



Company Profile

McKesson HBOC, Inc., is the world's pre-eminent provider of pharmaceutical and medical-surgical supply management, information solutions, pharmacy automation, and sales and marketing services to the healthcare industry. The company has unmatched depth, breadth and reach. We deliver unique cost reduction and quality improvement solutions to:

- *25,000 independent and chain pharmacies,*
- *5,000 hospitals and integrated delivery networks,*
- *35,000 physician practices encompassing more than 250,000 individual physicians,*
- *10,000 extended care sites,*
- *600 payor organizations,*
- *450 pharmaceutical manufacturers and*
- *2,000 medical-surgical manufacturers.*

For a complete view of our products, services and people, please visit our corporate Website at www.mckhbc.com.

Advancing the Health of the Healthcare System by Advancing the Success of Our Partners

The healthcare system faces enormous challenges. Major new pharmaceuticals and advanced treatments for an aging population, increased regulation, wasteful paper transactions, avoidable adverse drug events and medical errors, a shortage of skilled labor, lack of standardization in managing supplies and information – all place tremendous demands on participants striving to improve patient outcomes. At McKesson HBOC, Inc., we understand these challenges from the perspective of our customers. We work closely with them in an ongoing process of innovation, support and refinement focused on delivering solutions tailored to their needs. They know that they can count on us as they have for the past 167 years. The reason – we act in their best interest and meet our commitments, while continually improving the value of our offering by seamlessly incorporating advanced technologies into our products and services. *We succeed when our customers succeed.*

Financial Highlights

<i>(dollars in millions, except per share amounts)</i>	2000	1999	1998
OPERATIONS ⁽¹⁾			
Revenues			
Excluding sales to customers' warehouses	\$ 27,988	\$ 23,216	\$ 19,402
Sales to customers' warehouses	<u>8,746</u>	<u>6,813</u>	<u>2,704</u>
Total	<u>36,734</u>	<u>30,029</u>	<u>22,106</u>
Operating Profit	652	706	676
Earnings before Interest-net, Income Taxes and Amortization	603	696	663
Income from Continuing Operations	265	346	336
Diluted Earnings per Share	0.94	1.22	1.21
Average Diluted Shares Outstanding	290	290	282
FINANCIAL STRENGTH			
Working Capital	2,844	1,708	2,234
Total Assets	10,373	9,020	7,292
Stockholders' Equity	3,566	2,882	2,562
Net Debt to Net Capital Employed	14.8%	22.4%	18.8%
Return on Committed Capital ⁽²⁾	19.1%	24.9%	32.1%

⁽¹⁾ From continuing operations before unusual items.

⁽²⁾ Excluding unusual items.

Special Note Regarding Forward-Looking Statements

Certain matters discussed in this document constitute 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 the forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates," or "anticipates" or the negative of those 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. These include, but are not limited to, the factors discussed in the company's fiscal 2000 Annual Report on Form 10-K.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to rely too heavily on these forward-looking statements. The forward-looking statements by their nature are not intended to be definitive predictions of future events. There is no general duty for us to update forward-looking statements.

A Message from the Chairman

A year ago, I reported the actions taken by the McKesson HBOC, Inc., Board of Directors to move the company forward under new executive leadership following disclosure of improper accounting practices at HBO & Company, acquired in January 1999. These actions included the appointment of John H. Hammergren and David L. Mahoney as co-Chief Executive Officers and the selection of Graham O. King to lead our Information Technology Business.

Over the past year, following the timely restatement of the company's financial results for the prior three years, the company's management team focused on a set of corporate challenges. These were to stabilize the information technology business and respond to new companies and technologies entering markets we serve. The difficulty of the task was compounded by weakness in the demand for healthcare software and a highly competitive market for supply chain management.

While the team successfully addressed many of the internal issues, and the needs of our customers, the company's financial performance is not yet at a satisfactory level. We have taken steps to improve the profitability of the Supply Management Business and regain momentum in the Information Technology Business. We are committed to returning to industry leadership in growth, profitability and reputation. Significant investment is required to ensure that we provide our customers with the most-advanced technologies available. We are investing because it is clear that healthcare providers must ultimately renew their adoption of new technologies in order to respond to economic and regulatory pressures, improve their efficiency and quality of care and standardize their information systems. Our ability to help meet these needs will drive revenue growth.

By the end of 1999, many of the numerous shareholder lawsuits that were filed against the company following the disclosure of improper accounting at HBO & Company were consolidated into a single action. This, and other related litigation, is progressing through the judicial process. A discussion of these matters appears in our fiscal 2000 Annual Report on Form 10-K.

In conclusion, I want to thank the management team and all McKesson HBOC, Inc., employees for their commitment and contributions during a challenging period. Having assembled a unique and valuable offering of products and services to meet the evolving needs of our customers across the healthcare spectrum, the company is well-positioned to deliver increased shareholder value.



ALAN SEELNFREUND

Chairman of the Board

MCK / AR 2000

To Our Shareholders, Customers and Employees

In January 1999, the world's largest healthcare supply management company came together with the world's largest healthcare information technology company to provide customers with a single source for enterprise-wide solutions to reduce costs and improve quality. Today, as that strategy is being emulated by competitors and new market entrants, we still find no other company that is as well-positioned as McKesson HBOC, Inc. Our mission, to advance the health of the healthcare system by advancing the success of our partners, reflects the commitment of our employees to make a positive impact every day on the quality of care experienced by patients.

McKesson HBOC, Inc., continues to have market-leading positions and significant revenue momentum from which to extend its growth. For the second consecutive year, revenues excluding sales to customers' warehouses increased in excess of 20 percent.

Healthcare supply management revenues were up 24 percent, to \$26.8 billion. This above-market growth advanced McKessonHBOC's position as the nation's largest distributor of pharmaceuticals and medical-surgical supplies and provides a strong base for sales of additional products and services from our comprehensive set of solutions. McKessonHBOC's offering ranges from supply chain management to pharmacy automation, pharmacy outsourcing and a full set of systems and programs for independent pharmacies, drug chains, the pharmacies of food stores and mass merchandisers, and hospitals and long-term care facilities.

We were not satisfied, however, by the operating profit performance in this segment. To address this, we have placed the leadership for all pharmaceutical and medical-surgical distribution activities into a single operating unit and put in place a stronger, more integrated management team to take advantage of our comprehensive offering. This team is undertaking a series of initiatives designed to improve business processes and efficiencies, including company-wide implementation of the proven Six Sigma approach to deliver higher quality and financial returns. The goal is to expand supply management operating margins and maintain a strong revenue growth rate.

In late April, McKessonHBOC joined with four of the nation's other largest healthcare distributors to announce the formation of an independent, Internet-based exchange, further positioning the company to help advance industry health. The exchange will focus on creating new standards and efficiencies in product ordering and contract management, promising to revolutionize the healthcare supply chain. The new exchange is projected to begin operations by the end of calendar 2000 and will complement the many eSupply activities underway across the supply management business.

McKessonHBOC's information technology revenues of \$1.2 billion continue to lead the industry. McKessonHBOC has the largest presence in domestic health systems and hospitals, with solutions in 65 percent of the nation's largest hospitals and more than half of the nation's health systems. We also serve a significant share of the nation's large physician practices, payors and homecare organizations, with a broad set of information solutions ranging from stand-alone products to comprehensive outsourcing and consulting services.

Key initiatives are underway to meet the needs of our information technology customers, including products and services to reduce medication errors and enable compliance with new regulations such as those which will be required by the Health Insurance Portability and Accountability Act (HIPAA). Helping customers improve efficiency while complying with HIPAA represents a major business opportunity. Web-enabling existing and new McKessonHBOC products to leverage the power of the Internet for customers' benefit should provide additional opportunities to grow this business. With its large installed base and breadth of value-delivering solutions for customers, McKessonHBOC is well-positioned for long-term revenue and profit growth.

In addition, information technology plays a key role in McKessonHBOC's e-commerce strategies. For example, our materials management software is installed in more than 1,100 hospital sites, where it runs the purchasing and inventory of supplies and equipment in these enterprises. This software is a valuable connection to eSupply activities at both McKessonHBOC and at the emerging industry exchanges being formed to

gain supply chain efficiencies. A recently formed Corporate Solutions Group will focus on bringing the company's combined information and supply management offering to more customers, more quickly.

To rapidly bring new physician and medical management solutions to market, the company recently formed a new business unit, iMcKesson. The goal of iMcKesson is to use the power of the Internet and other innovative, emerging technologies to share information real-time and drive improved clinical outcomes, cost efficiencies and increased satisfaction for all healthcare participants.

iMcKesson's immediate focus is on new offerings to physicians and payors, designed to connect the participants in the healthcare system and improve lives. iMcKesson is launching an ASP (applications service provider)-delivered physician office solution that supports:

- *Administrative and clinical connectivity, including claims, eligibility, prescribing, clinical orders and clinical hospital reports,*
- *Web-based practice management,*
- *Web-based clinical applications, including orders and results, and medical record documentation,*
- *Patient-physician communications, including personalized content and messaging.*

In addition, iMcKesson today provides a comprehensive suite of medical management products and services designed for the effective and efficient delivery of clinical care. Extending from our evidence-based, industry standard clinical practice guidelines, these products and services will increasingly leverage the Internet to ensure that patients are directed to the appropriate care setting, and that their episode or disease is effectively managed.

The potential of these offerings is so great, and the need for action so urgent, that dedicated focus and leadership is required at the highest level. Therefore, David Mahoney, who has been overseeing the development of several eHealth initiatives, will become CEO of iMcKesson and devote his full energies to its rapid and successful build-out. John Hammergren will become CEO of all other operations of McKessonHBOC which include Information Technology, Supply Management, Automation, the Pharmaceutical Partners Group and corporate functions.

Each of us will have singular responsibility and accountability to the Board of Directors for the financial and strategic performance of his respective organization. In addition, we will manage sustainable partnerships between the two business units to continue to create value for the company overall.

The sale of our Water Products business in early 2000 for more than \$700 million in cash after taxes completed McKesson HBOC, Inc.'s transition to a dedicated health-care company. Early in the year, an investment in WebMD was harvested, delivering \$169 million in cash, and a private placement of \$335 million of long-term debt was completed. These transactions reduced the company's debt-to-capital ratio to a historic low, significantly strengthening the balance sheet and providing financial flexibility to take advantage of opportunities to build value.

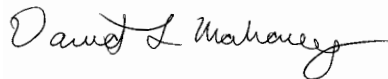
With the organizational changes to enhance focus, and the initiatives taken across the company, we believe the necessary actions are underway to create long-term shareholder value on a sustained basis.

A chart showing the strategic evolution of McKesson HBOC, Inc., over the past decade follows this letter. The chart maps, through internal development and acquisitions, the transformation of a drug wholesaler with other non-strategic businesses into the most-comprehensive healthcare services company in the world. We are confident that our far-reaching penetration of healthcare sites, large installed base of information systems and unique offering of products and services that deliver measurable value to our customers, provide a significant competitive advantage to execute our strategy for improved financial performance and value creation.



JOHN H. HAMBERGREN

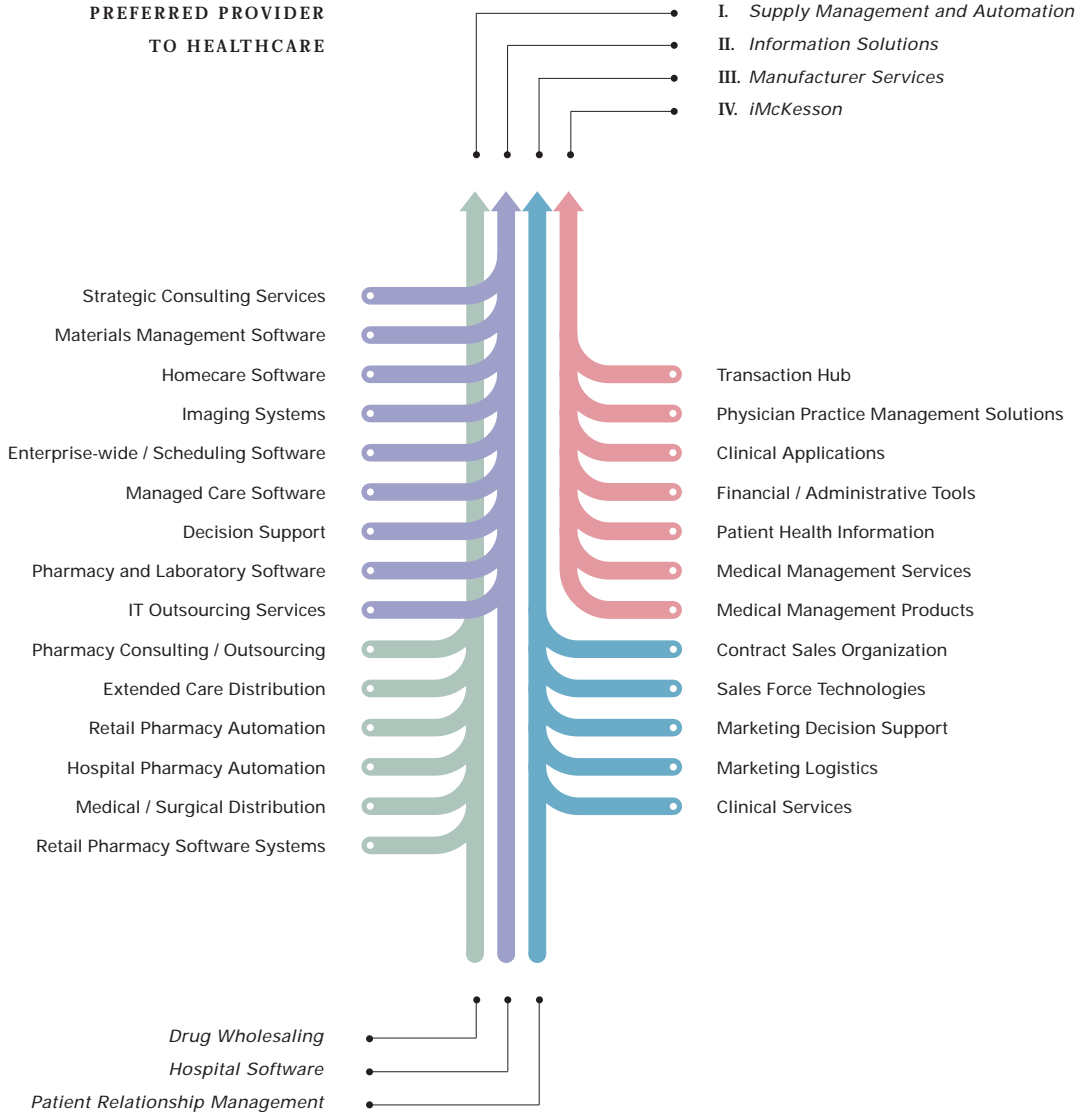
Co-President and
Co-Chief Executive Officer



DAVID L. MAHONEY

Co-President and
Co-Chief Executive Officer

**PREFERRED PROVIDER
TO HEALTHCARE**



Our Solutions for Healthcare

McKesson HBOC, Inc., provides a comprehensive set of solutions for improving cost and quality for all healthcare participants. For more than a decade, the company has been assembling a strategic offering of supply management, automation, information management, service and eHealth capabilities based on the evolving challenges faced by provider institutions, payors, physicians, laboratories, retail pharmacies, mail-order and online pharmacies, pharmaceutical and medical-surgical manufacturers. We custom-tailor the optimal combination of our products, services and technologies designed to deliver return on investment based on the individual needs, scale and resources of the customer.

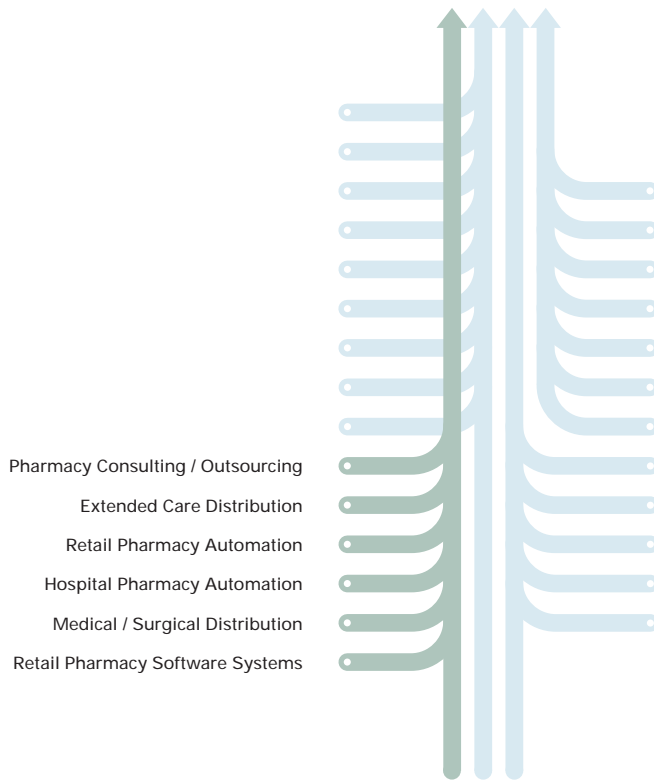
OUR SOLUTIONS RANGE FROM:

- *Pharmaceutical distribution for a local independent pharmacy to supply chain management and automation for a national drug chain.*
- *Software to manage a single physician's practice to information systems that form the backbone of the most complex integrated health network.*
- *A cabinet to dispense commonly used medications in the emergency room to IDN-wide pharmacy automation systems.*
- *Storage of clinical trial materials for a research-stage biotech company to managing patient assistance programs and product recalls for a multinational pharmaceutical company.*

We provide many of our largest customers with solutions that draw from the full range of our services, such as hospitals and health networks where our enterprise software drives the purchase of our medical supplies and pharmaceuticals from our distribution centers. These products are then dispensed through our robotic systems based on prescriptions capable of being sent electronically over our Internet-based service. As the healthcare system continues to evolve, we plan to grow with it, continually improving our offering based on new technologies and knowledge, so that we remain the preferred provider to healthcare of solutions to enhance patient care and manage expenses.



I.



Supply Management and Automation

McKessonHBOC is the nation's largest distributor of pharmaceuticals and medical supplies. Each day, via a combination of electronic data interchange (EDI) and the Internet, the company's data centers receive and process more than 100,000 orders which drive overnight shipment of products to retail pharmacies, hospitals, clinics, physician offices and long-term-care sites across the United States and Canada.

Beyond high-quality distribution, McKessonHBOC also provides a comprehensive offering of services and technologies designed to help its customers improve asset management and supply chain logistics, and reduce medical errors. Prescription, patient management and point-of-sale systems from McKessonHBOC Pharmacy Systems help independent pharmacies and small chains manage their cash flow and businesses more effectively. Valu-Rite[®] network and Health Mart[®] franchise programs provide benefits usually associated with chains, such as private-label products, merchandising and marketing tools, and nutritional and disease management programs. Custom Web sites are created and supported under .com Pharmacy Solutions[™]. Large-scale logistics and sophisticated technologies for monitoring product flow and asset management efficiencies have helped McKessonHBOC establish a market-leading position among large chains, food stores, mass merchandisers and hospitals.

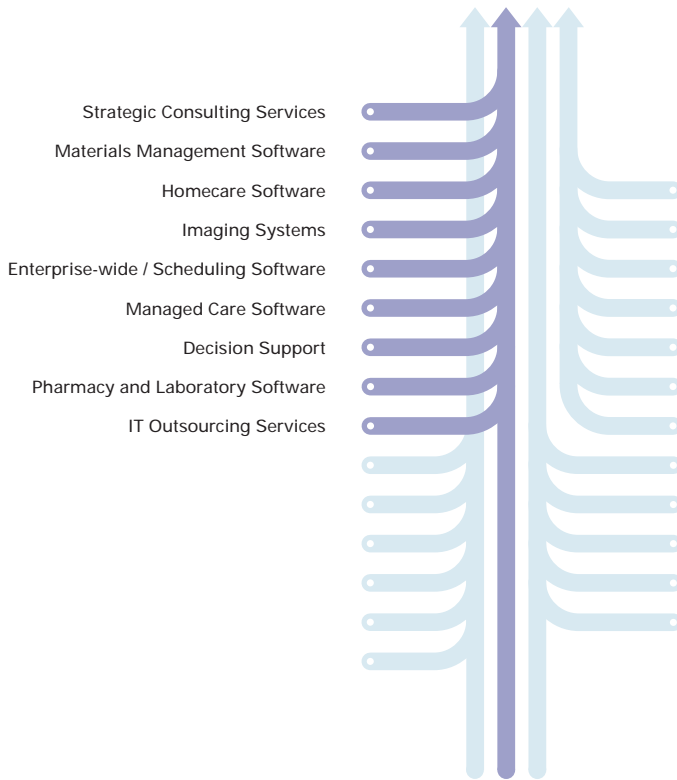
The Medical Group provides similar distribution and logistics services to its customers, ranging from the largest hospital chains to home healthcare providers. Its Red.e.Net[™] site was the first and remains the most advanced way of ordering medical-surgical products over the Internet. Its OptiPak[™] program allows customized ordering of supplies according to individual surgical procedure preference.

McKessonHBOC is also the nation's leading provider of pharmacy automation systems to both hospitals and retail pharmacies. The ROBOT-Rx[™] system has dispensed more than 365 million doses, helping to significantly reduce costs and the incidence of medication errors in hospitals. Baker/APS retail pharmacy automation products and systems are used widely to reduce costs and improve quality. The coSource[™] program integrates pharmaceutical distribution with pharmacy automation and pharmacy consulting from MedManagement to deliver the lowest total patient cost while improving quality for hospital and health system customers.





II.



Information Solutions

With the healthcare market in a constant state of flux, it's important that healthcare organizations of all types and sizes be able to rely on an information systems partner that can help them plan, build and adapt. That partner is McKessonHBOC. Our goal is to be the partner that healthcare organizations count on to improve their performance. As the leading provider of integrated patient care, clinical, financial, managed care and strategic management software solutions for organizations across the healthcare continuum, we harness the power of information technology to automate and integrate care throughout the healthcare enterprise. We also provide a full complement of Web-based and networking technologies as well as electronic commerce and outsourcing services for managing business offices and information systems operations.

McKESSONHBOC HAS INFORMATION SOLUTIONS IN:

- *65 percent of the nation's largest hospitals and more than half of the nation's health systems,*
- *More than 40 percent of the nation's payor organizations, including more than 80 percent of the largest HMOs, and*
- *Almost 20 percent of the nation's home healthcare organizations.*

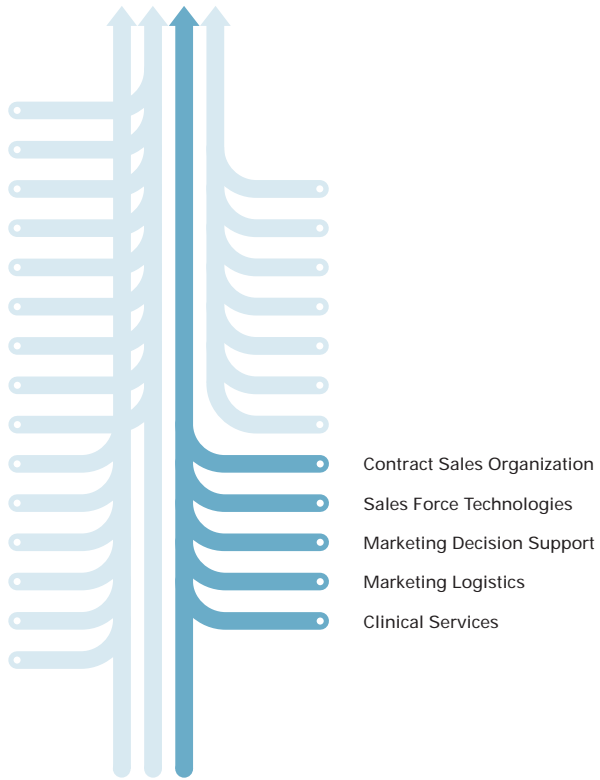
McKessonHBOC also runs the information departments at 31 hospitals in the United States and Canada. With more than 9,000 customers worldwide, our employees focus on ensuring that healthcare organizations have the systems and processes to provide the right information at the point of care at the right time.

McKessonHBOC is the clear market leader for healthcare informatics. Specifically, we are the market leader in patient care, patient accounting and decision-support systems for providers as well as solutions for managed care and payors. McKessonHBOC continually exhibits its commitment to the healthcare industry by pioneering systems and processes that will help healthcare organizations improve the quality of care they deliver as cost-effectively as possible.





III.



Manufacturer Services

Through acquisitions and internal initiatives, McKessonHBOC has created the Pharmaceutical Partners Group, a business designed to help its manufacturing partners speed products to market, design effective marketing programs, drive sales higher through greater market penetration and compliance, and prolong sales through innovative patient support and marketing programs.

With more than 1,000 employees having expertise across a broad range of pharmaceutical marketing and sales disciplines, we have both the resources and capabilities to help our customers achieve financial success.

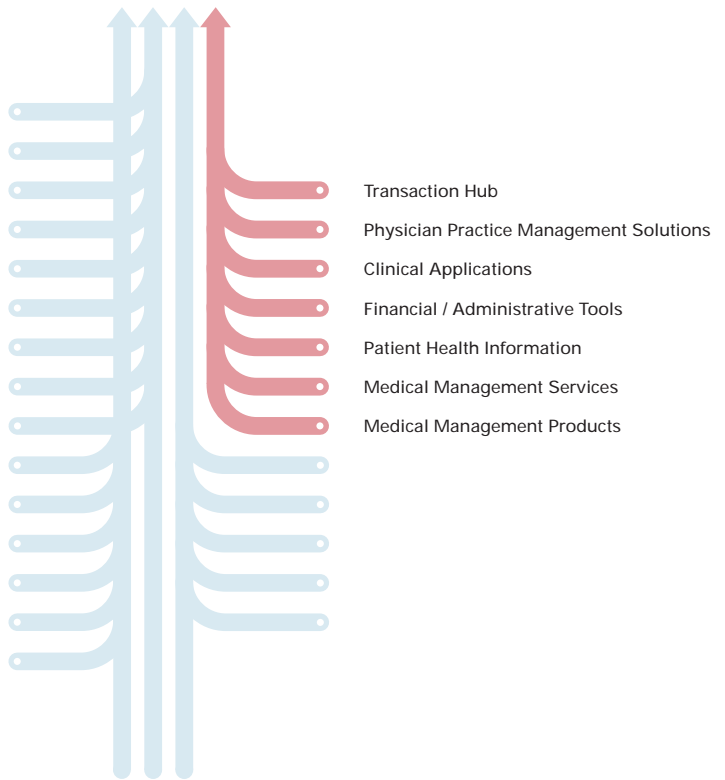
McKessonHBOC's offering includes clinical supply and biological specimen management, pharmacy services, patient registries, patient assistance programs and reimbursement services, direct-to-consumer and direct-to-physician communication programs, market research, direct mail and fulfillment, product recall services, customized contract sales teams and sales force automation. Using a consultative approach to understanding our customers' culture, business objectives and marketplace, we have developed and implemented creative and measurable solutions to drive market share for more than 100 of the largest pharmaceutical and biotechnology companies.

For example, McKessonHBOC manages 160 Investigational New Drug applications covering more than 200,000 cancer patients, stores and distributes AIDS drugs and vaccines for 80 clinical trials in 15 countries and stores 24 million serum specimens for the Department of Defense. Our logistics group mails 20 million pieces and ships two million samples to physicians each year. And our relationship management group processes 250,000 orders annually for 30,000 multiple sclerosis patients and one million claims for 350,000 indigent patients served by our patient assistance programs.





IV.





Through its flexibility and ubiquity, the Internet offers great promise for a healthcare industry under relentless cost, quality and satisfaction pressures. By connecting the healthcare system and enabling real-time information exchange between providers, payors and patients, Internet technology can revolutionize healthcare.

iMcKesson is focused on accelerating the development, deployment and adoption of Web-based clinical, administrative, medical management and connectivity solutions for physicians. These solutions form the basis of a new-generation healthcare environment that is highly interactive, empowering physicians to conduct clinical and administrative transactions and to communicate with patients online. In the medical management space, iMcKesson is developing Web-based triage, case management and disease management tools designed to deliver greater patient satisfaction at lower cost with improved outcomes.

In addition, payors will benefit from the ability to manage discrete episodes, individual patients and plan populations with real-time, economic and broadly networked tools. Pharmaceutical and other product manufacturers will benefit from connectivity with providers to improve patient care, as well as directly to patients to provide product information and compliance tools.

Based on an Application Service Provider (ASP) model, iMcKesson's suite of Web-based tools is designed to enable physicians to electronically submit prescriptions, order lab tests and receive lab results, maintain patient medical records and reports, verify insurance eligibility and submit medical claims, and manage their office workflow. These applications will be delivered through a variety of platforms. Currently, more than 6,500 clinicians are using these applications to process lab tests and pharmacy scripts for more than 1.8 million patients. iMcKesson's clinical practice guidelines are being used by more than 3,000 hospitals involving more than 100 million covered lives. It has information solutions in almost 20 percent of the nation's 5,000+ practices having more than 50 physicians. Its clearinghouse processes more than 100 million claims annually. iMcKesson's goal is simple: Connecting Healthcare, Improving Lives.SM

Corporate Information

BOARD OF DIRECTORS

Alan Seelenfreund

Chairman of the Board

John H. Hammergren

Co-President and Co-Chief Executive Officer,
McKesson HBOC, Inc.

David L. Mahoney

Co-President and Co-Chief Executive Officer,
McKesson HBOC, Inc.

Alfred C. Eckert III

Chairman and Chief Executive Officer,
GSC Partners, Inc.

Tully M. Friedman

Chairman and Chief Executive Officer,
Friedman Fleischer & Lowe, LLC

Alton F. Irby III

Chairman,
Hawkpoint Partners Limited

M. Christine Jacobs

Chairman, President and Chief Executive Officer,
Theragenics Corporation

Martin M. Koffel

Chairman and Chief Executive Officer,
URS Corporation

Gerald E. Mayo

Chairman, Retired
Midland Financial Services, Inc.

James V. Napier

Chairman,
Scientific-Atlanta, Inc.

David S. Pottruck

President, Co-Chief Executive Officer,
The Charles Schwab Corporation

Carl E. Reichardt

Chairman, Retired
Wells Fargo & Company

Jane E. Shaw

Chairman and Chief Executive Officer,
AeroGen, Inc.

CORPORATE OFFICERS

Alan Seelenfreund

Chairman of the Board

John H. Hammergren

Co-President and Co-Chief Executive Officer

David L. Mahoney

Co-President and Co-Chief Executive Officer

William A. Armstrong

Senior Vice President,
Human Resources and Administration

William J. Dawson

Senior Vice President,
Business Development

William R. Graber

Senior Vice President and
Chief Financial Officer

Paul C. Julian

Senior Vice President and President,
Supply Management Business

Graham O. King

Senior Vice President and President,
Information Technology Business

Nicholas A. Loiacono

Treasurer

Ivan D. Meyerson

Senior Vice President,
General Counsel and Secretary

Carmine J. Villani

Senior Vice President and Chief Information Officer

Heidi E. Yodowitz

Senior Vice President and Controller

COMMON STOCK

McKesson HBOC, Inc. common stock is listed on the New York Stock Exchange and the Pacific Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

STOCKHOLDER INFORMATION

First Chicago Trust Co. of New York, a division of EquiServe, P.O. Box 2500, Jersey City, N.J. 07303-2500, acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson HBOC, Inc., stock and maintains all stockholder records for the corporation. For information about McKesson HBOC, Inc., stock or to request replacement of lost dividend checks, stock certificates or 1099s, stockholders may call First Chicago's Telephone Response Center at (800) 756-8200, weekdays 8:30 a.m. to 7:00 p.m., ET. For the hearing impaired call TDD: (201) 222-4955. First Chicago also has a Web site: <http://www.equiserve.com> – 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 to stockholders of record on the first business day of the preceding month. You may have your dividend check deposited directly into your checking or savings account. For more information, or to request an enrollment form, call First Chicago at (800) 870-2340, Monday through Friday, 8:00 a.m. – 10:00 p.m., ET, or Saturday, 8:00 a.m. – 3:30 p.m., ET. McKesson HBOC, Inc., Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional common stock without paying brokerage commissions or other service fees, and to have their stock certificates held in safekeeping. For more information, or to request an enrollment form, call First Chicago's Telephone Response Center at (800) 414-6280.

ANNUAL MEETING

McKesson HBOC, Inc.'s Annual Meeting of Stockholders will be held at 10:00 a.m., PDT, on Wednesday, July 26, 2000, in the Grand Ballroom of the Palace Hotel, 2 New Montgomery Street, San Francisco, CA 94105.

Valu-Rite[®], Health Mart[®], .com Pharmacy SolutionsSM, Red.e.NetSM, OptiPakTM, ROBOT-RXTM, AcuScan-RXTM, coSourceSM, iMcKessonSM and "Connecting Healthcare, Improving LivesSM" are service marks, trademarks or registered trademarks of McKesson HBOC, Inc., or one of its subsidiaries in the United States and/or other countries.

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McKessonHBOC

