorded a pre-tax charge of \$82 million related to two Ohio counties within operating expenses for the second quarter of 2020.

Three cases involving McKesson that were previously part of the federal MDL have been remanded to other federal courts for discovery and trial. 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. A trial has been scheduled for January 4, 2021. 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; trial has been set for June 28, 2021. Also on February 5, 2020, 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 400 similar state court cases pending in 36 states plus Puerto Rico, along with 3 cases in Canada. These include actions filed by 26 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. For example, 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 postponed in light of the COVID-19 pandemic.

The Company continues to be involved in discussions with the objective of achieving broad resolution of opioid-related claims brought by governmental entities. For example, in October 2020, a group of state attorneys general proposed a framework for the potential settlement of opioid claims of governmental entities, including political subdivisions, and compensation for the private attorneys representing these governmental entities.

Under the framework proposed by the attorneys general, the three largest U.S. pharmaceutical distributors could be expected to pay an aggregate amount of up to \$21.0 billion over 18 years, with up to approximately \$8.0 billion over 18 years expected from the Company. The proposed framework would also require the three distributors, including the Company, to adopt changes to anti-diversion programs. If the negotiating parties agree on the 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 accepted by the Company and finalized. Under the framework, before the distributors determine whether to enter into any final settlement, they would assess the sufficiency of the scope of settlement, based in part on the number and identities of the states, political subdivisions, and governmental entities that would participate in any such settlement. If states, political subdivisions or other governmental entities did not agree to a settlement under the framework, there would be a corresponding reduction in the amount due from the Company to account for this.

Discussions with attorneys general and other parties continue. To be viable, a broad settlement arrangement would require participation of numerous parties and the resolution of many complex issues. Because of the many uncertainties associated with any potential settlement arrangements, 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 September 30, 2020.

While the Company continues to be involved in discussions regarding a potential global settlement framework, the Company also continues to prepare for trial in these matters. The Company believes that it has valid defenses to the claims pending against it and intends to vigorously defend against all such claims. Because of the novelty of the claims asserted and the complexity of litigation, the Company has determined that liability is not probable, and is not able to reasonably estimate a loss or range of loss. 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.

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In December 2019, the Company was served with a *qui tam* complaint filed by two relators alleging violations of the federal False Claims Act based on alleged predicate violations of the Controlled Substances Act and its implementing regulations, *United States ex rel. Kelley*, 19-cv-2233. On August 18, 2020, the court entered an order granting the Company's motion to dismiss and giving the relators permission to file an amended complaint. On September 8, 2020, pursuant to the court's order, the relators filed a Second Amended Complaint.

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. Due to the COVID-19 pandemic, the trial date for this case was taken off calendar to be re-scheduled during 2021.

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 sought treble damages, civil penalties, and further relief. The United States and the states named in the complaint 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. On August 17, 2020, the Seventh Circuit reversed the district court's decision on the United States' motion to dismiss and remanded the case with instructions that the district court enter judgment for the defendants on the relator's claims under the False Claims Act. The relator sought a re-hearing *en banc* at the Seventh Circuit, which was denied. The relator did not pursue any further appeals and the relator's False Claims Act case was dismissed, with judgment entered in favor of the defendants on September 30, 2020.

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. Plaintiffs filed an amended complaint on August 21, 2020.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

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 July 1, 2020, the court granted the defendant's motion to dismiss the plaintiff's amended complaint with prejudice. The plaintiff did not file an appeal.

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.

On July 21, 2020, McKesson received correspondence from the U.S. Attorney's Office for the Western District of Tennessee alleging reporting and documentation deficiencies in violation of the Controlled Substances Act at the Company's former and no longer operational RxPak facility and at its Distribution Center in Memphis, Tennessee, and seeking civil penalties.

IV. State Opioid Statutes

Legislative, regulatory or industry measures to address the misuse of prescription opioid medications could affect the Company's business in ways that it may not be able to predict. For example, in April 2018, the State of New York adopted the Opioid Stewardship Act (the "OSA") which required the creation of an aggregate \$100 million annual surcharge on all manufacturers and distributors licensed to sell or distribute opioids in New York. The initial surcharge payment would have been due on January 1, 2019 for opioids sold or distributed during calendar year 2017. On July 6, 2018, the Healthcare Distribution Alliance filed a lawsuit challenging the constitutionality of the law and seeking an injunction against its enforcement. On December 19, 2018, the U.S. District Court for the Southern District of New York found the law unconstitutional and issued an injunction preventing the State of New York from enforcing the law. The State appealed that decision. On September 14, 2020, a panel of the U.S. Court of Appeals for the Second Circuit reversed the district court's decision on procedural grounds. The Company has accrued a \$50 million pre-tax charge (\$37 million after-tax) as its estimated share of the OSA surcharge for calendar years 2017 and 2018. This OSA provision was recognized as Operating expenses in the accompanying condensed consolidated statement of operations and as Other accrued liabilities in the condensed consolidated balance sheets as of September 30, 2020. The State of New York adopted an excise tax on sales of opioids in the State, which became effective July 1, 2019. The law adopting the excise tax made clear that the OSA does not apply to sales or distributions occurring after December 31, 2018.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

14. 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").

On July 29, 2020, the Company raised its quarterly dividend from \$0.41 to \$0.42 per common share for dividends declared on or after such date by the Board. 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 combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. 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.

During the three months ended June 30, 2020, there were no share repurchases made under previously authorized share repurchase programs. During the three months ended September 30, 2020, the Company repurchased 1.8 million of the Company's shares for \$269 million through open market transactions at an average price per share of \$151.23, of which \$21 million was accrued within "Other accrued liabilities" on the Company's Condensed Consolidated Balance Sheets for share repurchases that were executed in late September and settled in early October. The total authorization outstanding for repurchases of the Company's common stock was \$1.3 billion at September 30, 2020.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

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:

(In millions)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Foreign currency translation adjustments ⁽¹⁾				
Foreign currency translation adjustments arising during period, net of income tax expense of nil, nil, nil, and nil ⁽²⁾⁽³⁾	\$ 111	\$ (114)	\$ 207	\$ (44)
Reclassified to income statement, net of income tax expense of nil, nil, nil, and nil	—	—	—	—
	111	(114)	207	(44)
Unrealized gains (losses) on net investment hedges				
Unrealized gains (losses) on net investment hedges arising during period, net of income tax (expense) benefit of \$25, \$(29), \$47, and \$(20) ⁽³⁾⁽⁴⁾	(70)	82	(133)	56
Reclassified to income statement, net of income tax expense of nil, nil, nil, and nil	—	—	—	—
	(70)	82	(133)	56
Unrealized gains (losses) on cash flow hedges				
Unrealized gains (losses) on cash flow hedges arising during period, net of income tax (expense) benefit of \$4, \$(4), \$4, and \$(10)	(19)	13	(24)	25
Reclassified to income statement, net of income tax expense of nil, nil, nil, and nil	—	—	—	—
	(19)	13	(24)	25
Changes in retirement-related benefit plans ⁽⁵⁾				
Net actuarial gain and prior service cost arising during the period, net of income tax benefit of nil, \$2, nil, and \$1	—	(9)	—	(3)
Amortization of actuarial loss, prior service cost and transition obligation, net of income tax expense of \$1, nil, \$1, and nil ⁽⁶⁾	—	1	2	2
Foreign currency translation adjustments and other, net of income tax expense of nil, nil, nil, and nil	(9)	5	(10)	7
Reclassified to income statement, net of income tax expense of nil, \$27, nil, and \$32 ⁽⁷⁾	—	78	—	90
	(9)	75	(8)	96
Other comprehensive income, net of tax	\$ 13	\$ 56	\$ 42	\$ 133

- (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, and its operations in Canada into the Company's reporting currency, U.S. dollars.
- (2) During the three and six months ended September 30, 2020, the net foreign currency translation adjustments were primarily due to the strengthening of the Canadian dollar and Euro against the U.S. dollar from April 1, 2020 to September 30, 2020. During the three and six months ended September 30, 2019, the net foreign currency translation adjustments were primarily due to the weakening of the Euro and British pound sterling against the U.S. dollar from April 1, 2019 to September 30, 2019.
- (3) The three and six months ended September 30, 2020 includes net foreign currency translation adjustments of \$119 million and \$61 million, respectively, and the three and six months ended September 30, 2019 includes net foreign currency translation adjustments of \$19 million and \$13 million, respectively, attributable to redeemable noncontrolling interests.
- (4) The three and six months ended September 30, 2020 includes foreign currency losses of \$83 million and \$117 million, respectively, on the net investment hedges from the €1.7 billion Euro-denominated notes and £450 million British pound sterling-denominated notes, losses of \$12 million and \$63 million, respectively, on the net investment hedges from cross-currency swaps, and losses on net investment hedges of \$1 million attributable to redeemable noncontrolling interests. The three and six months ended September 30, 2019 include foreign currency gains of \$91 million and \$67 million, respectively, on the net investment hedges from the €1.95 billion Euro-denominated notes and £450 million British pound sterling-denominated notes and gains of \$20 million and \$9 million, respectively, on the net investment hedges from cross-currency swaps.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

- (5) The three and six months ended September 30, 2020 include net actuarial losses of \$5 million and \$2 million, respectively, and the three and six months ended September 30, 2019 include net actuarial gains of \$1 million, which are attributable to redeemable noncontrolling interests.
- (6) Pre-tax amount was reclassified into Cost of sales and Operating expenses in the Condensed Consolidated Statements of Operations. The related tax expense was reclassified into Income tax benefit (expense) in the Condensed Consolidated Statements of Operations.
- (7) The three and six months ended September 30, 2019 primarily reflects a reclassification of a pension settlement charge from Accumulated other comprehensive loss to Other income (expense), net in the Condensed Consolidated Statement of Operations.

Accumulated Other Comprehensive Income (Loss)

Information regarding changes in the Company's Accumulated other comprehensive income (loss) by component for the three and six months ended September 30, 2020 are as follows:

	Foreign Currency Translation Adjustments		Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax	Unrealized Gains (Losses) on Cash Flow Hedges, Net of Tax	Unrealized Net Losses and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Loss
<i>(In millions)</i>	Foreign Currency Translation Adjustments, Net of Tax					
Balance at June 30, 2020	\$ (1,742)	\$	75	\$ 44	\$ (112)	\$ (1,735)
Other comprehensive income (loss) before reclassifications	111		(70)	(19)	(9)	13
Amounts reclassified to earnings and other	—		—	—	—	—
Other comprehensive income (loss)	111		(70)	(19)	(9)	13
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(119)		(1)	—	(5)	(125)
Other comprehensive income (loss) attributable to McKesson	230		(69)	(19)	(4)	138
Balance at September 30, 2020	\$ (1,512)	\$	6	\$ 25	\$ (116)	\$ (1,597)

	Foreign Currency Translation Adjustments		Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax	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 Loss
<i>(In millions)</i>	Foreign Currency Translation Adjustments, Net of Tax					
Balance at March 31, 2020	\$ (1,780)	\$	138	\$ 49	\$ (110)	\$ (1,703)
Other comprehensive income (loss) before reclassifications	207		(133)	(24)	(10)	40
Amounts reclassified to earnings and other	—		—	—	2	2
Other comprehensive income (loss)	207		(133)	(24)	(8)	42
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(61)		(1)	—	(2)	(64)
Other comprehensive income (loss) attributable to McKesson	268		(132)	(24)	(6)	106
Balance at September 30, 2020	\$ (1,512)	\$	6	\$ 25	\$ (116)	\$ (1,597)

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Information regarding changes in the Company's Accumulated other comprehensive income (loss) by component for the three and six months ended September 30, 2019 are as follows:

	Foreign Currency Translation Adjustments				
	Foreign Currency Translation Adjustments, Net of Tax	Unrealized Gains on Net Investment Hedges, Net of Tax	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 Loss
<i>(In millions)</i>					
Balance at June 30, 2019	\$ (1,564)	\$ 27	\$ (25)	\$ (216)	\$ (1,778)
Other comprehensive income (loss) before reclassifications	(114)	82	13	(4)	(23)
Amounts reclassified to earnings and other	—	—	—	79	79
Other comprehensive income (loss)	(114)	82	13	75	56
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(19)	—	—	1	(18)
Other comprehensive income (loss) attributable to McKesson	(95)	82	13	74	74
Balance at September 30, 2019	\$ (1,659)	\$ 109	\$ (12)	\$ (142)	\$ (1,704)

	Foreign Currency Translation Adjustments				
	Foreign Currency Translation Adjustments, Net of Tax	Unrealized Gains on Net Investment Hedges, Net of Tax	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 Loss
<i>(In millions)</i>					
Balance at March 31, 2019	\$ (1,628)	\$ 53	\$ (37)	\$ (237)	\$ (1,849)
Other comprehensive income (loss) before reclassifications	(44)	56	25	4	41
Amounts reclassified to earnings and other	—	—	—	92	92
Other comprehensive income (loss)	(44)	56	25	96	133
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(13)	—	—	1	(12)
Other comprehensive income (loss) attributable to McKesson	(31)	56	25	95	145
Balance at September 30, 2019	\$ (1,659)	\$ 109	\$ (12)	\$ (142)	\$ (1,704)

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

15. Segments of Business

Commencing in the second quarter of 2021, the Company implemented a new segment reporting structure which resulted in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and RxTS. Other, for retrospective periods presented, consists of the Company's equity method investment in Change Healthcare JV, which was split-off from McKesson in the fourth quarter of 2020. All prior segment information has been recast to reflect the Company's new segment structure and current period presentation. The 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 included 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 U.S. Pharmaceutical segment distributes branded, generic, specialty, biosimilar, and over-the-counter pharmaceutical drugs and other healthcare-related products. This segment also provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices. In addition, the segment sells financial, operational, and clinical solutions to pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing, technological, and other services.

The International segment includes the Company's operations in Europe and Canada, bringing together non-U.S.-based drug distribution services, specialty pharmacy, retail, and infusion care services. The Company's operations in Europe provide distribution and services to wholesale, institutional, and retail customers in 13 European countries where it owns, partners, or franchises with retail pharmacies and operates through two businesses: Pharmaceutical Distribution and Retail Pharmacy. The Company's Canada operations deliver vital medicines, supplies, and information technology services throughout Canada and includes Rexall Health retail pharmacies. McKesson Europe was previously reflected as the European Pharmaceutical Solutions reportable segment and McKesson Canada was previously included in Other.

The Medical-Surgical Solutions segment provides medical-surgical supply distribution, logistics, and other services to healthcare providers, including physician offices, surgery centers, nursing homes, hospital reference labs, and home health care agencies. This segment offers more than 275,000 national brand medical-surgical products as well as McKesson's own line of products through a network of distribution centers within the United States.

The RxTS segment brings together existing businesses, including CoverMyMeds, RelayHealth, RxCrossroads, and High Volume Solutions, to serve the Company's biopharma and life sciences partners and patients, connecting pharmacies, providers, payers, and biopharma. RxCrossroads was previously included in the former U.S. Pharmaceutical and Specialty Solutions reportable segment and CoverMyMeds, RelayHealth, and High Volume Solutions were previously included in Other.

Other, for retrospective periods presented consists of the Company's investment in the Change Healthcare JV, which was split-off from the Company in the fourth quarter of 2020.

McKESSON CORPORATION
FINANCIAL NOTES (CONCLUDED)
(UNAUDITED)

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

<i>(In millions)</i>	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Segment revenues ⁽¹⁾				
U.S. Pharmaceutical	\$ 48,067	\$ 45,613	\$ 92,737	\$ 89,402
International	9,540	9,321	18,092	18,728
Medical-Surgical Solutions	2,533	2,056	4,334	3,959
Prescription Technology Solutions	668	626	1,324	1,255
Total revenues	<u>\$ 60,808</u>	<u>\$ 57,616</u>	<u>\$ 116,487</u>	<u>\$ 113,344</u>
Segment operating profit (loss) ⁽²⁾				
U.S. Pharmaceutical ⁽³⁾	\$ 623	\$ 641	\$ 1,236	\$ 1,217
International ⁽⁴⁾	(45)	30	(42)	61
Medical-Surgical Solutions	187	129	276	254
Prescription Technology Solutions	88	98	156	198
Other ⁽⁵⁾	—	(1,454)	—	(1,450)
Subtotal	853	(556)	1,626	280
Corporate expenses, net ⁽⁶⁾	(148)	(350)	(216)	(511)
Interest expense	(50)	(64)	(110)	(120)
Income (loss) from continuing operations before income taxes	<u>\$ 655</u>	<u>\$ (970)</u>	<u>\$ 1,300</u>	<u>\$ (351)</u>

- (1) Revenues from services on a disaggregated basis represent less than 1% of the U.S. Pharmaceutical segment's total revenues, less than 6% of the International segment's total revenues, less than 2% of the Medical-Surgical Solutions segment's total revenues, and approximately 40% of the RxTS segment's total revenues. The International segment reflects foreign revenues. Revenues for the remaining three reportable segments are domestic.
- (2) Segment operating profit (loss) includes gross profit, net of operating expenses, as well as other income (expense), net, for the Company's reportable segments. For retrospective periods presented, Operating loss for Other reflects equity earnings and charges from the Company's equity method investment in the Change Healthcare JV, which was split-off from McKesson in the fourth quarter of 2020.
- (3) The Company's U.S. Pharmaceutical segment's operating profit for the three and six months ended September 30, 2020 includes \$52 million and \$104 million, respectively, and for the three and six months ended September 30, 2019 includes \$33 million and \$48 million, respectively, of pre-tax credits related to the last-in, first-out ("LIFO") method of accounting for inventories. The three and six months ended September 30, 2020 also includes a charge of \$50 million recorded in connection with the Company's estimated liability under the State of New York's Opioid Stewardship Act.
- (4) The Company's International segment's operating loss for the three and six months ended September 30, 2020 includes restructuring, impairment, and related charges of \$35 million and \$58 million, respectively, primarily associated with the closure of retail pharmacy stores within the U.K. business, as discussed in more detail in Financial Note 4, "Restructuring, Impairment, and Related Charges," and a goodwill impairment charge of \$69 million (pre-tax and after-tax) related to one of the Company's reporting units in Europe, as discussed in more detail in Financial Note 8, "Goodwill and Intangible Assets, Net."
- (5) Operating loss for Other for the three and six months ended September 30, 2019 includes a pre-tax impairment charge of \$1.2 billion and a pre-tax dilution loss of \$246 million associated with the Company's investment in Change Healthcare JV. Operating loss for Other also includes the Company's proportionate share of loss from Change Healthcare JV of \$51 million and \$47 million for the three and six months ended September 30, 2019, respectively.
- (6) Corporate expenses, net for the six months ended September 30, 2020 includes a net gain of \$131 million recorded in connection with insurance proceeds received during the first quarter of 2021 from the settlement of the shareholder derivative action related to the Company's controlled substances monitoring program. Corporate expenses, net, for the three and six months ended September 30, 2020 include net gains of \$49 million and \$59 million, respectively, associated with certain of the Company's equity investments and, for the three and six months ended September 30, 2019, include settlement charges of \$105 million and \$122 million, respectively, from the termination of the Company's defined benefit pension plan and a settlement charge of \$82 million related to opioid claims. The three and six months ended September 30, 2020 includes \$41 million and \$84 million, respectively, and the three and six months ended September 30, 2019 includes \$36 million and \$72 million, respectively, of pre-tax charges opioid-related costs, primarily litigation expenses.

McKESSEON CORPORATION
FINANCIAL REVIEW
(UNAUDITED)

Item 2. 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 condensed consolidated financial statements and accompanying financial notes in Item 1 of Part I of this Quarterly Report on Form 10-Q and in Item 8 of Part II of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020 previously filed with the Securities and Exchange Commission on May 22, 2020 (“2020 Annual Report”).

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 “*Cautionary Notice About Forward-Looking Statements*” included in this Quarterly Report on Form 10-Q.

Overview of Our Business:

We are a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions. 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 implemented a new segment reporting structure commencing in the second quarter of 2021, which resulted in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and Prescription Technology Solutions (“RxTS”). Other, for retrospective periods presented, consists of our equity method investment in Change Healthcare LLC (“Change Healthcare JV”), which was split-off from McKesson in the fourth quarter of 2020. All prior segment information has been recast to reflect our new segment structure and current period presentation. 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 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.

The following summarizes our four reportable segments and the changes made to our reporting structure commencing in the second quarter of 2021. Refer to Financial Note 15, “Segments of Business,” in the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding our reportable segments.

- **U.S. Pharmaceutical**, previously the U.S. Pharmaceutical and Specialty Solutions reportable segment, continues to distribute branded, generic, specialty, biosimilar, and over-the-counter pharmaceutical drugs and other healthcare-related products. This segment also provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices.
- **International** is a new reportable segment that includes our operations in Europe and Canada, bringing together non-U.S.-based drug distribution services, specialty pharmacy, retail, and infusion care services. McKesson Europe was previously reflected as the European Pharmaceutical Solutions reportable segment and McKesson Canada was previously included in Other.
- **Medical-Surgical Solutions** provides medical-surgical supply distribution, logistics, and other services to healthcare providers in the United States and was unaffected by the segment realignment.
- **RxTS** is a new reportable segment that brings together existing businesses, including CoverMyMeds, RelayHealth, RxCrossroads, and High Volume Solutions to serve our biopharma and life sciences partners and patients. RxCrossroads was previously included in our former U.S. Pharmaceutical and Specialty Solutions reportable segment and CoverMyMeds, RelayHealth, and High Volume Solutions were previously included in Other.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Executive Summary:

The following summary provides highlights and key factors that impacted our business, operating results, financial condition, and liquidity for the three and six months ended September 30, 2020.

- Coronavirus disease 2019 (“COVID-19”) impacted our results of operations for the three and six months ended September 30, 2020. Following the onset of the pandemic, pharmaceutical distribution volumes decreased during the first quarter as a result of the weakened and uncertain global economic environment and COVID-19 restrictions, including government shutdowns and shelter-in-place orders. While the COVID-19 pandemic continues to be fluid, we saw pharmaceutical distribution volumes begin to improve across our businesses during the second quarter as well as an increase in demand for COVID-19 tests;
- During the second quarter of 2021, we expanded our existing partnership with the Centers for Disease Control and Prevention (“CDC”) to support the U.S. government’s Operation Warp Speed (“OWS”) team as a centralized distributor of future COVID-19 vaccines and ancillary supplies needed to administer vaccinations. We have also partnered with the Department of Health and Human Services (“HHS”) to manage the assembly and distribution of the ancillary supplies needed to administer the future COVID-19 vaccines. For a more in-depth discussion of how COVID-19 impacted our business, operations, and outlook, refer to the COVID-19 section of *“Trends and Uncertainties”* included below;
- Revenues of \$60.8 billion for the three months ended September 30, 2020 increased 6% from the prior year, and revenues of \$116.5 billion for the six months ended September 30, 2020 increased 3% from the prior year. The increase in revenues is primarily driven by market growth in our U.S. Pharmaceutical segment. Revenues for the six months ended September 30, 2020 also includes adverse impacts from COVID-19, primarily due to pharmaceutical distribution volume declines across our businesses largely during the first quarter of 2021.
- Gross profit increased 5% for the three months ended September 30, 2020 compared to the prior year primarily driven by sales of COVID-19 tests in our Medical-Surgical Solutions segment and growth in our U.S. Pharmaceutical segment. Gross profit increased 1% for the six months ended September 30, 2020 compared to the prior year primarily due to higher LIFO credits and growth in our U.S. Pharmaceutical segment, partially offset by the net adverse impacts of COVID-19;
- Total operating expenses for the three and six months ended September 30, 2020 includes a goodwill impairment charge of \$69 million recorded in connection with our segment realignment that commenced in the second quarter of 2021. Refer to the *“Goodwill Impairment”* section below for further details;
- Total operating expenses for the three and six months ended September 30, 2020 reflects a charge of \$50 million related to our estimated liability under the State of New York’s Opioid Stewardship Act (the “OSA”). Refer to the State Opioid Statutes section of *“Trends and Uncertainties”* below for further details;
- Total operating expenses for the six months ended September 30, 2020 includes a net gain of \$131 million recorded in connection with insurance proceeds received from the settlement of the shareholder derivative action related to our controlled substances monitoring program;
- Diluted earnings per common share from continuing operations attributable to McKesson Corporation for the three and six months ended September 30, 2020 of \$3.54 and \$6.26, respectively, reflects the aforementioned items, a lower tax rate, and a lower share count compared to the prior year driven largely by the separation of our investment in Change Healthcare JV on March 10, 2020;
- We returned \$388 million of cash to shareholders through \$248 million of common stock repurchases, excluding shares surrendered for tax withholding, and \$140 million of dividend payments during the six months ended September 30, 2020. On July 29, 2020, we raised our quarterly dividend from \$0.41 to \$0.42 per common share; and
- On November 1, 2020, we completed the contribution of our German pharmaceutical wholesale business to a newly formed joint venture with Walgreens Boots Alliance and the subsequent purchase of a 30% interest in this joint venture. Future equity earnings and charges from the joint venture will be included in other income (expense), net.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
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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 has on our business and operations. The pandemic developed rapidly during our fourth quarter of 2020 and continues to evolve. Infection rates and COVID-19 cases have increased to higher levels throughout our first two quarters of 2021, particularly in the United States (“U.S.”). The full extent to which COVID-19 will impact us depends on future developments, including the continued duration and spread of the virus, as well as potential new outbreaks.

In response to the COVID-19 pandemic, federal, state, and local government directives and policies have been put in place in the U.S. 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 emergency. Similar governmental actions have occurred in Canada and Europe, the timing of which has varied across geographies.

As a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions, we are well positioned to respond to the COVID-19 pandemic in the U.S., Canada, and Europe. We have worked and continue to work closely with national and local governments, agencies, and industry partners to ensure supplies, including personal protective equipment, and medicine reached our customers and patients.

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. We expanded employee medical benefits covering COVID-19 related visits, treatments, and testing as well as expanded telehealth options to not only protect employee safety, but to provide further support including additional emergency leave and an internal paid time off donation platform for employees impacted by COVID-19. We have taken steps to enhance employee safety within our facilities by promoting the practice of social distancing where feasible, providing reminders to wash or disinfect their hands, avoiding unnecessary face touching, placing hand sanitizers within our operating environments, and periodically cleaning and disinfecting our facilities. We have also added technology resources to support our employees working remotely. These responses were initially put in place during our fourth quarter of 2020, which we maintained through the first half of 2021. During the second quarter of 2021, we also implemented on-site workplace temperature screening as we continue to adapt our health and safety practices in response to the COVID-19 pandemic. These steps to protect the safety of our employees have resulted in limited disruption of our normal business operations, productivity trends, and have not materially impacted our operating expenses or operating margins.

We have evaluated the impact of our telecommuting and work-from-home policies on our system of internal controls and we have concluded that these policies did not have a material effect on our internal control over financial reporting during the six months ended September 30, 2020. We also took various actions to mitigate the impact of COVID-19 on our results from operations through cost-containment and payroll-related expenses.

During the first quarter, we experienced growth in pharmaceutical distribution and specialty drug volumes at a lower rate in the U.S., while pharmaceutical distribution volumes decreased in Europe and Canada due to the COVID-19 pandemic, as compared to the same prior year period. Specialty drug volumes increased, but were negatively impacted by lower demand for elective specialty drugs, as compared to the same prior year period. We also experienced continued decreased demand for primary care medical-surgical supplies due to deferrals in elective procedures in hospitals and surgery centers as well as decreased traffic and closures in doctors’ offices, which was partially offset by increased demand for COVID-19 tests and personal protective equipment. Additionally, the decreased traffic in doctors’ offices and general shelter-in-place guidance by governmental authorities negatively impacted retail pharmacy foot traffic in both Europe and Canada. These trends improved during the second quarter as we experienced stabilization of prescription volumes across the enterprise and improved frequency of primary care patient visits. Additionally, we saw improvements in both operations of doctor’s offices and retail pharmacy foot traffic in Europe and Canada as well as continued sales of personal protective equipment and increased demand for COVID-19 tests.

McKESSON CORPORATION
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The demand for COVID-19 tests and personal protective equipment had a favorable impact to revenues for the three and six months ended September 30, 2020. However, during the first quarter, we had lower pharmaceutical volumes, specialty drug volumes, and patient care visits which had a negative impact on consolidated revenues for the six months ended September 30, 2020. During the three and six months ended September 30, 2020, operating expenses decreased as a result of the pandemic largely due to savings from restricted travel requirements, decreased meetings, and decreased payroll-related expenses. The favorable reduction in operating expenses was partially offset by increased costs of transport, costs for enhanced sterilization procedures to sanitize operating facilities, and costs of personal protective equipment for our employees. The aforementioned items had a favorable impact on consolidated income from continuing operations before income taxes for the three months ended September 30, 2020, but an unfavorable impact on the six months ended September 30, 2020, when compared to the same prior year periods. Additionally, supplier price increases on certain personal protective equipment continue to compress our margins. These personal protective equipment items have been recognized within our inventory at increased supplier prices, which, if not supported by future market prices, would require a write-down to net realizable value. While we have not recognized a material write-down of inventory in our financial results to date, we are not able to predict whether future market price volatility may require such write-downs in future periods. Impacts to future periods due to COVID-19 may differ based on future developments, including the duration and spread of the virus, potential seasonality of new outbreaks, as well as the approval and subsequent distribution of a vaccine.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) to address the economic impact of the COVID-19 pandemic. Among other things, the CARES Act provides certain changes to tax laws and includes provisions to provide relief for healthcare providers and patients. We have taken advantage of the provision to defer certain employer payroll taxes and continue to monitor the potential impact of other tax legislation changes as result of the CARES Act. We anticipate changes in the timing of certain cash flows, with no material impact to our financial results for the three and six months ending September 30, 2020.

On August 14, 2020, we expanded our partnership with the CDC through an amendment to our existing Vaccines for Children Program contract for the distribution of certain COVID-19 vaccines. While the terms of the final vaccine distribution agreement are subject to further negotiation and finalization, we will support the U.S. government’s OWS team as a centralized distributor of future COVID-19 vaccines and ancillary supplies needed to administer vaccinations. In the centralized model, the U.S. government directs us on the distribution of the vaccines and related supplies to point-of-care sites across the country. We make no decisions on where products are to be distributed. We will utilize our expertise and capabilities to support the CDC’s efforts to vaccinate everyone in the U.S. who wants to receive a COVID-19 vaccine. The CDC and McKesson collaborated similarly in response to the H1N1 pandemic. The related results of operations in future periods will be reflected in our U.S. Pharmaceutical segment. During the second quarter of 2021 we commenced initial capital expenditures to prepare for future vaccine distribution which were not material to our financial condition or liquidity. We currently cannot estimate the entire financial impact that the vaccine distribution agreement with the CDC will have on our future financial condition, results of operations, and liquidity.

On September 23, 2020, we announced our contract with the HHS where our Medical-Surgical Solutions segment will leverage its expertise to manage the assembly of supply kits needed to administer COVID-19 vaccines, including sourcing of some of those supplies. The kits will be produced and distributed to other HHS contractors at the direction of HHS. Ancillary supply kits will include alcohol prep pads, face shields, surgical masks, additional personal protective equipment, needles and syringes, and vaccine administrative items. The financial impact of these arrangements with the CDC and HHS depend on numerous uncertainties, including timing of when a vaccine will be approved and made available for production and distribution to the public.

Our condensed 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. We believe we have the ability to meet the covenants of our credit agreements.

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We continue to monitor the COVID-19 pandemic impact on our supply chain. 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 are also working with manufacturers through several channels, including our ClarusONE and global sourcing teams in London, and our leaders are actively engaged in addressing potential shortages. 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 to support our priorities to protect our customers, ensure the safety and security of our employees and workplaces, and ensure the continuity of critical business processes.

We were able to maintain appropriate labor and overall vendor supply levels during the first half of 2021. Our inventory levels have fluctuated in response to supply availability and customer demand patterns for certain products, with varying inventory level impacts depending on the specific product within our portfolio of offerings. We collaborated closely with the federal government and other healthcare stakeholders to source more critical personal protective equipment to the U.S. This collaboration expedited the shipment of critical medical supplies to areas hit hardest by COVID-19, as identified by the Federal Emergency Management Agency. We are closely monitoring demand and usage of personal protective equipment. As our supply levels improve, and the federal government evolves guidance on the prioritization of providers or geographic markets, we will continue to adapt our distribution policies.

We face numerous uncertainties in estimating the direct and indirect effects of COVID-19 on our future business operations, financial condition, results of operations, and liquidity. Additionally, continued 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, estimations of future economic trends and the timing of when stability will return remains challenging. Refer to Item 1A - Risk Factors in Part I of our 2020 Annual Report and Item 1A - Risk Factors in Part II of this Quarterly Report on Form 10-Q for a disclosure of risk factors related to COVID-19.

Opioid-Related Litigation and Claims

We are a defendant in over 3,100 legal proceedings asserting claims related to distribution of controlled substances (opioids) in federal and state courts throughout the U.S., 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 13, “Commitments and Contingent Liabilities,” to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

State Opioid Statutes

Legislative, regulatory, or industry measures to address the misuse of prescription opioid medications could affect our business in ways that we may not be able to predict. In April 2018, the State of New York adopted the OSA which required the imposition of an annual surcharge on all manufacturers and distributors licensed to sell or distribute opioids in New York. On December 19, 2018, the U.S. District Court for the Southern District of New York found the law unconstitutional and issued an injunction preventing the State of New York from enforcing the law. The State of New York appealed to the U.S. Court of Appeals to the Second Circuit. The State of New York has subsequently adopted an excise tax on sales of opioids in the State, which became effective July 1, 2019. The law adopting the excise tax made clear that the OSA would apply only to opioid sales on or before December 31, 2018. The excise tax applies only to the first sale occurring in New York, and thus may not apply to sales from our distribution centers in New York to New York customers.

McKESSON CORPORATION
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On September 14, 2020, a panel of the U.S. Court of Appeals for the Second Circuit reversed the district court's decision on procedural grounds. If the appellate court's decision stands, the OSA will be reinstated for calendar years 2017 and 2018 (but not beyond those years), and, subject to any further legal challenge, we will have to pay our ratable share of the annual surcharge for those two years. We reflected an estimated liability for the OSA surcharge in our accompanying condensed consolidated financial statements on the assumption that the appellate court's decision will stand. Refer to Financial Note 13, "Commitments and Contingent Liabilities," to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

RESULTS OF OPERATIONS

Overview of Consolidated Results:

	Three Months Ended September 30,			Six Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
<i>(In millions, except per share data)</i>						
Revenues	\$ 60,808	\$ 57,616	6 %	\$ 116,487	\$ 113,344	3 %
Gross profit	3,000	2,867	5	5,700	5,654	1
Gross profit margin	4.93 %	4.98 %	(5) bp	4.89 %	4.99 %	(10) bp
Total operating expenses	(2,366)	(2,241)	6	(4,388)	(4,394)	—
Total operating expenses as a percentage of revenues	3.89 %	3.89 %	— bp	3.77 %	3.88 %	(11) bp
Other income (expense), net	\$ 71	\$ (78)	191 %	\$ 98	\$ (41)	339 %
Equity earnings and charges from investment in Change Healthcare Joint Venture	—	(1,454)	(100)	—	(1,450)	(100)
Interest expense	(50)	(64)	(22)	(110)	(120)	(8)
Income (loss) from continuing operations before income taxes	655	(970)	168	1,300	(351)	470
Income tax benefit (expense)	(28)	294	(110)	(178)	158	(213)
Income (loss) from continuing operations	627	(676)	193	1,122	(193)	681
Loss from discontinued operations, net of tax	—	(1)	(100)	(1)	(7)	(86)
Net income (loss)	627	(677)	193	1,121	(200)	661
Net income attributable to noncontrolling interests	(50)	(53)	(6)	(100)	(107)	(7)
Net income (loss) attributable to McKesson Corporation	\$ 577	\$ (730)	179 %	\$ 1,021	\$ (307)	433 %
Diluted earnings (loss) per common share attributable to McKesson Corporation						
Continuing operations	\$ 3.54	\$ (3.99)	189 %	\$ 6.26	\$ (1.62)	486 %
Discontinued operations	—	—	NM	—	(0.03)	(100)
Total	\$ 3.54	\$ (3.99)	189 %	\$ 6.26	\$ (1.65)	479 %
Weighted-average diluted common shares outstanding	163	183	(11) %	163	185	(12) %

bp - basis points

NM - computation not meaningful

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Revenues

Revenues increased for the three and six months ended September 30, 2020 compared to the same prior year periods primarily due to market growth in our U.S. Pharmaceutical segment. Revenues were unfavorably impacted for the six months ended September 30, 2020 due to reduced customer demand as a result of COVID-19, which drove declines in pharmaceutical distribution volumes across our businesses largely during the first quarter of 2021. Market growth includes growing drug utilization, price increases and newly launched products, partially offset by price deflation associated with branded to generic drug conversion.

Gross Profit

Gross profit increased for the three months ended September 30, 2020 compared to the same prior year period primarily due to increased demand for COVID-19 tests in our Medical-Surgical Solutions segment and growth of specialty pharmaceuticals in our U.S. Pharmaceutical segment. Gross profit and gross profit margin were favorably impacted by the effects of foreign currency exchange fluctuations and higher last-in, first-out (“LIFO”) credits in the second quarter of 2021, as further described below.

Gross profit increased for the six months ended September 30, 2020 compared to the same prior year period primarily due to higher LIFO credits for the first half of 2021 compared to the same prior year period and growth of specialty pharmaceuticals in our U.S. Pharmaceutical segment. Gross profit and gross profit margin were adversely impacted from COVID-19 largely during the first quarter of 2021, including disruptions of doctors’ office operations, deferred or cancelled elective procedures, lower demand for pharmaceuticals, and overall reduction of foot traffic in pharmacies, partially offset by demand for COVID-19 tests and personal protective equipment.

LIFO inventory credits were \$52 million and \$33 million for the three months ended September 30, 2020 and 2019, respectively, and \$104 million and \$48 million for the six months ended September 30, 2020 and 2019, respectively, which favorably impacted our gross profit margin both in the second quarter and first half of 2021 compared to the same prior year periods. Our U.S. Pharmaceutical business uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The business’ practice is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price related inventory losses. A LIFO expense 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. Our quarterly LIFO credit is based on our estimates of the annual LIFO credit which is impacted by expected changes in year-end inventory quantities, product mix, and manufacturer pricing practices, which may be influenced by market and other external influences. Changes to any of the above factors could have a material impact to our annual LIFO credit. The actual valuation of inventory under the LIFO method is calculated at the end of the fiscal year. LIFO credits are higher in the second quarter and first half of 2021 compared to the same prior year periods primarily due to relatively lower estimated brand inflation and higher generic deflation.

Total Operating Expenses

A summary of the components of our total operating expenses for the three and six months ended September 30, 2020 and 2019 is as follows:

	Three Months Ended September 30,			Six Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
<i>(Dollars in millions)</i>						
Operating expenses	\$ 2,237	\$ 2,196	2 %	\$ 4,203	\$ 4,326	(3) %
Goodwill impairment charges	69	—	NM	69	—	NM
Restructuring, impairment, and related charges	60	45	33	116	68	71
Total operating expenses	\$ 2,366	\$ 2,241	6 %	\$ 4,388	\$ 4,394	- %
Percent of revenues	3.89 %	3.89 %	— bp	3.77 %	3.88 %	(11) bp

bp - basis points

NM - computation not meaningful

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
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For the three months ended September 30, 2020, total operating expenses increased and total operating expenses as a percentage of revenues remained flat compared to the same prior year period. For the six months ended September 30, 2020, total operating expenses remained flat and total operating expenses as a percentage of revenues decreased compared to the same prior year period. Total operating expenses were impacted by the following significant items:

- Operating expenses for the three and six months ended September 30, 2020 includes a charge of \$50 million related to our estimated liability under the OSA as previously discussed in the “*Trends and Uncertainties*” section;
- Operating expenses for the three months ended September 30, 2020 and 2019 includes opioid-related expenses of \$41 million and \$36 million, respectively, and \$84 million and \$72 million for the six months ended September 30, 2020 and 2019, respectively, primarily related to litigation expenses;
- Operating expenses for the six months ended September 30, 2020 includes a net gain of \$131 million reflecting insurance proceeds received, net of attorneys' fees and expenses awarded to plaintiffs' counsel, in connection with the previously reported \$175 million settlement of the shareholder derivative action related to our controlled substances monitoring program;
- Operating expenses for three and six months ended September 30, 2019 includes a settlement charge of \$82 million recorded in connection with an agreement to settle all opioid-related claims filed by two Ohio counties;
- Operating expenses for the three and six months ended September 30, 2020 reflects cost savings of \$20 million and \$52 million, respectively, on travel and entertainment due to travel restrictions associated with COVID-19;
- Operating expenses for the three and six months ended September 30, 2020 when compared to the same prior year periods includes higher corporate expenses and increased costs to support business growth, particularly in our Medical-Surgical Solutions and RxTS segments.
- Goodwill impairment charges of \$69 million for the three and six months ended September 30, 2020 was recorded in connection with our segment realignment that commenced in the second quarter of 2021. Refer to the “*Goodwill Impairment*” section below for further details;
- Restructuring, impairment, and related charges for three and six months ended September 30, 2020 and 2019 primarily includes charges related to our European businesses and Corporate expenses, net. In addition, charges related to restructuring initiatives are included under the caption “Cost of sales” in our Condensed Consolidated Statements of Operations and were not material for the three and six months ended September 30, 2020 and 2019. Refer to the “*Restructuring Initiatives*” section below and Financial Note 4, “Restructuring, Impairment, and Related Charges,” to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information; and
- Total operating expenses were unfavorably impacted by foreign currency exchange fluctuations for the three and six months ended September 30, 2020.

Goodwill Impairment

As previously disclosed in our 2020 Annual Report, the estimated fair value of our McKesson Canada reporting unit exceeded the carrying value as part of our 2020 annual goodwill impairment test. However, 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 within our International segment, where the risk of a material goodwill impairment is higher than other reporting units.

As discussed in the “*Overview of Our Business*” section, our operating structure was realigned commencing in the second quarter of 2021 into four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and RxTS. These reportable segments encompass all operating segments of the Company.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
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The segment realignment resulted in changes in multiple reporting units across the Company, as previously disclosed in the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2020. As a result, we were required to perform a goodwill impairment test for these reporting units and recorded a goodwill impairment charge in our Europe Retail Pharmacy reporting unit of \$69 million for the three and six months ended September 30, 2020. At September 30, 2020, the Europe Retail Pharmacy reporting unit had no remaining balance of goodwill. These reporting units are included within the International reportable segment. Other risks, expenses and future developments that we were unable to anticipate as of the testing date may require us to further revise the future projected cash flows, which could adversely affect the fair value of our reporting units in future periods. As a result, we may be required to record additional impairment charges. Refer to Financial Note 8, "Goodwill and Intangible Assets, Net" to the accompanying condensed financial statements appearing in this Quarterly Report on Form 10-Q.

Restructuring Initiatives

During the first quarter of 2021, we committed to an initiative within the United Kingdom ("U.K."), which forms part of the International segment, to further drive transformational changes in technologies and business processes, operational efficiencies, and cost savings. The initiative includes reducing the number of retail pharmacy stores, decommissioning obsolete technologies and processes, reorganizing and consolidating certain business operations, and related headcount reductions. The initiative is expected to be substantially completed by the end of 2021.

In 2019, we committed to certain programs to continue our operating model and cost optimization efforts. We continue 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. We anticipate these additional programs will be substantially completed in 2022.

Additionally, we committed to certain actions in connection with the previously announced relocation of our corporate headquarters from San Francisco, California to Irving, Texas, which became effective April 1, 2019. We anticipate that the relocation will be completed by January 2021.

In connection with the above initiatives, we expect to record total charges of approximately \$490 million to \$565 million, of which \$402 million of charges were recorded to date primarily representing employee severance, exit-related costs, asset impairment charges, and accelerated depreciation. Estimated remaining charges primarily consist of accelerated amortization and impairments of long-lived assets, facility, lease, and other exit costs and employee-related costs. Refer to Financial Note 4, "Restructuring, Impairment, and Related Charges," to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information on various initiatives.

Other Income (Expense), Net

The change in other income, net for the three and six months ended September 30, 2020 compared to other expense, net for the same prior year periods was primarily due to pension settlement charges of \$105 million and \$122 million recognized during the three and six months ended September 30, 2019, respectively, related to our previously approved termination of the frozen U.S. defined benefit pension plan. 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 three and six months ended September 30, 2020 also includes net gains recognized from our equity investments of \$49 million and \$59 million, respectively. This primarily reflects mark-to-market gains on our investments in publicly traded securities as further described in Financial Note 12, "Fair Value Measurements," to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. In future periods, fair value adjustments recognized in our operating results for these types of investments may be adversely impacted by market volatility. Other expense, net for the six months ended September 30, 2019 includes net settlement gains of \$26 million from our derivative contracts.

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Equity Earnings and Charges from Investment in Change Healthcare Joint Venture

Until the separation of our investment in Change Healthcare JV on March 10, 2020, we accounted for this investment using the equity method of accounting. Our proportionate share of income from our investment in Change Healthcare JV was \$51 million and \$47 million for the three and six months ended September 30, 2019, respectively, 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.

On June 27, 2019, common stock and certain other securities of Change Healthcare, Inc. (“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 from 70% to approximately 58.5%, which was used to recognize our proportionate share in net loss from Change Healthcare JV, commencing in 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 other-than-temporary-impairment (“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 condensed consolidated statements of operations for the three and six months ended September 30, 2019.

The March 10, 2020 split-off transaction eliminated our investment in the joint venture. During the fourth quarter of 2020 in conjunction with the split-off transaction, we recorded a reversal of the deferred tax liability related to our investment. Under the agreement with Change Healthcare JV, McKesson, Change, and certain subsidiaries of the Change Healthcare JV, there may be changes in future periods to the amount reversed. Any such change is not expected to be material.

After the separation, Change Healthcare JV is required under the tax receivable agreement (“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 accounted for the TRA as a gain contingency, with no receivable recognized as of September 30, 2020.

Interest Expense

Interest expense decreased for the three and six months ended September 30, 2020 compared to the same prior year periods primarily due to a decrease in the issuance of commercial paper. Interest expense may also fluctuate 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 Benefit (Expense)

During the three months ended September 30, 2020 and 2019, we recorded income tax expense of \$28 million and income tax benefit of \$294 million, respectively, related to continuing operations. During the six months ended September 30, 2020 and 2019, we recorded income tax expense of \$178 million and income tax benefit of \$158 million, respectively, related to continuing operations. Our reported income tax rates were 4.3% and 30.3% for the three months ended September 30, 2020 and 2019, respectively, and 13.7% and 45.0% for the six months ended September 30, 2020 and 2019, respectively. Fluctuations in our reported income tax rates are primarily due to changes within our business mix of income and discrete items recognized. Refer to Financial Note 5, “Income Taxes,” to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

McKESSEON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the three and six months ended September 30, 2020 and 2019 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 McKesson Corporation stockholders’ equity on our condensed consolidated balance sheets. Refer to Financial Note 6, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

Net Income (Loss) Attributable to McKesson Corporation

Net income (loss) attributable to McKesson Corporation was \$577 million and \$(730) million for the three months ended September 30, 2020 and 2019, respectively, and \$1.0 billion and \$(307) million for the six months ended September 30, 2020 and 2019, respectively. Diluted earnings (loss) per common share attributable to McKesson Corporation was \$3.54 and \$(3.99) for the three months ended September 30, 2020 and 2019, respectively, and \$6.26 and \$(1.65) for the six months ended September 30, 2020 and 2019, respectively. Additionally, our diluted earnings per share for the for the three and six months ended September 30, 2020 and 2019 reflects the cumulative effects of share repurchases.

Weighted-Average Diluted Common Shares

Diluted earnings (loss) per common share was calculated based on a weighted-average number of shares outstanding of 163 million and 183 million for the three months ended September 30, 2020 and 2019, respectively, and 163 million and 185 million for the six months ended September 30, 2020 and 2019, respectively. Net loss per diluted share for the three and six months ended September 30, 2019 is calculated by excluding dilutive securities from the denominator due to their antidilutive effects. Weighted-average diluted shares for three and six months ended September 30, 2020 decreased from the same prior year periods primarily due to the separation from our investment in Change Healthcare JV on March 10, 2020.

Overview of Segment Results:

Segment Revenues:

<i>(Dollars in millions)</i>	Three Months Ended September 30,			Six Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Segment revenues						
U.S. Pharmaceutical	\$ 48,067	\$ 45,613	5 %	\$ 92,737	\$ 89,402	4 %
International	9,540	9,321	2	18,092	18,728	(3)
Medical-Surgical Solutions	2,533	2,056	23	4,334	3,959	9
Prescription Technology Solutions	668	626	7	1,324	1,255	5
Total revenues	\$ 60,808	\$ 57,616	6 %	\$ 116,487	\$ 113,344	3 %

U.S. Pharmaceutical

Three Months Ended September 30, 2020 vs. 2019

U.S. Pharmaceutical revenues for the three months ended September 30, 2020 increased 5% compared to the same prior year period primarily due to market growth, including branded pharmaceutical price increases, growth in specialty pharmaceuticals, and higher volumes from retail national account customers, partially offset by branded to generic drug conversions.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Six Months Ended September 30, 2020 vs. 2019

U.S. Pharmaceutical revenues for the six months ended September 30, 2020 increased 4% compared to the same prior year period primarily due to market growth, including branded pharmaceutical price increases, growth in specialty pharmaceuticals, and higher volumes from retail national account customers, partially offset by branded to generic drug conversions. Revenues for this segment were unfavorably impacted by the loss of customers and reduced demand for pharmaceuticals in retail pharmacies and institutional healthcare providers due to COVID-19, particularly during the first quarter of 2021.

International

Three Months Ended September 30, 2020 vs. 2019

International revenues for the three months ended September 30, 2020 increased 2% compared to the same prior year period. Excluding the favorable effects of foreign currency exchange fluctuations, revenues for this segment decreased 1% primarily due to the exit of unprofitable customers in our Canadian business, partially offset by one additional sales day this quarter in our European pharmaceutical distribution business compared to the same prior year period and market growth in our European retail business.

Six Months Ended September 30, 2020 vs. 2019

International revenues for the six months ended September 30, 2020 decreased 3% compared to the same prior year period. Excluding the favorable effects of foreign currency exchange fluctuations, revenues for this segment decreased 4% primarily due to lower pharmaceutical distribution volumes resulting from the adverse impacts from COVID-19 largely during the first quarter of 2021 and the exit of unprofitable customers in our Canadian business. These decreases were partially offset by favorability due to additional sales days for the six months ended September 30, 2020 compared to the same prior year period in our European operations.

Medical-Surgical Solutions

Three Months Ended September 30, 2020 vs. 2019

Medical-Surgical Solutions revenues for the three months ended September 30, 2020 increased 23% compared to the same prior year period primarily due to sales of COVID-19 tests and personal protective equipment, as well as organic growth across the segment. Revenues for this segment were unfavorably impacted by a divestiture that closed during the fourth quarter of 2020.

Six Months Ended September 30, 2020 vs. 2019

Medical-Surgical Solutions revenues for the six months ended September 30, 2020 increased 9% compared to the same prior year period primarily due to sales of COVID-19 tests and personal protective equipment, partially offset by lower demand due to customer closures in our primary care business largely during the first quarter of 2021. Revenues for this segment were unfavorably impacted by a divestiture that closed during the fourth quarter of 2020.

Prescription Technology Solutions

Three Months Ended September 30, 2020 vs. 2019

RxTS revenues for the three months ended September 30, 2020 increased 7% compared to the same prior year period primarily driven by increased volume with new and existing customers, partially offset by a change in mix of certain biopharma brands within our programs.

Six Months Ended September 30, 2020 vs. 2019

RxTS revenues for the six months ended September 30, 2020 increased 5% compared to the same prior year period primarily driven by increased volume with new and existing customers. This was partially offset by the adverse impacts of COVID-19 largely during the first quarter of 2021.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Segment Operating Profit (Loss) and Corporate Expenses, Net:

(Dollars in millions)	Three Months Ended September 30,			Six Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Segment operating profit (loss) ⁽¹⁾						
U.S. Pharmaceutical ⁽²⁾	\$ 623	\$ 641	(3) %	\$ 1,236	\$ 1,217	2 %
International ⁽³⁾	(45)	30	(250)	(42)	61	(169)
Medical-Surgical Solutions	187	129	45	276	254	9
Prescription Technology Solutions	88	98	(10)	156	198	(21)
Other ⁽⁴⁾	—	(1,454)	(100)	—	(1,450)	(100)
Subtotal	853	(556)	253	1,626	280	481
Corporate expenses, net ⁽⁵⁾	(148)	(350)	(58)	(216)	(511)	(58)
Interest expense	(50)	(64)	(22)	(110)	(120)	(8)
Income (loss) from continuing operations before income taxes	\$ 655	\$ (970)	168 %	\$ 1,300	\$ (351)	470 %
Segment operating profit (loss) margin						
U.S. Pharmaceutical	1.30 %	1.41 %	(11) bp	1.33 %	1.36 %	(3) bp
International	(0.47)	0.32	(79)	(0.23)	0.33	(56)
Medical-Surgical Solutions	7.38	6.27	111	6.37	6.42	(5)
Prescription Technology Solutions	13.17	15.65	(248)	11.78	15.78	(400)

bp - basis points

- (1) Segment operating profit (loss) includes gross profit, net of operating expenses, as well as other income (expense), net, for our reportable segments. For retrospective periods presented, operating loss for Other reflects equity earnings and charges from our equity method investment in Change Healthcare JV, which we split-off in the fourth quarter of 2020.
- (2) Operating profit for our U.S. Pharmaceutical segment includes a charge of \$50 million for the three and six months ended September 30, 2020 related to our estimated liability under the OSA.
- (3) Operating loss for our International segment includes restructuring, impairment, and related charges of \$35 million and \$58 million for the three and six months ended September 30, 2020, respectively, associated with the closure of retail pharmacy stores within the U.K. business and a goodwill impairment charge of \$69 million for the three and six months ended September 30, 2020 related to our European retail business.
- (4) Operating loss for Other for the three and six months ended September 30, 2019 includes an impairment charge of \$1.2 billion and a dilution loss of \$246 million related to our investment in Change Healthcare JV.
- (5) Corporate expenses, net for the three and six months ended September 30, 2020 includes net gains from our equity investments of \$49 million and \$59 million, respectively. Corporate expenses, net for the six months ended September 30, 2020 also includes a net gain of \$131 million recorded in connection with insurance proceeds received from the settlement of the shareholder derivative action related to our controlled substances monitoring program. Corporate expenses, net for the three and six months ended September 30, 2019 includes pension settlement charges of \$105 million and \$122 million, respectively, and a settlement charge of \$82 million related to opioid claims.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

U.S. PharmaceuticalThree Months Ended September 30, 2020 vs. 2019

Operating profit and operating profit margin decreased for this segment for the three months ended September 30, 2020 compared to the same prior year period primarily due to a charge of \$50 million recorded during the second quarter of 2021 related to our estimated liability under the OSA and increased costs for strategic growth initiatives. This was partially offset by higher LIFO credits and growth in specialty pharmaceuticals.

Six Months Ended September 30, 2020 vs. 2019

Operating profit increased for this segment for the six months ended September 30, 2020 compared to the same prior year period primarily resulting from higher LIFO credits and growth in specialty pharmaceuticals, partially offset by increased costs for strategic growth initiatives. Additionally, the aforementioned OSA charge of \$50 million adversely impacted our operating profit and operating profit margin for the six months ended September 30, 2020.

InternationalThree Months Ended September 30, 2020 vs. 2019

The change in operating loss and operating loss margin for this segment for the three months ended September 30, 2020 compared to operating profit and operating profit margin for the same prior year period was primarily due to a goodwill impairment charge of \$69 million related to our European retail business and higher restructuring charges related to our initiative in the U.K., partially offset by lower operating expenses across our European businesses.

Six Months Ended September 30, 2020 vs. 2019

The change in operating loss and operating loss margin for this segment for the six months ended September 30, 2020 compared to operating profit and operating profit margin for the same prior year period was primarily due to a goodwill impairment charge of \$69 million related to our European retail business and higher restructuring charges related to our initiative in the U.K., partially offset by lower operating expenses across our European businesses.

Medical-Surgical SolutionsThree Months Ended September 30, 2020 vs. 2019

Operating profit and operating profit margin for this segment increased for the three months ended September 30, 2020 compared to the same prior year period primarily due to sales of COVID-19 tests.

Six Months Ended September 30, 2020 vs. 2019

Operating profit for this segment increased for the six months ended September 30, 2020 compared to the same prior year period primarily due to sales of COVID-19 tests and personal protective equipment, partially offset by customer closures in our primary care business largely during the first quarter of 2021. Operating profit margin for the six months ended September 30, 2020 was also negatively impacted by supplier price increases on personal protective equipment and changes in our product mix.

Prescription Technology SolutionsThree Months Ended September 30, 2020 vs. 2019

Operating profit and operating profit margin for this segment decreased for the three months ended September 30, 2020 compared to the same prior year period primarily driven by higher operating expenses to support business growth. Operating profit margin for this segment also decreased due to changes in our product mix.

Six Months Ended September 30, 2020 vs. 2019

Operating profit and operating profit margin for this segment decreased for the six months ended September 30, 2020 compared to the same prior year period primarily due to higher operating expenses to support business growth. Operating profit margin for this segment also decreased due to changes in our product mix.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Other

Operating loss for Other for the three and six months ended September 30, 2019 includes an impairment charge of \$1.2 billion and a dilution loss of \$246 million related to our investment in Change Healthcare JV. Operating loss for Other also includes our proportionate share of loss from Change Healthcare JV of \$51 million and \$47 million for the three and six months ended September 30, 2019, respectively.

Corporate Expenses, Net

Corporate expenses, net, decreased for the three and six months ended September 30, 2020 compared to the same prior year periods primarily due to pension settlement charges of \$105 million and \$122 million recognized during the three and six months ended September 30, 2019, respectively, and an opioid claim settlement charge of \$82 million recognized in the second quarter of 2020. Additionally, we recognized net gains from our equity investments of \$49 million and \$59 million during the three and six months ended September 30, 2020, respectively, and a net gain of \$131 million during the six months ended September 30, 2020 in connection with insurance proceeds received from the settlement of the shareholder derivative action related to our controlled substances monitoring program. Corporate expenses, net for the six months ended September 30, 2019 includes net settlement gains of \$26 million from our derivative contracts.

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 accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

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 the "Trends and Uncertainties" section 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. We have seen continued 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.

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

	Six Months Ended September 30,		
(Dollars in millions)	2020	2019	Change
Net cash provided by (used in):			
Operating activities	\$ (41)	\$ (159)	\$ 118
Investing activities	(278)	(285)	7
Financing activities	(401)	(1,203)	802
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(63)	22	(85)
Net change in cash, cash equivalents, and restricted cash	\$ (783)	\$ (1,625)	\$ 842

McKESSEON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Operating Activities

Operating activities used cash of \$41 million and \$159 million during the six months ended September 30, 2020 and 2019, respectively. Cash flows from operations can be significantly impacted by factors such as timing of receipts from customers, inventory receipts, and payments to vendors. Additionally, working capital is primarily a function of sale and purchase volumes, inventory requirements, and vendor payment terms. Operating activities for the six months ended September 30, 2020 were affected by increases in inventory of \$1.4 billion due to higher stock levels to meet sales demand, decreases in drafts and accounts payable of \$1.3 billion primarily from effective working capital management at year end, and decreases in receivables of \$981 million primarily due to higher sales recognized at the end of March 2020. Operating activities for the six months ended September 30, 2019 were affected by decreases in drafts and accounts payable of \$1.2 billion primarily associated with timing and increases in receivables of \$866 million due to revenue growth. Operating activities for the six months ended September 30, 2019 also includes a non-cash pension settlement charge of \$122 million.

Investing Activities

Investing activities used cash of \$278 million and \$285 million during the six months ended September 30, 2020 and 2019, respectively. Investing activities for the six months ended September 30, 2020 and 2019 includes \$265 million and \$184 million, respectively, in capital expenditures for property, plant, and equipment, and capitalized software.

Financing Activities

Financing activities used cash of \$401 million and \$1.2 billion during the six months ended September 30, 2020 and 2019, respectively. Financing activities for the six months ended September 30, 2020 includes cash receipts and payments of \$5.3 billion for short-term borrowings, primarily commercial paper. Financing activities for the six months ended September 30, 2019 includes cash receipts of \$8.7 billion and payments of \$8.1 billion for short-term borrowings, primarily commercial paper. Financing activities for the six months ended September 30, 2020 and 2019 includes \$272 million and \$1.5 billion, respectively, of cash paid for stock repurchases, including shares surrendered for tax withholding. Additionally, financing activities for the six months ended September 30, 2020 and 2019 includes \$140 million and \$148 million of cash paid for dividends, respectively. Cash used for other financing activities generally includes payments to noncontrolling interests. Other financing activities for the six months ended September 30, 2020 also includes restricted cash inflow related to funds temporarily held on behalf of unaffiliated medical practice groups and a payment of \$49 million to purchase shares of McKesson Europe through exercises of a put right option by noncontrolling shareholders.

Share Repurchase Plans

Our Board of Directors (the “Board”) has authorized the repurchase of McKesson’s common stock from time to time in open market transactions, privately negotiated transactions, accelerated share repurchase (“ASR”) programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. 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 May 2019, we entered into an ASR program with a third-party financial institution to repurchase \$600 million of the Company’s common stock. We repurchased a total of 4.7 million shares at an average price per share of \$127.68 during the six months ended September 30, 2019.

During the three months ended June 30, 2019, we repurchased 0.7 million of the Company’s shares for \$84 million through open market transactions at an average price per share of \$128.64. During the three months ended September 30, 2019, we repurchased 5.2 million of the Company’s shares for \$750 million through open market transactions at an average price per share of \$144.28.

During the three months ended June 30, 2020, there were no share repurchases made under previously authorized share repurchase programs. During the three months ended September 30, 2020, the Company repurchased 1.8 million of the Company’s shares for \$269 million through open market transactions at an average price per share of \$151.23, of which \$21 million was accrued within “Other accrued liabilities” on our Condensed Consolidated Balance Sheets for share repurchases that were executed in late September and settled in early October.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

The total authorization outstanding for repurchases of the Company's common stock was \$1.3 billion at September 30, 2020.

We believe that our future 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 an increase in volatility or disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing. As described within the *"Trends and Uncertainties"* section 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

<i>(Dollars in millions)</i>	September 30, 2020	March 31, 2020
Cash, cash equivalents, and restricted cash	\$ 3,240	\$ 4,023
Working capital	(379)	(402)
Debt to capital ratio ⁽¹⁾	50.4 %	52.1 %
Return on McKesson stockholders' equity ⁽²⁾	38.3	13.3

(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 loss.

(2) 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, 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 September 30, 2020 and March 31, 2020 included approximately \$1.6 billion and \$1.7 billion of cash held by our subsidiaries outside of the U.S., respectively. 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 U.S. 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 U.S. 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. Our businesses require substantial investments in working capital that are 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 improved at September 30, 2020 compared to March 31, 2020 primarily due to an increase in inventory and a decrease in drafts and accounts payable, partially offset by decreases in cash and cash equivalents and receivables and an increase in our current portion of long-term debt.

Our debt to capital ratio decreased for the six months ended September 30, 2020 primarily due to an increase in stockholders' equity driven by net income for the first half of 2021, partially offset by share repurchases.

On July 29, 2020, we raised our quarterly dividend from \$0.41 to \$0.42 per common share for dividends declared on or after such date by the Board. 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.

McKESSEON CORPORATION
FINANCIAL REVIEW (CONCLUDED)
(UNAUDITED)

At September 30, 2020 and March 31, 2020, the carrying value of redeemable noncontrolling interests related to McKesson Europe of \$1.3 billion and \$1.4 billion, respectively, 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. During the six months ended September 30, 2020, we paid \$49 million to purchase 1.8 million shares of McKesson Europe through exercises of the put right by the noncontrolling shareholders. 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 6, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information.

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 9, “Debt and Financing Activities,” to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Some of these statements can be identified by the use of terminology such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” or the negative of these words and other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date such statements were first made. We undertake no obligation to publicly release any updates or revisions to our 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 include factors described in the Risk Factors discussion in Item 1A of Part I of our most recent Annual Report on Form 10-K, as updated in Item 1A of Part II of this report. The reader should not consider that discussion to be a complete statement of all potential risks and uncertainties.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We believe there has been no material change in our exposure to risks associated with fluctuations in interest and foreign currency exchange rates as disclosed in our 2020 Annual Report.

Item 4. 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 Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this quarterly report, and our Chief Executive Officer and our Chief Financial Officer 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.

There were no changes in our "internal control over financial reporting" (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15 that occurred during the three months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**Item 1. Legal Proceedings.**

The information set forth in Financial Note 13, "Commitments and Contingent Liabilities," to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors.

Except as noted below, there have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors disclosed in Part I, Item 1A, of our 2020 Annual Report.

Our participation in vaccination distribution programs may materially affect our operating results, reputation, and business.

We participate as a distributor in government-sponsored vaccination programs, such as the U.S. government's Vaccines for Children program for childhood disease immunization and its Operation Warp Speed ("OWS") program for COVID-19 vaccines. We also provide supplies used for vaccine administration in those programs. Our participation in such programs exposes us to various uncertainties. For example, the novel nature of the SARS-CoV-2 virus and the broad scope of the planned COVID-19 vaccine distribution program introduce uncertainty about which vaccine candidates may be approved, when such approvals may occur, what volumes of products may become available for distribution by us, the effectiveness of vaccines, and the cost of distribution. Because of such uncertainties, our operating results may be subject to variability. Our participation in such programs also exposes us to various risks, including regulatory compliance, government oversight, dependence on government funding, contractual performance, litigation, security risks, and supply chain challenges. Any significant problems with our participation in such programs might have a materially adverse impact on our reputation and our business. Because of these risks and uncertainties our operating results may be materially higher or lower than our projections.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Stock repurchases may be made from time to time in open market transactions, privately negotiated transactions, accelerated share repurchase ("ASR") programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. 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.

During the three months ended June 30, 2020, there were no share repurchases made under previously authorized share repurchase programs. During the three months ended September 30, 2020, the Company repurchased 1.8 million of the Company's shares for \$269 million through open market transactions at an average price per share of \$151.23. The total authorization outstanding for repurchases of the Company's common stock was \$1.3 billion at September 30, 2020.

McKESSON CORPORATION

The following table provides information on the Company's share repurchases during the three months ended September 30, 2020.

<i>(In millions, except price per share)</i>	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
July 1, 2020 – July 31, 2020	—	\$ —	—	\$ 1,535
August 1, 2020 – August 31, 2020	0.3	152.66	0.3	1,487
September 1, 2020 – September 30, 2020	1.5	150.93	1.5	1,267
Total	1.8		1.8	

(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.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibits identified in parentheses below are on file with the SEC and are incorporated by reference as exhibits hereto.

Exhibit Number	Description
10.1*†	Forms of Statement of Terms and Conditions and Grant Notices Applicable to Awards Pursuant to the McKesson Corporation 2013 Stock Plan.
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed 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.

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements 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.

McKESSON CORPORATION

Date: November 3, 2020

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

McKESSON CORPORATION

Date: November 3, 2020

/s/ Sundeep G. Reddy

Sundeep G. Reddy

Senior Vice President and Controller

OUTSIDE DIRECTOR Div Equiv Cash

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 October 28, 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 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 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, if granted in tandem with such units, will be credited on behalf of an Outside Director 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.

**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 October 28, 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 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 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, if granted in tandem with such units, will be converted into additional Restricted Stock Units, which will be subject to all of the terms and conditions of the underlying Restricted Stock Unit Award. The number of such additional Restricted Stock Units shall be calculated by dividing

- (a) the aggregate amount or value of the dividends paid with respect to that number of Shares equal to the number of Restricted Stock Units credited as of the record date for such dividend by
- (b) the Fair Market Value per Share on the payment date for such dividend.

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. Any fractional Shares resulting from the accumulation of dividend equivalents shall be paid in cash.

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.

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 nondisclosure, 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.

Finally, the Participant understands that the Corporation may rely on a different legal basis for the processing or transfer of Data in the future and/or request that the Participant provide another data privacy consent form. If applicable and upon request of the Corporation, the Participant agrees to provide an executed acknowledgement or data privacy consent form to the Employer or the Corporation (or any other acknowledgements, agreements or consents that may be required by the Employer or the Corporation) that the Corporation and/or the Employer may deem necessary to obtain under the data privacy laws in the Participant's country, either now or in the future. The Participant understands that the Participant will not be able to participate in the Plan if the Participant fails to execute any such acknowledgement, agreement or consent requested by the Corporation and/or the Employer.

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 nondisclosure, 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.

Finally, the Participant understands that the Corporation may rely on a different legal basis for the processing or transfer of Data in the future and/or request that the Participant provide another data privacy consent form. If applicable and upon request of the Corporation, the Participant agrees to provide an executed acknowledgement or data privacy consent form to the Employer or the Corporation (or any other acknowledgements, agreements or consents that may be required by the Employer or the Corporation) that the Corporation and/or the Employer may deem necessary to obtain under the data privacy laws in the Participant's country, either now or in the future. The Participant understands that the Participant will not be able to participate in the Plan if the Participant fails to execute any such acknowledgement, agreement or consent requested by the Corporation and/or the Employer.

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.

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 nondisclosure, 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.

Finally, the Participant understands that the Corporation may rely on a different legal basis for the processing or transfer of Data in the future and/or request that the Participant provide another data privacy consent form. If applicable and upon request of the Corporation, the Participant agrees to provide an executed acknowledgement or data privacy consent form to the Employer or the Corporation (or any other acknowledgements, agreements or consents that may be required by the Employer or the Corporation) that the Corporation and/or the Employer may deem necessary to obtain under the data privacy laws in the Participant's country, either now or in the future. The Participant understands that the Participant will not be able to participate in the Plan if the Participant fails to execute any such acknowledgement, agreement or consent requested by the Corporation and/or the Employer.

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 nondisclosure, 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.

Finally, the Participant understands that the Corporation may rely on a different legal basis for the processing or transfer of Data in the future and/or request that the Participant provide another data privacy consent form. If applicable and upon request of the Corporation, the Participant agrees to provide an executed acknowledgement or data privacy consent form to the Employer or the Corporation (or any other acknowledgements, agreements or consents that may be required by the Employer or the Corporation) that the Corporation and/or the Employer may deem necessary to obtain under the data privacy laws in the Participant's country, either now or in the future. The Participant understands that the Participant will not be able to participate in the Plan if the Participant fails to execute any such acknowledgement, agreement or consent requested by the Corporation and/or the Employer.

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.

**FORM OF
MCKESSON CORPORATION 2013 STOCK PLAN
RESTRICTED STOCK UNIT GRANT**

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.

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

**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	

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:

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. 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
7. 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

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

Grantee Signature

Date

**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 quarterly report on Form 10-Q 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: November 3, 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 quarterly report on Form 10-Q 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: November 3, 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 quarterly report of McKesson Corporation (the “Company”) on Form 10-Q for the quarterly period ended September 30, 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
November 3, 2020

/s/ Britt J. Vitalone

Britt J. Vitalone
Executive Vice President and Chief Financial Officer
November 3, 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.