MCKESSON CORP
Form 10-K
May 22, 2017
Table of Content

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-13252
McKESSON CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	94-3207296
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Post Street, San Francisco, California	94104
(Address of principal executive offices)	(Zip Code)

(415) 983-8300
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Name of each exchange on which registered)
Common stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

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 x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 30, 2016, was approximately $37.6 billion.

Number of shares of common stock outstanding on April 30, 2017: 210,902,490

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents
McKESSON CORPORATION

TABLE OF CONTENTS

Table of Contents
McKESSON CORPORATION

PART I
Item 1. Business.
General
McKesson Corporation ("McKesson," the "Company," or "we" and other similar pronouns), currently ranked 5th on the FORTUNE 500, is a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information technology. We partner with pharmaceutical manufacturers, providers, pharmacies, governments and other organizations in healthcare to help provide the right medicines, medical products and healthcare services to the right patients at the right time, safely and cost-effectively.
The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.
Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act,") are available free of charge on our website (www.mckesson.com under the "Investors — Financial Information — SEC Filings" caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC" or the "Commission"). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.
The public may also read or copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of the website is www.sec.gov.
Business Segments
We operate our business through two segments: McKesson Distribution Solutions and McKesson Technology Solutions.
Our Distribution Solutions segment distributes branded and generic pharmaceutical drugs and other healthcare-related products internationally and provides practice management, technology, clinical support and business solutions to community-based oncology and other specialty practices. This segment also provides specialty pharmaceutical solutions for pharmaceutical manufacturers including offering multiple distribution channels and clinical trial access to our network of oncology physicians. It also provides medical-surgical supply distribution, logistics and other services to healthcare providers within the United States. Additionally, this segment operates retail pharmacy chains in Europe and Canada, and supports independent pharmacy networks within North America and Europe. It also supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies.
Our Technology Solutions segment provides clinical, financial and supply chain management solutions to healthcare organizations and includes our equity method investment in Change Healthcare, LLC ("Change Healthcare"), a Delaware limited liability company, as further described below.
On June 28, 2016, we entered into a contribution agreement ("Contribution Agreement") with Change Healthcare Holdings, Inc. ("Change"), a Delaware corporation, and others including shareholders of Change to form a joint venture, Change Healthcare. On December 21, 2016, we received notification from the Department of Justice that their review was closed and the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, was terminated. On March 1, 2017, the transaction closed upon satisfaction of all other closing conditions pursuant to the Contribution Agreement. Under the terms of the Contribution Agreement, we contributed the majority of our McKesson Technology Solutions businesses ("Core MTS Business") to Change Healthcare. We retained our RelayHealth Pharmacy and Enterprise Information Solutions ("EIS") businesses. Change contributed substantially all of its businesses to the joint venture excluding its pharmacy switch and prescription routing business. In exchange for the contribution, we own 70% of the joint venture with the remaining equity ownership held by Change shareholders. Change Healthcare is a healthcare technology company which provides software and analytics, network solutions and

technology-enabled services that will deliver wide-ranging financial, operational and clinical benefits to payers, providers and consumers.

Table of Contents
McKESSON CORPORATION

Net revenues for our segments for the last three years were as follows:

	Years Ended March 31,					
(Dollars in billions)	2017		2016		2015	
Distribution Solutions	$195.99	%	$188.09	%	$176.09	%
Technology Solutions	2.6	1	2.9	2	3.1	2
Total	$198.5	100%	$190.9	100%	$179.1	100%

Distribution Solutions Segment

Our Distribution Solutions segment consists of the following businesses: North America pharmaceutical distribution and services, International pharmaceutical distribution and services and Medical-Surgical distribution and services.

North America pharmaceutical distribution and services

Our North America pharmaceutical distribution and services business is the largest pharmaceutical distributor in the United States with more than 40,000 customers and is comprised of the following business units: U.S. Pharmaceutical Distribution, McKesson Specialty Health, McKesson Canada and McKesson Rx Technology Solutions.

U.S. Pharmaceutical Distribution: This business supplies branded, specialty and generic pharmaceuticals and other healthcare-related products to customers throughout the United States in three primary customer channels: (1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); (2) independent retail pharmacies; and (3) institutional healthcare providers such as hospitals, health systems, integrated delivery networks and long-term care providers. This business also provides solutions and services to pharmaceutical manufacturers. This business sources materials and products from a wide array of different suppliers, including certain generic pharmaceutical drugs produced through a contract-manufacturing program and generic pharmaceutical drugs sourced through our sourcing joint venture, ClarusOne Sourcing Services, LLC.

Our U.S. pharmaceutical distribution business operates and serves thousands of customer locations through a network of 27 distribution centers, as well as a primary redistribution center, two strategic redistribution centers and two repackaging facilities, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety and reliability and to provide the best product availability for our customers. For example, in most of our distribution centers we use Acumax® Plus, an award-winning technology that integrates and tracks all internal inventory-related functions such as receiving, put-away and order fulfillment. Acumax® Plus uses bar code technology, wrist-mounted computer hardware and radio frequency signals to provide customers with real-time product availability and industry-leading order quality and fulfillment in excess of 99.9% adjusted accuracy. In addition, we offer Mobile Manager℠, which integrates portable handheld technology with Acumax® Plus to give customers complete ordering and inventory control. We also offer McKesson Connect℠, an internet-based ordering system that provides item lookup and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. Together, these features help ensure customers have the right products at the right time for their facilities and patients.

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

The major customer groups of our U.S. Pharmaceutical Distribution business can be categorized as retail national accounts, independent retail pharmacies and institutional healthcare providers.

Retail National Accounts — Business solutions that help national account customers increase revenues and profitability. Solutions include:

Table of Contents
McKESSON CORPORATION

- Central Fill℠ — Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers — Two facilities totaling over 750,000 square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologics. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- McKesson SynerGx® — Generic pharmaceutical purchasing program and inventory management that helps pharmacies maximize their cost savings with a broad selection of generic drugs, competitive pricing and one-stop shopping.
- RxPak℠ — Bulk-to-bottle repackaging service that leverages our purchasing scale and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.
- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory-carrying costs.
- ExpressRx Track™ — Pharmacy automation solution featuring state-of-the-art robotics, upgraded imaging and expanded vial capabilities, and industry-leading speed and accuracy in a radically small footprint.

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

- Health Mart® — Health Mart® is a national network of more than 4,800 independently-owned pharmacies and is one of the industry's most comprehensive pharmacy franchise programs. Health Mart® provides franchisees support for managed care contracting, branding and local marketing solutions, the Health Mart private label line of products, merchandising solutions and programs for enhanced patient support.
- AccessHealth® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- McKesson Reimbursement Advantage℠ ("MRA") — MRA is one of the industry's most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services and customer care.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, competitive pricing and one-stop shopping.
- Sunmark® — Complete line of more than 600 products that provide retail independent pharmacies with value-priced alternatives to national brands.
- FrontEdge™ — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- McKesson Sponsored Clinical Services (SCS) Network — Access to patient-support services that allow pharmacists to earn service fees and to develop stronger patient relationships.

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

- Fulfill-Rx℠ — Ordering and inventory management system that empowers hospitals to optimize the often complicated and disjointed processes related to unit-based cabinet replenishment and inventory management.
- Asset Management — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.

Table of Contents

- SKY Packaging — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral-solid medications. SKY Packaging enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- McKesson Plasma and BioLogics — A full portfolio of plasma-derivatives and biologic products.
- McKesson OneStop Generics® — Described above.

McKesson Specialty Health ("MSH"): This business provides a range of solutions to oncology and other specialty practices operating in communities across the country, to pharmaceutical and biotechnology suppliers who manufacture specialty drugs and vaccines, and to payers and hospitals. MSH is focused on three core business lines: Manufacturer Solutions, Practice Management and Provider Solutions.

Manufacturer Solutions help manufacturers accelerate the approval and successful commercialization of specialty pharmaceuticals across the product life cycle. MSH's offerings include supply chain services, including specialty pharmacy services and third party logistics ("3PL"), provider and patient engagement programs, clinical trial support, patient assistance programs, reimbursement services, and analytics. In addition, MSH helps manufacturers minimize reimbursement challenges while offering affordable, safe access to therapies through Risk Evaluation and Mitigation Strategies ("REMS") programs.

In April 2016, we completed the acquisition of Biologics, Inc ("Biologics"), a Cary, North Carolina-based company that provides oncology pharmacy services to providers and patients as well as solutions for manufacturers and payers. For manufacturers, Biologics helps optimize the speed of therapy to the patient, enhance patient adherence and improve patient access to therapy. In addition, Biologics works with manufacturers to develop custom strategies to enhance the clinical and commercial success of their products at each stage of the life-cycle.

Practice Management provides a variety of solutions, including practice operations, healthcare information technology, revenue cycle management and managed care contracting solutions, evidence-based guidelines and quality measurements to support U.S. Oncology Network, one of the nation's largest network of physician-led, integrated, community-based oncology practices dedicated to advancing high-quality, evidence-based cancer care. We also support U.S. Oncology Research, one of the nation's largest research networks, specializing in oncology clinical trials.

In April 2016, we also completed the acquisition of Vantage Oncology Holdings, LLC ("Vantage"), a leading national provider of integrated oncology and radiation services headquartered in Manhattan Beach, California. Vantage's comprehensive oncology management services model, including its focus on community-based radiation oncology, medical oncology, surgical specialties and other integrated cancer care services, complements and strengthens the existing offerings of McKesson and U.S. Oncology Network, while allowing patients to access the care they need in an efficient, customizable and cost effective way.

Provider Solutions offers community specialists (oncologists, rheumatologists, ophthalmologists, urologists, neurologists, and other specialists) an extensive set of customizable products and services designed to strengthen core practice operations, enhance value-based care delivery, and expand their service offering to patients. Tools and services include specialty drug distribution and group purchasing organization ("GPO") services, technology solutions, practice consulting services, and vaccine distribution, including our exclusive distributor relationship with the Centers for Disease Control and Prevention's ("CDC") Vaccines for Children program. Community-based physicians in this business line have broad flexibility and choice to select the products and commitment levels that best meet their practice needs.

When we classify a pharmaceutical product or service as "specialty," we consider the following factors: diseases requiring complex treatment regimens such as cancer and rheumatoid arthritis; ongoing clinical monitoring requirements, high-cost, special handling, storage and delivery requirements and, in some cases, exclusive distribution arrangements. Our use of the term "specialty" to define a portion of our distribution business may not be comparable to that used by other industry participants, including our competitors.

Table of Contents
McKESSON CORPORATION

McKesson Canada: McKesson Canada is one of the largest pharmaceutical distributors in Canada. McKesson Canada, through its network of 13 distribution centers, provides logistics and distribution for manufacturers - delivering their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions throughout Canada and through its network of infusion clinics, offers specialty services and adherence programs. Beyond pharmaceutical distribution, logistics and order fulfillment, McKesson Canada provides automation solutions to its retail and hospital customers, dispensing millions of doses each year. McKesson Canada also provides health information exchange solutions that streamline clinical and administrative communication and retail banner services that help independent pharmacists compete and grow through innovative services and operation support. McKesson Canada's retail banners comprise the largest network of independent pharmacies in Canada. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for patients.

In December 2016, we completed our acquisition of Rexall Health of the Katz Group Canada, Inc. for $2.9 billion Canadian dollars (or, approximately $2.1 billion U.S dollars). Rexall Health, which operates approximately 470 retail pharmacies in Canada, enhances our ability to provide best-in-class pharmacy care through an expanded retail footprint for patients across Canada. Patients in Canada benefits from greater choice and access, integrated pharmacy care and industry-leading service levels. Rexall Health helps us leverage our existing portfolio of assets to drive growth along the entire value chain, particularly in two of Canada's fastest growing regions, Ontario and Western Canada.

McKesson Rx Technology Solutions ("MRTS"): This business is comprised of McKesson Pharmacy Technology and Services ("MPTS"), RelayHealth Pharmacy ("RHP") and CoverMyMeds ("CMM") and drives greater innovation and value for all stakeholders in the pharmaceutical value chain. MRTS focuses on customers across the pharmacy industry, including manufacturers, payers, retail pharmacies, hospital pharmacies and government agencies. This business supports our customers, including physicians, with a comprehensive, expanded portfolio of solutions designed to help them realize greater business efficiencies, deliver high-quality care, enhance medication adherence and safety, and more effectively connect with other players in the pharmaceutical supply chain.

MPTS provides offerings that allow retail chains, hospital outpatient pharmacies, small and independent pharmacies to meet the high demand for prescriptions while maximizing profits, meeting clinical demands and optimizing operations. It supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies. Solutions include:

- EnterpriseRx® — A Software as a Service (SaaS) pharmacy management system, that allows large retail chain, health system and retail independent pharmacies to meet demand for prescriptions while maximizing profits and optimizing operations.
- Pharmaserv® — A fully integrated, server-based pharmacy management system that gives the customer complete control of their pharmacy data.
- PharmacyRx — A cost-effective, SaaS-based pharmacy management system that can be installed quickly and makes processing prescriptions fast and easy.
- Macro Helix® — Software as a Service (SaaS)-based solutions that help pharmacists manage, track and report on medication replenishment associated with the federal 340B Drug Pricing Program.
- Supplylogix® — Develops and delivers practical supply chain intelligence solutions to retail pharmacies to aid in inventory management and control.

RHP is a leading provider of connectivity to pharmacies, manufacturers and payers. RelayHealth® Pharmacy solutions help our customers accelerate the delivery of high-quality care and improve financial performance through electronic prescribing by physicians and point-of-service resolution of pharmacy claims by payers. This business helps provide efficient delivery of medications and pharmacy services, improved care, faster access, and lower costs. Effective April 1, 2017, RHP is included in MRTS within our Distribution Solutions segment; this business was formerly part of our Technology Solutions segment.

On April 3, 2017, we completed our acquisition of CMM, a privately-owned company headquartered in Columbus, Ohio. CMM provides electronic prior authorization solutions to pharmacies, providers, payers and pharmaceutical

manufacturers helping patients get their prescribed drugs more efficiently to live healthy lives.

Table of Contents
McKESSON CORPORATION

International pharmaceutical distribution and services

Our international pharmaceutical distribution and services business provides distribution and services to the pharmaceutical and healthcare sectors in 13 countries within Europe. The pharmaceutical wholesale business supplies pharmaceuticals and other healthcare-related products generally to retail pharmacies and institutional customers. Its wholesale network consists of approximately 110 branches that deliver to over 50,000 pharmacies daily in European countries. This business functions as a vital link between manufacturers and pharmacies in supplying pharmaceuticals to patients, and generally procures the pharmaceuticals approved in each country as well as other products sold in pharmacies directly from the manufacturers. Pharmaceutical and other healthcare-related products are stored at regional wholesale branches with the support of its efficient warehousing management system. The retail pharmacy business serves patients and consumers in European countries directly through over 2,400 of its own pharmacies and over 5,500 participant pharmacies operating under brand partnership arrangements. The retail business provides traditional prescription pharmaceuticals, non-prescription products and medical services and operates under the Lloyds Pharmacy brand in Belgium, Ireland, Italy, Sweden and the United Kingdom ("U.K."). The latter is the biggest retail business, which accounted for approximately 71% of the total revenue of the retail pharmacy business for the year ended March 31, 2017.

In April 2016, we completed the acquisition of the pharmaceutical distribution business of UDG Healthcare Plc ("UDG") based in Ireland and the U.K. for $431 million. The acquired UDG business primarily provides pharmaceutical and other healthcare products to retail and hospital pharmacies.

In May 2016, we sold our Brazilian pharmaceutical distribution business, which we acquired through our February 2014 acquisition of Celesio. Refer to Financial Note 5, "Discontinued Operations", to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Medical-Surgical distribution and services

McKesson Medical-Surgical provides medical-surgical supply distribution, logistics and other services to healthcare providers, including physicians' offices, surgery centers, extended care facilities, hospital reference labs, and homecare and occupational health sites. Through a network of distribution centers within the U.S., we offer more than 250,000 national brand products plus McKesson's own line of high-quality medical-surgical products. As a leading distributor of products and solutions to the full range of alternate-site healthcare facilities, we care for our customers so they can care for their patients.

Technology Solutions Segment

Our Technology Solutions segment consists of our EIS business and our equity method investment in Change Healthcare.

Equity method investment in Change Healthcare: We own an approximate 70% equity ownership interest in Change Healthcare. Our investment in Change Healthcare is accounted for using the equity method of accounting. Change Healthcare provides software and analytics, network solutions and technology-enabled services that will deliver wide-ranging financial, operational and clinical benefits to payers, providers and consumers. Refer to Financial Note 2, "Healthcare Technology Net Asset Exchange" to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Enterprise Information Solutions: This business provides clinical and financial information systems for healthcare organizations including professional services, workflow management and supply chain management solutions. We are evaluating strategic options for this business.

Business Combinations, Investments, Discontinued Operations and Other Divestitures

We have undertaken additional strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future. These initiatives are detailed in Financial Notes 2, 4, 5 and 7, "Healthcare Technology Net Asset Exchange," "Business Combinations," "Discontinued Operations" and "Divestiture of Businesses" to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Table of Contents
McKESSON CORPORATION

Competition

Our Distribution Solutions segment faces a highly competitive global environment with strong competition from international, national, regional and local full-line, short-line and specialty distributors, service merchandisers, self-warehousing chain drug stores, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. In all areas, key competitive factors include price, quality of service, breadth of product lines, innovation and, in some cases, convenience to the customer.

Our Technology Solutions segment and our technology businesses within our Distribution Solutions segment experience substantial competition from many companies, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

Patents, Trademarks, Copyrights and Licenses

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

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

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

Other Information about the Business

Customers: During 2017, sales to our ten largest customers, including group purchasing organizations (“GPOs”) accounted for approximately 54.2% of our total consolidated revenues. Sales to our largest customer, CVS Health (“CVS”), accounted for approximately 20.2% of our total consolidated revenues. At March 31, 2017, trade accounts receivable from our ten largest customers were approximately 33.7% of total trade accounts receivable. Accounts receivable from CVS were approximately 17.8% of total trade accounts receivable. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivables balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. Substantially all of these revenues and accounts receivable are included in our Distribution Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than 5% of our purchases in 2017. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers are generally good. The ten largest suppliers in

2017 accounted for approximately 40% of our purchases.

Table of Contents

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

Research and Development: Research and development costs were $341 million, $392 million and $392 million during 2017, 2016 and 2015. These costs did not include $16 million, $30 million and $34 million of costs capitalized for software held for sale during 2017, 2016 and 2015. Development expenditures were primarily incurred by our Technology Solutions segment. Our Technology Solutions segment's product development efforts applied computer technology and installation methodologies to specific information processing needs of hospitals and other customers. Additional information regarding our development activities is included in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

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

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

We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 25, "Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

The liability for environmental remediation and other environmental costs is accrued when the Company considers it probable and can reasonably estimate the costs. Environmental costs and accruals, including that related to our legacy chemical distribution operations, are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse impact on our operations or financial condition, we do not currently anticipate material capital expenditures for environmental matters. Other than the expected expenditures that may be required in connection with our legacy chemical distribution operations, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2017 and is not expected to be material in the next year.

Employees: On March 31, 2017, we employed approximately 78,000 employees, including approximately 27,000 part-time employees.

Financial Information About Foreign and Domestic Operations: Certain financial information relating to foreign and domestic operations is included in Financial Note 29, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K. See "Risk Factors" in Part I, Item 1A below for information regarding risks associated with our foreign operations.

Table of Contents
McKESSON CORPORATION

Forward-Looking Statements

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

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

Item 1A. Risk Factors

The risks described below could have a material adverse impact on our financial position, results of operations, liquidity and cash flows. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material. The reader should not consider this list to be a complete statement of all risks and uncertainties.

Changes in the United States healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

Many of our products and services are intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry in the United States has changed significantly in an effort to enhance efficiencies, reduce costs and improve patient outcomes. These changes have included cuts in Medicare and Medicaid reimbursement levels, changes in the basis for payments, shifting away from fee-for-service and towards value-based payments and risk-sharing models, increases in the use of managed care, consolidation of pharmaceutical and medical-surgical supply distributors and the development of large, sophisticated purchasing groups. We expect the healthcare industry in the United States to continue to change and for healthcare delivery models to evolve in the future.

Changes in the healthcare industry's or our pharmaceutical suppliers' pricing, selling, inventory, distribution or supply policies or practices could significantly reduce our revenues and net income. Due to the diverse range of healthcare supply management and healthcare information technology products and services that we offer, such changes could have a material adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide. However, failure to successfully renew these contracts in a timely and favorable manner could have a material adverse impact on our results of operations. Certain distribution business agreements we entered into with manufacturers continue to have pharmaceutical price inflation as a component of our compensation. Consequently, our results of operations could be adversely affected if the frequency or magnitude of pharmaceutical price increases or decreases, which we do not control. In addition, we distribute generic pharmaceuticals, which can be subject to both price deflation and price inflation. During 2017, our Distribution Solutions segment experienced weaker pharmaceutical pricing trends, which are expected to continue in 2018. Continued volatility in the availability, pricing trends or reimbursement of these generic drugs, or significant fluctuations in the nature, frequency and magnitude of generic pharmaceutical launches,

could have a material adverse impact on our results of operations. Additionally, any future changes in branded and generics drug pricing could be significantly different than our projections.

Table of Contents

Generic drug manufacturers are increasingly challenging the validity or enforceability of patents on branded pharmaceutical products. During the pendency of these legal challenges, a generics manufacturer may begin manufacturing and selling a generic version of the branded product prior to the final resolution of its legal challenge over the branded product's patent. To the extent we source, contract manufacture, and distribute such generic products, the brand-name company could assert infringement claims against us. While we generally obtain indemnification against such claims from generic manufacturers as a condition of distributing their products, there can be no assurances that these rights will be adequate or sufficient to protect us.

The healthcare industry is highly regulated, and further regulation of our distribution businesses and technology products and services could impose increased costs, negatively impact our profit margins and the profit margins of our customers, delay the introduction or implementation of our new products, or otherwise negatively impact our business and expose the Company to litigation and regulatory investigations.

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

Reimbursements: Both our profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals, medical treatments and related services, or changing the methodology by which reimbursement levels are determined. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the "Affordable Care Act"), signed into law in 2010, revised, subject to rulemaking, the federal upper limits ("FUL") for Medicaid reimbursement for multiple source generic drugs available for purchase by retail community pharmacies on a nationwide basis. On January 21, 2016, the Centers for Medicare and Medicaid Services ("CMS") released the Covered Outpatient Drugs final rule with comment. The final rule, with limited exceptions, establishes the FUL to be 175% of the weighted average (determined on the basis of utilization) of the most recently reported monthly average manufacturer price ("AMP"). Additionally, the final rule established actual acquisition cost as the basis by which states should determine their ingredient cost reimbursement, addressed the sufficiency of dispensing fees to reflect the cost of the pharmacist's professional services and cost to dispense drugs to Medicaid beneficiaries, and clarified that states are required to evaluate the sufficiency of both ingredient cost and professional dispensing fee when proposing changes to either component. Use of the revised AMP-based FUL may result in a reduction in the Medicaid reimbursement rates to our customers for certain pharmaceuticals, which could indirectly impact the prices that we can charge our customers and cause corresponding declines in our profitability.

Table of Contents
McKESSON CORPORATION

The federal government may adopt measures that could reduce Medicare and/or Medicaid spending, or impose additional requirements on healthcare entities. For example, under the terms of the Budget Control Act of 2011, an automatic 2% reduction of Medicare program payments for all healthcare providers became generally effective for services provided on or after April 1, 2013. This automatic reduction is known as "sequestration." Medicare generally reimburses physicians for Part B drugs at the rate of average sales price ("ASP") plus 6%. The implementation of sequestration pursuant to the Budget Control Act of 2011 has effectively reduced reimbursement below the ASP plus 6% level for the duration of sequestration (which lasts through fiscal 2024 in the absence of additional legislation). As another example, the Medicare Access and CHIP Reauthorization Act ("MACRA"), signed into law in April 2015, seeks to reform Medicare reimbursement policy for physician fee schedule services and adopts a series of policy changes affecting a wide range of providers and suppliers. Most notably, MACRA repeals the statutory Sustainable Growth Rate formula, which has called for cuts in Medicare rates in recent years, but which Congress routinely stepped in to override the full application of the formula. Instead, after a period of stable payment updates, MACRA links physician payment updates to quality and value measurements and participation in alternative payment models. MACRA also extends certain expiring Medicare and other health policy provisions, including extending the Children's Health Insurance Program. Additionally, concerns held by federal policymakers about the federal deficit and national debt levels could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, or both. We cannot predict what alternative or additional deficit reduction initiatives or Medicare payment reductions, if any, will ultimately be enacted into law, or the timing or affect any such initiatives or reductions will have on us.

There can be no assurance that the preceding changes would not have a material adverse impact on our results of operations.

Operating, Security and Licensure Standards: We are subject to the operating and security standards of the Drug Enforcement Administration ("DEA"), the U.S. Food and Drug Administration ("FDA"), various state boards of pharmacy, state health departments, the U.S. Department of Health and Human Services ("HHS"), the CMS and other comparable agencies. Certain of our businesses may be required to register for permits and/or licenses with, and comply with operating and security standards of, the DEA, FDA, HHS, CMS, various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies, depending upon the type of operations and location of product development, manufacture, distribution, and sale. For example, we are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, holding, distribution, and disposal of controlled substances.

As part of these operating, security and licensure standards, we regularly receive requests for information and occasionally subpoenas from government authorities. In some instances, these can lead to monetary penalties and/or license revocation. In January 2017, we reached an agreement with the DEA and Department of Justice pursuant to which we paid the sum of $150 million to settle all potential administrative and civil claims relating to investigations about the Company's suspicious order reporting practices for controlled substances. The DEA is suspending, on a staggered basis for limited periods of time, McKesson's DEA registrations to distribute certain controlled substances from four McKesson distribution centers.

Although we have enhanced our procedures to ensure compliance, there can be no assurance that a regulatory agency or tribunal would conclude that our operations are compliant with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could lead to litigation and have a material adverse impact on our results of operations.

Pedigree Tracking: There have been increasing efforts by Congress and state and federal agencies, including state boards of pharmacy and departments of health and the FDA, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical

distribution system, otherwise known as pedigree tracking. In November 2013, Congress passed and the President signed into law the Drug Quality and Security Act ("DQSA"). The DQSA establishes federal standards requiring supply-chain stakeholders to participate in an electronic, interoperable, lot-level prescription drug track and trace system. The law also preempts state drug pedigree requirements. The DSQA also establishes new requirements for drug wholesale distributors and third party logistics providers, including licensing requirements in states that had not previously licensed such entities.

Table of Contents
McKESSON CORPORATION

In addition, the Food and Drug Administration Amendments Act of 2007, which went into effect on October 1, 2007, requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include track-and-trace or authentication technologies, such as radio frequency identification devices and other similar technologies. On March 26, 2010, the FDA released the Serialized Numerical Identifier ("SNI") guidance for manufacturers who serialize pharmaceutical packaging. We expect to be able to accommodate these SNI regulations in our distribution operations. The DQSA and other pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and could have a material adverse impact on our results of operations.

Privacy: There are numerous federal, state and foreign laws and regulations related to the privacy and security of personal information. In particular, regulations promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") establish privacy and security standards that limit the use and disclosure of individually identifiable health information (known as "protected health information") and require the implementation of administrative, physical and technological safeguards to protect the privacy of protected health information and ensure the confidentiality, integrity and availability of electronic protected health information. We are directly subject to certain provisions of the regulations as a "Business Associate" through our relationships with customers. We are also directly subject to the HIPAA privacy and security regulations as a "Covered Entity" with respect to our operations as a healthcare clearinghouse, specialty pharmacy and medical surgical supply business.

The privacy regulations established under HIPAA also provide patients with rights related to understanding and controlling how their protected health information is used and disclosed. To the extent permitted by applicable privacy regulations and our contracts with our customers, we may use and disclose protected health information to perform our services and for other limited purposes, such as creating de-identified information. Other uses and disclosures, such as marketing communications, require written authorization from the individual or must meet an exception specified under the privacy regulations. Determining whether protected health information has been sufficiently de-identified to comply with the HIPAA privacy standards and our contractual obligations may require complex factual and statistical analyses and may be subject to interpretation.

If we are unable to properly protect the privacy and security of protected health information entrusted to us, we could be found to have breached our contracts with our customers. Further, if we fail to comply with applicable HIPAA privacy and security standards, we could face civil and criminal penalties. HHS performs compliance audits of Covered Entities and Business Associates and enforces the HIPAA privacy and security standards. HHS has become an increasingly active regulator and has signaled its intention to continue this trend. HHS has the discretion to impose penalties without being required to attempt to resolve violations through informal means, such as implementing a corrective action plan. HHS enforcement activity can result in financial liability and reputational harm, and responses to such enforcement activity can consume significant internal resources. In addition to enforcement by HHS, state attorneys general are authorized to bring civil actions seeking either injunctions or damages in response to violations that threaten the privacy of state residents. Although we have implemented and maintain policies and processes to assist us in complying with these regulations and our contractual obligations, we cannot provide assurance regarding how these regulations will be interpreted, enforced or applied to our operations. In addition to the risks associated with enforcement activities and potential contractual liabilities, our ongoing efforts to comply with evolving laws and regulations at the federal and state level might also require us to make costly system purchases and/or modifications from time to time.

Healthcare Reform: The Affordable Care Act ("ACA") significantly expanded health insurance coverage to uninsured Americans and changed the way healthcare is financed by both governmental and private payers. While certain provisions of the ACA took effect immediately, others have delayed effective dates or require further rulemaking action or regulatory guidance by governmental agencies to implement and/or finalize (e.g. nondiscrimination in health programs and activities, excise tax on high-cost employer-sponsored health coverage). Further, as a result of the November 2016 U.S. presidential election, there are uncertainties associated with efforts to change or repeal the ACA or other healthcare reforms, and we cannot predict their full effect on the Company at this time. Two top legislative priorities of the new presidential administration and Congress may be significant reform of the ACA, as discussed

above, and reform of the Internal Revenue Code of 1986, as amended (the "Code"), including significant changes to taxation of business entities and the deductibility of interest expense. While there is currently a substantial lack of clarity around the likelihood, timing and details of any such policies and reforms, such policies and reforms may have a material adverse impact on our results of operations.

Table of Contents
McKESSON CORPORATION

FDA Regulation of Medical Software: The FDA has increasingly focused on the regulation of medical software and health information technology products as medical devices under the federal Food, Drug and Cosmetic Act. For example, in February 2015, the FDA issued guidance to inform manufacturers and distributors of medical device data systems that it did not intend to enforce compliance with regulatory controls that apply to medical device data systems, medical image storage devices, and medical image communication devices. If the FDA chooses to regulate more of our products as medical devices, or subsequently changes or reverses its guidance regarding not enforcing regulatory controls for certain medical device products, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Any additional FDA regulations governing health information technology products, once issued, may increase the cost and time to market of new or existing products or may prevent us from marketing our products. In December 2016, Congress passed and the President signed into law the 21st Century Cures Act. The 21st Century Cures Act changes the way health IT would be regulated by the FDA. The bill also carves most health IT products out of the FDA's jurisdiction, but includes a clawback provision that would enable FDA to regulate products on a case-by-case basis if it determined they pose a risk to patient safety.

Medical Billing and Coding: Medical billing, coding and collection activities are governed by numerous federal and state civil and criminal laws. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payers may file claims against us and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have a material adverse impact on our results of operations.

Our foreign operations subject us to a number of operating, economic, political and regulatory risks that may have a material adverse impact on our financial position and results of operations.

We have operations based in, and we source and contract manufacture pharmaceutical and medical-surgical products in, a number of foreign countries. Moreover, in Europe, Celesio operates as a wholesale and retail company and provider of logistics and services to the pharmaceutical and healthcare sector.

Our foreign operations expose us to a number of risks including changes in trade protection laws, policies and measures and other regulatory requirements affecting trade and investment; changes in licensing regimes for pharmacies; unexpected regulatory, social, political, or economic changes in a specific country or region; changes in intellectual property, privacy and data protection; import/export regulations and trade sanctions in both the United States and foreign countries and difficulties in staffing and managing foreign operations. Political changes, labor strikes, acts of war or terrorism and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. We may also be affected by potentially adverse tax consequences and difficulties associated with repatriating cash generated or held abroad.

On June 23, 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union, which proposed exit (and the political, economic and other uncertainties it has raised) has exacerbated and may further exacerbate many of the risks and uncertainties described above. Negotiations on withdrawal and post-exit arrangements likely will be complex and protracted, and there can be no assurance regarding the terms, timing or consummation of any such arrangements. The proposed withdrawal could, among other potential outcomes, adversely affect the tax, tax treaty, currency, operational, legal and regulatory regimes to which our businesses in the region are subject. The withdrawal could also, among other potential outcomes, disrupt the free movement of goods, services and people between the United Kingdom and the European Union and significantly disrupt trade between the United Kingdom and the European Union and other parties. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the United Kingdom and the other economies in which we operate. There can be no assurance that any or all of these events will not have a material adverse effect on our results of operations.

Table of Contents

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

We also may experience difficulties and delays inherent in sourcing products and contract manufacturing from foreign countries, including but not limited to: (1) difficulties in complying with the requirements of applicable federal, state and local governmental authorities in the United States and of foreign regulatory authorities; (2) inability to increase production capacity commensurate with demand or the failure to predict market demand; (3) other manufacturing or distribution problems including changes in types of products produced, limits to manufacturing capacity due to regulatory requirements, physical limitations, or scarce or inadequate resources that could impact continuous supply; and (4) damage to our reputation due to real or perceived quality issues. For example, the FDA has conducted investigations and banned certain generics manufacturers from selling certain raw materials and drug ingredients in the U.S. from overseas plants due to quality issues. Difficulties in manufacturing or access to raw materials could result in production shutdowns, product shortages and other similar delays in product manufacturing that could have a material adverse impact on our financial position and results of operations.

Changes in the Canadian healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

Provincial governments in Canada provide partial funding for the purchase of pharmaceuticals and independently regulate the sale and reimbursement of drugs. Provincial governments in Canada have introduced significant changes in recent years in an effort to reduce the costs of publicly funded health programs. For instance, to reduce the cost for taxpayers, provincial governments have taken steps to reform the rules regarding the sale of generic drugs. These changes include the significant lowering of prices for generic pharmaceuticals and, in some provinces, changes to the allowable amounts of professional allowances paid to pharmacists by generic manufacturers, the tendering of generic molecules on provincial drug formularies as well as the tendering of drug distribution services by provincial governments. These reforms may adversely affect the distribution of drugs as well as the pricing for prescription drugs for the Company’s operations in Canada. Other provinces have implemented or are considering similar changes, which would also lower pharmaceutical pricing and service fees. Individually or in combination, such changes in the Canadian healthcare environment may significantly reduce our Canadian revenue and operating profit.

General European economic conditions, together with austerity measures being taken by certain European governments, could have a material adverse impact on our results of operations.

The Company’s acquisition of Celesio increased our assets and operations within Europe and, accordingly, our exposure to economic conditions in Europe. A slowdown within the European economy could affect our business in Europe by reducing the prices our customers may be able or willing to pay for our products and services. A slowdown may also reduce the demand for our products. Either of these could result in a material adverse impact on our results of operations.

In addition, in many European countries the government provides or subsidizes healthcare to consumers and regulates pharmaceutical prices, patient eligibility, and reimbursement levels to control costs for the government-sponsored healthcare system. In recent years, in response to the recessionary environment and financial crisis in Europe, a number of European governments, including the government in the United Kingdom in the past year, have announced or implemented austerity measures to reduce healthcare spending and constrain overall government expenditures. These measures, which include efforts aimed at reforming healthcare coverage and reducing healthcare costs, continue to exert pressure on the pricing of and reimbursement timelines for pharmaceuticals and may cause our customers to purchase fewer of our products and services and reduce the prices they are willing to pay.

Countries with existing healthcare-related austerity measures may impose additional laws, regulations, or requirements on the healthcare industry. In addition, European governments that have not yet imposed healthcare-related austerity measures may impose them in the future. New austerity measures may be similar to or vary from existing austerity measures and could have a material adverse impact on our results of operations.

Table of Contents

Changes in the European regulatory environment regarding privacy and data protection regulations could have a material adverse impact on our results of operations.

In Europe, we are subject to the 1995 European Union ("EU") Directive on Data Protection ("1995 Data Protection Directive"), which requires EU member states to impose restrictions on the collection and use of personal data that, in some respects, are more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States. We may also face audits or investigations by one or more foreign government agencies relating to our compliance with these regulations that could result in the imposition of penalties or fines. The EU member state regulations establish several obligations that organizations must follow with respect to use of personal data, including a prohibition on the transfer of personal information from the EU to other countries whose laws do not protect personal data to an adequate level of privacy or security. In addition, certain member states have adopted more stringent data protection standards. In May 2018, the General Data Protection Regulation ("GDPR") will supersede current EU data protection legislation, impose more stringent EU data protection requirements, and provide for greater penalties for noncompliance. The costs of compliance with, and other burdens imposed by, such laws, regulations and policies that are applicable to us may limit the use and adoption of our products and solutions and could have a material adverse impact on our results of operations.

Our results of operations, which are stated in U.S. dollars, could be adversely impacted by fluctuations in foreign currency exchange rates.

We conduct our business worldwide in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling and Canadian dollar. Changes in foreign currency exchange rates could have a significant adverse impact on our financial results that are reported in the U.S. dollar. For example, the day after the United Kingdom approved an advisory referendum to withdraw from the European Union in June 2016, the British pound sterling fell by more than 10 percent against the U.S. dollar, to its lowest level in more than 30 years. The fall in the British pound sterling relative to the U.S. dollar and Euro, and the strengthening of the U.S. dollar relative to a number of currencies including the British pound sterling and Euro, could have significant impacts on the business and financial results. We are also exposed to foreign currency exchange rate risk related to our foreign subsidiaries, including intercompany loans denominated in non-functional currencies.

We may from time to time enter into foreign currency contracts or other derivative instruments intended to hedge a portion of our foreign currency exchange rate risks. Additionally, we may use foreign currency borrowings to hedge some of our foreign currency exchange rate risks. These hedging activities may not completely offset the adverse financial effects of unfavorable movements in foreign currency exchange rates during the time the hedges are in place.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Integration of acquisitions involves a number of significant risks, including the diversion of management's attention to the assimilation of the operations of businesses we have acquired; difficulties in the integration of operations and systems; the realization of potential operating synergies; the assimilation and retention of the personnel of the acquired companies; accounting, regulatory or compliance issues that could arise, including internal control over financial reporting; and challenges retaining the customers of the combined businesses. Further, acquisitions may have a material adverse impact on our operating results if unanticipated expenses or charges to earnings were to occur, including unanticipated depreciation and amortization expenses over the useful lives of certain assets acquired, as well as costs related to potential impairment charges, assumed litigation and unknown liabilities. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable and is subject to potential volatility in the credit markets. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

Achieving the anticipated benefits of any acquisition is subject to a number of risks and uncertainties, including foreign exchange fluctuations, challenges of managing new domestic or international operations, and whether we can ensure continued performance or market growth of products and services. The integration process is subject to a number of uncertainties and no assurance can be given that the anticipated benefits of any transaction will be realized or, if realized, the timing of its realization. It is possible that the integration process could take longer than anticipated,

and could result in the loss of employees, the disruption of each company's ongoing businesses, processes and systems, or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements. Any of these events could adversely affect our ability to achieve the anticipated benefits of an acquisition and which could have a material adverse impact on our results of operations.

Table of Contents
McKESSON CORPORATION

Any significant diversion of management's attention away from the ongoing businesses, and any difficulties encountered in the acquisition, transition and integration process, could adversely affect our financial results. Moreover, the failure to achieve the anticipated benefits of a transaction could result in increased costs or decreases in the amount of expected revenues, and could adversely affect our future business, financial position and operating results. Events outside of our control, including changes in regulations and laws, as well as economic trends, could also adversely affect our ability to realize the expected benefits from a transaction.

Our results of operations could be impacted if our investment in Change Healthcare fails to perform as expected.

On March 1, 2017, McKesson contributed the majority of its Core MTS Business and Change contributed substantially all of its businesses, excluding its pharmacy switch and prescription routing businesses, to form a joint venture, Change Healthcare. The purpose of the transaction was to create a new healthcare information technology company, bringing together the complementary strengths of the contributed assets to provide software and analytics, network solutions and technology-enabled services that will help customers obtain actionable insights, exchange mission-critical information, control costs, optimize revenue opportunities, increase cash flow and effectively navigate the shift to value-based healthcare. Change Healthcare is jointly governed by McKesson and Change. Operating a business under joint governance of unaffiliated, controlling members could lead to conflicts of interest or deadlocks on important and time-sensitive operational, financial or strategic decisions, and will require additional organizational formalities as well as time-consuming procedures for sharing information and making decisions. If we are unable to manage our joint venture relationship and to realize the strategic and financial benefits that we expect, including an initial private offering of Change Healthcare, such inability to manage the relationship or realize benefits may have a material adverse impact on our results of operations.

Our business and results of operations could be impacted if we fail to manage and complete divestitures.

We regularly evaluate our portfolio in order to determine whether an asset or business may no longer help us meet our objectives. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the achievement of our strategic objectives. We may also experience greater dissynergies than expected, and the impact of the divestiture on our revenue growth may be larger than projected. After reaching an agreement with a buyer, we are subject to satisfaction of pre-closing conditions as well as to necessary regulatory and governmental approvals, which, if not satisfied or obtained, may prevent us from completing the sale. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside of our control could have a material adverse impact on our results of operations.

We are subject to legal and regulatory proceedings that could have a material adverse impact on our financial position and results of operations.

From time to time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal and regulatory proceedings involving false claims, healthcare fraud and abuse, antitrust, class actions, commercial, employment, environmental, intellectual property, licensing, tort and other various claims. All such legal proceedings are inherently unpredictable, and the outcome can result in excessive verdicts and/or injunctive relief that may affect how we operate our business or we may enter into settlements of claims for monetary payments. In some cases, substantial non-economic remedies or punitive damages may be sought. For some complaints filed against the Company, we are currently unable to estimate the amount of possible losses that might be incurred should these legal proceedings be resolved against the Company.

The outcome of litigation and other legal matters is always uncertain and outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or any combination of more than one legal matter could result in a material adverse impact on our financial position or results of operations. Litigation is costly, time-consuming and disruptive to normal business operations. The defense of these matters could also result in continued diversion of our management's time and attention away from business operations, which could also harm our business. Even if these matters are not resolved against us, the uncertainty and expense associated with

unresolved legal proceedings could harm our business and reputation.

Table of Contents
McKESSON CORPORATION

Competition and industry consolidation may erode our profit.

Our Distribution Solutions segment faces a highly competitive global environment with strong competition from international, national, regional and local full-line, short-line and specialty distributors, service merchandisers, self-warehousing chain drug stores, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. In all areas, key competitive factors include price, quality of service, breadth of product lines, innovation and, in some cases, convenience to the customer.

In addition, in recent years, the healthcare industry has been subject to increasing consolidation. As a result, a small number of very large pharmaceutical suppliers could control a significant share of the market. Accordingly, we could depend on fewer suppliers for our products and therefore we may be less able to negotiate price terms with suppliers. Many of our customers, including healthcare organizations that purchase our products and services, have also consolidated to create larger enterprises with greater market power. If this consolidation trend continues among our customers, suppliers and competitors, it could reduce the number of market participants and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. It would also increase counter-party credit risk as the number of market participants decreases. In addition, when our customers combine, they often consolidate infrastructure including IT systems, which in turn may erode the diversity of our customer and revenue base.

Our Technology Solutions segment and McKesson Rx Technology Solutions businesses experience substantial competition from many companies, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

These competitive pressures and industry consolidation could have a material adverse impact on our results of operations.

A material reduction in purchases or the loss of a large customer or group purchasing organization, as well as substantial defaults in payment by a large customer or group purchasing organization, could have a material adverse impact on our financial position and results of operations.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2017, sales to our ten largest customers, including group purchasing organizations (“GPOs”) accounted for approximately 54.2% of our total consolidated revenues. Sales to our largest customer, CVS Health (“CVS”), accounted for approximately 20.2% of our total consolidated revenues. At March 31, 2017, trade accounts receivable from our ten largest customers were approximately 33.7% of total trade accounts receivable. Accounts receivable from CVS were approximately 17.8% of total trade accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. A material default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or GPO could have a material adverse impact on our financial position, results of operations and liquidity.

We generally sell our products and services to customers on credit that is short-term in nature and unsecured. Any adverse change in general economic conditions can adversely reduce sales to our customers, affect consumer buying practices or cause our customers to delay or be unable to pay accounts receivable owed to us, which may in turn materially reduce our revenue growth and cause a material decrease in our profitability and cash flow. Further, interest rate fluctuations and changes in capital market conditions may also affect our customers’ ability to obtain credit to finance their business under acceptable terms, which in turn may materially reduce our revenue growth and cause a decrease in our profitability.

Table of Contents

Contracts with foreign and domestic government entities and their agencies pose additional risks relating to future funding and compliance.

Contracts with foreign and domestic government entities and their agencies are subject to various uncertainties, restrictions and regulations, including oversight audits by various government authorities. Government contracts also are exposed to uncertainties associated with funding. Contracts with the U.S. federal government, for example, are subject to the uncertainties of Congressional funding. Governments are typically under no obligation to maintain funding at any specific level, and funds for government programs may even be eliminated. As a result, our government clients may terminate our contracts for convenience or decide not to renew our contracts with little or no prior notice. The loss of such contracts could have a material adverse impact on our results of operations.

In addition, because government contracts are subject to specific procurement regulations and a variety of other socio-economic requirements, we must comply with such requirements. For example, for contracts with the U.S. federal government, with certain exceptions, we must comply with the Federal Acquisition Regulation, the U.S. False Claims Act, the Procurement Integrity Act, the Buy American Act and the Trade Agreements Act. We must also comply with various other domestic and foreign government regulations and requirements as well as various statutes related to employment practices, environmental protection, recordkeeping and accounting. These regulations and requirements affect how we transact business with our clients and, in some instances, impose additional costs on our business operations. Government contracts also contain terms that expose us to higher levels of risk and potential liability than non-government contracts.

We also are subject to government audits, investigations, and oversight proceedings. For example, government agencies routinely review and audit government contractors to determine whether contractors are complying with specific contractual or legal requirements. If we violate these rules or regulations, fail to comply with a contractual or other requirement, or do not satisfy an audit, a variety of penalties can be imposed by a government including monetary damages and criminal and civil penalties. In addition, any of our government contracts could be terminated or we could be suspended or debarred from all government contract work. The occurrence of any of these actions could harm our reputation and could have a material adverse impact on our results of operations.

Our future results could be materially affected by a number of public health issues whether occurring in the United States or abroad.

Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have a broader adverse impact on consumer spending and confidence levels that would negatively affect our suppliers and customers. We have developed contingency plans to address infectious disease scenarios and the potential impact on our operations, and we will continue to update these plans as necessary. However, there can be no assurance that these plans will be effective in eliminating the negative impact of any such diseases on the Company’s operating results. We may be required to suspend operations in some or all of our locations, which could have a material adverse impact on our financial position and results of operations.

We rely on sophisticated computer systems to perform our business operations. Although we and our customers use a variety of security measures to protect our and their computer systems, a failure or compromise of our or our customers’ computer systems from a cyberattack, natural disaster, or malfunction may result in material adverse operational and financial consequences.

Our business relies on the secure electronic transmission, storage, and hosting of sensitive information, including protected health information, financial information and other sensitive information relating to our customers, company and workforce. We routinely process, store and transmit large amounts of data in our operations, including sensitive personal information, protected health information, financial information, and confidential information relating to our business or third parties. Some of the data that we process, store and transmit may travel outside of the United States. Additionally, we outsource some important IT functions to external service providers worldwide.

Despite our implementation of a variety of physical, technical and administrative security measures, our and our customers’ computer systems could be subject to cyberattacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other global companies, we and our customers have experienced threats to data and systems, including malware and ransomware attacks, unauthorized access, system failures, and disruptions.

20

Table of Contents
McKESSON CORPORATION

A failure or compromise of our or our customers' computer systems may jeopardize the confidential, proprietary, and sensitive information processed, stored, and transmitted through such computer systems. Such an event may result in significant damage to our reputation, financial losses, litigation, increased costs, regulatory penalties, customer attrition, brand impairment, or other business harm. These risks may increase in the future as we continue to expand our internet and mobile strategies and to build an integrated digital enterprise.

We could experience losses or liability not covered by insurance.

In order to provide prompt and complete service to our major Distribution Solutions segment's customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have a material adverse impact on our results of operations.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing and administration of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payer businesses and the provision of products that assist clinical decision making and relate to patient medical histories and treatment plans. If customers or individuals assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit our liability to customers by contract; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. Additionally, we may be subject to claims that are not explicitly covered by contract, such as a claim directly by a patient. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms, may not be available in sufficient amounts to cover one or more large claims against us and may include larger self-insured retentions or exclusions for certain products. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have a material adverse impact on our results of operations.

Transactions like our acquisitions of Celesio and Rexall expose us to additional risks related to providing pharmacy services. Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products, such as with respect to improper filling of prescriptions, labeling of prescriptions, adequacy of warnings, unintentional distribution of counterfeit drugs and expiration of drugs. Although we maintain liability insurance, the coverage may not be adequate to protect us against future claims. If our insurance coverage proves to be inadequate or unavailable, or we suffer reputational harm as a result of an error or omission, it could have a material adverse impact on our results of operations.

Proprietary protections may not be adequate, and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. There can be no assurance that these protections will be adequate or that our competitors will not independently develop products or services that are equivalent or superior to ours. In addition, despite protective measures, we may be subject to unauthorized use of our technology due to copying, reverse-engineering or other infringement. Although we believe that our products and services do not infringe the proprietary rights of third parties, from time to time third parties have asserted infringement claims against us, and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing products or services, obtain a license or cease selling or using the products or services that contain the infringing elements. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments or costs of developing replacement products or services could have a material adverse impact on our results of operations.

Table of Contents
McKESSON CORPORATION

System errors or failures of our products or services to conform to specifications could cause unforeseen liabilities or injury, harm our reputation and have a material adverse impact on our results of operations.

The software and technology services that we sell or operate are complex. As with complex systems offered by others, our software and technology services may contain errors, especially when first introduced. For example, our Technology Solutions segment systems are intended to provide information to healthcare professionals in the course of delivering patient care. Therefore, users of our software and technology services have a greater sensitivity to errors than the general market for software products. If clinicians' use of our software and technology services leads to faulty clinical decisions or injury to patients, we could be subject to claims or litigation by our customers, clinicians or patients. In addition, such failures could damage our reputation and could negatively affect future sales.

Failure of a customer's system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

Various risks could interrupt customers' access to their data residing in our service center, exposing us to significant costs.

We provide remote hosting services that involve operating both our software and the software of third-party vendors for our customers. The ability to access the systems and the data that we host and support on demand is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation: (1) power loss and telecommunications failures; (2) fire, flood, hurricane and other natural disasters; (3) software and hardware errors, failures or crashes; and (4) cyberattacks, computer viruses, hacking and other similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans, separate test systems and change controls, information security procedures, and continued development and enhancement of our cyber security, but our precautions may not protect against all risks. If customers' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims, particularly if the access interruption is associated with problems in the timely delivery of medical care. If customers' access is interrupted from failure or breach of our operational or information security systems, or those of our contractors or third party service providers, we could suffer reputational harm or be exposed to liabilities arising from the unauthorized and improper use or disclosure of confidential or proprietary information. We must maintain disaster recovery and business continuity plans that rely upon third-party providers of related services and if those vendors fail us at a time that our center is not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our contractual service commitments. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

We may be required to record a significant charge to earnings if our goodwill, intangible assets, or investments become impaired.

We are required under U.S. generally accepted accounting principles ("GAAP") to test our goodwill for impairment annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible assets for impairment when events or changes in circumstances, such as a divestiture, indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates, the loss of a significant customer, or divestiture of a business or asset for less than its carrying value. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. This could have a material adverse impact on our results of operations. There are inherent uncertainties in management's estimates, judgments and assumptions used in assessing recoverability of goodwill and intangible assets. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could

potentially result in an impairment charge.

Our investment in Change Healthcare represents the fair value of our 70% equity interest in Change Healthcare upon closing. We may experience declines in its fair value. A decline in the fair value of our Change Healthcare investment may require that we review the carrying value for potential impairment, and such review could result in impairments and charges to our consolidated statements of operations.

Table of Contents

Tax legislation initiatives or challenges to our tax positions could have a material adverse impact on our results of operations.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time to time, legislation may be enacted that could adversely affect our tax positions. There can be no assurance that our effective tax rate and the resulting cash flow will not be adversely affected by these changes in legislation. For example, if legislation is passed to repeal the LIFO (last-in, first-out) method of inventory accounting for income tax purposes, it would adversely impact our cash flow. Additionally, if legislation is passed to change the current U.S. taxation treatment of income from foreign operations, or if legislation is passed at the state level to establish or increase taxation on the basis of our gross revenues, it may adversely impact our tax expense. The tax laws and regulations of the various countries where we have major operations are extremely complex and subject to varying interpretations. For example, we operate in various countries that collect value added taxes ("VAT"). The determination of the manner in which a VAT applies to our foreign operations is subject to varying interpretations arising from the complex nature of the tax laws and regulations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge. Even if we are successful in maintaining our positions, we may incur significant expense in defending challenges to our tax positions by tax authorities that could have a material impact on our financial position and results of operations.

In addition, as jurisdictions enact legislation to implement the recommendations of the recently concluded base erosion and profit shifting project undertaken by the Organization for Economic Cooperation and Development or as a result of the European Commission's investigations into illegal state aid, changes to long-standing tax principles may result which could adversely impact our tax expense and cash flows.

Volatility and disruption to the global capital and credit markets may adversely affect our ability to access credit, our cost of credit and the financial soundness of our customers and suppliers.

Volatility and disruption in the global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by other financial institutions, or decreased liquidity and increased costs in the commercial paper market, may adversely affect the availability and cost of credit already arranged and the availability, terms and cost of credit in the future. Although we believe that our operating cash flow, financial assets, 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, there can be no assurance that volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Our business could also be negatively impacted if our customers or suppliers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy. As a result, customers may modify, delay or cancel plans to purchase or implement our products or services and suppliers may increase their prices, reduce their output or change their terms of sale. Additionally, if customers' or suppliers' operating and financial performance deteriorates or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of accounts receivable owed to us and suppliers may restrict credit, impose different payment terms or be unable to make payments due to us for fees, returned products or incentives. Any inability of customers to pay us for our products and services or any demands by suppliers for different payment terms, may have a material adverse impact on our results of operations and cash flow.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt, such as the amended guidance for revenue recognition and leases, may require changes to the current accounting treatment that we apply to our consolidated financial statements and may require us to make significant changes to our systems.

Such changes could result in a material adverse impact on our financial position and results of operations.

Table of Contents
McKESSON CORPORATION

We could face significant liability if we withdraw from participation in one or more multiemployer pension plans in which we participate, or if one or more multiemployer plans in which we participate is reported to have underfunded liabilities.

We participate in various multiemployer pension plans. In the event that we withdraw from participation in one of these plans, then applicable law could require us to make additional cash contributions to the plans in installments. Our withdrawal liability for any multiemployer plan would depend on the extent of the plan's funding of vested benefits. The multiemployer plans could have significant unfunded vested liabilities. Such underfunding may increase in the event other employers become insolvent or withdraw from the applicable plan or upon the inability or failure of withdrawing employers to pay their withdrawal liability. In addition, such underfunding may increase as a result of lower than expected returns on pension fund assets or other funding deficiencies. The occurrence of any of these events could have a material adverse impact on our consolidated financial position, results of operations or cash flows.

We may not realize the expected benefits from our restructuring and business process initiatives.

On March 14, 2016, the Company committed to a restructuring plan to lower its operating costs ("Cost Alignment Plan"). The Cost Alignment Plan primarily consists of a reduction in workforce and business process initiatives that will be substantially implemented prior to the end of 2019. Expense reduction initiatives could yield unintended consequences such as distraction of our management and employees, business disruption, attrition beyond any planned reduction in workforce, inability to attract or retain key personnel, and reduced employee productivity which could negatively affect our business, sales, financial condition and results of operations. Moreover, our restructuring and business process initiatives result in charges and expenses that impact our operating results. We cannot guarantee that the activities under any restructuring and business initiative will result in the desired efficiencies and estimated cost savings.

We may experience difficulties with outsourcing and similar third party relationships.

Our ability to conduct our business might be negatively impacted if we experience difficulties with outsourcing and managing similar third-party relationships. We outsource certain business and administrative functions and rely on third parties to perform certain services on our behalf. If we fail to develop, implement and monitor our outsourcing strategies, such strategies prove to be ineffective or fail to provide expected cost savings, or our third party providers fail to perform as anticipated, we may experience operational difficulties and increased costs may adversely affect the results of our operations.

Moreover, we utilize contractors and employees located outside of the United States to assist us in performing services or providing support for our customers. Certain of these resources may have access to personal information, including protected health information. Some of our customers have contractually limited or may seek to limit our ability to use our offshore resources which may increase our costs due to concerns regarding potential misuse of this information. Further, Congress and a number of states have considered legislation that would restrict the transmission of personal information of United States residents offshore. Some proposals impose liability on healthcare businesses resulting from misuse or prohibited transmission of personal information to individuals or entities outside the United States and may require the prior consent of the identifiable patient. Congress also has considered establishing a private civil cause of action enabling an individual to recover damages sustained as a result of a violation of these proposed restrictions. If our ability to utilize offshore resources is limited by our customers or legislative action, the work currently being performed offshore may be done at a lower margin or at a loss and we may be subject to sanctions if we are unable to comply with new legislative requirements. Use of offshore resources may increase our risk of violating data security and privacy obligations to our customers, which could adversely affect our results of operations.

We may face risks associated with our retail expansion.

In recent years, we have expanded our retail operations through a number of acquisitions. As we expand our retail footprint, we may face risks that are different from those we currently encounter. Our expansion into additional retail markets, such as those in Europe and Canada, could result in increased competitive, merchandising and distribution challenges. We may encounter difficulties in attracting customers to our retail locations due to a lack of customer

familiarity with our brands and our lack of familiarity with local customer preferences and seasonal differences in the market. Our ability to expand successfully will depend on acceptance of our retail store experience by customers, including our ability to design our stores in a manner that resonates locally and to offer the correct product assortment to appeal to consumers. Furthermore, our continued growth in the retail sector may strain relations with certain of our distribution customers who also compete in the retail pharmacy sector. There can be no assurance that our retail locations will be received as well as, or achieve net sales or profitability levels consistent with, our projected targets or be comparable to those of our existing stores in the time periods estimated by us, or at all. If our retail expansion fails to achieve, or unable to sustain, acceptable net sales and profitability levels, our business, results of operations and growth prospects may be materially adversely affected.

Table of Contents
McKESSON CORPORATION

Our retail stores may require additional management time and attention. Failure to properly supervise the operation and maintain the consistency of the customer experience in those retail stores could result in loss of customers and potentially adversely affect our results of operations.

We may be unable to keep existing retail store locations or open new retail locations in desirable places, which could materially adversely affect our results of operations.

We may be unable to keep existing retail locations or open new retail locations in desirable places in the future. We compete with other retailers and businesses for suitable retail locations. Local land use, local zoning issues, environmental regulations and other regulations may affect our ability to find suitable retail locations and also influence the cost of leasing or buying them. We also may have difficulty negotiating real estate leases for new stores, renewing real estate leases for existing stores or negotiating purchase agreements for new sites on acceptable terms. In addition, construction, environmental, zoning and real estate delays may negatively affect retail location openings and increase costs and capital expenditures. If we are unable to keep up our existing retail store locations or open new retail store locations in desirable places and on favorable terms, our results of operations could be materially adversely affected.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Because of the nature of our principal businesses, our plant, warehousing, retail pharmacies, office and other facilities are operated in widely dispersed locations, primarily throughout North America and Europe. The warehouses and retail pharmacies are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 23, “Lease Obligations,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

Certain legal proceedings in which we are involved are discussed in Financial Note 25, “Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents
McKESSON CORPORATION

Executive Officers of the Registrant

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

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

Name	Age	Position with Registrant and Business Experience
John H. Hammergren	58	Chairman of the Board since July 2002; President and Chief Executive Officer since April 2001; and a director since July 1999. Service with the Company — 21 years.
James A. Beer	56	Executive Vice President and Chief Financial Officer since October 2013; Executive Vice President and Chief Financial Officer, Symantec Corporation from 2006 to October 2013; Senior Vice President and Chief Financial Officer, AMR Corporation and its principal subsidiary, American Airlines, Inc., from 2004 to 2006. Service with the Company — 3 years.
Jorge L. Figueredo	56	Executive Vice President, Human Resources since May 2008. Service with the Company — 9 years.
Paul C. Julian	61	Executive Vice President and Group President since April 2004. Service with the Company — 21 years.
Kathleen D. McElligott	61	Executive Vice President, Chief Information Officer and Chief Technology Officer since July 2015; Chief Information Officer and Vice President, Information Technology, Emerson Electric from 2010 to July 2015. Service with the Company — 1 year, 9 months.
Bansi Nagji	52	Executive Vice President, Corporate Strategy and Business Development since February 2015; Principal, Deloitte Consulting, LLP and Global Leader, Monitor Deloitte (which was formed by the global merger of Monitor Group with Deloitte) from January 2013 to February 2015; President, Monitor Group from July 2012 to January 2013; Partner, Monitor Group from 2001 to January 2013. Service with the Company — 2 years.
Lori A. Schechter	55	Executive Vice President, General Counsel and Chief Compliance Officer since June 2014; Associate General Counsel from January 2012 to June 2014; Litigation Partner, Morrison & Foerster LLP from January 1995 to December 2011. Service with the Company — 5 years.

Table of Contents
McKESSON CORPORATION

PART II

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

(a) Market Information: The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE").

The following table sets forth the high and low sales prices for our common stock as reported on NYSE for each quarterly period of the two most recently completed fiscal years:

	2017		2016	
	High	Low	High	Low
First quarter	$188.43	$154.33	$243.61	$219.51
Second quarter	$199.43	$163.57	$236.86	$160.10
Third quarter	$166.78	$114.53	$202.20	$169.00
Fourth quarter	$153.07	$134.17	$196.84	$148.29

(b) Holders: The number of record holders of the Company's common stock at March 31, 2017 was approximately 5,974.

(c) Dividends: In July 2015, the Company's quarterly dividend was raised from $0.24 to $0.28 per common share for dividends declared after such date, until further action by the Company's Board of Directors (the "Board"). The Company declared regular cash dividends of $1.12 and $1.08 per share in the years ended March 31, 2017 and 2016.

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.

(d) Securities Authorized for Issuance under Equity Compensation Plans: Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.

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

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

In May and October 2015, the Board authorized the repurchase of up to $500 million and $2 billion of the Company's common stock.

In 2016, we repurchased 4.5 million of the Company's shares for $854 million through open market transactions at an average price per share of $192.27. In February 2016, we entered into an ASR program with a third-party financial institution to repurchase $650 million of the Company's common stock. This ASR program was completed during the 2016 fourth quarter and we repurchased 4.2 million shares at an average price per share of $154.04. During 2016, we completed the May 2015 share repurchase authorization. At March 31, 2016, $1.0 billion remained available for future authorized repurchases of the Company's common stock under the October 2015 authorization.

In October 2016, the Board authorized the repurchase of up to $4.0 billion of the Company's common stock.

In 2017, we repurchased 14.1 million of the Company's shares for $2 billion through open market transactions at an average price per share of $140.96. In March 2017, we entered into an ASR program with a third-party financial institution to repurchase $250 million of the Company's common stock. As of March 31, 2017, we had received 1.4 million shares under this program. This ASR program was completed in April 2017 and we received 0.3 million additional shares. The total number of shares repurchased under this ASR program was 1.7 million shares at an average price per share of $143.19. During 2017, we completed the October 2015 share repurchase authorization. The total authorization outstanding for repurchases of the Company's common stock was $2.7 billion at March 31, 2017.

27

Table of Contents
McKESSON CORPORATION

In 2016, we retired 115.5 million or $7.8 billion of the Company's treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with our accounting policy, we allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. Accordingly, our retained earnings and additional paid-in capital were reduced by $6.4 billion and $1.5 billion during 2016.

The following table provides information on the Company's share repurchases during the fourth quarter of 2017:

	Share Repurchases [1]			
(In millions, except price per share)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
January 1, 2017 - January 31, 2017	—	$ —	—	$ —
February 1, 2017 - February 29, 2017	—	—	—	—
March 1, 2017 - March 31, 2017	1.4	143.19	1.4	2,746
Total	1.4		1.4	$ 2,746

(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.

Table of Contents
McKESSON CORPORATION

(f) Stock Price Performance Graph*: The following graph compares the cumulative total stockholder return on the Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the S&P 500 Health Care Index. The S&P 500 Health Care Index was selected as a comparator because it is generally available to investors and broadly used by other companies in the same industry.

	March 31,					
	2012	2013	2014	2015	2016	2017
McKesson Corporation	$100.00	$124.07	$204.26	$262.91	$183.82	$174.50
S&P 500 Index	$100.00	$113.96	$138.87	$156.55	$159.34	$186.71
S&P 500 Health Care Index	$100.00	$125.19	$161.79	$204.17	$193.59	$216.03

* Assumes $100 invested in McKesson Common Stock and in each index on March 31, 2012 and that all dividends are reinvested.

Table of Contents
McKESSON CORPORATION

Item 6. Selected Financial Data.
FIVE-YEAR HIGHLIGHTS

	As of and for the Years Ended March 31,				
(In millions, except per share data and ratios)	2017	2016	2015	2014	2013
Operating Results					
Revenues	$198,533	$190,884	$179,045	$137,392	$122,196
Percent change	4.0 %	6.6 %	30.3 %	12.4 %	(0.2)%
Gross profit	$11,271	$11,416	$11,411	$8,352	$6,881
Income from continuing operations before income taxes [2]	6,891	3,250	2,657	2,171	1,950
Income (loss) after income taxes					
Continuing operations [2]	5,277	2,342	1,842	1,414	1,363
Discontinued operations	(124)	(32)	(299)	(156)	(25)
Net income	5,153	2,310	1,543	1,258	1,338
Net (income) loss attributable to noncontrolling interests [1]	(83)	(52)	(67)	5	—
Net income attributable to McKesson Corporation [2]	5,070	2,258	1,476	1,263	1,338
Financial Position					
Working capital	$1,336	$3,366	$3,173	$3,221	$1,813
Days sales outstanding for: [3]					
Customer receivables	27	28	26	29	26
Inventories	30	32	31	33	33
Drafts and accounts payable	61	59	54	54	51
Total assets	$60,969	$56,523	$53,870	$51,759	$34,786
Total debt, including capital lease obligations	8,545	8,114	9,844	10,594	4,873
Total McKesson stockholders' equity[4]	11,095	8,924	8,001	8,522	7,070
Payments for property, plant and equipment	404	488	376	278	241
Acquisitions, net of cash and cash equivalents acquired	4,237	40	170	4,634	1,873
Common Share Information					
Common shares outstanding at year-end	211	225	232	231	227
Shares on which earnings per common share were based					
Diluted	223	233	235	233	239
Basic	221	230	232	229	235
Diluted earnings (loss) per common share attributable to McKesson Corporation [5]					
Continuing operations	$23.28	$9.84	$7.54	$6.08	$5.69
Discontinued operations	(0.55)	(0.14)	(1.27)	(0.67)	(0.10)
Total	22.73	9.70	6.27	5.41	5.59
Cash dividends declared	249	249	226	214	192
Cash dividends declared per common share	1.12	1.08	0.96	0.92	0.80
Book value per common share [5] [6]	52.58	39.66	34.49	36.89	31.15
Market value per common share - year-end	148.26	157.25	226.20	176.57	107.96

Supplemental Data					
Debt to capital ratio [7]	39.2 %	43.6 %	50.3 %	55.4 %	40.6 %
Average McKesson stockholders' equity[8]	$9,282	$8,688	$8,703	$7,803	$7,294
Return on McKesson stockholders' equity[9]	54.6 %	26.0 %	17.0 %	16.2 %	18.3 %

Footnotes to Five-Year Highlights:

(1) 2016 and 2015 primarily reflect guaranteed dividends and annual recurring compensation that McKesson became obligated to pay to the noncontrolling shareholders of Celesio AG upon the effectiveness of the Domination Agreement in December 2014. 2017 also includes net income attributable to third-party equity interests in our consolidated entities including Vantage and ClarusOne Sourcing Services LLC, which was established between McKesson and Wal-Mart Stores, Inc.

(2) 2017 includes a pre-tax gain of $3,947 million ($3,018 million after-tax) from the deconsolidation of our Core MTS Business in connection with Healthcare Technology Net Asset Exchange.

(3) Based on year-end balances and sales or cost of sales for the last 90 days of the year.

(4) Excludes noncontrolling and redeemable noncontrolling interests.

(5) Certain computations may reflect rounding adjustments.

(6) Represents McKesson stockholders' equity divided by year-end common shares outstanding.

(7) Ratio is computed as total debt divided by the sum of total debt and McKesson stockholders' equity excluding accumulated other comprehensive income (loss).

(8) Represents a five-quarter average of McKesson stockholders' equity.

(9) Ratio is computed as net income attributable to McKesson Corporation for the last four quarters, divided by a five-quarter average of McKesson stockholders' equity.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW

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

GENERAL

Management's discussion and analysis of financial condition and results of operations, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in Item 8 of Part II of this Annual Report on Form 10-K. 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.

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

We conduct our business through two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. Refer to Financial Note 29, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K for a description of these segments.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

RESULTS OF OPERATIONS
Overview:

(Dollars in millions, except per share data)	Years Ended March 31,			Change	
	2017	2016	2015	2017	2016
Revenues	$198,533	$190,884	$179,045	4 %	7 %
Gross Profit	$11,271	$11,416	$11,411	(1)%	— %
Operating Expenses					
Operating Expenses Excluding Gain on Healthcare Technology Net Asset Exchange, net	$(8,109)	$(7,871)	$(8,443)	3 %	(7)%
Gain on Healthcare Technology Net Asset Exchange, net	3,947	—	—	—	—
Total Operating Expenses	$(4,162)	$(7,871)	$(8,443)	(47)%	(7)%
Income from Continuing Operations Before Income Taxes	$6,891	$3,250	$2,657	112 %	22 %
Income Tax Expense	(1,614)	(908)	(815)	78	11
Income from Continuing Operations	5,277	2,342	1,842	125	27
Loss from Discontinued Operations, Net of Tax	(124)	(32)	(299)	288	(89)
Net Income	5,153	2,310	1,543	123	50
Net Income Attributable to Noncontrolling Interests	(83)	(52)	(67)	60	(22)
Net Income Attributable to McKesson Corporation	$5,070	$2,258	$1,476	125 %	53 %
Diluted Earnings (Loss) Per Common Share Attributable to McKesson Corporation					
Continuing Operations	$23.28	$9.84	$7.54	137 %	31 %
Discontinued Operations	(0.55)	(0.14)	(1.27)	293	(89)
Total	$22.73	$9.70	$6.27	134 %	55 %
Weighted Average Diluted Common Shares	223	233	235	(4)%	(1)%

Revenues for 2017 and 2016 increased 4% and 7% compared to the same periods a year ago primarily due to market growth and expanded business with existing customers within our North America pharmaceutical distribution businesses. Revenues for 2017 also increased due to our 2017 acquisitions including UDG Healthcare Plc ("UDG"), Biologics, Inc. ("Biologics"), Vantage Oncology Holdings, LLC ("Vantage") and Rexall Health. Market growth includes growing drug utilization, price increases and newly launched products, partially offset by price deflation associated with brand to generic drug conversion.

Gross profit decreased 1% in 2017 and was flat in 2016 compared to the same periods a year ago. Excluding unfavorable foreign currency effects of 1% and 4%, gross profit remained flat in 2017 and increased 4% in 2016. Gross profit margin decreased in 2017 primarily due to weaker pharmaceutical manufacturer pricing trends, the competitive sell-side pricing environment, our mix of business and lower compensation from a branded pharmaceutical manufacturer from our U.S. Pharmaceutical distribution business. These decreases were partially offset by our acquisitions, LIFO inventory credits, higher cash receipts from antitrust legal settlements and benefits from our global procurement arrangements. Gross profit margin decreased in 2016 primarily due to a lower sell margin within our North America distribution business driven by increased customer sales volume with some of our largest customers, partially offset by higher buy margin including benefits from our global procurement arrangements, lower LIFO-related inventory charges and higher cash receipts from antitrust legal settlements. Gross profit included

LIFO-related inventory credits of $7 million in 2017 and charges of $244 million and $337 million in 2016 and 2015. LIFO credits were recognized in 2017 primarily due to the impact of lower price increases. Gross profit for 2017 and 2016 also included $144 million and $76 million of cash receipts representing our share of antitrust legal settlements. During 2017 and 2016, our Distribution Solutions segment experienced weaker pharmaceutical manufacturer pricing trends, which are expected to continue in 2018.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Operating expenses decreased 47% and 7% in 2017 and 2016 compared to the same periods a year ago. Excluding favorable foreign currency effects of 2% and 5%, operating expenses decreased 45% and 2% in 2017 and 2016. Operating expenses decreased in 2017 primarily due to a pre-tax gain of $3,947 million (after-tax gain of $3,018 million) recognized from the deconsolidation of the majority of our Technology Solutions businesses ("Core MTS Business"), as further described below.

On June 28, 2016, we entered into a Contribution Agreement with Change, and others including shareholders of Change to form a joint venture, Change Healthcare. On March 1, 2017, the transaction closed upon satisfaction of all closing conditions pursuant to the Contribution Agreement. Under the terms of the Contribution Agreement, we contributed the majority of our Core MTS Business to the joint venture. We retained our RelayHealth Pharmacy and EIS businesses. We accounted for this transaction as a sale of the Core MTS Business and a subsequent purchase of a 70% interest in the newly formed joint venture. Accordingly, in the fourth quarter of 2017, we deconsolidated the Core MTS Business and recorded a pre-tax gain of $3,947 million (after-tax gain of $3,018 million). The pre-tax gain was calculated based on the difference between the fair value of our 70% equity interest in the joint venture, less the carrying amount of the contributed Core MTS Business' net assets of $1,132 million and $1,258 million of promissory notes, a $136 million liability associated with a tax receivable agreement and transaction and other related expenses. The $1,258 million of promissory notes were subsequently repaid in cash from proceeds of Change Healthcare's long term debt issuance. The gain is subject to final net working capital and other adjustments within 90 days from the transaction close date and is recorded in operating expenses within our Technology Solutions segment.

Our investment in Change Healthcare is accounted for using the equity method of accounting on a one-month reporting lag. We disclose intervening events at the joint venture in the lag period that could materially affect our consolidated financial statements, if applicable. In March 2017, our proportionate share of transaction expenses incurred by the joint venture is estimated to be approximately $80 million to $120 million. However, due to the timing of the transaction and the one-month reporting lag, no net income or loss from our investment was recorded in our financial results for 2017. Commencing April 1, 2017, our proportionate share of the net income or loss from the joint venture including these transaction expenses will be recorded in "Other Income, Net" in our consolidated statement of operations.

Refer to Financial Note 2, "Healthcare Technology Net Asset Exchange," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Excluding the gain on Healthcare Technology Net Asset Exchange, 2017 operating expenses increased primarily due to a non-cash pre-tax charge of $290 million ($282 million after-tax) for goodwill impairment related to our EIS business within our Technology Solutions segment and higher expenses due to our 2017 acquisitions. In connection with the Healthcare Technology Net Asset Exchange, we are evaluating strategic options for our EIS business. 2017 operating expenses benefited from lower restructuring charges and cost savings associated with a cost alignment plan implemented in the fourth quarter of 2016 and ongoing expense management efforts. 2016 operating expenses decreased primarily due to pre-tax gains of $103 million from the sale of two businesses and lower acquisition-related expenses, partially offset by pre-tax restructuring charges of $203 million relating to the 2016 cost alignment plan. Additionally, 2015 operating expenses included a pre-tax and after-tax $150 million charge associated with the settlement of controlled substance distribution claims with the Drug Enforcement Administration ("DEA"), Department of Justice ("DOJ") and various U.S. Attorney's offices.

Income from continuing operations before income taxes increased in 2017 and 2016 compared with the prior years primarily due to lower operating expenses.

Our reported income tax rates were 23.4%, 27.9% and 30.7% in 2017, 2016 and 2015. Income tax expense for 2017 included discrete income tax benefits of $54 million related to the early adoption of the amended accounting guidance on share-based compensation. In 2017, we sold various software and ancillary intellectual property relating to our Technology Solutions business between wholly owned legal entities within the McKesson group that are based in different tax jurisdictions and recognized a net tax benefit of $137 million prior to the contribution of these assets to

Change Healthcare.

Loss from discontinued operations, net of tax, for 2017 includes an after-tax loss from discontinued operations of $113 million resulting from the 2017 first quarter sale of our Brazilian pharmaceutical distribution business and for 2015, included pre-tax non-cash impairment charges of $241 million ($235 million after-tax) associated with the same Brazilian business.

Net income attributable to McKesson Corporation was $5,070 million, $2,258 million and $1,476 million in 2017, 2016 and 2015 and diluted earnings per common share attributable to McKesson Corporation from continuing operations were $23.28, $9.84

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

and $7.54. Diluted loss per common share attributable to McKesson Corporation from discontinued operations were $0.55, $0.14 and $1.27 in 2017, 2016 and 2015.

On April 3, 2017, we completed our acquisition of CoverMyMeds LLC ("CMM") for $1.3 billion and up to an additional $0.2 billion of contingent consideration payable based on CMM's financial performance through the end of 2019. CMM provides electronic prior authorization solutions and is headquartered in Columbus, Ohio. Refer to Financial Note 4, "Business Combinations" to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Revenues:

	Years Ended March 31,			Change	
(Dollars in millions)	2017	2016	2015	2017	2016
Distribution Solutions					
North America pharmaceutical distribution & services	$164,832	$158,469	$143,711	4 %	10 %
International pharmaceutical distribution & services	24,847	23,497	26,358	6	(11)
Medical-Surgical distribution & services	6,244	6,033	5,907	3	2
Total Distribution Solutions	195,923	187,999	175,976	4	7
Technology Solutions - products and services	2,610	2,885	3,069	(10)	(6)
Total Revenues	$198,533	$190,884	$179,045	4 %	7 %

Revenues increased 4% and 7% in 2017 and 2016 compared to the same periods a year ago primarily driven by our Distribution Solutions segment, which accounted for approximately 99% of our consolidated revenues.

Distribution Solutions

North America pharmaceutical distribution and services revenues increased over the last two years primarily due to market growth, higher revenues associated with our 2017 acquisitions including Biologics, Vantage and Rexall Health, and expanded business with existing customers. These increases were partially offset by customer losses. Market growth includes growing drug utilization, price increases and newly launched products, partially offset by price deflation associated with brand to generic drug conversion.

International pharmaceutical distribution and services revenues increased 6% in 2017 and decreased 11% in 2016. Excluding unfavorable foreign currency effects of 5% and 12%, revenues increased 11% and 1% in 2017 and 2016. Revenues increased in 2017 primarily due to market growth and our acquisition of UDG. Revenue growth for 2016 primarily reflected increased revenues in the United Kingdom due to a new distribution agreement with a manufacturer, which was almost fully offset by lower revenues in Norway associated with the loss of a hospital contract.

Medical-Surgical distribution and services revenues increased over the last two years primarily due to market growth. Revenues for 2017 also benefited from an acquisition and for 2016 were unfavorably affected by the sale of our ZEE Medical business in the second quarter of 2016.

Technology Solutions

Technology Solutions revenues for 2017 decreased primarily due to one less month of revenues from the Core MTS Business, which was contributed to Change Healthcare on March 1, 2017. Revenues decreased over the last two years primarily due to a decline in hospital software revenues, partially offset by higher revenues in our other businesses. Additionally, 2016 revenues decreased as a result of the sale of our nurse triage business and the transition of our workforce business within our International Technology business to a third party during the first quarter of 2016.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Gross Profit:

	Years Ended March 31,			Change	
(Dollars in millions)	2017	2016	2015	2017	2016
Gross Profit					
Distribution Solutions [1] [2]	$9,856	$9,948	$9,937	(1)%	—%
Technology Solutions [2]	1,415	1,468	1,474	(4)	—
Total	$11,271	$11,416	$11,411	(1)%	—%
Gross Profit Margin					
Distribution Solutions	5.03%	5.29%	5.65%	(26)bp	(36)bp
Technology Solutions	54.21	50.88	48.03	333	285
Total	5.68	5.98	6.37	(30)	(39)

bp - basis points

(1) Distribution Solutions segment's gross profit includes LIFO credits of $7 million in 2017 and LIFO charges of $244 million and $337 million in 2016 and 2015. Gross profit for 2017, 2016 and 2015 also includes $144 million, $76 million and $3 million of net cash proceeds representing our share of antitrust legal settlements.

(2) Gross profit for 2017 includes pre-tax credits of $4 million from the 2016 cost alignment plan within our Technology Solutions segment, and for 2016 includes pre-tax restructuring charges of $5 million and $21 million related to the 2016 cost alignment plan within our Distribution Solutions segment and Technology Solutions segment.

Gross profit decreased 1% in 2017 and remained flat in 2016 compared to the same periods a year ago. Excluding unfavorable foreign currency effects of 1% and 4%, gross profit remained flat in 2017 and increased 4% in 2016. Gross profit margin decreased in 2017 and 2016. These changes were primarily due to our Distribution Solutions segment.

Distribution Solutions

Distribution Solutions segment's gross profit decreased 1% in 2017 and remained flat in 2016. Excluding unfavorable foreign currency effects of 2% and 4%, gross profit increased 1% and 4% in 2017 and 2016.

Gross profit margin for 2017 decreased primarily due to weaker pharmaceutical manufacturer pricing trends, the competitive sell-side pricing environment and lower compensation from a branded pharmaceutical manufacturer from our U.S. Pharmaceutical distribution business, partially offset by LIFO inventory credits, higher cash receipts representing our share of antitrust legal settlements, higher global procurement benefits and our 2017 acquisitions. Gross profit for 2017 also reflects the impact of previously announced customer consolidation activity. Gross profit margin for 2016 decreased primarily due to a lower sell margin within our North America distribution business driven by increased customer sales volume with some of our largest customers, partially offset by lower LIFO inventory charges. Gross profit margin over the last two years was favorably affected by benefits from our global procurement arrangements and higher cash receipts representing our share of antitrust legal settlements. Buy margin primarily reflects volume and timing of compensation we receive from pharmaceutical manufacturers, including the effects of price increases of both branded and generic drugs. During 2017 and 2016, our Distribution Solutions segment experienced weaker pharmaceutical manufacturer pricing trends, which are expected to continue in 2018.

Our LIFO inventory credits were $7 million in 2017 and LIFO charges were $244 million and $337 million in 2016 and 2015. Our North America distribution 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 charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds

the net 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 net impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory. Our annual LIFO charge is affected by changes in year-end inventory quantities, product mix and manufacturer pricing practices, which may be influenced by market and other external factors. Changes to any of the above factors could have a material impact to our annual LIFO credits or expense. LIFO credits were recognized in 2017 and LIFO charge decreased in 2016 compared to 2015 primarily due to the impact of lower price increases. As of March 31, 2017 and 2016, pharmaceutical inventories at LIFO did not exceed market.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Technology Solutions

Technology Solutions segment's gross profit decreased in 2017 and remained flat in 2016. Gross profit for 2017 decreased due to one less month of gross profit from the Core MTS Business, which was contributed to the joint venture on March 1, 2017. This segment's gross profit margin increased over the last two years.

Gross profit margin for 2017 increased primarily due to a decline in hospital software revenues, lower severance charges, ongoing cost management efforts and the prior year sales of businesses, partially offset by a lower margin from our hospital software business. Gross profit margin for 2017 also benefited from lower depreciation and amortization expenses related to the Core MTS Business' assets, which were classified as held for sale since the second quarter of 2017. Depreciation and amortization related to the long-lived assets ceased as of the date they were determined as held for sale.

Gross profit margin for 2016 benefited from the sale of our nurse triage business, transitioning of our workforce business within our International Technology business to a third party, and higher pull-through of deferred revenue. These increases were partially offset by $49 million of pre-tax severance charges including charges associated with the 2016 cost alignment plan. Additionally, in 2015 we recorded a $34 million pre-tax non-cash charge representing a catch-up in depreciation and amortization expenses associated with our workforce business within our International Technology business. This business, which was previously designated as a discontinued operation, was reclassified to a continuing operation in 2015 when we decided to retain the business.

Operating Expenses:

	Years Ended March 31,			Change	
(Dollars in millions)	2017	2016	2015	2017	2016
Operating Expenses					
Distribution Solutions [1] [3]	$6,559	$6,436	$6,938	2 %	(7)%
Technology Solutions [1][2][3]	1,148	951	1,039	21	(8)
Gain on Healthcare Technology Net Asset Exchange, net	(3,947)	—	—	—	—
Corporate [1]	402	484	466	(17)	4
Total	$4,162	$7,871	$8,443	(47)%	(7)%
Operating Expenses as a Percentage of Revenues					
Distribution Solutions	3.35 %	3.42 %	3.94 %	(7) bp	(52) bp
Technology Solutions	(107.24)	32.96	33.85	(14,020)	(89)
Total	2.10	4.12	4.72	(202)	(60)

(1) 2017 includes pre-tax restructuring charges associated with the 2016 cost alignment plan of $19 million and $5 million within our Distribution Solutions segment and Corporate, and credits of $6 million within our Technology Solutions segment. 2016 includes pre-tax restructuring charges of $156 million, $30 million and $17 million within our Distribution Solutions segment, Technology Solutions segment and Corporate.

(2) 2017 excludes the pre-tax gain on Healthcare Technology Net Asset Exchange, net, recorded within our Technology Solutions segment.

(3) 2017 includes a non-cash pre-tax impairment charge of $290 million related to our EIS business within our Technology Solutions segment. 2015 includes pre-tax claim and litigation charges of $150 million within our Distribution Solutions segment.

Operating expenses for 2017 and 2016 decreased 47% and 7% compared to the same periods a year ago. Excluding favorable foreign currency effects of 2% and 5%, operating expenses decreased 45% and 2% for 2017 and 2016. 2017 operating expenses benefited from a pre-tax gain of $3,947 million ($3,018 million after-tax) from the deconsolidation of the Core MTS Business within our Technology Solutions segment as previously discussed. 2016 operating expenses were favorably affected by pre-tax gains of $103 million from the sale of two businesses and lower

acquisition-related expenses, partially offset by pre-tax restructuring charges of $203 million.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

On March 14, 2016, we committed to a cost alignment plan, which primarily consists of a reduction in workforce and business process initiatives that will be substantially implemented prior to the end of 2019. We expect to incur a total of $250 million to $270 million of pre-tax charges under this plan, of which $243 million primarily representing employee severance costs had been recorded from the inception of the plan through March 31, 2017. Estimated remaining charges primarily consist of exit-related costs and accelerated depreciation and amortization, which are largely attributed to our Distribution Solutions segment. The 2016 cost alignment plan generated approximately $170 million to $190 million of net pre-tax savings during 2017. We anticipate the 2016 cost alignment plan to generate an incremental $70 million to $90 million of net pre-tax savings during the fiscal year ending March 31, 2018. Additional information on our cost alignment plan is included in Financial Note 6, “Restructuring” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Distribution Solutions

Distribution Solutions segment’s operating expenses increased 2% in 2017 and decreased 7% compared to the same periods a year ago. Excluding favorable foreign currency effects of 3% and 5%, operating expenses increased 5% in 2017 and decreased 2% in 2016.

Operating expenses increased in 2017 primarily due to our acquisitions and higher acquisition-related expenses and intangible amortization, partially offset by lower restructuring charges and cost savings associated with the 2016 cost alignment plan, ongoing expense management efforts, a pre-tax gain from the sale of a business recorded in 2016 and lower bad debt expense.

Operating expense decreased in 2016 compared to the prior year primarily due to lower acquisition-related expenses relating to integration activities for our acquisitions and the sale of our ZEE Medical business, including a pre-tax gain of $52 million. These decreases were partially offset by pre-tax charges of $156 million associated with the 2016 cost alignment plan, higher compensation and benefit costs and bad debt expense. Operating expenses for 2015 included a $150 million charge associated with the settlement of controlled substance distribution claims.

Technology Solutions

Technology Solutions segment’s operating expenses and operating expenses as a percentage of revenues decreased in 2017 primarily due to a pre-tax gain of $3,947 million (after-tax gain of $3,018 million) from the deconsolidation of the Core MTS Business. Excluding the gain on Healthcare Technology Net Asset Exchange, this segment’s operating expenses increased primarily due to a non-cash pre-tax charge of $290 million ($282 million after-tax) for the EIS goodwill impairment charge, partially offset by cost savings from the 2016 cost alignment plan and ongoing cost management efforts and one less month of expenses from the Core MTS Business.

Operating expenses and operating expenses as a percentage of revenues in 2016 decreased compared to the prior year primarily due to the sale of our nurse triage business in the first quarter of 2016, including a pre-tax gain of $51 million, and lower compensation and benefit costs. These decreases were partially offset by pre-tax charges of $30 million for the 2016 cost alignment plan as well as the write-off of internal-use software.

Corporate

Corporate expenses decreased 17% in 2017 compared to the prior year primarily due to lower restructuring charges and cost savings associated with the 2016 cost alignment plan, including lower compensation and benefit costs and outside service fees. Corporate expenses for 2017 also benefited from a pre-tax gain of $15 million from the sale-leaseback transaction of our corporate headquarters building. Corporate expenses increased in 2016 compared to the prior year primarily due to pre-tax charges of $17 million associated with the 2016 cost alignment plan, partially offset by lower acquisition-related expenses and a decrease in compensation and benefit costs.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Acquisition Expenses and Related Adjustments

Acquisition expenses and related adjustments include transaction, integration and other expenses that are directly related to business acquisitions and Healthcare Technology Net Asset Exchange including gain recognized from the transaction. In addition to a pre-tax gain of $3,947 million from the Healthcare Technology Net Asset Exchange, we recorded acquisition-related expenses of $151 million, $114 million and $224 million in 2017, 2016 and 2015. Expenses in 2017 were higher primarily due to our business acquisitions of UDG, Vantage, Biologics and Rexall Health, partially offset by a decline in expenses associated with our February 2014 acquisition of Celesio and February 2013 acquisition of PSS World Medical, Inc. ("PSSI"). Our integration of PSSI and Celesio were substantially completed in the first quarter of 2017.

	Years Ended March 31,		
(Dollars in millions)	2017	2016	2015
Cost of Sales	$1	$—	$1
Operating Expenses			
Gain on Change Healthcare Net Asset Exchange, net	(3,947)	—	—
Transaction closing expenses	30	10	6
Restructuring, severance and relocation	25	—	57
Other [1]	85	100	160
Total	(3,807)	110	223
Other Income, Net	10	4	—
Total Acquisition Expenses and Related Adjustments	$(3,796)	$114	$224

(1) These expenses primarily include outside service fees, costs associated with information technology conversions, closures of duplicative facilities including distribution centers and other integration activities.

Acquisition expenses and related adjustments by segment were as follows:

	Years Ended March 31,		
(Dollars in millions)	2017	2016	2015
Cost of Sales	$1	$—	$1
Operating Expenses and Other Income, Net			
Distribution Solutions	133	112	211
Technology Solutions	(3,936)	—	—
Corporate	6	2	12
Total	(3,797)	114	223
Total Acquisition Expenses and Related Adjustments	$(3,796)	$114	$224

During 2016 and 2015, we incurred $9 million and $109 million of acquisition-related expenses for our acquisition of Celesio and $70 million and $110 million for our acquisition of PSSI. We did not incur any material expenses associated with these two acquisitions in 2017. These expenses primarily include restructuring, severance, employee retention incentives, outside service fees and other costs to integrate the business, and bridge loan fees. Additionally, our acquisition-related expenses for our PSSI acquisition include amounts associated with distribution center rationalization and information technology conversions to common platforms. Integration activities for our PSSI and Celesio acquisitions were substantially completed in 2017.

Amortization Expenses of Acquired Intangible Assets

Amortization expenses of acquired intangible assets in connection with acquisitions recorded in operating expenses were $440 million, $423 million and $483 million in 2017, 2016 and 2015. Amortization expenses increased in 2017 primarily due to our acquisitions of UDG, Biologics, Vantage and Rexall Health, partially offset by lower amortization expense related to Core MTS Business assets which were classified as held for sale since the 2017

second quarter. Amortization expense for 2016 decreased due to foreign currency effects and intangible assets that were fully amortized.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Amortization expense recorded in operating expenses by segment was as follows:

	Years Ended March 31,		
(Dollars in millions)	2017	2016	2015
Distribution Solutions	418	$389	$442
Technology Solutions	22	34	40
Corporate	—	—	1
Total	$440	$423	$483

Other Income, Net:

	Years Ended March 31,			Change	
(Dollars in millions)	2017	2016	2015	2017	2016
Distribution Solutions	$64	$ 41	$ 48	56 %	(15)%
Technology Solutions	1	2	3	(50)	(33)
Corporate	25	15	12	67	25
Total	$90	$ 58	$ 63	55 %	(8)%

Other income, net for 2017 increased 55% primarily due to higher equity investment income within our Distribution Solutions segment. Other income, net for 2016 approximated the prior year.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Segment Operating Profit, Corporate Expenses, Net and Interest Expense:

	Years Ended March 31,			Change	
(Dollars in millions)	2017	2016	2015	2017	2016
Segment Operating Profit [1] [2]					
Distribution Solutions	$3,361	$3,553	$3,047	(5)%	17 %
Technology Solutions [3]	4,215	519	438	712	18
Subtotal	7,576	4,072	3,485	86	17
Corporate Expenses, Net [2]	(377)	(469)	(454)	(20)	3
Interest Expense	(308)	(353)	(374)	(13)	(6)
Income From Continuing Operations Before Income Taxes	$6,891	$3,250	$2,657	112 %	22 %
Segment Operating Profit Margin					
Distribution Solutions	1.72 %	1.89 %	1.73 %	(17) bp	16 bp
Technology Solutions	161.49	17.99	14.27	14,350	372

(1) Segment operating profit includes gross profit, net of operating expenses, plus other income, net, for our two operating segments.

(2) In connection with the 2016 cost alignment plan, we recorded pre-tax restructuring charges of $229 million in 2016. 2016 pre-tax charges were recorded as follows: $161 million, $51 million and $17 million within our Distribution Solutions segment, Technology Solutions segment and Corporate expenses, net. Segment operating profit for 2017 includes pre-tax restructuring charges of $19 million and $5 million in our Distribution Solutions segment and Corporate expenses, net, and pre-tax credits of $10 million associated with the 2016 cost alignment plan.

(3) Technology Solutions segment's operating profit for 2017 includes a pre-tax gain of $3,947 million from the deconsolidation of the Core MTS Business and a non-cash pre-tax impairment charge of $290 million related to our EIS business.

Segment Operating Profit

Distribution Solutions: Operating profit margin decreased for 2017 primarily due to a decline in gross profit margin reflecting weaker pharmaceutical manufacturer pricing trends, the competitive sell-side pricing environment and lower compensation from a branded pharmaceutical manufacturer from our U.S. Pharmaceutical distribution business. Operating profit and operating profit margin in 2017 benefited from LIFO credits, our acquisitions, lower restructuring charges and cost savings associated with the 2016 cost alignment plan and higher cash receipts representing our share of antitrust legal settlements.

Operating profit and operating profit margin for 2016 increased due to lower operating expenses as a percentage of revenues, partially offset by a decline in gross profit margin. Operating profit and operating profit margin in 2016 includes $161 million of pre-tax charges associated with the Cost Alignment Plan, lower LIFO charges, and a $52 million pre-tax gain on the sale of our ZEE Medical business. Operating profit and operating profit margin for 2015 included a $150 million charge related to our controlled substance distribution claims.

Technology Solutions: Operating profit and operating profit margin increased in 2017 primarily due to a $3,947 million pre-tax gain from the deconsolidation of the Core MTS Business in the fourth quarter of 2017, which was partially offset by the non-cash EIS goodwill impairment pre-tax charge of $290 million. 2017 operating profit benefited from lower restructuring charges and cost savings from the 2016 cost alignment plan. Operating profit for 2017 was unfavorably affected by one less month of gross profit from the Core MTS business, which was contributed to Change Healthcare on March 1, 2017. Operating profit margin increased in 2016 primarily due to higher gross profit margin and a decrease in operating expenses as a percentage of revenue. Operating profit and operating profit margin for 2016 included a $51 million pre-tax gain from the sale of our nurse triage business and $51 million of

pre-tax charges associated with the 2016 cost alignment plan.

Corporate: Corporate expenses, net, decreased in 2017 primarily due to lower restructuring charges and a pre-tax gain from a sale-leaseback transaction. Corporate expenses, net increased in 2016 compared to 2015 primarily due to higher operating expenses as previously discussed.

Interest Expense: Interest expense decreased in 2017 primarily due to repayments of debt, partially offset by an increase relating to the issuance of commercial paper. Interest expense decreased in 2016 primarily due to repayments of debt and certain foreign currency-denominated credit facilities.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Interest expense fluctuates based on timing, amounts and interest rates of term debt repaid and new term debt issued, as well as amounts incurred associated with financing fees.

Income Taxes

During 2017, 2016 and 2015, income tax expense related to continuing operations was $1,614 million, $908 million and $815 million, which included net discrete tax benefits of $82 million, $42 million and $33 million. Our discrete tax benefit for 2017 includes a tax benefit of $54 million related to the adoption of the amended accounting guidance on employee share-based compensation. Our reported income tax rates were 23.4%, 27.9% and 30.7% in 2017, 2016 and 2015. Fluctuations in our reported income tax rates are primarily due to changes within our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates, discrete items and for 2017 also due to the impact of the intercompany sale of software.

The non-cash pre-tax charge of $290 million to impair the carrying value of goodwill related to our EIS business within our Technology Solutions segment, described in Financial Note 3, “Goodwill Impairment,” had an unfavorable impact on our effective tax rate in 2017 given that the majority of this charge was not deductible for tax purposes.

On December 19, 2016, we sold various software and ancillary intellectual property relating to our Technology Solutions business between wholly owned legal entities within the McKesson group that are based in different tax jurisdictions. The transferor entity recognized a gain on the sale of assets that was not subject to income tax in its local jurisdiction; such gain was eliminated upon consolidation. An entity based in the U.S. was the recipient of the software and ancillary intellectual property and is entitled to amortize the fair value of the assets for book and tax purposes. For U.S. GAAP purposes, the tax benefit associated with the amortization of these assets is recognized over the tax lives of the assets. As a result, a net tax benefit of $137 million was recognized prior to the contribution of a portion of these assets to Change Healthcare as described in Financial Note 2, “Healthcare Technology Net Asset Exchange”.

On March 1, 2017, we contributed assets to Change Healthcare as further described in Financial Note 2, “Healthcare Technology Net Asset Exchange”. While this transaction was predominantly structured as a tax free asset contribution for U.S. federal income tax purposes under Section 721(a) of the Internal Revenue Code, we recorded tax expense of $929 million on the gain. The tax expense was primarily driven by the recognition of a deferred tax liability on the excess book over tax basis in our equity investment in Change Healthcare.

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

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. During the first quarter of 2017, we reached an agreement with the Internal Revenue Service to settle all outstanding issues relating to the fiscal years 2007 through 2009. This settlement did not have a material impact on our provision for income taxes.

We received reassessments from the Canada Revenue Agency related to a transfer pricing matter impacting years 2003 through 2013. During 2016, we reached an agreement to settle the transfer pricing matter for years 2003 through 2013 and recorded a net discrete tax benefit of $8 million.

Loss from Discontinued Operations, Net of Tax

Losses from discontinued operations, net of tax, were $124 million, $32 million and $299 million in 2017, 2016 and 2015.

Loss from discontinued operations, net for 2017 includes an after-tax loss of $113 million related to the sale of our Brazilian pharmaceutical distribution business within our Distribution Solutions segment, which we acquired through our February 2014 acquisition of Celesio. In 2015, we committed to a plan to sell this business and the results of operations and cash flows for this business had been classified as discontinued operations since 2015. On May 31,

2016, we completed the sale of this business and recognized the loss primarily for the settlement of certain indemnification matters as well as the release of the cumulative translation losses. We made a payment of approximately $100 million related to the sale.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Loss from discontinued operations, net for 2015 included pre-tax non-cash impairment charges of $241 million ($235 million after-tax), which were recorded to reduce the carrying value of our Brazilian pharmaceutical distribution business to its estimated fair value, less costs to sell. Loss from discontinued operations, net for 2015 also included a pre-tax and after-tax loss of $6 million from the sale of a software business within our International Technology business.

Refer to Financial Note 5, "Discontinued Operations," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Net Income (Loss) Attributable to Noncontrolling Interests: Net income attributable to noncontrolling interests for all periods presented includes the guaranteed dividend or annual recurring compensation that we are obligated to pay to the noncontrolling shareholders of Celesio AG under the profit and loss transfer agreement (the "Domination Agreement"). In 2017, net income attributable to noncontrolling interests also includes third-party equity interests in our consolidated entities including Vantage and ClarusOne Sourcing Services LLC, which was established between McKesson and Wal-Mart Stores, Inc. Noncontrolling interests with redemption features, such as put rights, that are not solely within the Company's control are considered redeemable noncontrolling interests. Redeemable noncontrolling interests are presented outside of Stockholders' Equity on our consolidated balance sheet. Refer to Financial Note 11, "Redeemable Noncontrolling Interests and Noncontrolling Interests," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Net Income Attributable to McKesson Corporation: Net income attributable to McKesson Corporation was $5,070 million, $2,258 million and $1,476 million in 2017, 2016 and 2015 and diluted earnings per common share were $22.73, $9.70 and $6.27.

Weighted Average Diluted Common Shares Outstanding: Diluted earnings per common share was calculated based on a weighted average number of shares outstanding of 223 million, 233 million and 235 million for 2017, 2016 and 2015. Weighted average diluted common shares outstanding is affected by the exercise and settlement of share-based awards and in 2017 and 2016, the cumulative effect of share repurchases.

Foreign Operations

Our foreign operations represented approximately 17%, 17% and 20% of our consolidated revenues in 2017, 2016 and 2015. Foreign operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. We conduct our business worldwide in local currencies including Euro, British pound sterling and Canadian dollar. As a result, the comparability of our results reported in U.S. dollars can be affected by changes in foreign currency exchange rates. In discussing our operating results, we may use the term "foreign currency effect", which refers to the effect of changes in foreign currency exchange rates used to convert the local currency results of foreign countries where the functional currency is not the U.S. dollar. We present this information to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. In computing foreign currency effect, we translate our current year results in local currencies into U.S dollars by applying average foreign exchange rates of the corresponding prior year periods, and we subsequently compare those results to the previously reported results of the comparable prior year periods in U.S. dollars. Additional information regarding our foreign operations is included in Financial Note 29, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Business Combinations

Refer to Financial Notes 4 and 17, "Business Combinations" and "Debt and Financing Activities," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

2018 Outlook

Information regarding the Company's 2018 outlook is contained in our Form 8-K dated May 22, 2017. This Form 8-K should be read in conjunction with the sections Item 1 - Business - Forward-Looking Statements and Item 1A - Risk Factors in Part I of this Annual Report on Form 10-K.

42

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

In determining the appropriate allowance for doubtful accounts, which includes general and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers' financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. During 2017, sales to our ten largest customers, including group purchasing organizations ("GPOs") accounted for approximately 54.2% of our total consolidated revenues. Sales to our largest customer, CVS Health ("CVS"), accounted for approximately 20.2% of our total consolidated revenues. At March 31, 2017, trade accounts receivable from our ten largest customers were approximately 33.7% of total trade accounts receivable. Accounts receivable from CVS were approximately 17.8% of total trade accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivables balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. A material default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or GPO could have a material adverse impact on our financial position, results of operations and liquidity.

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2017 are appropriate and consistent with historical methodologies employed. At this time, we are not aware of any internal process or customer issues that might lead to a significant increase in our allowance for doubtful accounts as a percentage of net revenue in the foreseeable future.

At March 31, 2017, trade and notes receivables were $14,717 million prior to allowances of $243 million. In 2017, 2016 and 2015, our provision for bad debts was $93 million, $113 million and $67 million. At March 31, 2017 and 2016, the allowance as a percentage of trade and notes receivables was 1.7% and 1.4%. An increase or decrease of a hypothetical 0.1% in the 2017 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision for bad debts of approximately $15 million. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

Inventories: We report inventories at the lower of cost or market ("LCM"). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the LIFO method. The majority of the cost of inventories held in foreign locations is based on weighted average purchase price using the first-in, first-out method ("FIFO"). Technology Solutions segment inventories consist of computer hardware with cost generally determined by the standard cost method, which approximates average cost. Rebates, cash discounts and other incentives received from vendors relating to the purchase or distribution of inventory are considered as product discounts and are accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories were $15.3 billion at March 31, 2017 and 2016.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

The LIFO method was used to value approximately 70% and 74% of our inventories at March 31, 2017 and 2016. If we had used the FIFO method of inventory valuation, which approximates current replacement costs, inventories would have been approximately $1,005 million and $1,012 million higher than the amounts reported at March 31, 2017 and 2016. These amounts are equivalent to our LIFO reserves. Our LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. We recognized net LIFO credits of $7 million in 2017 and net LIFO charges of $244 million and $337 million in 2016 and 2015 within our consolidated statements of operations. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory.

We believe that the average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., "market"). As such, our LIFO inventory is valued at the lower of LIFO or market. As of March 31, 2017 and 2016, inventories at LIFO did not exceed market.

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

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that once control of a business is obtained, 100% of the assets acquired and liabilities assumed, including amounts attributed to noncontrolling interests, be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows associated with each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives. Refer to Financial Note 4, "Business Combinations," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information regarding our acquisitions.

Goodwill and Intangible Assets: As a result of acquiring businesses, we have $10,586 million and $9,786 million of goodwill at March 31, 2017 and 2016 and $3,665 million and $3,021 million of intangible assets, net at March 31, 2017 and 2016. We maintain goodwill assets on our books unless the assets are considered to be impaired. We perform an impairment test on goodwill balances annually in the fourth quarter or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time. Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as a component — one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

44

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

The first step in goodwill testing requires us to compare the estimated fair value of a reporting unit to its carrying value. This step may be performed utilizing either a qualitative or quantitative assessment. If the carrying value of the reporting unit is lower than its estimated fair value, no further evaluation is necessary. If the carrying value of the reporting unit is higher than its estimated fair value, the second step must be performed to measure the amount of impairment loss. Under the second step, the implied fair value of goodwill is calculated in a hypothetical analysis by subtracting the fair value of all assets and liabilities of the reporting unit, including any unrecognized intangibles assets, from the fair value of the reporting unit calculated in the first step of the impairment test. If the carrying value of goodwill for the reporting unit exceeds the implied fair value of goodwill, an impairment charge is recorded for that excess.

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

Some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for both the guideline companies and the reporting unit, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies and for the income approach, the required rate of return used in the discounted cash flow method, which reflects capital market conditions and the specific risks associated with the business. Under the income approach, the fair value estimates in the goodwill impairment analysis are highly sensitive to the discount rates used in the discounting of expected cash flows attributable to the reporting units. The discount rates are the weighted average cost of capital measuring the reporting units' cost of debt and equity financing weighted by the percentage of debt and percentage of equity in a company's target capital. Other estimates inherent in both the market and income approaches include long-term growth rates, projected revenues, earnings and cash flow forecasts for the reporting units.

In 2016 and 2015, we concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value. In 2017, we recorded a non-cash pre-tax charge of $290 million ($282 million after-tax) to impair the carrying value of our EIS business. Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. Judgments made in determining an estimate of fair value may materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any material changes in key assumptions, including failure to meet business plans, negative changes in government reimbursement rates, deterioration in the U.S. and global financial markets, an increase in interest rate or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may decrease the projected cash flows or increase the discount rates and could potentially result in an impairment charge. Our Celesio reporting unit within our Distribution Solutions segment experienced a decline in its estimated future cash flows primarily driven by government reimbursement reductions in our U.K. retail business. The decline in estimated future cash flows resulted in the estimated fair value of this reporting unit exceeding the carrying value of the reporting unit by 13%. The goodwill balance of this reporting unit was $2,790 million at March 31, 2017 or approximately 26% of the total distribution segment's goodwill balance. A further decrease in the estimated future cash flows, an increase in the discount rate and/or a decrease in the terminal growth rate, could result in a goodwill impairment for this reporting unit. The discount rate and terminal growth rate used in our 2017 annual impairment testing for this reporting unit were 7% and 1.5%.

Currently, all of our intangible assets are subject to amortization and are amortized based on the pattern of their economic consumption or on a straight-line basis over their estimated useful lives, ranging from one to 38 years. We review intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated future undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. There were no material impairments of intangibles in 2017, 2016 or 2015 within our continuing operations. Our ongoing consideration of all the factors described previously could result in impairment charges in the future, which could adversely affect our net income.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2017 and 2016, supplier reserves were $201 million and $144 million. The final outcome of any outstanding claims may differ from our estimate. All of the supplier reserves at March 31, 2017 and 2016 pertain to our Distribution Solutions segment. An increase or decrease in the supplier reserve as a hypothetical 0.1% of trade payables at March 31, 2017 would result in an increase or decrease in the cost of sales of approximately $31 million in 2017. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

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

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. We had deferred income tax assets (net of valuation allowances) of $1,156 million and $1,272 million and deferred tax liabilities of $4,806 million and $3,947 million at March 31, 2017 and 2016. Deferred tax assets primarily consist of timing differences relating to our compensation and benefit related accruals and for net operating loss and tax credit carryforwards. Deferred tax liabilities have been established primarily due to excess book over tax basis in inventory valuation (including inventory valued at LIFO), intangible assets and our investment in Change Healthcare. Valuation allowances of $503 million and $267 million exist at March 31, 2017 and 2016 against certain deferred tax assets, which primarily relate to state and foreign net operating loss carryforwards for which the ultimate realization of future benefits is uncertain. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, including those laws pertaining to LIFO, our tax expense and cash flows could be materially impacted.

In addition, the calculation of our tax liabilities includes estimates for uncertainties in the application of complex tax regulations across multiple global jurisdictions where we conduct our operations. We recognize liabilities for tax and related interest for issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and related interest will be due. If our current estimate of tax and interest liabilities is less than the ultimate settlement, an additional charge to income tax expense may result. If our current estimate of tax and interest liabilities is more than the ultimate settlement, a reduction to income tax expense may be recognized.

An increase or decrease of a hypothetical 1% in our 2017 effective tax rate as applied to income from continuing operations would result in an increase or decrease in the provision for income taxes of approximately $69 million for 2017.

Loss Contingencies: We are subject to various claims, including claims with customers and vendors, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with

respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Disclosure is also provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimate.

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 revolving credit facilities and commercial paper issuance, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, we may access the long-term debt capital markets from time to time. We are in the process of acquiring certain businesses, and the cost of these acquisitions may be partially funded through the issuance of debt.

Net cash flow from operating activities was $4,744 million in 2017 compared to $3,672 million in 2016 and $3,112 million in 2015. Operating activities over the last three years were primarily affected by an increase in drafts and accounts payable reflecting longer payment terms for certain purchases and increases in receivables primarily associated with our revenue growth. Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers and payments to vendors. Additionally, working capital is primarily a function of sales and purchase volumes, inventory requirements and vendor payment terms. Operating activities for 2017 were also affected by $150 million of litigation settlement payment.

Net cash used in investing activities was $3,796 million in 2017 compared to $1,557 million in 2016 and $677 million in 2015. Investing activities for 2017 include $4,237 million of net cash payments for acquisitions including $2.1 billion for our acquisition of Rexall, $1,228 million of net payments received on Healthcare Technology Net Asset Exchange, $404 million and $158 million in capital expenditures for property, plant and equipment, and capitalized software, and $206 million of net cash proceeds from sales of businesses and other assets. Additionally, we prepaid $1.4 billion for acquisitions that closed subsequent to year end.

Investing activities for 2016 included $40 million of net cash payments for acquisitions, $488 million and $189 million in capital expenditures for property, plant and equipment, and capitalized software, and $210 million of cash proceeds from sales of our automation business and an equity investment. Investing activities for 2015 included $170 million of net cash payments for acquisitions, including $4,497 million for our acquisition of Celesio. Investing activities in 2015 also included $376 million and $169 million in capital expenditures for property, plant and equipment, and capitalized software, and $15 million of cash proceeds from sales of our automation business and equity investment.

Financing activities utilized $2,069 million, $3,453 million and $968 million of cash in 2017, 2016 and 2015. Financing activities for 2017 include cash receipts of $8,294 million and payments of $8,124 million from short-term borrowings. We received cash from long-term debt issuances of $1,824 million and made repayments on long-term debt of $1,601 million in 2017. Financing activities in 2017 also include $2,250 million of cash paid for stock repurchases and $253 million of dividends paid.

Financing activities for 2016 include cash receipts of $1,561 million and payments of $1,688 million from short-term borrowings. We made repayments on long-term debt of $1,598 million in 2016. Financing activities in 2016 also include $1,504 million of cash paid for stock repurchases and $244 million of dividends paid.

Financing activities for 2015 include cash receipts of $3,100 million and cash paid of $3,152 million from short-term borrowings. Long-term debt repayments in 2015 were primarily cash paid on promissory notes. Financing activities in 2015 also reflect a cash payment of $32 million to acquire approximately 1 million additional common shares of Celesio through the tender offers we completed in 2015. Additionally, financing activities for 2015 include $340 million of cash paid for stock repurchases and $227 million of dividends paid.

47

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

The Company's 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 any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

The Board authorized the repurchase of the Company's common stock up to $4 billion in October 2016. In 2017, we repurchased 14.1 million of our shares through open market transactions and 1.4 million of our shares through an ASR program. In 2016, we repurchased 8.7 million of our shares through both an ASR program and open market transactions.

	Years Ended March 31,		
(In millions, except per share data)	2017	2016	2015
Number of shares repurchased [1]	15.5	8.7	1.5
Average price paid per share	$141.16	$173.64	$226.55
Total value of shares repurchased [1]	$2,250	$1,504	$340

(1) Excludes shares surrendered for tax withholding.

At March 31, 2017, the total authorization outstanding was $2.7 billion available under the October 2016 share repurchase plan for future repurchases of the Company's common stock.

We believe that our operating cash flow, financial assets and current access to capital and credit markets, including our existing credit facilities, will give us the ability to meet our financing needs for the foreseeable future. However, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Selected Measures of Liquidity and Capital Resources:

	March 31,		
(Dollars in millions)	2017	2016	2015
Cash and cash equivalents	$2,783	$4,048	$5,341
Working capital	1,336	3,366	3,173
Debt to capital ratio [1]	39.2 %	43.6 %	50.3 %
Return on McKesson stockholders' equity[2]	54.6	26.0	17.0

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

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

Cash equivalents, which are available-for-sale, are carried at fair value. Cash equivalents are primarily invested in AAA rated prime, AAA rated prime money market funds denominated in Euros, AAA rated prime money market fund denominated in British pound sterling, U.S. government money market funds denominated in U.S. dollars, overnight repurchase agreements collateralized by U.S. government securities, Canadian government securities and/or securities that are guaranteed or sponsored by the U.S. government.

The remaining cash and cash equivalents are deposited with several financial institutions. We mitigate the risk of our short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Our cash and cash equivalents balance as of March 31, 2017 included approximately $2.3 billion of cash held by our subsidiaries outside of the United States. Our primary intent is to utilize this cash in foreign operations and acquisitions. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject us to U.S. federal, state and local income tax.

48

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

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, deferred revenue and other current liabilities. Our Distribution Solutions segment requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and other requirements.

Consolidated working capital decreased at March 31, 2017 compared to March 31, 2016 primarily due to a decrease in the cash and cash equivalents balance and an increase in drafts and accounts payable and deferred tax liabilities, partially offset by increases in receivables. Consolidated working capital increased at March 31, 2016 compared to March 31, 2015 primarily due to increases in receivables and inventories and a decrease in deferred tax liabilities, partially offset by an increase in drafts and accounts payable.

Our debt to capital ratio improved for 2017 primarily due to an increase in stockholders' equity and for 2016 primarily due to a decrease in our debt.

In July 2015, the quarterly dividend was raised from $0.24 to $0.28 per common share for dividends declared after such date, until further action by the Board. Dividends were $1.12 per share in 2017, $1.08 per share in 2016 and $0.96 per share in 2015. 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. In 2017, 2016 and 2015, we paid total cash dividends of $253 million, $244 million and $227 million. Additionally, as required under the Domination Agreement, we are obligated to pay an annual recurring compensation amount of €0.83 per Celesio share (effective January 1, 2015) to the noncontrolling shareholders of Celesio.

Contractual Obligations:

The table and information below presents our significant financial obligations and commitments at March 31, 2017:

		Years			
(In millions)	Total	Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Long-term debt [1]	$8,362	$1,057	$1,514	$1,246	$4,545
Other [2]	477	42	208	68	159
Off balance sheet					
Interest on borrowings [3]	2,911	285	452	371	1,803
Purchase obligations [4]	3,250	3,196	41	13	—
Operating lease obligations [5]	2,633	477	729	495	932
Other [6]	324	190	24	18	92
Total	$17,957	$5,247	$2,968	$2,211	$7,531

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

(2) Includes our estimated benefit payments, including assumed executive lump sum payments, for the unfunded benefit plans and minimum funding requirements for the pension plans. Actual lump sum payments could significantly differ from the estimated amounts depending on the timing of executive retirements and the lump sum interest rate in effect upon retirement.

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

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

(5) Represents minimum rental payments for operating leases.

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

The contractual obligations table above excludes the following obligations:

At March 31, 2017, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately $327 million. The ultimate amount and timing of any related future cash settlements cannot be predicted with reasonable certainty.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

At March 31, 2017, we have recorded a $136 million noncurrent liability payable to Change Healthcare shareholders associated with a tax receivable entered into in connection with Healthcare Technology Net Asset Exchange. The amount is based on certain estimates and could become payable in periods after a disposition of our investment in Change Healthcare.

Our banks and insurance companies have issued $255 million of standby letters of credit and surety bonds at March 31, 2017. These were issued on our behalf and are mostly related to our customer contracts and to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

The carrying value of redeemable noncontrolling interests related to Celesio was $1.33 billion at March 31, 2017, which exceeded the maximum redemption value of $1.21 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 Celesio received a put right that enables them to put their Celesio 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 by the German Bundesbank semiannually, less any compensation amount or guaranteed dividend already paid ("Put Amount"). The redemption value is the Put Amount adjusted for exchange rate fluctuations each period. The ultimate amount and timing of any future cash payments related to the Put Amount are uncertain.

Additionally, we are obligated to pay an annual recurring compensation of €0.83 per Celesio share (the "Compensation Amount") to the noncontrolling shareholders of Celesio under the Domination Agreement, which became effective in December 2014. The Compensation Amount is recognized ratably during the applicable annual period. The Domination Agreement does not have an expiration date and can be terminated by McKesson without cause in writing no earlier than March 31, 2020.

Refer to Financial Note 11, "Redeemable Noncontrolling Interests and Noncontrolling Interests," to the consolidated financial statements appearing in this Annual Report on Form 10-K 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 17, "Debt and Financing Activities," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in Financial Note 27, "Related Party Balances and Transactions," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

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

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Concluded)

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Our cash and cash equivalents balances earn interest at variable rates. At March 31, 2017 and 2016, we had $2.8 billion and $4.0 billion and in cash and cash equivalents. The effect of a hypothetical 50 bp increase in the underlying interest rate on our cash and cash equivalents, net of short-term borrowings and variable rate debt, would have resulted in a favorable impact to earnings in 2017 and 2016 of approximately $19 million and $26 million.

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

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

As of March 31, 2017 and 2016, the effect of a hypothetical adverse 10% change in the underlying foreign currency exchange rates would have impacted the fair value of our foreign exchange contracts by approximately $357 million and $131 million. However, our risk management programs are designed such that the potential loss in value of these risk management portfolios described above would be largely offset by changes in the value of the underlying exposure. Refer to Financial Note 21, “Hedging Activities,” for more information on our foreign currency forward contracts and cross currency swaps.

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

Table of Contents
McKESSON CORPORATION

Item 8. Financial Statements and Supplementary Data
INDEX TO CONSOLIDATED FINANCIAL INFORMATION

Table of Contents
McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. The scope of management's assessment of the effectiveness of our internal control over financial reporting included all of our consolidated operations except for the operations of Rexall and its subsidiaries, which we acquired in December 2016. This exclusion is in accordance with the SEC's general guidance that an assessment of recently-acquired business may be omitted from our scope in the year of acquisition. Rexall represented 3% of the total assets and less than 1% of total revenues of the Company as of and for the year ended March 31, 2017. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2017.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2017. This audit report appears on page 55 of this Annual Report on Form 10-K.

May 22, 2017

/s/ John H. Hammergren
John H. Hammergren
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

/s/ James A. Beer
James A. Beer
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Table of Contents
McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of
McKesson Corporation
San Francisco, California

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the "Company") as of March 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended March 31, 2017. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Rexall and its subsidiaries, which was acquired in December 2016. Rexall represented 3% of the total assets and less than 1% of total revenues of the Company as of and for the year ended March 31, 2017. Accordingly, our audit did not include the internal control over financial reporting at Rexall. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule, and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

54

Table of Contents
McKESSON CORPORATION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries as of March 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
San Francisco, California
May 22, 2017

Table of Contents

McKESSON CORPORATION

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

	Years Ended March 31,		
	2017	2016	2015
Revenues	$198,533	$190,884	$179,045
Cost of Sales	(187,262)	(179,468)	(167,634)
Gross Profit	11,271	11,416	11,411
Operating Expenses			
Selling, distribution and administrative expenses	(7,466)	(7,276)	(7,901)
Research and development	(341)	(392)	(392)
Restructuring charges	(18)	(203)	—
Goodwill impairment charge	(290)	—	—
Claim and litigation charges	6	—	(150)
Gain on Healthcare Technology Net Asset Exchange, net	3,947	—	—
Total Operating Expenses	(4,162)	(7,871)	(8,443)
Operating Income	7,109	3,545	2,968
Other Income, Net	90	58	63
Interest Expense	(308)	(353)	(374)
Income from Continuing Operations Before Income Taxes	6,891	3,250	2,657
Income Tax Expense	(1,614)	(908)	(815)
Income from Continuing Operations	5,277	2,342	1,842
Loss from Discontinued Operations, Net of Tax	(124)	(32)	(299)
Net Income	5,153	2,310	1,543
Net Income Attributable to Noncontrolling Interests	(83)	(52)	(67)
Net Income Attributable to McKesson Corporation	$5,070	$2,258	$1,476
Earnings (Loss) Per Common Share Attributable to McKesson Corporation			
Diluted			
Continuing operations	$23.28	$9.84	$7.54
Discontinued operations	(0.55)	(0.14)	(1.27)
Total	$22.73	$9.70	$6.27
Basic			
Continuing operations	$23.50	$9.96	$7.66
Discontinued operations	(0.55)	(0.14)	(1.29)
Total	$22.95	$9.82	$6.37
Weighted Average Common Shares			
Diluted	223	233	235
Basic	221	230	232

See Financial Notes

Table of Contents
McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years Ended March 31,		
	2017	2016	2015
Net Income	$5,153	$2,310	$1,543
Other Comprehensive Income (Loss), Net of Tax			
Foreign currency translation adjustments arising during the period	(624)	113	(1,855)
Unrealized losses on net investment hedges arising during the period	(8)	—	—
Unrealized gains (losses) on cash flow hedges arising during the period	(19)	9	(10)
Retirement-related benefit plans	(8)	50	(124)
Other Comprehensive Income (Loss), Net of Tax	(659)	172	(1,989)
Comprehensive Income (Loss)	4,494	2,482	(446)
Comprehensive (Income) Loss Attributable to Noncontrolling Interests	(4)	(72)	212
Comprehensive Income (Loss) Attributable to McKesson Corporation	$4,490	$2,410	$(234)

See Financial Notes

Table of Contents

McKESSON CORPORATION

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

	March 31, 2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$2,783	$4,048
Receivables, net	18,215	17,980
Inventories, net	15,278	15,335
Prepaid expenses and other	672	1,072
Total Current Assets	36,948	38,435
Property, Plant and Equipment, Net	2,292	2,278
Goodwill	10,586	9,786
Intangible Assets, Net	3,665	3,021
Equity Method Investment in Change Healthcare	4,063	—
Other Noncurrent Assets	3,415	3,003
Total Assets	$60,969	$56,523
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Current Liabilities		
Drafts and accounts payable	$31,022	$28,585
Short-term borrowings	183	7
Deferred revenue	346	919
Current portion of long-term debt	1,057	1,610
Other accrued liabilities	3,004	3,948
Total Current Liabilities	35,612	35,069
Long-Term Debt	7,305	6,497
Long-Term Deferred Tax Liabilities	3,678	2,734
Other Noncurrent Liabilities	1,774	1,809
Commitments and Contingent Liabilities (Note 25)		
Redeemable Noncontrolling Interests	1,327	1,406
McKesson Corporation Stockholders' Equity		
Preferred stock, $0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.01 par value, 800 shares authorized at March 31, 2017 and 2016, 273 and 271 shares issued at March 31, 2017 and 2016	3	3
Additional Paid-in Capital	6,028	5,845
Retained Earnings	13,189	8,360
Accumulated Other Comprehensive Loss	(2,141)	(1,561)
Other	(2)	(2)
Treasury Shares, at Cost, 62 and 46 at March 31, 2017 and 2016	(5,982)	(3,721)
Total McKesson Corporation Stockholders' Equity	11,095	8,924
Noncontrolling Interests	178	84
Total Equity	11,273	9,008
Total Liabilities, Redeemable Noncontrolling Interests and Equity	$60,969	$56,523

See Financial Notes

Table of Contents

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2017, 2016 and 2015
(In millions, except per share amounts)

	McKesson Corporation Stockholders' Equity									
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury		Noncontrolling Interests	Total Equity
	Shares	Amount					Common Shares	Amount		
Balances, March 31, 2014	381	$ 4	$ 6,552	$ 23	$ 11,453	$ (3)	(150)	$ (9,507)	$ 1,796	$ 10,318
Issuance of shares under employee plans	3	—	152				—	(109)		43
Share-based compensation			165							165
Tax benefit related to issuance of shares under employee plans			105							105
Purchase of noncontrolling interests			(2)						(60)	(62)
Reclassification of noncontrolling interests to redeemable noncontrolling interests									(1,500)	(1,500)
Other comprehensive income						(1,710)			(174)	(1,884)
Net income					1,476				5	1,481
Repurchase of common stock							(2)	(340)		(340)
Cash dividends declared, $0.96 per common share					(226)					(226)
Other			(4)	(30)	2				17	(15)
Balances, March 31, 2015	384	$ 4	$ 6,968	$ (7)	$ 12,705	$ (1,713)	(152)	$ (9,956)	$ 84	$ 8,085
Issuance of shares under employee plans	3	—	123				(1)	(109)		14
Share-based compensation			130							130
Tax benefit related to issuance of shares under employee plans			117							117
Other comprehensive income						152				152
Net income					2,258				8	2,266
Repurchase of common stock							(9)	(1,504)		(1,504)
	(116)	(1)	(1,493)		(6,354)		116	7,848		—

Retirement of common stock										
Cash dividends declared, $1.08 per common share					(249)					(249)
Other				5					(8)	(3)
Balances, March 31, 2016	271	$ 3	$ 5,845	$ (2)	$ 8,360	$ (1,561)	(46)	$ (3,721)	$ 84	$ 9,008
Issuance of shares under employee plans	3	—	125					(61)		64
Share-based compensation			110							110
Tax benefit related to issuance of shares under employee plans					7					7
Acquisition of Vantage									89	89
Other comprehensive income						(580)				(580)
Net income					5,070				39	5,109
Repurchase of common stock			(50)				(16)	(2,200)		(2,250)
Retirement of common stock										—
Cash dividends declared, $1.12 per common share					(249)					(249)
Other	(1)		(2)	—	1				(34)	(35)
Balances, March 31, 2017	273	$ 3	$ 6,028	$ (2)	$ 13,189	$ (2,141)	(62)	$ (5,982)	$ 178	$ 11,273

See Financial Notes

Table of Contents

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2017	2016	2015
Operating Activities			
Net income	$5,153	$2,310	$1,543
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	324	281	306
Amortization	586	604	711
Gain on Healthcare Technology Net Asset Exchange, net	(3,947)	—	—
Goodwill and other impairment charges	290	8	241
Deferred taxes	882	64	171
Share-based compensation expense	115	123	174
Charges (credits) associated with last-in-first-out inventory method	(7)	244	337
Loss (gain) from sales of businesses	94	(103)	—
Other non-cash items	88	108	47
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(762)	(1,957)	(2,821)
Inventories	320	(1,251)	(2,144)
Drafts and accounts payable	2,070	3,302	4,718
Deferred revenue	(87)	(120)	(141)
Taxes	146	(78)	(222)
Claim and litigation charges (credit)	(6)	—	150
Litigation settlement payment	(150)	—	—
Other	(365)	137	42
Net cash provided by operating activities	4,744	3,672	3,112
Investing Activities			
Payments for property, plant and equipment	(404)	(488)	(376)
Capitalized software expenditures	(158)	(189)	(169)
Acquisitions, net of cash and cash equivalents acquired	(4,237)	(40)	(170)
Proceeds from/(payment for) sale of businesses and other assets, net	206	210	15
Payment received on Healthcare Technology Net Asset Exchange, net	1,228	—	—
Restricted cash for acquisitions	(506)	(939)	—
Other	75	(111)	23
Net cash used in investing activities	(3,796)	(1,557)	(677)
Financing Activities			
Proceeds from short-term borrowings	8,294	1,561	3,100
Repayments of short-term borrowings	(8,124)	(1,688)	(3,152)
Proceeds from issuances of long-term debt	1,824	—	3
Repayments of long-term debt	(1,601)	(1,598)	(353)
Common stock transactions:			
Issuances	120	123	152
Share repurchases, including shares surrendered for tax withholding	(2,311)	(1,612)	(450)
Dividends paid	(253)	(244)	(227)
Other	(18)	5	(41)
Net cash used in financing activities	(2,069)	(3,453)	(968)

Effect of exchange rate changes on cash and cash equivalents	(144)	45	(319)
Net increase (decrease) in cash and cash equivalents	(1,265)	(1,293)	1,148
Cash and cash equivalents at beginning of year	4,048	5,341	4,193
Cash and cash equivalents at end of year	$2,783	$4,048	$5,341
Supplemental Cash Flow Information			
Cash paid for:			
Interest	$315	$337	$359
Income taxes, net of refunds	$587	$923	$866

See Financial Notes

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES

1. Significant Accounting Policies

Nature of Operations: McKesson Corporation ("McKesson," the "Company," the "Registrant" or "we" and other similar pronouns) delivers a comprehensive offering of pharmaceuticals and medical supplies and provides services to help our customers improve the efficiency and effectiveness of their healthcare operations. We manage our business through two operating segments, McKesson Distribution Solutions and McKesson Technology Solutions, as further described in Financial Note 29, "Segments of Business."

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

We consider ourselves to control an entity if we are the majority owner of or have voting control over such entity. We also assess control through means other than voting rights ("variable interest entities" or "VIEs") and determine which business entity is the primary beneficiary of the VIE. We consolidate VIEs when it is determined that we are the primary beneficiary of the VIE.

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

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

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires that we make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimated amounts.

Cash and Cash Equivalents: All highly liquid debt and money market instruments purchased with original maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

Cash equivalents are carried at fair value. Cash equivalents are primarily invested in AAA rated prime and U.S. government money market funds denominated in U.S. dollars, AAA rated prime money market funds denominated in Euros, overnight repurchase agreements collateralized by U.S. government securities, Canadian government securities and/or securities that are guaranteed or sponsored by the U.S. government and an AAA rated prime money market fund denominated in British pound sterling.

The remaining cash and cash equivalents are deposited with several financial institutions. Deposits may exceed the amounts insured by the Federal Deposit Insurance Corporation in the U.S. and similar deposit insurance programs in other jurisdictions. 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.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash and is included within "Prepaid expenses and other" and "Other Noncurrent Assets" in the consolidated balance sheets. At March 31, 2017 and 2016, our restricted cash balance was $1.5 billion and $939 million, which primarily represents cash paid into the escrow accounts for acquisitions that closed in early April 2017 and 2016.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Marketable Securities Available-for-Sale: We carry our marketable securities, which are available-for-sale, at fair value and they are included in prepaid expenses and other in the consolidated balance sheets. The unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders' equity. At March 31, 2017 and 2016, marketable securities were not material.
In determining whether an other-than-temporary decline in market value has occurred, we consider the duration that, and extent to which, the fair value of the investment is below its cost, the financial condition and future prospects of the issuer or underlying collateral of a security, and our intent and ability to retain the security in order to allow for an anticipated recovery in fair value. Other-than-temporary declines in fair value from amortized cost for available-for-sale equity securities that we intend to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis are charged to other income, net, in the period in which the loss occurs.
Equity Method Investments: Investments in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. We evaluate our equity method investments for impairment whenever an event or change in circumstances occurs that may have a significant adverse impact on the carrying value of the investment. If a loss in value has occurred that is deemed to be other than temporary, an impairment loss is recorded. Refer to Financial Note 2, "Healthcare Technology Net Asset Exchange" for further information relating to our equity method investment in Change Healthcare, LLC.
Concentrations of Credit Risk and Receivables: Our trade receivables are subject to a concentration of credit risk with customers primarily in our Distribution Solutions segment. During 2017, sales to our ten largest customers, including group purchasing organizations ("GPOs") accounted for approximately 54.2% of our total consolidated revenues. Sales to our largest customer, CVS Health ("CVS"), accounted for approximately 20.2% of our total consolidated revenues. At March 31, 2017, trade accounts receivable from our ten largest customers were approximately 33.7% of total trade accounts receivable. Accounts receivable from CVS were approximately 17.8% of total trade accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivables balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. A default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or customer groups could have a material adverse impact on our financial condition, results of operations and liquidity. In addition, trade receivables are subject to a concentration of credit risk with customers in the institutional, retail and healthcare provider sectors, which can be affected by a downturn in the economy and changes in reimbursement policies. This credit risk is mitigated by the size and diversity of the customer base as well as its geographic dispersion. We estimate the receivables for which we do not expect full collection based on historical collection rates and ongoing evaluations of the creditworthiness of our customers. An allowance is recorded in our consolidated financial statements for these amounts.
Financing Receivables: We assess and monitor credit risk associated with financing receivables, primarily lease and notes receivables, through regular review of our collection experience in determining our allowance for loan losses. On an ongoing basis, we also evaluate credit quality of our financing receivables utilizing aging of receivables and write-offs, as well as considering existing economic conditions, to determine if an allowance is necessary. Financing receivables are derecognized if legal title to them has been transferred and all related risks and rewards incidental to ownership have passed to the buyer. As of March 31, 2017 and 2016, financing receivables and the related allowance were not material to our consolidated financial statements.
Inventories: We report inventories at the lower of cost or market ("LCM"). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the last-in, first-out ("LIFO") method. The majority of the cost of inventories held in foreign locations is based on weighted average purchase prices using the first-in, first-out method ("FIFO"). Technology Solutions segment inventories consist of computer hardware with cost generally determined by the standard cost method, which approximates average cost. Rebates, cash discounts, and other incentives received from vendors are recognized within cost of sales upon the sale of the related inventory.

62

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The LIFO method was used to value approximately 70% and 74% of our inventories at March 31, 2017 and 2016. If we had used the FIFO method of inventory valuation, which approximates current replacement costs, inventories would have been approximately $1,005 million and $1,012 million higher than the amounts reported at March 31, 2017 and 2016, respectively. These amounts are equivalent to our LIFO reserves. Our LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. We recognized LIFO related credits of $7 million in 2017 and net LIFO charges of $244 million and $337 million in 2016 and 2015 in cost of sales within our consolidated statements of operations. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory.

We believe that the average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., "market"). As such, our LIFO inventory is valued at the lower of LIFO cost or market. As of March 31, 2017 and 2016, inventories at LIFO did not exceed market.

Shipping and Handling Costs: We include costs to pack and deliver inventory to our customers in selling, distribution and administrative expenses. Shipping and handling costs of $814 million, $789 million, and $819 million were included in our selling, distribution and administrative expenses in 2017, 2016 and 2015.

Property, Plant and Equipment: We state our property, plant and equipment ("PPE") at cost and depreciate them under the straight-line method at rates designed to distribute the cost of PPE over estimated service lives ranging from one to thirty years. When certain events or changes in operating conditions occur, an impairment assessment may be performed on the recoverability of the carrying amounts.

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

The first step in goodwill testing requires us to compare the estimated fair value of a reporting unit to its carrying value. This step may be performed utilizing either a qualitative or quantitative assessment. If the carrying value of the reporting unit is lower than its estimated fair value, no further evaluation is necessary. If the carrying value of the reporting unit is higher than its estimated fair value, the second step must be performed to measure the amount of impairment loss. Under the second step, the implied fair value of goodwill is calculated in a hypothetical analysis by subtracting the fair value of all assets and liabilities of the reporting unit, including any unrecognized intangible assets, from the fair value of the reporting unit calculated in the first step of the impairment test. If the carrying value of goodwill for the reporting unit exceeds the implied fair value of goodwill, an impairment charge is recorded for that excess.

To estimate the fair value of our reporting units, we use a combination of the market approach and the income approach. Under the market approach, we estimate fair value by comparing the business to similar businesses or guideline companies whose securities are actively traded in public markets. Under the income approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate expected rate of return. The fair value estimates in the goodwill impairment analysis are highly sensitive to the discount rates used in the expected cash flows attributable to the reporting units. The discount rates are the weighted average cost of capital measuring the reporting units' cost of debt and equity financing weighted by the percentage of debt and percentage of equity in a company's target capital. Other estimates inherent in both the market and income approaches include long-term growth rates, projected revenues, earnings and cash flow forecasts for the reporting units. In addition, we compare the aggregate of the reporting units' fair value to the Company's market capitalization as a further corroboration of the fair values. The testing requires a complex series of assumptions and judgment by management in projecting future

operating results, selecting guideline companies for comparisons and assessing risks. The use of alternative assumptions and estimates could affect the fair values and change the impairment determinations.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

Capitalized Software Held for Sale: Development costs for software held for sale, which primarily pertain to our Technology Solutions segment, are capitalized once a project has reached the point of technological feasibility. Completed projects are amortized after reaching the point of general availability using the straight-line method based on an estimated useful life of approximately three years. At each balance sheet date, or earlier if an indicator of an impairment exists, we evaluate the recoverability of unamortized capitalized software costs based on estimated future undiscounted revenues net of estimated related costs over the remaining amortization period.

Capitalized Software Held for Internal Use: We capitalize costs of software held for internal use during the application development stage of a project and amortize those costs over their estimated useful lives ranging from one to ten years. As of March 31, 2017 and 2016, capitalized software held for internal use was $455 million and $435 million, net of accumulated amortization of $1,177 million and $1,130 million, and was included in other assets in the consolidated balance sheets.

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

Revenue Recognition:

Distribution Solutions

Revenues for our Distribution Solutions segment are recognized when persuasive evidence of an arrangement exists, product is delivered and title passes to the customer or when services have been rendered and there are no further obligations to the customer, the price is fixed or determinable, and collection of the amounts are reasonably assured. Revenues for our Distribution Solutions segment include large volume sales of pharmaceuticals primarily to a limited number of large customers who warehouse their own products. We order bulk product from the manufacturer, receive and process the product primarily through our central distribution facility and deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. We also record revenues for direct store deliveries of shipments from the manufacturer to our customers. We assume the primary liability to the manufacturer for these products.

Revenues are recorded gross when we are the primary party obligated in the transaction, take title to and possession of the inventory, are subject to inventory risk, have latitude in establishing prices, assume the risk of loss for collection from customers as well as delivery or return of the product, are responsible for fulfillment and other customer service requirements, or the transactions have several but not all of these indicators.

Revenues are recorded net of sales returns, allowances, rebates and other incentives. Our sales return policy generally allows customers to return products only if they can be resold for value or returned to suppliers for credit. Sales returns are accrued based on estimates at the time of sale to the customer. Sales returns from customers were approximately $3.1 billion in 2017 and 2016 and $2.7 billion in 2015. We collect taxes from customers and remit to governmental authorities. We report all revenues net of taxes assessed by governmental authorities.

Our Distribution Solutions segment also engages in multiple-element arrangements, which may contain a combination of various products and services. Revenue from a multiple-element arrangement is allocated to the separate elements based on their relative selling price and recognized in accordance with the revenue recognition criteria applicable to

each element. Relative selling price is determined based on vendor-specific objective evidence ("VSOE") of selling price, if available, third-party evidence ("TPE"), if VSOE of selling price is not available, or estimated selling price ("ESP"), if neither VSOE of selling price nor TPE is available.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Technology Solutions
Revenues for our Technology Solutions segment are generated primarily by licensing software and software systems consisting of software, hardware and maintenance support, providing software as a service (“Saas”) or SaaS-based solutions and providing claims processing, outsourcing and professional services. Revenue for this segment is recognized as follows:
Software systems are marketed under information systems agreements as well as service agreements. Perpetual software arrangements are recognized at the time of delivery or under the percentage-of-completion method if the arrangements require significant production, modification or customization of the software. Contracts accounted for under the percentage-of-completion method are generally measured based on the ratio of labor hours incurred to date to total estimated labor hours to be incurred. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to earnings in the period in which they are determined. We accrue for contract losses if and when the current estimate of total contract costs exceeds total contract revenue.
Revenue from time-based software license agreements is recognized ratably over the term of the agreement. Software implementation fees are recognized as the work is performed or under the percentage-of-completion method. Maintenance and support agreements are marketed under annual or multi-year agreements and are recognized ratably over the period covered by the agreements. Hardware revenues are generally recognized upon delivery.
SaaS-based subscription, content and transaction processing fees are generally marketed under annual and multi-year agreements and are recognized ratably over the contracted terms beginning on the service start date for fixed fee arrangements and recognized as transactions are performed beginning on the service start date for per-transaction fee arrangements. Remote processing service fees are recognized monthly as the service is performed. Outsourcing service revenues are recognized as the service is performed.
We also offer certain products on an application service provider basis, making our software functionality available on a remote hosting basis from our data centers. The data centers provide system and administrative support, as well as hosting services. Revenue on products sold on an application service provider basis is recognized on a monthly basis over the term of the contract beginning on the service start date of products hosted.
This segment engages in multiple-element arrangements, which may contain any combination of software, hardware, implementation, SaaS-based offerings, consulting services or maintenance services. For multiple-element arrangements that do not include software, revenue is allocated to the separate elements based on their relative selling price and recognized in accordance with the revenue recognition criteria applicable to each element. Relative selling price is determined based on VSOE of selling price if available, TPE, if VSOE of selling price is not available, or ESP if neither VSOE of selling price nor TPE is available. For multiple-element arrangements accounted for in accordance with specific software accounting guidance when some elements are delivered prior to others in an arrangement and VSOE of fair value exists for the undelivered elements, revenue for the delivered elements is recognized upon delivery of such items. The segment establishes VSOE for hardware and implementation and consulting services based on the price charged when sold separately, and for maintenance services, based on renewal rates offered to customers. Revenue for the software element is recognized under the residual method only when fair value has been established for all of the undelivered elements in an arrangement. If fair value cannot be established for any undelivered element, all of the arrangement’s revenue is deferred until the delivery of the last element or until the fair value of the undelivered element is determinable. For multiple-element arrangements with both software elements and nonsoftware elements, arrangement consideration is allocated between the software elements as a whole and nonsoftware elements. The segment then further allocates consideration to the individual elements within the software group, and revenue is recognized for all elements under the applicable accounting guidance and our policies described above.
Supplier Incentives: Fees for service and other incentives received from suppliers, relating to the purchase or distribution of inventory, are generally reported as a reduction to cost of sales. We consider these fees and other incentives to represent product discounts and as a result, the amounts are recognized within cost of sales upon the sale of the related inventory.

65

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various fees for services and price and rebate incentives, including deductions taken against payments otherwise due to them. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. All adjustments to supplier reserves are included in cost of sales. The ultimate outcome of any outstanding claims may be different than our estimate. As of March 31, 2017 and 2016 supplier reserves were $201 million and $144 million. All of the supplier reserves at March 31, 2017 and 2016 pertain to our Distribution Solutions segment.

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

Foreign Currency Translation: The reporting currency of the Company and its subsidiaries is the U.S. dollar. Our foreign subsidiaries generally consider their local currency to be their functional currency. Foreign currency-denominated assets and liabilities of these foreign subsidiaries are translated into U.S. dollars at year-end exchange rates and revenues and expenses are translated at average exchange rates during the corresponding period, and stockholders' equity accounts are primarily translated at historical exchange rates. Foreign currency translation adjustments are included in other comprehensive income or loss in the statements of consolidated comprehensive income, and the cumulative effect is included in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in operating expenses in the consolidated statements of operations and were not material to our consolidated results of operations in 2017, 2016 or 2015. We release cumulative translation adjustment from stockholders' equity into net income as a gain or loss only upon complete or substantially complete liquidation of a controlling interest in a subsidiary or a group of assets within a foreign entity. We also release all or a pro rata portion of the cumulative translation adjustment into net income upon the sale of an equity method investment that is a foreign entity.

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of foreign currency exchange and interest rate exposures and are recorded on the consolidated balance sheets at fair value. If a derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized as a charge or credit to earnings. We use foreign currency-denominated notes to hedge our net investment in our foreign subsidiaries. If the financial instrument is designated as a cash flow hedge or net investment hedge, the effective portions of changes in the fair value of the derivative are included in other comprehensive income or loss in the statements of consolidated comprehensive income, and the cumulative effect is included in the stockholders' equity section of the consolidated balance sheets. The cumulative changes in fair value are reclassified to the consolidated statements of operations when the hedged item affects earnings. We periodically evaluate hedge effectiveness, and ineffective portions of changes in the fair value of cash flow hedges and net investment hedges are recognized as a charge or credit to earnings. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change included in earnings.

Comprehensive Income: Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of stockholders' equity but are excluded from net income. Our other comprehensive income primarily

consists of foreign currency translation adjustments from those subsidiaries where the local currency is the functional currency, unrealized gains and losses on cash flow hedges and net investment hedges, as well as unrealized gains and losses on retirement-related benefit plans.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Noncontrolling Interests and Redeemable Noncontrolling Interests: Noncontrolling interests represent the portion of profit or loss, net assets and comprehensive income that is not allocable to McKesson Corporation. In 2017, 2016 and 2015, net income attributable to noncontrolling interests included guaranteed dividends or recurring compensation that McKesson is obligated to pay to the noncontrolling shareholders of Celesio AG ("Celesio") under the profit and loss transfer agreement. In 2017, net income attributable to noncontrolling interests also included third-party equity interests in our consolidated entities including Vantage Oncology Holdings, LLC ("Vantage") and ClarusOne Sourcing Services LLC, which was established between McKesson and Wal-Mart Stores, Inc. Noncontrolling interests with redemption features, such as put rights, that are not solely within the Company's control are considered redeemable noncontrolling interests. Redeemable noncontrolling interests are presented outside of Stockholders' Equity on our consolidated balance sheet. Refer to Financial Note 11, "Redeemable Noncontrolling Interests and Noncontrolling Interests," for more information.

Share-Based Compensation: We account for all share-based compensation transactions using a fair-value based measurement method. The share-based compensation expense, for the portion of the awards that is ultimately expected to vest, is recognized on a straight-line basis over the requisite service period. The compensation expense recognized has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees.

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

Disclosure is also provided when it is reasonably possible that a material loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimate.

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that once control of a business is obtained, 100% of the assets acquired and liabilities assumed, including amounts attributed to noncontrolling interests, be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types

of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Recently Adopted Accounting Pronouncements

Share-Based Payments: In March 2016, amended guidance was issued for employee share-based payment awards. Under the amended guidance, all excess tax benefits ("windfalls") and deficiencies ("shortfalls") related to employee share-based compensation arrangements are recognized within income tax expense. Under the previous guidance, windfalls were recognized in additional paid-in capital ("APIC") and shortfalls were only recognized to the extent they exceeded the pool of windfall tax benefits. The amended guidance also requires excess tax benefits to be classified as an operating activity in the statement of cash flows, rather than a financing activity. The amended guidance is effective for us commencing in the first quarter of 2018. Early adoption is permitted. We elected to early adopt this amended guidance in the first quarter of 2017. The primary impact of the adoption was the recognition of excess tax benefits in the income statement on a prospective basis, rather than APIC. As a result, discrete tax benefits of $54 million were recognized in income tax expense in 2017. We also elected to adopt the cash flow presentation of the excess tax benefits prospectively commencing in the first quarter of 2017. None of the other provisions in this amended guidance had a material impact on our consolidated financial statements.

Business Combinations: In the first quarter of 2017, we adopted amended guidance for an acquirer's accounting for measurement-period adjustments. The amended guidance eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively and instead requires that measurement-period adjustments be recognized during the period in which it determines the adjustment. In addition, the amended guidance requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Fair Value Measurement: In the first quarter of 2017, we adopted amended fair value guidance on a retrospective basis. This amended guidance limits disclosures and removes the requirement to categorize investments within the fair value hierarchy if the fair value of the investment is measured using the net asset value ("NAV") per share practical expedient. The amended guidance primarily affected our fiscal 2017 annual disclosures related to our pension benefits. Refer to Financial Note 19, "Pension Benefits," for more information regarding the impact of this amended guidance on our pension benefits. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Fees Paid in a Cloud Computing Arrangement: In the first quarter of 2017, we adopted amended guidance for a customer's accounting for fees paid in a cloud computing arrangement. The amended guidance requires customers to determine whether or not an arrangement contains a software license element. If the arrangement contains a software element, the related fees paid should be accounted for as an acquisition of a software license. If the arrangement does not contain a software license, it is accounted for as a service contract. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Debt Issuance Costs: In the first quarter of 2017, we adopted amended guidance for the balance sheet presentation of debt issuance costs on a retrospective basis. The amended guidance requires debt issuance costs related to a recognized debt liability to be reported on the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amended guidance. In August 2015, a clarification was added to this amended guidance that debt issuance costs related to line-of-credit arrangements can continue to be deferred and presented as an asset on the balance sheet. Upon adoption, unamortized debt issuance costs of $40 million were reclassified primarily from other noncurrent assets to long-term debt at March 31, 2016.

Consolidation: In the first quarter of 2017, we adopted amended guidance for consolidating legal entities in which a reporting entity holds a variable interest. The amended guidance modifies the evaluation of whether limited partnerships and similar legal entities are VIEs and changes the consolidation analysis of reporting entities that are involved with VIEs that have fee arrangements and related party relationships. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Deferred Income Taxes: In November 2015, amended guidance was issued for the balance sheet classification of deferred income taxes. The amended guidance requires the classification of all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The amended guidance would have been effective for us commencing in the first quarter of 2018, however, early adoption was permitted. We early adopted this amended guidance in the fourth quarter of 2016 on a prospective basis. As a result, we reclassified current net deferred tax liabilities of approximately $2 billion on our consolidated balance sheet as of March 31, 2016. The adoption of this guidance had no impact on our consolidated statements of earnings, comprehensive income or cash flows. This amended guidance only resulted in a change in presentation of our deferred income taxes on our consolidated balance sheet as of March 31, 2016.

Discontinued Operations: In the first quarter of 2016, we adopted amended guidance for reporting of discontinued operations and disclosures of disposals of components. The amended guidance revises the criteria for disposals to qualify as discontinued operations and permits significant continuing involvement and continuing cash flows with the discontinued operation. In addition, the amended guidance requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. Refer to Financial Note 7, “Divestiture of Businesses,” for more information regarding the impact of this amended guidance on our consolidated financial statements.

Cumulative Translation Adjustment: In the first quarter of 2015, we adopted amended guidance for a parent’s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or group of assets within a foreign entity or of an investment in a foreign entity. The amended guidance requires the release of any cumulative translation adjustment into net income only upon complete or substantially complete liquidation of a controlling interest in a subsidiary or a group of assets within a foreign entity. Also, it requires the release of all or a pro rata portion of the cumulative translation adjustment to net income in the case of sale of an equity method investment that is a foreign entity. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

Share-Based Payments: In May 2017, amended guidance was issued for employee share-based payment awards. This amendment provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the amended guidance, we are required to account for the effects of a modification if the fair value, the vesting conditions or the classification (as an equity instrument or a liability instrument) of the modified award change from that of the original award immediately before the modification. The amended guidance is effective for us on a prospective basis commencing in the first quarter of 2019. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Premium Amortization of Purchased Callable Debt Securities: In March 2017, amended guidance was issued to shorten the amortization period for certain callable debt securities held at a premium. The amended guidance requires that the premium of callable debt securities to be amortized to the earliest call date but does not require an accounting change for securities held at a discount as they would still be amortized to maturity. The amended guidance is effective for us on a modified retrospective basis commencing in the first quarter of 2020. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Compensation - Retirement Benefits: In March 2017, amended guidance was issued which requires us to report the service cost component of defined benefit pension plans and other postretirement plans in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net benefit cost are required to be presented in the statements of operations separately from the service cost component. This amended guidance is effective for us in the first quarter of 2019 on a retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Derecognition of Nonfinancial Assets: In February 2017, amended guidance was issued that defines the term “in substance nonfinancial asset” as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the asset that is promised is concentrated in nonfinancial assets. The scope of this amendment includes nonfinancial assets transferred within a legal entity including a parent entity’s transfer of nonfinancial assets by transferring ownership interests in consolidated subsidiaries. The amendment excludes all businesses and nonprofit activities from its scope and therefore all entities, with limited exceptions, are required to account for the derecognition of a business or nonprofit activity in accordance with the consolidation guidance once this amended guidance becomes effective. We are required to apply this amended guidance at the same time we apply the amended revenue guidance in the first quarter of 2019. It allows for either full retrospective adoption or modified retrospective adoption. Early adoption is permitted but not prior to our first quarter of 2018. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Goodwill Impairment Testing: In January 2017, amended guidance was issued to simplify goodwill impairment testing by eliminating the second step of the impairment test as previously described. The amended guidance requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, if any. The amended guidance is effective for us on a prospective basis commencing in the first quarter of 2021. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Business Combinations: In January 2017, amended guidance was issued to clarify the definition of a business to assist entities in evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The amended guidance provides a practical screen to determine when an integrated set of assets and activities (collectively referred to as a “set”) is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amended guidance requires that to be considered a business, a set must include an input and a substantive process that together significantly contribute to the ability to create output. The amended guidance is effective for us commencing in the first quarter of 2019 on a prospective basis. Early adoption is permitted in certain circumstances. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Restricted Cash: In November 2016, amended guidance was issued that requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. Transfers between cash and cash equivalents and restricted cash or restricted cash equivalents are not reported as cash flow activities in the statement of cash flows. The amended guidance is effective for us commencing in the first quarter of 2019 on a retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Consolidation: In October 2016, amended guidance was issued that requires a single decision maker of a VIE to consider indirect economic interests in the entity held through related parties that are under common control on a proportionate basis when determining whether it is the primary beneficiary of that VIE. This amendment does not change the existing characteristics of a primary beneficiary. The amended guidance becomes effective for us commencing in the first quarter of 2018 on a retrospective basis. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a material effect on our consolidated financial statements.

Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory: In October 2016, amended guidance was issued to require entities to recognize income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amended guidance is effective for us commencing in the first quarter of 2019 on a modified retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments: In August 2016, amended guidance was issued to provide clarification on cash flow classification related to eight specific issues including contingent consideration payments made after a business combination and distributions received from equity method investees. The amended guidance is effective for us commencing in the first quarter of 2019 on a retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Financial Instruments - Credit Losses: In June 2016, amended guidance was issued, which will change the impairment model for most financial assets and require additional disclosures. The amended guidance requires financial assets that are measured at amortized cost, be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets. The amended guidance also requires us to consider historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount in estimating credit losses. The amended guidance becomes effective for us commencing in 2021 and will be applied through a cumulative-effect adjustment to the beginning retained earnings in the year of adoption. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Investments: In March 2016, amended guidance was issued to simplify the transition to the equity method of accounting. This standard eliminates the requirement that when an existing cost method investment qualifies for use of the equity method, an investor must restate its historical financial statements, as if the equity method had been used during all previous periods. Additionally, at the point an investment qualifies for the equity method, any unrealized gain or loss in accumulated other comprehensive income (loss) will be recognized through earnings. The amended guidance is effective for us prospectively commencing in the first quarter of 2018. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a material effect on our consolidated financial statements.

Derivatives and Hedging: In March 2016, amended guidance was issued for derivative instrument novations. The amendments clarify that a novation, a change in the counterparty, to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationships provided all other hedge accounting criteria continue to be met. The amended guidance is effective for us commencing in the first quarter of 2018. The amended guidance allows for either prospective or modified retrospective adoption. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a material effect on our consolidated financial statements.

Leases: In February 2016, amended guidance was issued for lease arrangements. The amended standard will require lessees to recognize assets and liabilities on the balance sheet for all leases with terms longer than 12 months and provide enhanced disclosures on key information of leasing arrangements. The amended guidance is effective for us commencing in the first quarter of 2020, on a modified retrospective basis. Early adoption is permitted. We plan to adopt the new standard on the effective date and are currently evaluating the impact of this amended guidance on our consolidated financial statements. We anticipate that the adoption of the amended lease guidance will materially affect our consolidated balance sheets and will require certain changes to our systems and processes.

Financial Instruments: In January 2016, amended guidance was issued that requires equity investments to be measured at fair value with changes in fair value recognized in net income and enhanced disclosures about those investments. This guidance also simplifies the impairment assessments of equity investments without readily determinable fair value. The investments that are accounted for under the equity method of accounting or result in consolidation of the investee are excluded from the scope of this amended guidance. The amended guidance will become effective for us commencing in the first quarter of 2019 and will be adopted through a cumulative-effect adjustment. Early adoption is not permitted except for certain provisions. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

Inventory: In July 2015, amended guidance was issued for the subsequent measurement of inventory. The amended guidance requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The requirement would replace the current lower of cost or market evaluation. Accounting guidance is unchanged for inventory measured using last-in, first-out (“LIFO”) or the retail method. The amended guidance will become effective for us commencing in the first quarter of 2018. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a material effect on our consolidated financial statements.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Revenue Recognition: In May 2014, amended guidance was issued for recognizing revenue from contracts with customers. The amended guidance eliminates industry specific guidance and applies to all companies. Revenues will be recognized when an entity satisfies a performance obligation by transferring control of a promised good or service to a customer in an amount that reflects the consideration to which the entity expects to be entitled for that good or service. Revenue from a contract that contains multiple performance obligations is allocated to each performance obligation generally on a relative standalone selling price basis. The amended guidance also requires additional quantitative and qualitative disclosures. In March, April and May 2016, amended guidance was further issued including clarifying guidance on principal versus agent considerations, ability to choose an accounting policy election to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good, and provided certain scope improvements and practical expedients. The amended standard is effective for us commencing in the first quarter of 2019 and allows for either full retrospective adoption or modified retrospective adoption. Early adoption is permitted but not prior to our first quarter of 2018.

While we continue to evaluate the effect of the amended standard, we have conducted a preliminary assessment for our Distribution Solutions segment and do not expect adoption of the amended standard to have a material impact to our consolidated financial statements. We generally anticipate having substantially similar performance obligations under the amended guidance as compared with deliverables and units of account currently being recognized. We intend to make policy elections within the amended standard that are consistent with our current accounting. Our preliminary assessment does not include certain businesses for which we are exploring strategic alternatives and we continue to evaluate the potential impact of the recent acquisitions. This preliminary assessment is subject to change prior to adoption. Additionally, we anticipate adopting this amended standard on a modified retrospective basis in our first quarter of 2019.

2. Healthcare Technology Net Asset Exchange

On June 28, 2016, we entered into a contribution agreement (“Contribution Agreement”) with Change Healthcare Holdings, Inc. (“Change”), a Delaware corporation, and others including shareholders of Change to form a joint venture, Change Healthcare, LLC (“Change Healthcare”), a Delaware limited liability company. On December 21, 2016, we received notification from the Department of Justice that their review was closed and the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, was terminated. On March 1, 2017, the transaction closed upon satisfaction of all other closing conditions pursuant to the Contribution Agreement. Under the terms of the Contribution Agreement, we contributed the majority of our McKesson Technology Solutions businesses (“Core MTS Business”) to the newly formed joint venture, Change Healthcare. We retained our RelayHealth Pharmacy and Enterprise Information Solutions (“EIS”) businesses. Change contributed substantially all of its businesses to the joint venture excluding its pharmacy switch and prescription routing business. In exchange for the contribution, we own 70% of the joint venture with the remaining equity ownership held by Change shareholders. The joint venture is jointly governed by us and Change shareholders. Change Healthcare is a healthcare technology company which provides software and analytics, network solutions and technology-enabled services that will deliver wide-ranging financial, operational and clinical benefits to payers, providers and consumers.

In connection with the closing of the transaction, Change Healthcare issued long-term debt of $6.1 billion, which was utilized to fund cash payments for our promissory notes (as described below) and approximately $1.75 billion to Change stockholders, to cover transaction costs and to repay approximately $2.8 billion of existing Change’s debt. McKesson and Change shareholders have agreed to take steps to launch an initial public offering of an entity which holds equity in Change Healthcare, subject to market conditions. Sometime thereafter, we expect to exit our investment in Change Healthcare through a distribution to McKesson shareholders.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Gain from Healthcare Technology Net Asset Exchange

We accounted for this transaction as a sale of the Core MTS Business and a subsequent purchase of a 70% interest in the newly formed joint venture. Accordingly, in the fourth quarter of 2017, we deconsolidated the Core MTS Business and recorded a pre-tax gain of $3,947 million (after-tax gain of $3,018 million). The pre-tax gain was calculated based on the difference between the fair value of our 70% equity interest in the joint venture, less the carrying amount of the contributed Core MTS Business' net assets of $1,132 million and $1,258 million of promissory notes, a $136 million noncurrent liability associated with a tax receivable agreement (as described below) and transaction and other related expenses. The $1,258 million of promissory notes were subsequently repaid in cash from proceeds of Change Healthcare's long term debt issuance. The gain is subject to final net working capital and other adjustments within 90 days from the transaction close date, and is included under the caption "Gain from Healthcare Technology Net Asset Exchange, net" within operating expenses in our consolidated statements of operations. This transaction did not meet the criteria to be reported as a discontinued operation since it did not constitute a significant strategic business shift for the Company.

The fair value of the joint venture was determined using a combination of the income and the market valuation approaches. Under the income approach, we used a discounted cash flow model ("DCF") in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate expected rate of return. The discount rate used for cash flows reflects capital market conditions and the specific risks associated with the business. Under the market approach, valuation multiples of reasonably similar publicly traded companies or guideline companies are applied to the operating data of the subject business to derive the estimated fair value. These valuation approaches are considered a Level 3 fair value measurement. Fair value determination requires complex assumptions and judgment by management in projecting future operating results, selecting guideline companies for comparisons, determining appropriate market value multiples, selecting the discount rate to measure the risks inherent in the future cash flows and assessing the asset's life cycle and the competitive trends impacting the assets, including considering technical, legal, regulatory, or economic barriers to entry. Any material changes in key assumptions, including failure to meet business plans, deterioration in the financial market, an increase in interest rate or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may affect such estimates.

Equity Method Investment in Change Healthcare

Our investment in the joint venture is accounted for using the equity method of accounting on a one-month reporting lag. We disclose intervening events at the joint venture in the lag period that could materially affect our consolidated financial statements, if applicable. In March 2017, our proportionate share of transaction expenses incurred by the joint venture is estimated to be approximately $80 million to $120 million. However, due to the timing of the transaction and the one-month reporting lag, no net income or loss from our investment was recorded in our financial results for 2017. Commencing April 1, 2017, our proportionate share of the net income or loss from the joint venture including these transaction expenses will be recorded in "Other Income, Net" in our consolidated statement of operations.

At March 31, 2017, our carrying value in our investment was $4,063 million, which exceeded our proportionate share of the joint venture's book value of net assets by approximately $4,762 million, primarily reflecting equity method intangible and goodwill assets and other fair value adjustments including a non-cash reduction to the carrying value of deferred revenue.

Agreements with Change Healthcare and Related Party Transactions

At the closing of the transaction, McKesson, Change Healthcare and certain Change shareholders also entered into various ancillary agreements, including transition services agreements ("TSA"), a transaction and advisory fee agreement ("Advisory Agreement"), a tax receivable agreement ("TRA") and certain other commercial agreements. Pursuant to the TSA, McKesson provides various transitional services to the joint venture to support certain operations including information technology, accounting and other administrative services. The total fees charged by us for such transition services were immaterial for 2017. Transition services fees are included under the caption "Selling,

distribution and administrative expenses" in our consolidated statements of operations.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Pursuant to the Advisory Agreement, the joint venture will pay McKesson and Change shareholders an agreed upon amount for each fiscal year on a quarterly basis. Additionally, McKesson and Change are entitled to receive transaction fees equal to 1% of the aggregate transaction value upon the consummation of any acquisition, divestiture, disposition, merger, consolidation, business combination, change of control, restructuring, reorganization or recapitalization, financing or refinancing or issuance of securities. The foregoing advisory and transaction fees are non-refundable and allocated to McKesson and Change shareholders based on their respective equity ownership percentages. In 2017, we did not earn material advisory fees and transaction fees.

Pursuant to the TRA, McKesson may be required to make certain payments or may be entitled to receive certain payments related to the cash tax savings attributable to the utilization of certain tax attributes, including certain amortizable tax basis in software contributed by McKesson to Change Healthcare. At March 31, 2017, we have recorded a $136 million noncurrent liability payable to Change Healthcare shareholders associated with the TRA. The amount is based on certain estimates and could become payable in periods after a disposition of our investment in Change Healthcare. No such payments were required to be made or received for 2017.

Revenues recorded and expenses incurred under commercial arrangements with Change Healthcare were not material during 2017. At March 31, 2017, receivables from and payables to the joint venture were not material.

3. Goodwill Impairment

In conjunction with Healthcare Technology Net Asset Exchange, we are evaluating strategic options for our EIS business, which is a reporting unit within our McKesson Technology Solutions segment. During the year ended March 31, 2017, we recorded a non-cash pre-tax charge of $290 million ($282 million after-tax) to impair the carrying value of this business' goodwill. The impairment primarily resulted from a decline in estimated future cash flows.

The goodwill impairment test requires us to compare the fair value of the reporting unit to the fair value of the reporting unit's net assets, excluding goodwill but including any unrecognized intangible assets, to determine the implied fair value of goodwill. The impairment charge was then determined by comparing the carrying value of the reporting unit's goodwill with its implied fair value. At March 31, 2017, the remaining goodwill balance for this reporting unit was $124 million. Refer to Financial Note 22, "Fair Value Measurements," for more information on this nonrecurring fair value measurement.

4. Business Combinations

In 2017, we completed our acquisitions of Rexall Health, a division of the Katz Group Canada Inc., Vantage, Biologics, Inc. ("Biologics") and UDG Healthcare Plc ("UDG"), and subsequently our acquisition of CoverMyMeds, LLC ("CMM") in April 2017, as further discussed below.

Rexall Health

On December 28, 2016, we completed our acquisition of Rexall Health which operates approximately 470 retail pharmacies in Canada, particularly in Ontario and Western Canada. The net cash purchase consideration of $2.9 billion Canadian dollars (or, approximately $2.1 billion) was funded from cash on hand. As part of the transaction, McKesson agreed to divest 26 local stores that the Competition Bureau of Canada (the "Bureau") identified during its review of the transaction. We expect to complete the sale of these local market divestitures in the first quarter of 2018. We do not anticipate any store closures as a result of these divestitures. The acquisition of Rexall Health enhances our capability to continue to deliver a broad range of pharmaceutical care and choices to Canadian consumers. Commencing in the fourth quarter of 2017, financial results for Rexall were included in our North America pharmaceutical distribution and services business within our Distribution Solutions segment.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed for the acquisition as of the acquisition date:

(In millions)	Amounts Previously Recognized as of Acquisition Date (Provisional) (1)	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (Provisional as Adjusted)
Receivables	$ 114	—	$ 114
Inventory	271	(36)	235
Other current assets, net of cash and cash equivalents acquired	141	75	216
Goodwill	1,142	(185)	957
Intangible assets	656	199	855
Other long-term assets	161	(45)	116
Current liabilities	(154)	—	(154)
Other long-term liabilities	(45)	(10)	(55)
Fair value of net assets, less cash and cash equivalents	2,286	(2)	2,284
Less: Settlement of pre-existing	165	(2)	163

payables			
Purchase consideration paid in cash, net of cash acquired	$ 2,121	$ —	$ 2,121

(1) As reported on Form 10-Q for the quarter ended December 31, 2016.

During the fourth quarter of 2017, we recorded certain measurement period adjustments to the provisional fair value of assets acquired and liabilities assumed as of the acquisition date. The amounts as of the acquisition date are provisional and subject to change within the measurement period as our fair value assessments are finalized.

Total provisional fair value of assets acquired and liabilities assumed, excluding goodwill and intangibles, were $681 million and $209 million. Approximately $1 billion of the adjusted preliminary purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits of certain synergies and intangible assets that do not qualify for separate recognition. Included in the adjusted preliminary purchase price allocation are acquired identifiable intangibles of $855 million, net of intangibles classified as held for sale, primarily representing trade names with a weighted average life of 19 years and customer relationships with a weighted average life of 19 years. Additionally, we classified those stores that we agreed to divest under the agreement reached with the Bureau as held for sale as of the acquisition date. As a result, assets and liabilities which included “Prepaid expenses and other” and “Other accrued liabilities” in the accompanying consolidated balance sheet as of March 31, 2017 are approximately $184 million and nil.

Vantage & Biologics

On April 1, 2016, we acquired Vantage, which is headquartered in Manhattan Beach, California. Vantage provides comprehensive oncology management services, including radiation oncology, medical oncology, and other integrated cancer care services, through over 51 cancer treatment facilities in 13 states. The net purchase consideration of $515 million was funded from cash on hand. On April 1, 2016, we also acquired Biologics for a net purchase consideration of $692 million, which was funded from cash on hand. Biologics is one of the largest independent oncology-focused specialty pharmacies in the U.S., and is headquartered in Cary, North Carolina. Financial results for these acquisitions since the acquisition date are included in our consolidated statements of operations within our North America pharmaceutical distribution and services business, which is part of our Distribution Solutions segment. These acquisitions collectively enhance our specialty pharmaceutical distribution scale and oncology-focused pharmacy offerings, provide solutions for manufacturers and payers, and expand the scope of our community-based oncology and practice management services.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The following table summarizes the final amounts of the fair values recognized for the assets acquired and liabilities assumed for these two acquisitions as of the acquisition date as well as adjustments made during the measurement period:

(In millions)	Amounts Previously Recognized as of Acquisition Date (Provisional) (1)	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date
Receivables	$ 106	$ (5)	$ 101
Other current assets, net of cash and cash equivalents acquired	19	—	19
Goodwill	1,219	(87)	1,132
Intangible assets	136	79	215
Other long-term assets	76	54	130
Current liabilities	(117)	(15)	(132)
Other long-term liabilities	(80)	(89)	(169)
Fair value of net assets, less cash and cash equivalents	1,359	(63)	1,296
Less: Noncontrolling Interests	(152)	63	(89)
Net assets acquired, net of cash and cash equivalents	$ 1,207	$ —	$ 1,207

(1) As reported on Form 10-Q for the quarter ended June 30, 2016.

At March 31, 2017, approximately $558 million and $574 million of the final purchase price allocations for Vantage and Biologics have been assigned to goodwill, which primarily reflects the expected future benefits of synergies upon integrating the businesses. Goodwill represents the excess of the purchase price and the fair value of noncontrolling interests over the fair value of the acquired net assets.

Included in the final purchase price allocation are acquired identifiable intangibles of $22 million and $193 million for Vantage and Biologics. Acquired intangibles for Vantage primarily consist of $13 million of non-competition agreements with a weighted average life of 4 years, and for Biologics primarily consist of $170 million of trade names with a weighted average life of 9 years. The final fair value of Vantage's noncontrolling interests as of the acquisition date was approximately $89 million, which represents the portion of net assets of Vantage's consolidated entities that is not allocable to McKesson.

UDG

In the first quarter of 2017, we completed our acquisition of the pharmaceutical distribution businesses of UDG based in Ireland and the United Kingdom ("U.K.") with a net purchase consideration of €380 million (or, approximately $431 million), which was funded with cash on hand. The acquired UDG businesses primarily provide pharmaceutical and other healthcare products to retail and hospital pharmacies. The acquisition of UDG expands our offerings and strengthens our market position in Ireland and the U.K. Financial results for UDG since the acquisition date are included in our results of operations within our International pharmaceutical distribution and services business, which is part of our Distribution Solutions segment.

The fair value measurements of assets acquired and liabilities assumed of UDG as of the acquisition date were finalized upon completion of the measurement period. At March 31, 2017, the final amounts of fair value recognized for the assets acquired and liabilities assumed as of the acquisition date, excluding goodwill and intangibles, were $469 million and $340 million. Included in the final purchase price allocation are acquired identifiable intangibles of $120 million primarily comprised of customer relationships with a weighted average life of 10 years. At March 31, 2017, $181 million of the final purchase price allocation has been assigned to goodwill. Goodwill reflects the expected

future benefits of synergies upon integrating the businesses. The net effect of the cumulative adjustments was an increase in goodwill of approximately $16 million from the provisional amounts as previously reported at June 30, 2016.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

CMM

On April 3, 2017, we completed our acquisition of CMM, a privately-owned company headquartered in Columbus, Ohio. CMM provides electronic prior authorization solutions to pharmacies, providers, payers, and pharmaceutical manufacturers helping patients get their prescribed drugs more efficiently to live healthy lives. The net purchase consideration of $1.3 billion was paid into an escrow account prior to our fiscal year end, and is included in "Other Noncurrent Assets" within our consolidated balance sheet at March 31, 2017. The cash paid as of acquisition date was funded from cash on hand. Pursuant to the agreement, McKesson may pay up to an additional $0.2 billion of contingent consideration based on CMM's financial performance through the end of 2019. Upon closing, the financial results of CMM will be included in our North America pharmaceutical and services business within our Distribution Solutions segment.

The fair value of acquired intangibles was primarily determined by applying the income approach, using several significant unobservable inputs for projected cash flows and a discount rate. These inputs are considered Level 3 inputs under the fair value measurements and disclosure guidance.

Other Acquisitions

During the last two years, we also completed a number of other acquisitions within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition.

Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. However, if we acquire the assets of a company, the goodwill may be deductible for tax purposes.

5. Discontinued Operations

Brazil Distribution Business

During the fourth quarter of 2015, we committed to a plan to sell our Brazilian pharmaceutical distribution business, which we acquired through our February 2014 acquisition of Celesio, from our Distribution Solutions segment. Accordingly, the results of operations and cash flows of this business were classified as discontinued operations for all periods presented in our consolidated financial statements. We recorded pre-tax non-cash impairment charges of $241 million ($235 million after-tax) to reduce the carrying value of this Brazilian distribution business to its estimated fair value, less costs to sell, based on our assessment at that time.

On May 31, 2016, we completed the sale of our Brazilian pharmaceutical distribution business and recognized an after-tax loss of $113 million within discontinued operations in the first quarter of 2017 primarily for the settlement of certain indemnification matters as well as the release of the cumulative translation losses. We made a payment of approximately $100 million related to the sale of this business.

Technology Solutions Businesses

During the first quarter of 2015, we decided to retain the workforce business within our International Technology business. This business consists of workforce management solutions for the National Health Service in the United Kingdom. We reclassified the workforce business, which had been designated as a discontinued operation since the first quarter of 2014, to continuing operations in the first quarter of 2015. As a result, during the first quarter of 2015, we recorded non-cash pre-tax charges of $34 million ($27 million after-tax) primarily associated with depreciation and amortization expense for 2014 when the business was classified as held for sale. The non-cash charge was recorded in our consolidated statement of operations primarily in cost of sales.

During the second quarter of 2015, we completed the sale of a software business within our International Technology business and recorded a pre-tax and after-tax loss of $6 million.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

A summary of results of discontinued operations is as follows:

	Years Ended March 31,		
(In millions)	2017	2016	2015
Revenues	$—	$1,603	$2,196
Loss from discontinued operations	$(10)	$(24)	$(321)
Loss on sale	(113)	—	(6)
Loss from discontinued operations before income tax	(123)	(24)	(327)
Income tax (expense) benefit	(1)	(8)	28
Loss from discontinued operations, net of tax	$(124)	$(32)	$(299)

As of March 31, 2017 and 2016, the carrying amounts of total assets and liabilities of discontinued operations were $24 million and $43 million and $635 million and $660 million.

6. Restructuring

On March 14, 2016, we committed to a restructuring plan to lower our operating costs (the "Cost Alignment Plan"). The Cost Alignment Plan primarily consists of a reduction in workforce, and business process initiatives that will be substantially implemented prior to the end of 2019. Business process initiatives primarily include plans to reduce operating costs of our distribution and pharmacy operations, administrative support functions, and technology platforms, as well as the disposal and abandonment of certain non-core businesses. As a result of the Cost Alignment Plan, we expect to record total pre-tax charges of approximately $250 million to $270 million, of which $243 million of pre-tax charges were recorded to date. Estimated remaining charges primarily consist of exit-related costs and accelerated depreciation and amortization, which are largely attributed to our Distribution Solutions segment.

For the year ended March 31, 2017, we recorded restructuring charges of $14 million primarily including asset impairment and accelerated depreciation and amortization.

Restructuring charges for our Cost Alignment Plan for the year ended 2016 consisted of the following:

(In millions)	Distribution Solutions	Technology Solutions	Corporate	Total
Severance and employee-related costs, net [1]	$ 147	$ 44	$ 16	$207
Exit-related costs	3	1	1	5
Asset impairments and accelerated depreciation and amortization [2]	11	6	—	17
Total	$ 161	$ 51	$ 17	$229
Cost of Sales	$ 5	$ 21	$ —	$26
Operating Expenses	156	30	17	203
Total	$ 161	$ 51	$ 17	$229

(1) Severance and employee-related costs, net, include charges of $117 million and $90 million, for a total of $207 million, for a reduction in workforce and business process initiatives.

(2) Asset impairments and accelerated depreciation and amortization charges primarily include impairments for capitalized software projects and software licenses due to abandonments.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The following table summarizes the activity related to the restructuring liabilities associated with the Cost Alignment Plan for the year ended March 31, 2017 and 2016:

(In millions)	Distribution Solutions	Technology Solutions	Corporate	Total
Balance, March 31, 2015	$ —	$ —	$ —	$—
Net restructuring charges recognized	161	51	17	229
Non-cash charges	(4)	(3)	5	(2)
Cash payments	(1)	—	—	(1)
Other	—	(3)	(1)	(4)
Balance, March 31, 2016 [1]	$ 156	$ 45	$ 21	$222
Net restructuring charges recognized	19	(10)	5	14
Non-cash charges	(10)	—	1	(9)
Cash payments	(67)	(20)	(19)	(106)
Other	(8)	(5)	(2)	(15)
Balance, March 31, 2017 [2]	$ 90	$ 10	$ 6	$106

(1) The reserve balance as of March 31, 2016 includes $172 million recorded in other accrued liabilities and $50 million recorded in other noncurrent liabilities in our consolidated balance sheet.

(2) The reserve balance as of March 31, 2017 includes $71 million recorded in other accrued liabilities and $35 million recorded in other noncurrent liabilities in our consolidated balance sheet.

7. Divestiture of Businesses

During the second quarter of 2016, we sold our ZEE Medical business within our Distribution Solutions segment for total proceeds of $134 million and recorded a pre-tax gain of $52 million ($29 million after-tax) from this sale.

During the first quarter of 2016, we also sold our nurse triage business within our Technology Solutions segment for net sale proceeds of $84 million and recorded a pre-tax gain of $51 million ($38 million after-tax) from the sale.

These divestitures did not meet the criteria to be reported as discontinued operations since they did not constitute a significant strategic business shift. Accordingly, pre-tax gains from both divestitures were recorded in operating expenses within continuing operations of our consolidated statements of operations. Pre- and after-tax income of these businesses were not material for the year ended March 31, 2016.

8. Share-Based Compensation

We provide share-based compensation to our employees, officers and non-employee directors, including stock options, an employee stock purchase plan, restricted stock units (“RSUs”), performance-based restricted stock units (“PeRSUs”) and total shareholder return units (“TSRUs”) (collectively, “share-based awards”). Most of our share-based awards are granted in the first quarter of each fiscal year.

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

The compensation expense recognized has been classified in the consolidated statements of operations or capitalized in the consolidated balance sheets in the same manner as cash compensation paid to our employees. There was no material share-based compensation expense capitalized as part of the cost of an asset in 2017, 2016 and 2015.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Impact on Net Income

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

	Years Ended March 31,		
(In millions)	2017	2016	2015
Restricted stock unit awards [1]	$79	$88	$137
Stock options	24	22	24
Employee stock purchase plan	12	13	13
Share-based compensation expense [2]	115	123	174
Tax benefit for share-based compensation [3]	(92)	(41)	(61)
Share-based compensation expense, net of tax	$23	$82	$113

(1) Includes compensation expense recognized for RSUs, PeRSUs and TSRUs. Our TSRUs were awarded beginning in 2015.

(2) 2016 includes non-cash credits of $14 million representing the reversal of previously recognized share-based compensation, which was recorded due to employee terminations associated with the March 2016 restructuring plan.

(3) Income tax benefit is computed using the tax rates of applicable tax jurisdictions. Additionally, a portion of pre-tax compensation expense is not tax-deductible. Income tax expense for 2017 included discrete income tax benefits of $54 million related to the early adoption of the amended accounting guidance on share-based compensation.

Stock Plans

In July 2013, our stockholders approved the 2013 Stock Plan to replace the 2005 Stock Plan. These stock plans provide our employees, officers and non-employee directors the opportunity to receive equity-based, long-term incentives in the form of stock options, restricted stock, RSUs, PeRSUs, TSRUs and other share-based awards. The 2013 Stock Plan reserves 30 million shares plus the remaining number of shares reserved but unused under the 2005 Stock Plan. As of March 31, 2017, 28 million shares remain available for future grant under the 2013 Stock Plan.

Stock Options

Stock options are granted with an exercise price at no less than the fair market value and those options granted under the stock plans generally have a contractual term of seven years and follow a four-year vesting schedule. Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. We use the Black-Scholes options-pricing model to estimate the fair value of our stock options. Once the fair value of an employee stock option is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual. The options-pricing model requires the use of various estimates and assumptions as follows:

- Expected stock price volatility is based on a combination of historical volatility of our common stock and implied market volatility. We believe that this market-based input provides a reasonable estimate of our future stock price movements and is consistent with employee stock option valuation considerations.
- Expected dividend yield is based on historical experience and investors' current expectations.
- The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the time of grant.
- Expected life of the options is based primarily on historical employee stock option exercises and other behavior data and reflects the impact of changes in contractual life of current option grants compared to our historical grants.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Weighted-average assumptions used to estimate the fair value of employee stock options were as follows:

	Years Ended March 31,		
	2017	2016	2015
Expected stock price volatility	21%	21%	22%
Expected dividend yield	0.7%	0.4%	0.6%
Risk-free interest rate	1.1%	1.4%	1.3%
Expected life (in years)	4	4	4

The following is a summary of stock options outstanding at March 31, 2017:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding at Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
$67.81–$153.87	2	2	$ 95.74	2	$ 93.13
153.88–239.93	2	5	196.35	—	196.78
	4			2	

The following table summarizes stock option activity during 2017:

(In millions, except per share data)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value [2]
Outstanding, March 31, 2016	4	$ 118.95	3	$ 201
Granted	1	181.76		
Cancelled	—	192.82		
Exercised	(1)	60.28		
Outstanding, March 31, 2017	4	$ 145.76	4	$ 97
Vested and expected to vest [1]	4	$ 145.54	4	$ 96
Vested and exercisable, March 31, 2017	2	114.00	2	92

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

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

The following table provides data related to stock option activity:

	Years Ended March 31,		
(In millions, except per share data)	2017	2016	2015
Weighted-average grant date fair value per stock option	$32.19	$44.04	$35.49
Aggregate intrinsic value on exercise	$97	$107	$153
Cash received upon exercise	$54	$47	$76
Tax benefits realized related to exercise	$38	$42	$60
Total fair value of stock options vested	$18	$18	$20
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	$21	$20	$22
	2	2	2

Weighted-average period in years over which stock option compensation cost is expected to be recognized

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Restricted Stock Unit Awards

RSUs, which entitle the holder to receive at the end of a vesting term a specified number of shares of the Company's common stock, are accounted for at fair value at the date of grant. Total compensation expense for RSUs under our stock plans is determined by the product of the number of shares that are expected to vest and the grant date market price of the Company's common stock. The Compensation Committee determines the vesting terms at the time of grant. These awards generally vest in three to four years. We recognize expense for RSUs on a straight-line basis over the requisite service period.

Non-employee directors receive an annual grant of RSUs, which vest immediately and are expensed upon grant. The director may elect to receive the underlying shares immediately or defer receipt of the shares if they meet director stock ownership guidelines. The shares will be automatically deferred for those directors who do not meet the director stock ownership guidelines. At March 31, 2017, approximately 109,000 RSUs for our directors are vested.

PeRSUs are RSUs for which the number of RSUs awarded is conditional upon the attainment of one or more performance objectives over a specified period. Each year, the Compensation Committee approves the target number of PeRSUs representing the base number of awards that could be granted if performance goals are attained. PeRSUs are accounted for as variable awards until the performance goals are reached at which time the grant date is established. Total compensation expense for PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, commencing at the inception of the requisite service period. During the performance period, the compensation expense for PeRSUs is re-computed using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the awards are granted and classified as RSUs and accounted for on that basis. We recognize compensation expense for these awards on a straight-line basis over the requisite aggregate service period of generally four years.

TSRUs replaced PeRSUs for our executive officers beginning in 2015. The number of vested TSRUs is assessed at the end of a three-year performance period and is conditioned upon attainment of a total shareholder return metric relative to a peer group of companies. We use the Monte Carlo simulation model to measure the fair value of TSRUs. TSRUs have a requisite service period of approximately three years. Expense is attributed to the requisite service period on a straight-line basis based on the fair value of the TSRUs. For TSRUs that are designated as equity awards, the fair value is measured at the grant date. For TSRUs that are eligible for cash settlement and designated as liability awards, we re-measure the fair value at the end of each reporting period and also adjust a corresponding liability on our balance sheet for changes in fair value.

The weighted-average assumptions used to estimate the fair value of TSRUs are as follows:

	Years Ended March 31,		
	2017	2016	2015
Expected stock price volatility	23%	18%	21%
Expected dividend yield	0.7%	0.4%	0.5%
Risk-free interest rate	1.1%	0.9%	0.7%
Expected life (in years)	3	3	3

The following table summarizes activity for restricted stock unit awards (RSUs, PeRSUs, and TSRUs) during 2017:

(In millions, except per share data)	Shares	Weighted-Average Grant Date Fair Value Per Share

Nonvested, March 31, 2016	3	$ 176.59
Granted	1	182.37
Cancelled	(1)	190.41
Vested	(1)	119.96
Nonvested, March 31, 2017	2	$ 188.54

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

	Years Ended March 31,		
(In millions)	2017	2016	2015
Total fair value of shares vested	$109	$104	$126
Total compensation cost, net of estimated forfeitures, related to nonvested restricted stock unit awards not yet recognized, pre-tax	$99	$144	$206
Weighted-average period in years over which restricted stock unit award cost is expected to be recognized	2	2	2

Employee Stock Purchase Plan ("ESPP")

The Company has an ESPP under which 21 million shares have been authorized for issuance. The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares. The 15% discount provided to employees on these shares is included in compensation expense. The shares related to funds outstanding at the end of a quarter are included in the calculation of diluted weighted average shares outstanding. These amounts have not been significant. Shares issued under the ESPP were not material in 2017, 2016, and 2015. At March 31, 2017, 4 million shares remain available for issuance.

9. Other Income, Net

	Years Ended March 31,		
(In millions)	2017	2016	2015
Interest income	$29	$18	$ 20
Equity in earnings, net [1]	30	15	12
Other, net [1]	31	25	31
Total	$90	$58	$ 63

(1) Primarily recorded within our Distribution Solutions segment.

10. Income Taxes

	Years Ended March 31,		
(In millions)	2017	2016	2015
Income from continuing operations before income taxes			
U.S.	$5,772	$2,319	$1,893
Foreign	1,119	931	764
Total income from continuing operations before income taxes	$6,891	$3,250	$2,657

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

	Years Ended March 31,		
(In millions)	2017	2016	2015
Current			
Federal	$524	$658	$453
State	86	96	90
Foreign	122	90	101
Total current	732	844	644
Deferred			
Federal	767	95	195
State	164	42	53
Foreign	(49)	(73)	(77)
Total deferred	882	64	171
Income tax expense	$1,614	$908	$815

During 2017, 2016 and 2015, income tax expense related to continuing operations was $1,614 million, $908 million and $815 million, which included net discrete tax benefits of $82 million, $42 million and $33 million. Our discrete tax benefits during 2017 include a tax benefit of $54 million related to the adoption of the amended accounting guidance on employee share-based compensation.

In 2016, we recognized a $19 million discrete tax benefit due to a reduction in our deferred tax liabilities as a result of enacted tax law changes in certain foreign jurisdictions and a $25 million discrete tax benefit associated with the U.S. Tax Court's decision in Altera Corp. v. Commissioner related to the treatment of share-based compensation expense in an intercompany cost-sharing agreement. Discrete tax benefits in 2015 included a $55 million benefit related to an agreement reached with the Internal Revenue Service ("IRS") to settle all outstanding issues relating to years 2003 through 2006.

Our reported income tax rates were 23.4%, 27.9%, and 30.7% in 2017, 2016 and 2015. The fluctuations in our reported income tax rates are primarily due to changes within our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates, discrete items and the impact of an intercompany sale of software.

The reconciliation between our effective tax rate on income from continuing operations and statutory tax rate is as follows:

	Years Ended March 31,		
(In millions)	2017	2016	2015
Income tax expense at federal statutory rate	$2,411	$1,137	$930
State income taxes net of federal tax benefit	153	92	81
Foreign income taxed at various rates	(326)	(295)	(247)
Unrecognized tax benefits and settlements	57	(14)	10
Controlled substance distribution reserve	—	—	58
Non-deductible goodwill impairment	106	—	—
Share-Based Compensation excess tax deduction	(54)	—	—
Net tax benefit on intellectual property transfer	(137)	—	—
Rate differential on gain from Change Healthcare Net Asset Exchange	(587)	—	—
Other, net	(9)	(12)	(17)
Income tax expense	$1,614	$908	$815

84

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The non-cash pre-tax charge of $290 million to impair the carrying value of goodwill related to our EIS business within our Technology Solutions segment, described in Financial Note 3, “Goodwill Impairment,” had an unfavorable impact on our effective tax rate in 2017 given that the majority of this charge was not deductible for tax purposes.
In March 2016, amended guidance was issued for employee share-based payment awards. Under the amended guidance, all excess tax benefits (“windfalls”) and deficiencies (“shortfalls”) related to employee share-based compensation arrangements are recognized within income tax expense. We elected to early adopt this amended guidance in the first quarter of 2017. The primary impact of the adoption was the recognition of excess tax benefits in the income statement on a prospective basis, rather than APIC. As a result, a tax benefit of $54 million was recognized in 2017.
On December 19, 2016, we sold various software and ancillary intellectual property relating to our Technology Solutions business between wholly owned legal entities within the McKesson group that are based in different tax jurisdictions. The transferor entity recognized a gain on the sale of assets that was not subject to income tax in its local jurisdiction; such gain was eliminated upon consolidation. A McKesson entity based in the U.S. was the recipient of the software and ancillary intellectual property and is entitled to amortize the fair value of the assets for book and tax purposes. The tax benefit associated with the amortization of these assets is being recognized over the tax lives of the assets. As a result, a net tax benefit of $137 million was recognized prior to the contribution of a portion of these assets to Change Healthcare as described in Financial Note 2, “Healthcare Technology Net Asset Exchange”.
On March 1, 2017, we contributed assets to Change Healthcare as described in Financial Note 2, “Healthcare Technology Net Asset Exchange”. While this transaction was predominantly structured as a tax free asset contribution for U.S. federal income tax purposes under Section 721(a) of the Internal Revenue Code, we recorded tax expense of $929 million on the gain. The tax expense was primarily driven by the recognition of a deferred tax liability on the excess book over tax basis in our equity investment in Change Healthcare.
Deferred tax balances consisted of the following:

	March 31,	
(In millions)	2017	2016
Assets		
Receivable allowances	$124	$110
Deferred revenue	19	77
Compensation and benefit related accruals	593	710
Net operating loss and credit carryforwards	594	367
Long-term contractual obligations	107	—
Other	222	275
Subtotal	1,659	1,539
Less: valuation allowance	(503)	(267)
Total assets	1,156	1,272
Liabilities		
Inventory valuation and other assets	(2,818)	(2,619)
Fixed assets and systems development costs	(224)	(326)
Intangibles	(921)	(981)
Change Healthcare Equity Investment	(773)	—
Other	(70)	(21)
Total liabilities	(4,806)	(3,947)
Net deferred tax liability	$(3,650)	$(2,675)
Long-term deferred tax asset	28	59
Long-term deferred tax liability	(3,678)	(2,734)
Net deferred tax liability	$(3,650)	$(2,675)

85

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

We assess the available positive and negative evidence to determine whether deferred tax assets are more likely than not to be realized. As a result of this assessment, valuation allowances have been recorded on certain deferred tax assets in various tax jurisdictions. The valuation allowance was approximately $503 million and $267 million in 2017 and 2016. The increase of $236 million in valuation allowances in the current year relate primarily to net operating and capital losses incurred in certain tax jurisdictions for which no tax benefit was recognized.

We have federal, state and foreign net operating loss carryforwards of $126 million, $2,099 million and $1,367 million. Federal and state net operating losses will expire at various dates from 2018 through 2038. Substantially all of our foreign net operating losses have indefinite lives. In addition, we have foreign capital loss carryforwards of $624 million with indefinite lives.

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

	Years Ended March 31,		
(In millions)	2017	2016	2015
Unrecognized tax benefits at beginning of period	$555	$616	$647
Additions based on tax positions related to prior years	7	116	62
Reductions based on tax positions related to prior years	(67)	(62)	(18)
Additions based on tax positions related to current year	105	28	27
Reductions based on settlements	(113)	(141)	(65)
Reductions based on the lapse of the applicable statutes of limitations	—	(6)	(12)
Exchange rate fluctuations	(1)	4	(25)
Unrecognized tax benefits at end of period	$486	$555	$616

As of March 31, 2017, we had $486 million of unrecognized tax benefits, of which $342 million would reduce income tax expense and the effective tax rate, if recognized. During the next twelve months, we do not expect any material reduction in our unrecognized tax benefits. However, this may change as we continue to have ongoing negotiations with various taxing authorities throughout the year.

We report interest and penalties on income taxes as income tax expense. We recognized income tax benefit of $6 million in 2017, income tax expense of $12 million in 2016 and income tax benefit of $24 million in 2015, related to interest and penalties in our consolidated statements of operations. The income tax benefit for interest and penalties recognized in 2015 and 2017 was primarily due to the lapses of statutes of limitations. As of March 31, 2017 and 2016, we had accrued $45 million and $77 million cumulatively in interest and penalties on unrecognized tax benefits.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. During the first quarter of 2017, we reached an agreement with the Internal Revenue Service (“IRS”) to settle all outstanding issues relating to the fiscal years 2007 through 2009. This settlement did not have a material impact on our provision for income taxes. We are subject to audit by the IRS for fiscal years 2010 through the current fiscal year. We are generally subject to audit by taxing authorities in various U.S. states and in foreign jurisdictions for fiscal years 2006 through the current fiscal year.

At March 31, 2017, undistributed earnings of our foreign operations totaling $6,877 million were considered to be permanently reinvested. No deferred tax liability has been recognized on the basis difference created by such earnings since it is our intention to utilize those earnings to support our foreign operations and acquisitions. The determination of the amount of deferred taxes on these earnings depends on judgment regarding withholding taxes, applicable tax laws and factual circumstances in effect at the time of any future distribution. Therefore, the Company believes it is not practicable at this time to reliably determine the amount of unrecognized deferred tax liability related to its undistributed earnings.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

11. Redeemable Noncontrolling Interests and Noncontrolling Interests

Redeemable Noncontrolling Interests

In December 2014, the domination and profit and loss transfer agreement (the "Domination Agreement") entered into between McKesson and Celesio AG ("Celesio") became effective upon the registration in the commercial register of Celesio at the local court of Stuttgart. Upon the effectiveness of the Domination Agreement, Celesio subordinated its management to McKesson and undertook to transfer all of its annual profits to McKesson, and McKesson undertook to compensate any annual losses incurred by Celesio and to grant, subject to a potential court review, the noncontrolling shareholders of Celesio (i) an annual recurring compensation of €0.83 per Celesio share ("Compensation Amount"), (ii) a one-time dividend for Celesio's fiscal year ended December 31, 2014 of €0.83 per Celesio share reduced accordingly for any dividend paid by Celesio in relation to its fiscal year ended December 31, 2014 ("Guaranteed Dividend") and (iii) a right to put ("Put Right") their Celesio shares at €22.99 per share increased annually for interest in the amount of 5 percentage points above a base rate published by the German Bundesbank semiannually, less any Compensation Amount or Guaranteed Dividend already paid in respect of the relevant time period ("Put Amount"). The Domination Agreement does not have an expiration date and can be terminated by McKesson without cause in writing no earlier than March 31, 2020.

Under the Domination Agreement, the noncontrolling shareholders of Celesio ceased to participate in their percentage ownership of Celesio's profits and losses, but instead became entitled to receive the one-time Guaranteed Dividend in December 2014 and the Compensation Amount from January 2015. As a result, during 2017, 2016 and 2015, we recorded a total attribution of net income to the noncontrolling shareholders of Celesio of $44 million, $44 million and $62 million. All amounts were recorded in our consolidated statement of operations within the caption, "Net Income Attributable to Noncontrolling Interests," and the corresponding liability balance was recorded within other accrued liabilities on our consolidated balance sheet.

Upon the effectiveness of the Domination Agreement, the noncontrolling interests in Celesio became redeemable as a result of the Put Right. Accordingly, the carrying value of noncontrolling interests related to Celesio of $1.5 billion was reclassified from "Total Equity" to "Redeemable Noncontrolling Interests" on our consolidated balance sheet during 2015. The balance of redeemable noncontrolling interests is reported at the greater of its carrying value or its maximum redemption value at each reporting date. The redemption value is the Put Amount adjusted for exchange rate fluctuations each period. At March 31, 2017 and 2016, the carrying value of redeemable noncontrolling interests of $1.33 billion and $1.41 billion exceeded the maximum redemption value of $1.21 billion and $1.28 billion. At March 31, 2017 and 2016, we owned approximately 76% of Celesio's outstanding common shares.

Appraisal Proceedings

Subsequent to the Domination Agreement's registration, certain noncontrolling shareholders of Celesio initiated appraisal proceedings ("Appraisal Proceedings") with the Stuttgart Regional Court to challenge the adequacy of the Compensation Amount, the Guaranteed Dividend and/or the Put Amount. As long as any Appraisal Proceedings are pending, the Compensation Amount, Guaranteed Dividend and/or Put Amount will be paid as specified currently in the Domination Agreement. If any such Appraisal Proceedings result in an adjustment to the Compensation Amount, Guaranteed Dividend and/or Put Amount, Celesio Holdings would be required to make certain additional payments for any shortfall to all Celesio noncontrolling shareholders who previously received the Guaranteed Dividend, Compensation Amount and/or Put Amount. The Put Right specified in the Domination Agreement may be exercised until two months after the announcement regarding the end of the Appraisal Proceedings ("Time Limitation Period"). In addition, if the Domination Agreement is terminated after the Time Limitation Period, the Put Right may be exercised for a two-month period after the date of termination.

Noncontrolling Interests

In connection with our acquisition of Vantage on April 1, 2016 as described in Financial Note 4, “Business Combinations,” we recognized noncontrolling interests with a fair value of $89 million at the acquisition date. Noncontrolling interests which represent third-party equity interests in our consolidated entities, including Vantage and ClarusOne Sourcing Services LLC, were $178 million and $84 million at March 31, 2017 and 2016. During 2017, 2016 and 2015, we allocated a total of $39 million, $8 million and $5 million of net income to noncontrolling interests.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

12. Earnings Per Common Share

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

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

	Years Ended March 31,		
(In millions, except per share amounts)	2017	2016	2015
Income from continuing operations	$5,277	$2,342	$1,842
Net income attributable to noncontrolling interests	(83)	(52)	(67)
Income from continuing operations attributable to McKesson	5,194	2,290	1,775
Loss from discontinued operations, net of tax	(124)	(32)	(299)
Net income attributable to McKesson	$5,070	$2,258	$1,476
Weighted average common shares outstanding:			
Basic	221	230	232
Effect of dilutive securities:			
Options to purchase common stock	1	1	1
Restricted stock units	1	2	2
Diluted	223	233	235
Earnings (loss) per common share attributable to McKesson: [1]			
Diluted			
Continuing operations	$23.28	$9.84	$7.54
Discontinued operations	(0.55)	(0.14)	(1.27)
Total	$22.73	$9.70	$6.27
Basic			
Continuing operations	$23.50	$9.96	$7.66
Discontinued operations	(0.55)	(0.14)	(1.29)
Total	$22.95	$9.82	$6.37

(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, 2 million and 1 million of potentially dilutive securities were excluded from the computations of diluted net earnings per common share in 2017, 2016 and 2015, as they were anti-dilutive.

13. Receivables, Net

	March 31,	
(In millions)	2017	2016
Customer accounts	$14,602	$14,519
Other	3,893	3,711
Total	18,495	18,230
Allowances	(280)	(250)
Net	$18,215	$17,980

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

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

14. Property, Plant and Equipment, Net

	March 31,	
(In millions)	2017	2016
Land	$166	$228
Building, machinery, equipment and other [1]	3,637	3,556
Total property, plant and equipment	3,803	3,784
Accumulated depreciation	(1,511)	(1,506)
Property, plant and equipment, net	$2,292	$2,278

(1) During the fourth quarter of 2017, we completed a sale-leaseback transaction for our corporate headquarters building in San Francisco, California. Refer to Financial Note 28, "Sale-Leaseback" for more information.

15. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

(In millions)	Distribution Solutions	Technology Solutions	Total
Balance, March 31, 2015	$ 7,994	$ 1,823	$9,817
Goodwill acquired	21	—	21
Acquisition accounting, transfers and other adjustments	8	—	8
Goodwill disposed	(59)	(27)	(86)
Foreign currency translation adjustments, net	23	3	26
Balance, March 31, 2016	$ 7,987	$ 1,799	$9,786
Goodwill acquired	2,836	22	2,858
Acquisition accounting, transfers and other adjustments	(146)	1	(145)
Impairment	—	(290)	(290)
Amount reclassified to assets held for sale	(165)	—	(165)
Goodwill disposed [1]	(30)	(1,078)	(1,108)
Foreign currency translation adjustments, net	(350)	—	(350)
Balance, March 31, 2017	$ 10,132	$ 454	$10,586

(1) 2017 Technology Solutions segment amount represents goodwill disposal associated with Healthcare Technology Net Asset Exchange transaction. Refer to Financial Note 2, “Healthcare Technology Net Asset Exchange” for more information.

As of March 31, 2017 and 2016, the accumulated goodwill impairment losses were $290 million and $36 million primarily in our Technology Solutions segment. Refer to Financial Note 3, “Goodwill Impairment,” for more information on the impairment charge recorded in 2017.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Information regarding intangible assets is as follows:

	March 31, 2017				March 31, 2016		
(Dollars in millions)	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	11	$ 2,893	$ (1,295)	$ 1,598	$2,652	$ (1,324)	$ 1,328
Service agreements	13	1,009	(316)	693	959	(269)	690
Pharmacy licenses	25	741	(150)	591	857	(121)	736
Trademarks and trade names	15	845	(124)	721	314	(96)	218
Technology	4	69	(64)	5	195	(182)	13
Other	5	201	(144)	57	163	(127)	36
Total		$ 5,758	$ (2,093)	$ 3,665	$5,140	$ (2,119)	$ 3,021

Amortization expense of intangible assets was $444 million, $431 million and $494 million for 2017, 2016 and 2015. Estimated annual amortization expense of intangible assets is as follows: $385 million, $370 million, $355 million, $341 million and $309 million for 2018 through 2022, and $1,905 million thereafter. All intangible assets were subject to amortization as of March 31, 2017 and 2016.

16. Capitalized Software Held for Sale, Net

Changes in the carrying amount of capitalized software held for sale, net, which is included in other assets in the consolidated balance sheets, were as follows:

	Years Ended March 31,		
(In millions)	2017	2016	2015
Balance, at beginning of period	$78	$91	$103
Amounts capitalized	16	30	34
Amortization expense	(21)	(37)	(40)
Disposal [1]	(45)	(5)	—
Foreign currency translations adjustments, net	—	(1)	(6)
Balance, at end of period	$28	$78	$91

(1) 2017 disposal primarily includes $45 million of capitalized software contributed to Change Healthcare in connection with Healthcare Technology Net Asset Exchange transaction. Refer to Financial Note 2, “Healthcare Technology Net Asset Exchange” for more information.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

17. Debt and Financing Activities

Long-term debt consisted of the following:

	March 31,	
(In millions)	2017	2016
U.S. Dollar notes [1] [3]		
5.70% Notes due March 1, 2017	—	500
1.29% Notes Due March 10, 2017	—	700
1.40% Notes due March 15, 2018	500	500
7.50% Notes due February 15, 2019	350	350
2.28% Notes due March 15, 2019	1,100	1,100
4.75% Notes due March 1, 2021	599	599
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	175	175
6.00% Notes due March 1, 2041	493	493
4.88% Notes due March 15, 2044	800	800
Foreign currency notes [2] [3]		
4.00% Euro Bonds due October 18, 2016	—	403
4.50% Euro Bonds due April 26, 2017	533	583
0.63% Euro Notes due August 17, 2021	638	—
1.50% Euro Notes due November 17, 2025	635	—
3.13% Sterling Notes due February 17, 2029	564	—
Lease and other obligations	75	4
Total debt	8,362	8,107
Less: Current portion	1,057	1,610
Total long-term debt	$7,305	$6,497

(1) Interest on these notes is payable semiannually each year.
(2) Interest on these foreign bonds and notes is payable annually each year.
(3) These notes are unsecured and unsubordinated obligations of the Company.

Long-Term Debt

Our long-term debt includes both U.S. dollar and foreign currency denominated borrowings. At March 31, 2017 and March 31, 2016, $8,362 million and $8,107 million of total debt were outstanding, of which $1,057 million and $1,610 million were included under the caption “Current portion of long-term debt” within our consolidated balance sheets.

On February 17, 2017, we completed a public offering of 0.63% Euro-denominated notes due August 17, 2021 (the “2021 Euro Notes”) in an aggregate principal amount of €600 million, 1.50% Euro-denominated notes due November 17, 2025 (the “2025 Euro Notes”) in an aggregate principal amount of €600 million and 3.13% British pound sterling-denominated notes due February 17, 2029 (the “2029 Sterling Notes”) in an aggregate principal amount of £450 million. Interest on the 2021 Euro Notes is payable on August 17th of each year, commencing on August 17, 2017. Interest on the 2025 Euro Notes is payable on November 17th of each year, commencing on November 17, 2017. Interest on the 2029 Sterling Notes is payable on February 17th of each year, commencing on February 17, 2018. We utilized the net proceeds from these notes of $1.8 billion, net of discounts and offering expenses for general corporate purposes including repayments of long-term debt.

91

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Each note, which constitutes a "Series", is an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company's existing and, from time-to-time, future unsecured and unsubordinated indebtedness outstanding. Each Series is governed by materially similar indentures and officers' certificates. Upon at least 15 days notice to holders of a Series, we may redeem that Series at any time prior to maturity, in whole or in part, for cash at redemption prices that may include a make-whole premium plus accrued and unpaid interest, as specified in the indenture and officers' certificate relating to that Series. In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a Series below an investment grade rating by each of Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services within a specified period, an offer must be made to purchase that Series from the holders at a price equal to 101% of the then outstanding principal amount of that Series, plus accrued and unpaid interest to, but not including, the date of repurchase. The indenture and the related officers' certificate for each Series, subject to the exceptions and in compliance with the conditions as applicable, specify that we may not consolidate, merge or sell all or substantially all of our assets, incur liens, or enter into sale-leaseback transactions exceeding specific terms, without lenders' consent. The indentures also contain customary events of default provisions.

In 2017, we repaid at maturity our €350 million Euro-denominated bond (or, approximately $385 million) due October 18, 2016, our $500 million 5.70% notes due March 1, 2017 and our $700 million 1.29% due March 10, 2017. In 2016, we repaid at maturity our $400 million floating rate notes due September 10, 2015, our $500 million 0.95% notes due December 4, 2015, our $600 million 3.25% notes due March 1, 2016 and a term loan balance of $93 million.

Other Information

Scheduled payments of long-term debt are $1,057 million in 2018, of which €500 million Euro-denominated bond (or, approximately $545 million) due April 26, 2017 was repaid at maturity, $1,503 million in 2019, $11 million in 2020, $605 million in 2021, $641 million in 2022 and $4,545 million thereafter.

Revolving Credit Facilities

During the third quarter of 2016, we entered into a syndicated $3.5 billion senior unsecured revolving credit facility (the "Global Facility"), which has a $3.15 billion aggregate sublimit of availability in Canadian dollars, British pound sterling and Euros. The Global Facility matures on October 22, 2020. Borrowings under the Global Facility bear interest based upon the London Interbank Offered Rate, Canadian Dealer Offered Rate, a prime rate, or alternative overnight rates as applicable, and agreed margins. The Global 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 we do not comply with these covenants, our ability to use the Global Facility may be suspended and repayment of any outstanding balances under the Global Facility may be required. At March 31, 2017, we were in compliance with all covenants. There were no borrowings outstanding under this facility as of March 31, 2017 and 2016. As of March 31, 2017 and 2016, the amount available under the Global Facility was $3.5 billion.

We also maintain bilateral credit lines primarily denominated in Euros with a total committed and uncommitted balance of $229 million as of March 31, 2017. Borrowings and repayments were not material in 2017. During 2016 and 2015, we borrowed $641 million and $225 million and repaid $635 million and $267 million under these credit lines primarily related to short term borrowings. These credit lines have interest rates ranging from 0.2% to 6%. As of March 31, 2017, there was nil borrowings outstanding under these credit lines.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Accounts Receivable Facilities

Following the execution of the Global Facility, we also terminated an accounts receivable sales facility (the "AR Facility") with a committed balance of $1.35 billion during the third quarter of 2016. There were no borrowings under the AR Facility during 2016 and 2015. The AR Facility contained requirements relating to the performance of the accounts receivable and covenants relating to the Company. If we did not comply with these covenants, our ability to use the AR Facility would have been suspended and repayment of any outstanding balances under the AR Facility would have been required. At March 31, 2016, we were in compliance with all covenants.

We also had accounts receivable factoring facilities (the "Factoring Facilities") denominated in foreign currencies. Transactions under these facilities are accounted for as secured borrowings and have interest rates ranging from 0.85% to 1.26%. During 2017, 2016 and 2015 we borrowed $7 million, $919 million and $2,875 million and repaid $13 million, $1,055 million and $2,908 million in short-term borrowings under these facilities. At March 31, 2017 and 2016, there were nil and $7 million in secured borrowings outstanding under these facilities. All of the Factoring Facilities expired by April 2016.

Commercial Paper

We maintain a commercial paper program to support our working capital requirements and for other general corporate purposes. Under the program, the Company can issue up to $3.5 billion in outstanding notes. As of March 31, 2017, we had $183 million commercial paper notes outstanding with the weighted average interest rate of 1.20%. There were no borrowings outstanding under the commercial paper program as of March 31, 2016.

18. Variable Interest Entities

We evaluate our ownership, contractual and other interests in entities to determine if they are variable interest entities ("VIEs"), if we have a variable interest in those entities and the nature and extent of those interests. These evaluations are highly complex and involve judgment and the use of estimates and assumptions based on available historical information and management's judgment, among other factors. Based on our evaluations, if we determine we are the primary beneficiary of such VIEs, we consolidate such entities into our financial statements.

Consolidated Variable Interest Entities

We consolidate VIEs when we have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE and, as a result, are considered the primary beneficiary of the VIE. We consolidate certain single-lessee leasing entities where we, as the lessee, have the majority risk of the leased assets due to our minimum lease payment obligations to these leasing entities. As a result of absorbing this risk, the leases provide us with the power to direct the operations of the leased properties and the obligation to absorb losses or the right to receive benefits of the entity. Consolidated VIEs do not have material impact on our consolidated statements of operations and cash flows. Total assets and liabilities included in our consolidated balance sheet for these VIEs were $821 million and $149 million at March 31, 2017 and $119 million and $44 million at March 31, 2016.

Investments in Unconsolidated Variable Interest Entities

We are involved with VIEs which we do not consolidate because we do not have the power to direct the activities that most significantly impact their economic performance and thus are not considered the primary beneficiary of the entities. Our relationships include equity investments and lending, leasing, contractual or other relationships with the VIEs. Our most significant relationships are with oncology and other specialty practices. Under these practice arrangements, we generally own or lease all of the real estate and equipment used by the affiliated practices and manage the practices' administrative functions. We also have relationships with certain pharmacies in Europe with whom we may provide financing, have equity ownership and/or a supply agreement whereby we supply the vast majority of the pharmacies' purchases. Our maximum exposure to loss (regardless of probability) as a result of all unconsolidated VIEs was $1.1 billion at March 31, 2017 and 2016, which primarily represents the value of intangible assets related to service agreements, equity investments and lease and loan receivables. This amount excludes the customer loan guarantees discussed in Financial Note 24, "Financial Guarantees and Warranties." We believe there is no material loss exposure on these assets or from these relationships.

93

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

19. Pension Benefits

We maintain a number of qualified and nonqualified defined benefit pension plans and defined contribution plans for eligible employees.

Defined Benefit Pension Plans

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

Our non-U.S. defined benefit pension plans cover eligible employees located predominantly in Norway, United Kingdom, Germany, and Canada. Benefits for these plans are based primarily on each employee's final salary, with annual adjustments for inflation. The obligations in Norway are largely related to the state-regulated pension plan which is managed by the Norwegian Public Service Pension Fund ("SPK"). According to the terms of the SPK, the plan assets of state regulated plans in Norway must correspond very closely to the pension obligation calculated using the principles codified in Norwegian law. The shortfall may not exceed 1% of the obligation. If the shortfall exceeds this threshold, it must be remedied within two years. In the United Kingdom, we have subsidiaries that participate in a joint pension plan. This plan is largely funded by contractual trust arrangements that hold Company assets that may only be used to pay pension obligations. The Trustee Board decides on the minimum contribution to the plan in association with selected employees of the entity. A valuation is performed at regular intervals in order to determine the amount of the contribution and to ensure that the minimum contribution is made. The pension obligation in Germany is unfunded with the exception of the contractual trust arrangement used to fund pensions of Celesio's Management Board.

Defined benefit plan assets and obligations are measured as of the Company's fiscal year-end.

The net periodic expense for our pension plans is as follows:

	U.S. Plans Years Ended March 31,			Non-U.S. Plans Years Ended March 31,		
(In millions)	2017	2016	2015	2017	2016	2015
Service cost - benefits earned during the year	$5	$4	$1	$15	$20	$16
Interest cost on projected benefit obligation	13	18	19	23	24	34
Expected return on assets	(15)	(19)	(21)	(26)	(30)	(30)
Amortization of unrecognized actuarial loss and prior service costs	11	42	19	4	3	3
Curtailment/settlement loss (gain)	—	2	—	(2)	—	6
Net periodic pension expense	$14	$47	$18	$14	$17	$29

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

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

	U.S. Plans		Non-U.S. Plans	
	Years Ended March 31,		Years Ended March 31,	
(In millions)	2017	2016	2017	2016
Change in benefit obligations				
Benefit obligation at beginning of period [1]	$535	$583	$899	$963
Service cost	5	4	15	20
Interest cost	13	18	23	24
Actuarial loss (gain)	(11)	(13)	98	(64)
Benefits paid	(26)	(54)	(34)	(35)
Expenses paid	(3)	(3)	(1)	—
Amendments	—	—	—	(2)
Acquisitions	—	—	37	—
Foreign exchange impact and other	—	—	(94)	(7)
Benefit obligation at end of period [1]	$513	$535	$943	$899
Change in plan assets				
Fair value of plan assets at beginning of period	$262	$298	$607	$612
Actual return on plan assets	22	(3)	76	2
Employer and participant contributions	38	24	16	44
Benefits paid	(26)	(54)	(34)	(35)
Expenses paid	(3)	(3)	(1)	—
Acquisitions	—	—	35	—
Foreign exchange impact and other	—	—	(76)	(16)
Fair value of plan assets at end of period	$293	$262	$623	$607
Funded status at end of period	$(220)	$(273)	$(320)	$(292)
Amounts recognized on the balance sheet				
Assets	$—	$—	$4	$21
Current liabilities	(17)	(2)	(7)	(11)
Long-term liabilities	(203)	(271)	(317)	(302)
Total	$(220)	$(273)	$(320)	$(292)

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

The following table provides the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for all our pension plans with an accumulated benefit obligation in excess of plan assets.

	U.S. Plans		Non-U.S. Plans	
	March 31,		March 31,	
(In millions)	2017	2016	2017	2016
Projected benefit obligation	$513	$535	$943	$899
Accumulated benefit obligation	513	535	902	855
Fair value of plan assets	293	262	623	607

95

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

	U.S. Plans		Non-U.S. Plans	
	March 31,		March 31,	
(In millions)	2017	2016	2017	2016
Net actuarial loss	$157	$185	$160	$133
Prior service credit	—	—	(3)	(11)
Total	$157	$185	$157	$122

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

	U.S. Plans Years Ended March 31,			Non-U.S. Plans Years Ended March 31,		
(In millions)	2017	2016	2015	2017	2016	2015
Net actuarial loss (gain)	$(17)	$9	$58	$47	$(38)	$117
Prior service credit	—	—	—	—	(5)	(8)
Amortization of:						
Net actuarial loss	(11)	(44)	(27)	(4)	(5)	(5)
Prior service credit (cost)	—	—	8	2	2	2
Foreign exchange impact and other	—	—	—	(10)	(1)	(8)
Total recognized in other comprehensive loss (income)	$(28)	$(35)	$39	$35	$(47)	$98

We expect to amortize $11 million of actuarial loss for the pension plans from stockholders' equity to pension expense in 2018. The comparable 2017 amount was $15 million of actuarial loss.

Projected benefit obligations related to our unfunded U.S. plans were $176 million and $175 million at March 31, 2017 and 2016. Pension obligations for our unfunded plans are based on the recommendations of independent actuaries. Projected benefit obligations relating to our unfunded non-U.S. plans were $276 million and $272 million at March 31, 2017 and 2016. Funding obligations for our non-U.S. plans vary based on the laws of each non-U.S. jurisdiction.

Expected benefit payments, including assumed executive lump sum payments, for our pension plans are as follows: $73 million, $206 million, $61 million, $62 million and $64 million for 2018 to 2022 and $307 million for 2023 through 2027. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our pension plans are $30 million for 2018.

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

	U.S. Plans Years Ended March 31,			Non-U.S. Plans Years Ended March 31,		
	2017	2016	2015	2017	2016	2015
Net periodic pension expense						
Discount rates	3.40%	3.36%	3.74%	2.72%	2.36%	3.85%
Rate of increase in compensation	4.00	4.00	4.00	2.76	2.80	3.11
Expected long-term rate of return on plan assets	6.25	6.75	7.25	4.51	4.87	5.39
Benefit obligation						
Discount rates	3.39%	3.27%	3.18%	2.35%	2.84%	2.50%
Rate of increase in compensation	4.00	4.00	4.00	3.18	2.98	3.24

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Our defined benefit pension plan liabilities are valued using a discount rate based on a yield curve developed from a portfolio of high quality corporate bonds rated AA or better whose maturities are aligned with the expected benefit payments of our plans. For March 31, 2017, our U.S. defined benefit liabilities are valued using a weighted average discount rate of 3.39%, which represents an increase of 12 basis points from our 2016 weighted-average discount rate of 3.27%. Our non-U.S defined benefit pension plan liabilities are valued using a weighted-average discount rate of 2.35%, which represents a decrease of 49 basis points from our 2016 weighted-average discount rate of 2.84%.

Plan Assets

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

The target allocations for U.S. plan assets at March 31, 2017 and 2016 are 50% equity investments, 45% fixed income investments including cash and cash equivalents and 5% real estate. Equity investments include common stock, preferred stock, and equity commingled funds. Fixed income investments include corporate bonds, government securities, mortgage-backed securities, asset-backed securities, other directly held fixed income investments, and fixed income commingled funds. The real estate investment is in a commingled real estate fund.

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

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

Fair Value Measurements: The following tables represent our pension plan assets as of March 31, 2017 and 2016, using the fair value hierarchy by asset class. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on unadjusted quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

(In millions)	U.S. Plans March 31, 2017 Level 1	Level 2	Level 3	Total	Non-U.S. Plans March 31, 2017 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$8	$ —	$ —	$8	$2	$—	$ —	$2
Equity securities:								
Common and preferred stock	17	—	—	17	—	—	—	—
Equity commingled funds	—	—	—	—	13	40	—	53
Fixed income securities:								
Government securities	—	27	—	27	24	68	—	92
Corporate bonds	—	12	—	12	69	120	10	199
Mortgage-backed securities	—	10	—	10	—	—	—	—
Asset-backed securities and other	—	19	—	19	—	—	—	—
Fixed income commingled funds	—	—	—	—	20	29	—	49
Other:								
Real estate funds	—	—	—	—	2	—	6	8
Other	—	—	—	—	—	—	—	—
Total	$25	$ 68	$ —	$93	$130	$257	$ 16	$403
Assets held at NAV practical expedient [1]								
Equity commingled funds				131				94
Fixed income commingled funds				59				53
Real estate funds				10				13
Other				—				60
Total plan assets				$293				$623

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

(In millions)	U.S. Plans March 31, 2016 Level 1	Level 2	Level 3	Total	Non-U.S. Plans March 31, 2016 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$4	$ —	$ —	$4	$4	$—	$ —	$4
Equity securities:								
Common and preferred stock	16	—	—	16	—	—	—	—
Equity commingled funds	—	—	—	—	6	59	—	65
Fixed income securities:								
Government securities	—	12	—	12	22	68	—	90
Corporate bonds	—	12	—	12	1	14	—	15
Mortgage-backed securities	—	14	—	14	—	—	—	—
Asset-backed securities and other	—	22	—	22	—	—	—	—
Fixed income commingled funds	—	—	—	—	67	64	—	131
Other:								
Real estate funds	—	—	—	—	—	—	8	8
Other	—	—	—	—	21	95	—	116
Total	$20	$ 60	$ —	$80	$121	$300	$ 8	$429
Assets held at NAV practical expedient [1]								
Equity commingled funds				165				91
Fixed income commingled funds				—				56
Real estate funds				17				16
Other				—				15
Total plan assets				$262				$607

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

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

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

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

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

1 or Level 2 investments.

99

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Fixed income commingled funds - Some fixed income investments are held in exchange traded or commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 1 or 2 investments.
Real estate funds - The value of the real estate funds is reported by the fund manager and is based on a valuation of the underlying properties. Inputs used in the valuation include items such as cost, discounted future cash flows, independent appraisals and market based comparable data. The real estate funds are classified as Level 1, 2, or 3 investments.
Other - At March 31, 2017 and 2016, this includes $37 million and $40 million of plan asset value relating to the SPK. In principle, the SPK is organized as a pay-as-you-go system guaranteed by the Norwegian government as it holds no Company-owned assets to back the pension liabilities. The Company pays a pension premium used to fund the plan, which is paid directly to the Norwegian government who establishes an account for each participating employer to keep track of the financial status of the plan, including managing the contributions and the payments. Further, the investment return credited to this account is determined annually by the SPK based on the performance of long-term government bonds.
The activity attributable to Level 3 plan assets was insignificant in the years ended March 31, 2017 and 2016.
Multiemployer Plans
The Company contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover union-represented employees in the U.S. In 2017, we also contributed to the Pensjonsordningen for Apoteketaten (“POA”), a mandatory multiemployer pension scheme for our pharmacy employees in Norway, managed by the association of Norwegian Pharmacies.
The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Actions taken by other participating employers may lead to adverse changes in the financial condition of a multiemployer benefit plan and our withdrawal liability and contributions may increase.
Contributions and amounts accrued for U.S. Plans were not material for the years ended March 31, 2017, 2016, and 2015. Contributions to the POA for non-U.S. Plans exceeding 5% of total plan contributions were $18 million, $23 million and $24 million in 2017, 2016 and 2015. Based on actuarial calculations, we estimate the funded status for our non-U.S. Plans to be approximately 75% as of March 31, 2017. No amounts were accrued for liability associated with the POA as we have no intention to withdraw from the plan.
Defined Contribution Plans
We have a contributory profit sharing investment plan (“PSIP”) for U.S. eligible employees. Eligible employees may contribute to the PSIP up to 75% of their eligible compensation on a pre-tax or post-tax basis not to exceed IRS limits. The Company makes matching contributions in an amount equal to 100% of the employee’s first 3% of pay contributed and 50% for the next 2% of pay contributed. The Company also may make an additional annual matching contribution for each plan year to enable participants to receive a full match based on their annual contribution. The Company also contributed to non-U.S. plans that are available in certain countries. Contribution expenses for the PSIP and non-U.S. plans were $98 million, $99 million and $103 million for the years ended March 31, 2017, 2016, and 2015.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

20. Postretirement Benefits

We maintain a number of postretirement benefits, primarily consisting of healthcare and life insurance ("welfare") benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retired after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. We also provide postretirement benefits for certain U.S. executives. Defined benefit plan obligations are measured as of the Company's fiscal year-end.

The net periodic expense for our postretirement welfare benefits is as follows:

	Years Ended March 31,		
(In millions)	2017	2016	2015
Service cost - benefits earned during the year	$1	$ 1	$ 1
Interest cost on accumulated benefit obligation	2	4	5
Amortization of unrecognized actuarial gain and prior service credit	(1)	—	(4)
Net periodic postretirement expense	$2	$ 5	$ 2

Information regarding the changes in benefit obligations for our postretirement welfare plans is as follows:

	Years Ended March 31,	
(In millions)	2017	2016
Benefit obligation at beginning of period	$98	$118
Service cost	1	1
Interest cost	2	4
Plan amendments	—	(16)
Actuarial (gain) / loss	(13)	3
Benefit payments	(6)	(11)
Curtailment gain	—	(1)
Benefit obligation at end of period	$82	$98

The components of the amount recognized in accumulated other comprehensive income for the Company's other postretirement benefits at March 31, 2017 and 2016 were net actuarial gains of $11 million and net actuarial losses of $4 million and net prior service credits of $14 million and $16 million. Other changes in benefit obligations recognized in other comprehensive income were net actuarial gains of $14 million in 2017 and net actuarial losses of $3 million in 2016 and net prior service credits of $3 million and $16 million in 2017 and 2016.

We estimate that the amortization of the actuarial income from stockholders' equity to other postretirement gain in 2018 will be $4 million. Comparable 2017 amount was an expense of $1 million.

Other postretirement benefits are funded as claims are paid. Expected benefit payments for our postretirement welfare benefit plans are as follows: $8 million, $7 million, $7 million, $7 million and $7 million for 2018 to 2022 and $30 million cumulatively for 2023 through 2027. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our postretirement welfare benefit plans are $8 million for 2018.

Weighted-average discount rates used to estimate postretirement welfare benefit expenses were 3.68%, 3.59% and 4.07% for 2017, 2016 and 2015. Weighted-average discount rates for the actuarial present value of benefit obligations were 3.82%, 3.68% and 3.61% for 2017, 2016 and 2015.

Actuarial gain or loss for the postretirement welfare benefit plan is amortized to income or expense over a three-year period. The assumed healthcare cost trends used in measuring the accumulated postretirement benefit obligation were 3.00% and 6.50% for prescription drugs, 3.00/3.00% and 7.00/6.50% for ages pre-65/post-65 medical and 3.00% and 5.00% for dental in 2017 and 2016. For 2017, 2016 and 2015, a one-percentage-point increase or decrease in the assumed healthcare cost trend rate would not have a material impact on the postretirement benefit obligations.

101

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Pursuant to various collective bargaining agreements, we contribute to multiemployer health and welfare plans that cover union-represented employees. Our liability is limited to the contractual dollar obligations set forth by the collective bargaining agreements. Contributions to the plans and amounts accrued were not material for the years ended March 31, 2017, 2016, and 2015.

21. Hedging Activities

In the normal course of business, we are exposed to interest rate and foreign exchange rate fluctuations. At times, we limit these risks through the use of derivatives such as interest rate swaps, cross currency swaps and foreign currency forward contracts. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes.

Foreign currency exchange risk

We conduct our business worldwide in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling and Canadian dollars. Changes in foreign currency exchange rates could have a material adverse impact on our financial results that are reported in U.S. dollars. We are also exposed to foreign currency exchange rate risk related to our foreign subsidiaries, including intercompany loans denominated in non-functional currencies. We have 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 denominated in non-functional currencies. These programs reduce but do not entirely eliminate foreign exchange rate risk.

At March 31, 2017, we had €1.2 billion Euro-denominated notes and £450 million British pound sterling-denominated notes which hedge portions of our 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 (“Net Investment Hedges”). 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 Accumulated Other Comprehensive Income in the statement of stockholders’ equity where they offset foreign currency translation gains and losses recorded on our net investments. We did not have any foreign denominated notes designated as a net investment hedge as of March 31, 2016. To the extent foreign currency denominated notes designated as net investment hedges are ineffective, changes in value are recorded in earnings. Losses from net investment hedges recorded in other comprehensive income were $13 million for the year ended March 31, 2017. We did not have any ineffective portion of the net investment hedge as of March 31, 2017.

Derivatives Designated as Hedges

At March 31, 2017 and 2016, we had forward contracts to hedge the U.S. dollar against cash flows denominated in Canadian dollars with total gross notional amounts of $243 million and $323 million, which were designated as cash flow hedges. These contracts will mature between March 2018 and March 2020.

From time to time, we enter into cross currency swaps to hedge intercompany loans denominated in non-functional currencies. For our cross currency swap transactions, we agree with another party to exchange, at specified intervals, one currency for another currency at a fixed exchange rate, generally set at inception, calculated by reference to agreed upon notional amounts. These cross currency swaps are designed to reduce the income statement effects arising from fluctuations in foreign exchange rates and have been designated as cash flow hedges.

At March 31, 2017 and March 31, 2016, we had cross currency swaps with total gross notional amounts of approximately $2,663 million and $546 million, which are designated as cash flow hedges. These swaps will mature between February 2018 and January 2024.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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 into Accumulated Other Comprehensive Income and reclassified into earnings in the same period in which the hedged transaction affects earnings. Changes in fair values representing hedge ineffectiveness are recognized in current earnings. Gains or losses on these hedges recorded in other comprehensive income and earnings were not material in 2017, 2016 and 2015.

Derivatives Not Designated as Hedges

At March 31, 2017, we had a forward contract to primarily hedge the U.S. dollar against cash flows denominated in Canadian dollars with total gross notional amounts of $173 million. This contract matured in April 2017 and was not designated for hedge accounting. Gains or losses from this contract were not material for the year ended March 31, 2017.

We also have a number of forward contracts to hedge the Euro against cash flows denominated primarily in British pound sterling and other European currencies. At March 31, 2017 and 2016, the total gross notional amounts of these contracts were $62 million and $876 million.

These contracts will mature through December 2017 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 and accordingly, net gains of $5 million and $60 million in 2017 and 2016, and net losses of $189 million in 2015, were recorded within operating expenses. Gains or losses from these contracts are largely offset by changes in the value of the underlying intercompany foreign currency loans.

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

		March 31, 2017			March 31, 2016		
(In millions)	Balance Sheet Caption	Fair Value of Derivative Asset	Fair Value of Derivative Liability	U.S. Dollar Notional	Fair Value of Derivative Asset	Fair Value of Derivative Liability	U.S. Dollar Notional
Derivatives designated for hedge accounting							
Foreign exchange contracts (current)	Prepaid expenses and other	$17	$ —	$ 81	$16	$ —	$ 80
Foreign exchange contracts (non-current)	Other Noncurrent Assets	32	—	162	46	—	243
Cross currency swaps (current)	Prepaid expenses and other	17	—	174	—	—	—
Cross currency swaps (non-current)	Other Noncurrent Assets/Liabilities	90	—	2,489	—	8	546
Total		$156	$ —		$62	$ 8	
Derivatives not designated for hedge accounting							
Foreign exchange contracts (current)	Prepaid expenses and other	$1	$ —	$ 198	$23	$ —	$ 680
Foreign exchange contracts (current)	Other accrued liabilities	—	—	37	—	—	196
Total		$1	$ —		$23	$ —	

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Refer to Financial Note 22, “Fair Value Measurements,” for more information on these recurring fair value measurements.

22. Fair Value Measurements

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

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

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

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

At March 31, 2017 and 2016, 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 fair value of our commercial paper was determined using quoted prices in active markets for identical liabilities, which are considered to be Level 1 inputs.

Our long-term debt is carried at amortized cost. The carrying amounts and estimated fair values of these liabilities were $8.4 billion and $8.7 billion at March 31, 2017 and $8.1 billion and $8.6 billion at March 31, 2016. The estimated fair value of our long-term debt was determined using quoted market prices in a less active market and other observable inputs from available market information, which are considered to be Level 2 inputs, and may not be representative of actual values that could have been realized or that will be realized in the future.

Assets Measured at Fair Value on a Recurring Basis

Our financial assets measured at fair value on a recurring basis primarily represent money market funds with the amounts of $478 million and $2,413 million at March 31, 2017 and 2016. The fair value of the money market funds was determined by using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosure guidance. The carrying value of all other cash equivalents approximates their fair value due to their relatively short-term nature. Fair values for our marketable securities were not material at March 31, 2017 and 2016.

Fair values of our forward foreign currency contracts were determined using observable inputs from available market information. Fair values of our cross currency swaps were determined using quoted foreign currency exchange rates and other observable inputs from available market information. These inputs are considered Level 2 under the fair value measurements and disclosure guidance, and may not be representative of actual values that could have been realized or that will be realized in the future. Refer to Financial Note 21, “Hedging Activities,” for fair value and other information on our foreign currency derivatives including forward foreign currency contracts and cross currency swaps.

There were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy during the years ended March 31, 2017 and 2016.

Assets Measured at Fair Value on a Nonrecurring Basis

We measure certain long-lived assets and goodwill at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. If the cost of an investment exceeds its fair value, we evaluate, among other factors, our intent to hold the investment, general market conditions, the duration and extent to which the fair value is less than cost and the financial outlook for the industry and location. An impairment charge is recorded when the cost of the asset exceeds its fair value and this condition is determined to be other-than-temporary.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

At March 31, 2017, assets measured at fair value on a nonrecurring basis primarily consisted of our equity method investment in Change Healthcare (Refer to Financial Note 2, “Healthcare Technology Net Asset Exchange,”) and goodwill for a reporting unit within our Technology Solutions segment, as further discussed below. There were no liabilities measured at fair value on a nonrecurring basis at March 31, 2017.

There were no assets or liabilities measured at fair value on a nonrecurring basis at March 31, 2016.

Goodwill

As discussed in Financial Note 3, "Goodwill Impairment," in 2017, we recorded a non-cash pre-tax charge of $290 million ($282 million after-tax) to impair the carrying value of goodwill related to our EIS business, which is a reporting unit within our Technology Solutions segment. The impairment primarily resulted from a decline in estimated cash flows. The goodwill impairment test requires us to compare the fair value of the reporting unit to the fair value of the reporting unit's net assets, excluding goodwill but including any unrecognized intangible assets, to determine the implied fair value of goodwill. If the carrying value of goodwill for the reporting unit exceeds the implied fair value of goodwill, an impairment charge is recorded for that excess.

Fair value assessment of the reporting unit and the reporting unit's net assets are considered a Level 3 measurement due to the significance of unobservable inputs developed using company specific information. We considered the market approach as well as income approach using a discount cash flow (“DCF”) model to determine the fair value of the reporting unit. The DCF method was used to determine the fair value of intangible assets.

23. Lease Obligations

We lease facilities and equipment almost solely under operating leases. At March 31, 2017, future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year for years ending March 31 are:

(In millions)	Noncancelable Operating Leases
2018	$ 477
2019	414
2020	315
2021	264
2022	231
Thereafter	932
Total minimum lease payments [1]	$ 2,633

(1) Amount includes future minimum lease payments for the sale-leaseback transaction of $45 million. Minimum lease payments have not been reduced by minimum sublease rentals of $51 million due under future noncancelable subleases.

Rental expense under operating leases was $474 million, $433 million and $440 million in 2017, 2016 and 2015. We recognize rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Deferred rent is recognized for the difference between the rent expense recognized on a straight-line basis and the payments made per the terms of the lease. Remaining terms for facilities leases generally range from one to fourteen years, while remaining terms for equipment leases range from one to eight years. Most real property leases contain renewal options (generally for five-year increments) and provisions requiring us to pay property taxes and operating expenses in excess of base period amounts. Sublease rental income was not material for 2017, 2016 and 2015.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

24. Financial Guarantees and Warranties

Financial Guarantees

We have agreements with certain of our customers' financial institutions, mainly in Canada and Europe, under which we have guaranteed the repurchase of our customers' inventory or our customers' debt in the event these customers are unable to meet their obligations to those financial institutions. For our inventory repurchase agreements, among other requirements, inventories must be in resalable condition and any repurchase would be at a discount. The inventory repurchase agreements mostly relate to certain Canadian customers and generally range from one to two years. Customers' debt guarantees range from one to twelve years and are primarily provided to facilitate financing for certain customers. The majority of our customers' debt guarantees are secured by certain assets of the customer. At March 31, 2017, the maximum amounts of inventory repurchase guarantees and customers' debt guarantees were $226 million and $98 million, of which we have not accrued any material amounts. The expirations of these financial guarantees are as follows: $190 million, $14 million, $10 million, $7 million and $11 million from 2018 through 2022 and $92 million thereafter.

At March 31, 2017, our banks and insurance companies have issued $255 million of standby letters of credit and surety bonds, which were issued on our behalf mostly related to our customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

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

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

Warranties

In the normal course of business, we provide certain warranties and indemnification protection for our products and services. For example, we provide warranties that the pharmaceutical and medical-surgical products we distribute are in compliance with the U.S. Food, Drug and Cosmetic Act and other applicable laws and regulations. We have received the same warranties from our suppliers, which customarily are the manufacturers of the products. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

We also provide warranties regarding the performance of software and products we sell. Our liability under these warranties is to bring the product into compliance with previously agreed upon specifications. For software products, this may result in additional project costs, which are reflected in our estimates used for the percentage-of-completion method of accounting for software installation services within these contracts. In addition, most of our customers who purchase our software and automation products also purchase annual maintenance agreements. Revenues from these maintenance agreements are recognized on a straight-line basis over the contract period and the cost of servicing product warranties is charged to expense when claims become estimable. Accrued warranty costs were not material to the consolidated balance sheets.

25. Commitments and Contingent Liabilities

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, including claims with customers and vendors, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. As described below, many of these proceedings are at preliminary stages and many seek an indeterminate amount of damages.

106

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided. Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimates.

We are party to the legal proceedings described below. Unless otherwise stated, we are currently unable to estimate a range of reasonably possible losses for the unresolved proceedings described below. Should any one or a combination of more than one of these proceedings be successful, or should we determine to settle any or a combination of these matters, we may be required to pay substantial sums, become subject to the entry of an injunction or be forced to change the manner in which we operate our business, which could have a material adverse impact on our financial position or results of operations.

I. Litigation and Claims

On September 7, 2007, McKesson Specialty Arizona Inc. was served with a complaint filed in the New York Supreme Court, New York County by PSKW, LLC, alleging that McKesson Specialty Arizona misappropriated trade secrets and confidential information in launching its LoyaltyScript® program, PSKW, LLC v. McKesson Specialty Arizona Inc., Index No. 602921/07. PSKW later amended its complaint twice to add additional, but related claims. On March 9, 2017, the court entered judgment after trial in McKesson Specialty Arizona's favor on all claims. On April 6, 2017, PSKW filed a notice of appeal.

On April 16, 2013, the Company's wholly-owned subsidiary, U.S. Oncology, Inc. ("USON"), was served with a third amended qui tam complaint filed in the United States District Court for the Eastern District of New York by two relators, purportedly on behalf of the United States, 21 states and the District of Columbia, against USON and five other defendants, alleging that USON solicited and received illegal "kickbacks" from Amgen in violation of the Anti-Kickback Statute, the False Claims Act, and various state false claims statutes, and seeking damages, treble damages, civil penalties, attorneys' fees and costs of suit, all in unspecified amounts, United States ex rel. Piacentile v. Amgen Inc., et al., CV 04-3983 (SJ). Previously, the United States declined to intervene in the case as to all allegations and defendants except for Amgen. On February 5, 2013, the United States filed a motion to dismiss the claims pled against Amgen. On September 30, 2013, the court granted the United States' motion to dismiss. On April 4, 2014, USON filed a motion to dismiss the claims pled against it. The court has not yet ruled on USON's motion.

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., CV-13-02219 (HG). True Health Chiropractic later amended its complaint, adding McLaughlin Chiropractic Associates as an additional named plaintiff and McKesson Technologies Inc. as a defendant. On August 22, 2016, the court denied plaintiffs' motion for class certification. On November 18, 2016, plaintiffs were granted leave to appeal that ruling to the United States Court of Appeals for the Ninth Circuit. Separately, in the United States Court of Appeals for the District of Columbia Circuit ("D.C. Circuit"), certain third parties challenged the Federal Communications Commission's ("FCC") authority to require

opt-out language on solicited faxes. Simultaneously, other third parties challenged the FCC's authority to grant waivers, like those granted to the Company, of opt-out language requirements on solicited faxes. On March 31, 2017, the D.C. Circuit vacated the FCC order requiring opt-out language on solicited faxes and dismissed as moot the challenge relating to waivers.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

On May 21, 2014, four hedge funds managed by Magnetar Capital filed a complaint against Celesio Holdings (formerly known as "Dragonfly GmbH & Co KGaA"), a wholly-owned subsidiary of the Company, in a German court in Frankfurt, Germany, alleging that Celesio Holdings violated German takeover law in connection with the Company's acquisition of Celesio by paying more to some holders of Celesio's convertible bonds than it paid to the shareholders of Celesio's stock, Magnetar Capital Master Fund Ltd. et al. v. Dragonfly GmbH & Co KGaA, No. 3- 05 O 44/14. On December 5, 2014, the court dismissed Magnetar's lawsuit. Magnetar subsequently appealed that ruling. On January 19, 2016, the Appellate Court reversed the lower court's ruling and entered judgment against Celesio Holdings. On February 22, 2016, Celesio Holdings filed a notice of appeal. Written statements have been submitted to the court. A hearing has not yet been set.

On June 17, 2014, U.S. Oncology Specialty, LP ("USOS") was served with a fifth amended qui tam complaint filed in July 2008 in the United States District Court for the Eastern District of New York by a relator against USOS, among others, alleging that USOS solicited and received illegal "kickbacks" from Amgen in violation of the Anti-Kickback Statute, the False Claims Act, and various state false claims statutes, and seeking damages, treble damages, civil penalties, attorneys' fees and costs of suit, all in unspecified amounts, United States ex rel. Hanks v. Amgen, Inc., et al., CV-08-03096 (SJ). Previously, the United States declined to intervene in the case as to all allegations and defendants except for Amgen. On August 1, 2014, USOS filed a motion to dismiss the claims pled against it and the hearing occurred on October 7, 2014. The court has not yet ruled on USOS's motion.

On January 28, 2016, the Company was served with a qui tam complaint, filed in the United States District Court, for the Southern District of Texas by a relator, purportedly on behalf of the United States, 29 states and the District of Columbia, against the Company and two other defendants, alleging that the defendants reported materially inaccurate data to manufacturers, which caused manufacturers to submit inaccurate Average Manufacturer Prices ("AMPs") to the Centers for Medicare and Medicaid Services from January 1, 2004 to the present, in violation of the False Claims Act and various state false claims statutes, and seeking damages, treble damages, civil penalties, attorneys' fees, interest and costs of suit, United States ex rel. Green v. AmerisourceBergen, et al., 4:15-CV-00379. The United States declined to intervene in the case as to all allegations and defendants. On April 18, 2016, the Company, along with the other defendants, filed a joint motion to dismiss the claims pled against them. On March 31, 2017, the court granted defendants' joint motion to dismiss the lawsuit in its entirety without leave to amend.

On January 26, 2016, the Company was served with an amended complaint filed in the Circuit Court of Boone County, West Virginia, by the State of West Virginia, including the Attorney General of West Virginia, alleging that since 2007, the Company has oversupplied controlled substances to West Virginia and failed to report suspicious orders of controlled substances in violation of the West Virginia Controlled Substances Act, the West Virginia Consumer and Protection Act, as well as common law claims for negligence, public nuisance and unjust enrichment, and seeking injunctive relief, monetary damages and civil penalties, all in unspecified amounts. State of West Virginia ex rel. Morrisey v. McKesson Corporation, Civil Action No.: 16-C-1. Following removal to the United States District Court for the Southern District of West Virginia (Civil Action No.: 2:16-cv-01772), the court remanded the matter to state court in January 2017 without ruling on the pending motion for judgment on the pleadings.

Since December 27, 2016, the Company has been served with nine complaints filed in state and federal courts in West Virginia against the Company and other defendants, alleging substantially similar claims to the West Virginia Attorney General action, including negligence, violation of the West Virginia Controlled Substances Act, and unjust enrichment, and seeking injunctive relief and compensatory and punitive damages, all in unspecified amounts. These lawsuits are McDowell County v. McKesson Corporation, et al., McDowell County, West Virginia Circuit Court, Civil Action No.: 16-C-137M, removed to the United States District Court for the Southern District of West Virginia, Civil Action No.:1:17-cv-00946; The City of Huntington v. Amerisourcebergen Drug Corporation, et al., Cabell County, West Virginia Circuit Court, Civil Action No. 17-C-38, removed to the United States District Court for the Southern District of West Virginia, Civil Action 3:17-1362; Kanawha County Commission v. Rite Aid of Maryland, Inc., et al., United States District Court for the Southern District of West Virginia, Action No. 2:17-cv-01666; Cabell County Commission v. Amerisourcebergen Drug Corporation, et al., United States District Court for the Southern

District of West Virginia, Civil Action No. 3:17-cv-01665; Fayette County Commission v. Cardinal Health, Inc., et al., United States District Court for the Southern District of West Virginia, Civil Action No. 2:17-cv-01957; Wayne County Commission v. Rite Aid of Maryland, Inc., et al., United States District Court for the Southern District of West Virginia, Civil Action No. 3:17-cv-01962; Boone County Commission v. Amerisourcebergen Drug Corporation, et al., United States District Court for the Southern District of West Virginia, Civil Action No. 2:17-cv-02028; Wyoming County Commission v. Amerisourcebergen Drug Corporation, et al., United States District Court for the Southern District of West Virginia, Civil Action No. 5:17-cv-02311; and Logan County Commission v. Cardinal Health, Inc., et al., United States District Court for the Southern District of West Virginia, Civil Action No. 2:17-cv-02296. McKesson filed motions to dismiss in all cases in which responses were due.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

On May 2, 2017, the Company was served with a complaint filed in the District Court of the Cherokee Nation by the Cherokee Nation against the Company and five other defendants, alleging that the defendants oversupplied controlled substances to the Cherokee Nation in violation of the Cherokee National Unfair and Deceptive Practices Act, as well as common law claims for nuisance, negligence, unjust enrichment and civil conspiracy, and seeking injunctive relief, civil penalties, compensatory damages, restitution, punitive damages, and attorneys' fees and costs, all in unspecified amounts, Cherokee Nation v. AmerisourceBergen, et al., CV-2017-203. The Company has not yet responded to the complaint.

On January 31, 2017, Steve Silverman, a purported shareholder, filed a shareholder derivative complaint in the United States District Court for the Northern District of California against certain officers and directors of the Company and the Company as a nominal defendant, alleging violations of fiduciary duties and unjust enrichment relating to the Company's previously disclosed agreement with the DEA and the Department of Justice and various United States Attorneys' offices to settle all potential administrative and civil claims relating to investigations about the Company's suspicious order reporting practices for controlled substances, and seeking restitution and disgorgement of all profits, benefits and other compensation obtained by the defendants from the Company and attorneys' fees, all in unspecified amounts, Silverman v. McKesson Corporation, et al., No. 3:17-cv-00494. On April 3, 2017, the Company filed a motion to dismiss.

On April 3, 2017, Eli Inzlicht, a purported shareholder, filed a shareholder derivative complaint in the United States District Court for the Northern District of California against certain officers and directors of the Company and the Company as a nominal defendant, alleging violations of fiduciary duties relating to the Company's previously disclosed agreement with the DEA and the Department of Justice and various United States Attorneys' offices to settle all potential administrative and civil claims relating to investigations about the Company's suspicious order reporting practices for controlled substances, and seeking restitution and disgorgement of all profits, benefits and other compensation obtained by the defendants from the Company and attorneys' fees, all in unspecified amounts, Inzlicht v. McKesson Corporation, et.al., No. 5:17-cv-01850.

II. 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. For example, in May 2017, the Company was served with a Civil Investigative Demand by the U.S. Attorney's Office for the Eastern District of New York relating to the certification it obtained for a software product under the U.S. Department of Health and Human Services' Electronic Health Record Incentive Program. The Company is currently responding to this request. Such subpoenas and requests also 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.

In 2015, the Company recorded a pre-tax charge of $150 million relating to the Company's previously disclosed agreement with the DEA and the Department of Justice and various United States Attorneys' offices to settle all potential administrative and civil claims relating to investigations about the Company's suspicious order reporting practices for controlled substances. In January 2017, the Company finalized the settlements and paid $150 million in cash.

III. Environmental Matters

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

Based on a determination by the Company's environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of the Company's probable loss associated with the remediation costs for these five sites is $10.4 million, net of amounts anticipated from third parties. The $10.4 million is expected to be paid out between April 2017 and March 2047. The Company's estimated probable loss for these environmental matters has been entirely accrued for in the accompanying consolidated balance sheets.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

In addition, the Company has been designated as a Potentially Responsible Party ("PRP") under the Superfund law for environmental assessment and cleanup costs as the result of its alleged disposal of hazardous substances at 13 sites. With respect to these sites, numerous other PRPs have similarly been designated and while the current state of the law potentially imposes joint and several liability upon PRPs, as a practical matter, costs of these sites are typically shared with other PRPs. At one of these sites, the United States Environmental Protection Agency has selected a preferred remedy with an estimated cost of approximately $1.38 billion. It is not certain at this point in time what proportion of this estimated liability will be borne by the Company or by the numerous other PRPs. Accordingly, the Company's estimated probable loss at those 13 sites is approximately $24.3 million, which has been entirely accrued for in the accompanying consolidated balance sheets. However, it is possible that the ultimate costs of these matters may exceed or be less than the reserves.

IV. Value Added Tax Assessments

We operate in various countries outside the United States which collect value added taxes ("VAT"). The determination of the manner in which a VAT applies to our foreign operations is subject to varying interpretations arising from the complex nature of the tax laws. We have received assessments for VAT which are in various stages of appeal. We disagree with these assessments and believe that we have strong legal arguments to defend our tax positions.

Certain VAT assessments relate to years covered by an indemnification agreement. Due to the complex nature of the tax laws, it is not possible to estimate the outcome of these matters. However, based on the currently available information, we believe the ultimate outcome of these matters will not have a material adverse effect on our financial position, cash flows or results of operations.

V. Other Matters

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

26. Stockholders' Equity

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

In July 2015, the quarterly dividend was raised from $0.24 to $0.28 per common share for dividends declared after such date, until further action by the Board. Dividends were $1.12 per share in 2017, $1.08 per share in 2016 and $0.96 per share in 2015. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Share Repurchase Plans

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

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

	Share Repurchases [1]		
(In millions, except price per share data)	Total Number of Shares Purchased [2] [3]	Average Price Paid Per Share	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
Balance, March 31, 2014			$ 340
Shares repurchased	1.5	$226.55	(340)
Balance, March 31, 2015			$ —
Shares repurchase plans authorized			
May 2015			500
October 2015			2,000
Shares repurchased	8.7	$173.64	(1,504)
Balance, March 31, 2016			$ 996
Shares repurchase plans authorized			
October 2016			4,000
Shares repurchased	15.5	$141.16	(2,250)
Balance, March 31, 2017			$ 2,746

(1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

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

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

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

In May and October 2015, the Board authorized the repurchase of up to $500 million and $2 billion of the Company's common stock.

In 2016, we repurchased 4.5 million of the Company's shares for $854 million through open market transactions at an average price per share of $192.27. In February 2016, we entered into an ASR program with a third-party financial institution to repurchase $650 million of the Company's common stock. The ASR program was completed during the fourth quarter of 2016 and we repurchased 4.2 million shares at an average price per share of $154.04. During 2016, we completed the May 2015 share repurchase authorization. At March 31, 2016, $1.0 billion remained available for future authorized repurchases of the Company's common stock under the October 2015 authorization.

In October 2016, the Board authorized the repurchase of up to $4.0 billion of the Company's common stock.

In 2017, we repurchased 14.1 million of the Company's shares for $2 billion through open market transactions at an average price per share of $140.96. In March 2017, we entered into an ASR program with a third-party financial institution to repurchase $250 million of the Company's common stock. As of March 31, 2017, we had received 1.4 million shares under this program. This ASR program was completed in April 2017 and we received 0.3 million additional shares. The total number of shares repurchased under this ASR program was 1.7 million shares at an average price per share of $143.19. During 2017, we completed the October 2015 share repurchase authorization. The total authorization outstanding for repurchases of the Company's common stock was $2.7 billion at March 31, 2017.

In 2016, we retired 115.5 million or $7.8 billion of the Company’s treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with our accounting policy, we allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. Accordingly, our retained earnings and additional paid-in capital were reduced by $6.4 billion and $1.5 billion during 2016.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

	Years Ended March 31,		
(In millions)	2017	2016	2015
Foreign currency translation adjustments[1]			
Foreign currency translation adjustments arising during period, net of income tax expense (benefit) of ($1), ($23) and nil [2] [3]	$(644)	$113	$(1,845)
Reclassified to income statement, net of income tax expense of nil, nil and nil[4]	20	—	(10)
	(624)	113	(1,855)
Unrealized gains (losses) on net investment hedges [5]			
Unrealized gains (losses) on net investment hedges arising during period, net of income tax benefit of $5, nil and nil	(8)	—	—
Reclassified to income statement, net of income tax expense of nil, nil and nil	—	—	—
	(8)	—	—
Unrealized gains (losses) on cash flow hedges			
Unrealized gains (losses) on cash flow hedges arising during period, net of income tax benefit of nil, nil and nil	(19)	6	(13)
Reclassified to income statement, net of income tax expense of nil, nil and nil	—	3	3
	(19)	9	(10)
Changes in retirement-related benefit plans			
Net actuarial gain (loss) and prior service credit (cost) arising during period, net of income tax expense (benefit) of $4, $13 and ($66) [6]	(20)	23	(140)
Amortization of actuarial gain (loss), prior service cost and transition obligation, net of income tax expense (benefit) of $4, $18 and $6 [7]	9	30	11
Foreign currency translation adjustments and other, net of income tax expense of nil, nil and nil	3	(3)	4
Reclassified to income statement, net of income tax expense of nil, nil and nil	—	—	1
	(8)	50	(124)
Other Comprehensive Income (Loss), net of tax	$(659)	$172	$(1,989)

(1) Foreign currency translation adjustments over the last three years primarily resulted from the conversion of non-U.S. dollar financial statements of our foreign subsidiary, Celesio, into the Company's reporting currency, U.S. dollars.

(2) The 2017 net foreign currency translation losses of $644 million were primarily due to the weakening of the Euro and British pound sterling against the U.S. dollar from April 1, 2016 to March 31, 2017. The 2016 net foreign currency translation gains of $113 million were primarily due to the recovery of the Euro against the U.S. dollar, partly offset by the weakening of the Canadian dollar and British pound sterling against the U.S. dollar during the period between April 1, 2015 and March 31, 2016.

(3) 2017 includes net foreign currency translation losses of $74 million and 2016 includes net foreign currency translation gains of $16 million attributable to noncontrolling and redeemable noncontrolling interests.

(4) These net foreign currency losses were reclassified from accumulated other comprehensive income (loss) to discontinued operations within our consolidated statement of operations due to the Healthcare Technology Net Asset Exchange in 2017 and the sale of a business in 2015.

(5) 2017 includes foreign currency losses of $13 million on the net investment hedges from the €1.2 billion Euro-denominated notes and £450 million British pound sterling-denominated notes.

(6)

The net actuarial losses of $5 million and net gains of $4 million attributable to noncontrolling and redeemable noncontrolling interests in 2017 and 2016.

(7) Pre-tax amount was reclassified into cost of sales and operating expenses in the consolidated statements of operations. The related tax expense was reclassified into income tax expense in the consolidated statements of operations.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Accumulated Other Comprehensive Income (Loss)
Information regarding changes in our accumulated other comprehensive income (loss) by component are as follows:

(In millions)	Foreign Currency Translation Adjustments, Net of Tax	Unrealized 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 Income (Loss)
Balance at March 31, 2015	$ (1,420)	$ —	$ (21)	$ (272)	$ (1,713)
Other comprehensive income (loss) before reclassifications	113	—	6	23	142
Amounts reclassified to earnings	—	—	3	27	30
Other comprehensive income (loss)	$ 113	$ —	$ 9	$ 50	$ 172
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	16	—	—	4	20
Other comprehensive income (loss) attributable to McKesson	$ 97	$ —	$ 9	$ 46	$ 152
Balance at March 31, 2016	$ (1,323)	$ —	$ (12)	$ (226)	$ (1,561)
Other comprehensive income (loss) before reclassifications	(644)	(8)	(19)	(17)	(688)
Amounts reclassified to earnings and other	20	—	—	9	29
Other comprehensive income (loss)	$ (624)	$ (8)	$ (19)	$ (8)	$ (659)
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(74)	—	—	(5)	(79)
Other comprehensive income (loss) attributable to McKesson	$ (550)	$ (8)	$ (19)	$ (3)	$ (580)
Balance at March 31, 2017	$ (1,873)	$ (8)	$ (31)	$ (229)	$ (2,141)

27. Related Party Balances and Transactions
Celesio has investments in pharmacies located across Europe that are accounted for under the equity-method. Celesio maintains distribution arrangements with these pharmacies for the sale of related goods and services under which revenues of $112 million, $112 million, and $114 million are included in our consolidated statement of operations for the years ended March 31, 2017, 2016 and 2015 and receivables of $12 million and $8 million are included in our consolidated balance sheet as of March 31, 2017 and 2016.
Refer to Financial Note 2, “Healthcare Technology Net Asset Exchange,” for the information regarding related party balances and transactions with Change Healthcare.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

28. Sale-Leaseback

During the fourth quarter of 2017, we completed a sale-leaseback transaction for our corporate headquarters building in San Francisco, California. The transaction resulted in net cash proceeds of $223 million and a pre-tax gain of $15 million, which represents the amount of total gain in excess of the present value of the minimum lease payments. Additionally, we deferred a pre-tax gain of $48 million; such gain will be amortized on a straight-line basis over the lease term as a reduction to selling, distribution, and administrative expense in the accompanying consolidated statements of operations. Refer to Financial Note 23, “Lease Obligations,” for the future minimum lease payments associated with this sale-leaseback.

29. Segments of Business

We report our operations in two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. 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. We evaluate the performance of our operating segments on a number of measures, including operating profit before interest expense, income taxes and results from discontinued operations.

Our Distribution Solutions segment distributes branded and generic pharmaceutical drugs and other healthcare-related products internationally and provides practice management, technology, clinical support and business solutions to community-based oncology and other specialty practices. This segment also provides specialty pharmaceutical solutions for pharmaceutical manufacturers including offering multiple distribution channels and clinical trial access to our network of oncology physicians. It also provides medical-surgical supply distribution, logistics and other services to healthcare providers within the United States. Additionally, this segment operates retail pharmacy chains in Europe and Canada, and supports independent pharmacy networks within North America and Europe. It also supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies.

On March 1, 2017, upon the closing of Healthcare Technology Net Asset Exchange, we contributed the majority of our McKesson Technology Solutions businesses to the newly formed joint venture, Change Healthcare. We retained our RelayHealth Pharmacy and EIS businesses. Accordingly, beginning March 31, 2017, Technology Solutions segment provides clinical, financial and supply chain management solutions to healthcare organizations and includes our equity method investment in Change Healthcare. Prior to March 1, 2017, this segment also delivered enterprise-wide clinical, patient care and strategic management technology solutions, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. Refer to Financial Note 2, “Healthcare Technology Net Asset Exchange” for additional information about Change Healthcare.

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

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

	Years Ended March 31,		
(In millions)	2017	2016	2015
Revenues			
Distribution Solutions [1]			
North America pharmaceutical distribution and services	$164,832	$158,469	$143,711
International pharmaceutical distribution and services	24,847	23,497	26,358
Medical-Surgical distribution and services	6,244	6,033	5,907
Total Distribution Solutions	195,923	187,999	175,976
Technology Solutions - products and services	2,610	2,885	3,069
Total Revenues	$198,533	$190,884	$179,045
Operating profit			
Distribution Solutions [2] [5]	$3,361	$3,553	$3,047
Technology Solutions [3] [4] [5]	4,215	$519	$438
Total	7,576	4,072	3,485
Corporate Expenses, Net [5]	(377)	$(469)	$(454)
Interest Expense	(308)	$(353)	$(374)
Income From Continuing Operations Before Income Taxes	$6,891	$3,250	$2,657
Depreciation and amortization [6]			
Distribution Solutions	$735	$669	$750
Technology Solutions	65	107	156
Corporate	110	109	111
Total	$910	$885	$1,017
Expenditures for long-lived assets [7]			
Distribution Solutions	$276	$306	$301
Technology Solutions	30	15	27
Corporate	98	167	48
Total	$404	$488	$376
Revenues, net by geographic area [8]			
United States	$164,428	$158,255	$142,810
Foreign	34,105	32,629	36,235
Total	$198,533	$190,884	$179,045

(1) Revenues derived from services represent less than 2% of this segment's total revenues.

(2) Distribution Solutions segment operating profit for 2016 includes a pre-tax gain of $52 million recognized from the sale of our ZEE Medical business. Operating profit for 2017 and 2016 includes $144 million and $76 million of net cash proceeds representing our share of net settlements of antitrust class action lawsuits.

(3) Technology Solutions segment operating profit for 2017 includes a pre-tax gain of $3,947 million recognized from the Healthcare Technology Net Asset Exchange, net of transaction and related expenses.

(4) Technology Solutions segment operating profit for 2017 includes a non-cash pre-tax charge of $290 million for goodwill impairment related to the EIS reporting unit. Operating profit for 2016 includes a pre-tax gain of $51 million recognized from the sale of our nurse triage business.

(5) In 2016, the Company implemented the Cost Alignment Plan to reduce its operating expenses and recorded pre-tax restructuring charges of $229 million in 2016. Pre-tax charges for 2016 were recorded as follows: $161 million, $51 million and $17 million within our Distribution Solutions segment, Technology Solutions segment and Corporate.

(6) Amounts primarily include amortization of acquired intangible assets purchased in connection with business acquisitions, capitalized software held for sale and capitalized software for internal use.

(7) Long-lived assets consist of property, plant and equipment.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Continued)

(8) Net revenues were attributed to geographic areas based on the customers' shipment locations.
Segment assets and property, plant and equipment, net by geographic areas were as follows:

	March 31,	
(In millions)	2017	2016
Segment assets		
Distribution Solutions	$52,322	$47,088
Technology Solutions	4,995	3,072
Corporate	3,652	6,363
Total	$60,969	$56,523
Property, plant and equipment, net		
United States	$1,383	$1,500
Foreign	909	778
Total	$2,292	$2,278

Assets by operating segment are not reviewed by management for purpose of assessing performance or allocating resources.

30. Quarterly Financial Information (Unaudited)

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

(In millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2017				
Revenues	$49,733	$49,957	$50,130	$48,713
Gross profit [1] [2]	2,907	2,756	2,812	2,796
Income (loss) after income taxes:				
Continuing operations [1] [2] [3] [4]	$673	$325	$649	$3,630
Discontinued operations	(113)	(1)	(3)	(7)
Net income	$560	$324	$646	$3,623
Net income attributable to McKesson	$542	$307	$633	$3,588
Earnings (loss) per common share attributable to McKesson [5]				
Diluted				
Continuing operations	$2.88	$1.35	$2.86	$16.79
Discontinued operations	(0.50)	(0.01)	(0.01)	(0.03)
Total	$2.38	$1.34	$2.85	$16.76
Basic				
Continuing operations	$2.91	$1.36	$2.89	$16.95
Discontinued operations	(0.50)	—	(0.02)	(0.03)
Total	$2.41	$1.36	$2.87	$16.92

(1) Gross profit for the first, second, third and fourth quarters of 2017 includes pre-tax charge of $47 million, pre-tax credits of $43 million and $155 million and pre-tax charge of $144 million related to our last-in-first-out ("LIFO") method of accounting for inventories.

(2) Gross profit for the first and third quarters of 2017 includes $142 million and $2 million of cash proceeds representing our share of net settlements of antitrust class action lawsuits.

(3) Financial results for the fourth quarter of 2017 include a pre-tax gain of $3,947 million ($3,018 million after-tax) recognized from the Healthcare Technology Net Asset Exchange, net of transaction and related expenses.

(4)

Financial results for the second quarter of 2017 include a non-cash pre-tax charge of $290 million for goodwill impairment related to the EIS reporting unit within our Technology Solutions segment.

(5) Certain computations may reflect rounding adjustments.

Table of Contents
McKESSON CORPORATION
FINANCIAL NOTES (Concluded)

(In millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2016				
Revenues	$47,546	$48,761	$47,899	$46,678
Gross profit [1] [2] [3]	2,848	2,844	2,872	2,852
Income (loss) after income taxes:				
Continuing operations [1] [2] [3] [4]	$599	$636	$642	$465
Discontinued operations	(10)	(6)	5	(21)
Net income	$589	$630	$647	$444
Net income attributable to McKesson	$576	$617	$634	$431
Earnings (loss) per common share attributable to McKesson [5]				
Diluted				
Continuing operations	$2.50	$2.65	$2.71	$1.97
Discontinued operations	(0.05)	(0.02)	0.02	(0.09)
Total	$2.45	$2.63	$2.73	$1.88
Basic				
Continuing operations	$2.53	$2.68	$2.74	$1.99
Discontinued operations	(0.04)	(0.02)	0.02	(0.09)
Total	$2.49	$2.66	$2.76	$1.90

(1) Gross profit for the first, second, third and fourth quarters of 2016 includes pre-tax charges related to our last-in-first-out ("LIFO") method of accounting for inventories of $91 million, $91 million, $33 million and $29 million.

(2) Gross profit for the first and third quarters of 2016 includes $59 million and $17 million of cash proceeds representing our share of net settlements of antitrust class action lawsuits.

(3) In the fourth quarter of 2016, the Company approved a restructuring plan to reduce its operating expenses. Financial results for the fourth quarter of 2016 include pre-tax restructuring charges of $229 million within our continuing operations. Charges were recorded as follows: $26 million in cost of sales and $203 million in operating expenses.

(4) Financial results for the first quarter of 2016 include an after-tax gain of $38 million from the sale of our nurse triage business, and for the second quarter of 2016 include an after-tax gain of $29 million from the sale of ZEE Medical business.

(5) Certain computations may reflect rounding adjustments.

Table of Contents
McKESSON CORPORATION

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.
Item 9A. Controls and Procedures.
Disclosure Controls and Procedures
Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.
Internal Control over Financial Reporting
Management's report on the Company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included in this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.
Changes in Internal Controls
There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our fourth quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.
Item 9B. Other Information.
None.

Table of Contents
McKESSON CORPORATION

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2017 Annual Meeting of Stockholders (the "Proxy Statement") under the heading "Election of Directors."

Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement.

Information about our Audit Committee, including the members of the committee and our Audit Committee Financial Expert, is incorporated by reference from the discussion under the headings "Audit Committee," "Audit Committee Financial Expert" and "Audit Committee Report" in our Proxy Statement.

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

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

Item 11. Executive Compensation.

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

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

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

The following table sets forth information as of March 31, 2017 with respect to the plans under which the Company's common stock is authorized for issuance:

Plan Category (In millions, except per share amounts)	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights [1]	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	5.4 [2]	$ 145.76	31.5 [3]
Equity compensation plans not approved by security holders	—	$ —	—

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

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

(3)

Represents 3,841,866 shares available for purchase under the 2000 Employee Stock Purchase Plan and 27,681,794 shares available for grant under the 2013 Stock Plan.

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

Table of Contents
McKESSON CORPORATION

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

Stock options are granted at no less than fair market value and those options granted under the 2013 Stock Plan generally have a contractual term of seven years. Options generally become exercisable in four equal annual installments beginning one year after the grant date. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. RS and RSUs generally vest over four years. PeRSUs vest three years following the end of the performance period. Beginning in May 2014, the Company's executive officers are annually granted performance awards called Total Shareholder Return Units ("TSRUs"), which have a three-year performance period and are payable in shares without an additional vesting period.

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

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, RS, RSUs, PeRSUs, performance shares and other share-based awards. For any one share of common stock issued in connection with an RS, RSU, performance share or other full-share award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, shares withheld to satisfy tax obligations relating to the vesting of a full-share award or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

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

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years. Options generally become exercisable in four equal annual installments beginning one year after the grant date. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. RS and RSUs generally vest over four years. PeRSUs vest three years following the end of the performance period.

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

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

2000 Employee Stock Purchase Plan (the "ESPP"): The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company's international and other subsidiaries. As to those employees, the ESPP does not qualify under Section 423 of the Internal Revenue Code. Currently, 21.1 million shares have been approved by stockholders for issuance under the ESPP.

Table of Contents
McKESSON CORPORATION

The ESPP is implemented through a continuous series of three-month purchase periods ("Purchase Periods") during which contributions can be made toward the purchase of common stock under the plan.
Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant's compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company's common stock. The purchase price of each share of the Company's common stock is 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing $25,000 by the fair market value of one share of common stock on the offering date.
There currently are no equity awards outstanding that were granted under equity plans that were not submitted for approval by the Company's stockholders.
Item 13. Certain Relationships and Related Transactions, and Director Independence.
Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement under the heading "Certain Relationships and Related Transactions." Additional information regarding certain related party balances and transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 27, "Related Party Balances and Transactions," to the consolidated financial statements appearing in this Annual Report on Form 10 K.
Item 14. Principal Accounting Fees and Services.
Information regarding principal accounting fees and services is set forth under the heading "Ratification of Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for Fiscal 2018" in our Proxy Statement and all such information is incorporated herein by reference.

Table of Contents
McKESSON CORPORATION

PART IV
Item 15. Exhibits and Financial Statement Schedule.

All other schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.

Table of Contents
McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MCKESSON CORPORATION

Date: May 22, 2017

/s/ James A. Beer

James A. Beer

Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

*	*
John H. Hammergren Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	M. Christine Jacobs, Director
*	*
James A. Beer Executive Vice President and Chief Financial Officer (Principal Financial Officer)	Donald R. Knauss, Director
*	*
Erin M. Lampert Senior Vice President and Controller (Principal Accounting Officer)	Marie L. Knowles, Director
*	*
Andy D. Bryant, Director	Edward A. Mueller, Director
*	*
Wayne A. Budd, Director	Susan R. Salka, Director
*	/s/ Lori A. Schechter
N. Anthony Coles, M.D., Director	Lori A. Schechter *Attorney-in-Fact

Date: May 22, 2017

123

Table of Contents

McKESSON CORPORATION

SCHEDULE II
SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2017, 2016 and 2015
(In millions)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts [3]	Deductions From Allowance Accounts [1]	Balance at End of Year [2]
Year Ended March 31, 2017					
Allowances for doubtful accounts	$ 212	$93	$ 7	$ (69)	$ 243
Other allowances	41	—	2	(1)	42
	$ 253	$93	$ 9	$ (70)	$ 285
Year Ended March 31, 2016					
Allowances for doubtful accounts	$ 141	$113	$ 2	$ (44)	$ 212
Other allowances	33	—	(3)	11	41
	$ 174	$113	$ (1)	$ (33)	$ 253
Year Ended March 31, 2015					
Allowances for doubtful accounts	$ 112	$67	$ —	$ (38)	$ 141
Other allowances	22	8	—	3	33
	$ 134	$75	$ —	$ (35)	$ 174

	2017	2016	2015
(1) Deductions:			
Written off	$(70)	$(33)	$(34)
Credited to other accounts	—	—	(1)
Total	$(70)	$(33)	$(35)
(2) Amounts shown as deductions from current and non-current receivables	$285	$253	$174

(3) Primarily represents reclassifications from other balance sheet accounts.

Table of Contents
McKESSON CORPORATION

EXHIBIT INDEX

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and;

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibits identified under “Incorporated by Reference” in the table below are on file with the Commission and are incorporated by reference as exhibits hereto.

		Incorporated by Reference			
Exhibit Number	Description	Form	File Number	Exhibit	Filing Date
2.1	Agreement of Contribution and Sale, dated as of June 28, 2016, by and among McKesson Corporation, PF2 NewCo LLC, PF2 NewCo Intermediate Holdings, LLC, PF2 NewCo Holdings, LLC, HCIT Holdings, Inc., Change Healthcare, Inc., Change Aggregator L.P. and H&F Echo Holdings, L.P.	8-K	1-13252	2.1	July 5, 2016
2.2	Amendment No. 1 to Agreement Contribution and Sale, dated as of March 1, 2017, by and among by and among Change Healthcare LLC, Change Healthcare Intermediate Holdings, LLC, Change Healthcare Holdings, LLC, HCIT Holdings, Inc., Change Healthcare, Inc., a Delaware corporation, for itself and in its capacity as Echo Representative, certain affiliates of The Blackstone Group, L.P., certain affiliates of Hellman & Friedman LLC, and McKesson Corporation, a Delaware corporation.	8-K	1-13252	2.1	March 7, 2017
3.1	Amended and Restated Certificate of Incorporation of the Company, as filed with the Delaware Secretary of State on July 27, 2011.	8-K	1-13252	3.1	August 2, 2011
3.2	Amended and Restated By-Laws of the Company, as amended July 29, 2015.	8-K	1-13252	3.1	July 31, 2015
4.1	Indenture, dated as of March 11, 1997, by and between the Company, as issuer, and The First National Bank of Chicago, as trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Officers’ Certificate, dated as of March 11, 1997, and related Form of 2027 Note.	S-4	333-30899	4.2	July 8, 1997
4.3	Indenture, dated as of March 5, 2007, by and between the Company, as issuer, and The Bank of New York Trust Company, N.A., as trustee.	8-K	1-13252	4.1	March 5, 2007
4.4	Officers’ Certificate, dated as of March 5, 2007, and related Form of 2017 Note.	8-K	1-13252	4.2	March 5, 2007
4.5	Officers’ Certificate, dated as of February 12, 2009, and related Form of 2014 Note and Form of 2019 Note.	8-K	1-13252	4.2	February 12, 2009

Table of Contents
McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
4.6	First Supplemental Indenture, dated as of February 28, 2011, to the Indenture, dated as of March 5, 2007, among the Company, as issuer, the Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), and Wells Fargo Bank, National Association, as trustee, and related Form of 2016 Note, Form of 2021 Note and Form of 2041 Note.	8-K	1-13252	4.2	February 28, 2011
4.7	Indenture, dated as of December 4, 2012, by and between the Company, as issuer, and Wells Fargo Bank, National Association, as trustee.	8-K	1-13252	4.1	December 4, 2012
4.8	Officers' Certificate, dated as of December 4, 2012, and related Form of 2015 Note and Form of 2022 Note.	8-K	1-13252	4.2	December 4, 2012
4.9	Officers' Certificate, dated as of March 8, 2013, and related Form of 2018 Note and Form of 2023 Note.	8-K	1-13252	4.2	March 8, 2013
4.10	Officers' Certificate, dated as of March 10, 2014, and related Form of Floating Rate Note, Form of 2017 Note, Form of 2019 Note, Form of 2024 Note, and Form of 2044 Note.	8-K	1-13252	4.2	March 10, 2014
4.11	Officer's Certificate, dated as of February 17, 2017, with respect to the Notes, and related Form of 2021 Euro Note, Form of 2025 Euro Note, and Form of 2029 Sterling Note.	8-K	1-13252	4.1	February 17, 2017
10.1*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004
10.2*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated on January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.3*	McKesson Corporation Supplemental Profit Sharing Investment Plan II, as amended and restated on July 29, 2014.	10-Q	1-13252	10.1	October 28, 2014
10.4*	McKesson Corporation Deferred Compensation Administration Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.6	May 13, 2005
10.5*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated as of October 28, 2004, and Amendment No. 1 thereto effective July 25, 2007.	10-K	1-13252	10.7	May 7, 2008
10.6*	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated July 29, 2014.	10-Q	1-13252	10.2	October 28, 2014
10.7*	McKesson Corporation Executive Benefit Retirement Plan, as amended and restated on October 24, 2008.	10-Q	1-13252	10.3	October 29, 2008
10.8*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of January 20, 2010.	8-K	1-13252	10.1	January 25, 2010
10.9*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated as of April 23, 2013.	10-K	1-13252	10.11	May 7, 2013
10.10*	McKesson Corporation Change in Control Policy for Selected Executive Employees, as amended and restated on October 26, 2010.	10-Q	1-13252	10.2	February 1, 2011
10.11*	McKesson Corporation Management Incentive Plan, effective July 29, 2015.	8-K	1-13252	10.1	July 31, 2015
10.12*	Form of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation Management Incentive Plan, effective May 26, 2015.	10-Q	1-13252	10.1	July 29, 2015

10.13*	McKesson Corporation Long-Term Incentive Plan, as amended and restated, effective May 26, 2015.	10-Q	1-13252	10.2	July 29, 2015
10.14*	Forms of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation Long-Term Incentive Plan, effective May 24, 2016.	10-K	1-13252	10.14	May 5, 2016

Table of Contents
McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.15*	McKesson Corporation 2005 Stock Plan, as amended and restated on July 28, 2010.	10-Q	1-13252	10.4	July 30, 2010
10.16*	Forms of (i) Statement of Terms and Conditions, (ii) Stock Option Grant Notice and (iii), Restricted Stock Unit Agreement, each as applicable to Awards under the McKesson Corporation 2005 Stock Plan.	10-Q	1-13252	10.2	July 26, 2012
10.17*	McKesson Corporation 2013 Stock Plan, as adopted on May 22, 2013.	8-K	1-13252	10.1	August 2, 2013
10.18*	Forms of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation 2013 Stock Plan.	10-K	1-13252	10.18	May 5, 2016
10.19	Third Amended and Restated Limited Liability Company Agreement of Change Healthcare LLC, dated as of March 1, 2017.	8-K	1-13252	10.1	March 7, 2017
10.20	Form of Commercial Paper Dealer Agreement between McKesson Corporation, as Issuer, and the Dealer	10-K	1-13252	10.19	May 5, 2016
10.21	Credit Agreement, dated as of October 22, 2015, among the Company and Certain Subsidiaries, as Borrowers, Bank of America, N.A. as Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), Citibank, N.A. and Barclays Bank PLC, as Swing Line Lenders, Wells Fargo Bank, National Association as L/C Issuer, Barclays Bank PLC, Citibank N.A., Wells Fargo Bank, National Association as Co-Syndication Agents, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Co-Documentation Agents, and The Other Lenders Party Thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Bank PLC, Citigroup Global Markets Inc., Goldman Sachs Bank USA, J.P. Morgan Securities, LLC, The Bank of TokyoMitsubishi UFJ, Ltd. and Wells Fargo Securities, LLC as Joint Lead Arrangers and Joint Book Runners.	8-K	1-13252	10.1	October 23, 2015
10.22	Amendment No. 2, dated January 30, 2014, and Amendment No. 1, dated November 15, 2013, to the Credit Agreement and the Credit Agreement dated as of September 23, 2011, among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A. as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as Co-Syndication Agents, Wells Fargo Bank, National Association as L/C Issuer, The Bank of Tokyo-Mitsubishi UFJ, LTD., The Bank of Nova Scotia and U.S. Bank National Association as Co-Documentation Agents, and The Other Lenders Party Thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Sole Lead Arranger and Sole Book Manager.	8-K	1-3252	10.1	February 5, 2014
10.23*	Amended and Restated Employment Agreement, effective as of November 1, 2008, by and between the Company and its Chairman, President and Chief Executive Officer.	10-Q	1-13252	10.10	October 29, 2008
10.24*	Letter dated March 27, 2012 relinquishing certain rights provided in the Amended and Restated Employment Agreement by and between the Company and its Chairman, President and Chief Executive Officer.	8-K	1-13252	10.1	April 2, 2012

10.25*	Letter dated February 27, 2014 relinquishing certain rights provided in the McKesson Corporation Executive Benefit Retirement Plan by and between the Company and its Chairman, President and Chief Executive Officer.	8-K	1-13252	10.1	February 28, 2014

Table of Contents
McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.26*	Amended and Restated Employment Agreement, effective as of November 1, 2008, by and between the Company and its Executive Vice President and Group President.	10-Q	1-13252	10.12	October 29, 2008
10.27*	Form of Director and Officer Indemnification Agreement.	10-K	1-13252	10.27	May 4, 2010
12†	Computation of Ratio of Earnings to Fixed Charges.	—	—	—	—
21†	List of Subsidiaries of the Registrant.	—	—	—	—
23†	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.	—	—	—	—
24†	Power of Attorney.	—	—	—	—
31.1†	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2†	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
101†	The following materials from the McKesson Corporation Annual Report on Form 10-K for the fiscal year ended March 31, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Financial Notes.	—	—	—	—

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* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the registrant, the authorized principal amount of which does not exceed 10% of the total assets of the registrant.

Table of Contents

McKESSON CORPORATION

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John H. Hammergren
Chairman of the Board,
President and Chief Executive Officer,
McKesson Corporation

Andy D. Bryant
Chairman of the Board,
Intel Corporation

Wayne A. Budd
Senior Counsel,
Goodwin Procter LLP

N. Anthony Coles, M. D.
Chairman and Chief Executive Officer,
Yumanity Therapeutics, LLC

M. Christine Jacobs
Chairman of the Board, President and
Chief Executive Officer, Retired,
Theragenics Corporation

Donald R. Knauss
Executive Chairman of the Board, Retired,
The Clorox Company

Marie L. Knowles
Executive Vice President and
Chief Financial Officer, Retired,
Atlantic Richfield Company

Edward A. Mueller
Chairman of the Board and
Chief Executive Officer, Retired,
Qwest Communications International Inc.

Susan R. Salka
Chief Executive Officer and President,
AMN Healthcare Services, Inc.

CORPORATE OFFICERS

John H. Hammergren
Chairman of the Board,
President and Chief Executive Officer,
McKesson Corporation

James A. Beer
Executive Vice President and Chief Financial Officer

Jorge L. Figueredo
Executive Vice President, Human Resources

Paul C. Julian
Executive Vice President and Group President

Kathleen D. McElligott
Executive Vice President, Chief Information Officer and
Chief Technology Officer

Bansi Nagji
Executive Vice President,
Corporate Strategy and Business Development

Lori A. Schechter
Executive Vice President, General Counsel and
Chief Compliance Officer

Erin M. Lampert
Senior Vice President and Controller

Brian P. Moore
Senior Vice President and Treasurer

Paul A. Smith
Senior Vice President, Taxes

John G. Saia
Corporate Secretary

129

Table of Contents
McKESSON CORPORATION

CORPORATE INFORMATION

Common Stock

McKesson Corporation common stock is listed on the New York Stock Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

Stockholder Information

Wells Fargo Shareowner Services, 1110 Centre Pointe Curve, Suite 101, Mendota Heights, MN 55120-4100 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson Corporation stock and maintains all registered stockholder records for the Company. For information about McKesson Corporation stock or to request replacement of lost dividend checks, stock certificates or 1099-DIVs, or to have your dividend check deposited directly into your checking or savings account, stockholders may call Wells Fargo Shareowner Services' telephone response center at (866) 614-9635. For the hearing impaired call (651) 450-4144. Wells Fargo Shareowner Services also has a website—www.wellsfargo.com/shareownerservices—that stockholders may use 24 hours a day to request account information.

Dividends and Dividend Reinvestment Plan

Dividends are generally paid on the first business day of January, April, July and October. McKesson Corporation's Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional shares of common stock. Stock in an individual's Dividend Reinvestment Plan is held in book entry at the Company's transfer agent, Wells Fargo Shareowner Services. For more information, or to request an enrollment form, call Wells Fargo Shareowner Services' telephone response center at (866) 614-9635. From outside the United States, call +1-651-450-4064.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m. CDT, on July 26, 2017 at Irving-Las Colinas Chamber of Commerce, 5201 N. O'Connor Blvd., Irving, TX 75039.