
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2005

OR

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

Commission File Number 1-13252

McKESSON CORPORATION

A Delaware Corporation

I.R.S. Employer Identification Number
94-3207296

McKesson Plaza
One Post Street, San Francisco, CA 94104
Telephone (415) 983-8300

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

<i>(Title of Each Class)</i>	<i>(Name of Each Exchange on Which Registered)</i>
Common Stock, \$0.01 par value	New York Stock Exchange Pacific Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange Pacific Exchange, Inc.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

Indicate by check mark whether the registrant is an accelerated filer. Yes No

The aggregate market value of the voting stock 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 2004, was approximately \$7.6 billion.

Number of shares of common stock outstanding on April 30, 2005: 299,979,779

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on July 27, 2005 are incorporated by reference into Part III of this report.

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McKESSON CORPORATION

PART I

Item 1. Business

General

McKesson Corporation (“McKesson,” the “Company,” the “Registrant,” or “we” and other similar pronouns), is a Fortune 15 corporation providing supply, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

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 (the “Exchange Act”) are available free of charge on our Web site (www.mckesson.com under the “Investors — 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”).

Business Segments

We conduct our business through three segments. Through our Pharmaceutical Solutions segment, we are a leading distributor of ethical and proprietary drugs, and health and beauty care products throughout North America. This segment also manufactures and sells automated pharmaceutical dispensing systems for retail pharmacies, and provides medical management and specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, patient and other services for payors, and software, and consulting and outsourcing services to pharmacies. Our Medical-Surgical Solutions segment distributes medical-surgical supplies, first-aid products and equipment, and provides logistics and other services within the United States and Canada. Our Provider Technologies segment delivers enterprise-wide patient care, clinical, financial, supply chain, managed care and strategic management software solutions, automated pharmaceutical dispensing systems for hospitals, as well as outsourcing and other services, to healthcare organizations throughout North America, the United Kingdom and other European countries. The Company’s strategy is to create strong, value-based relationships with customers, enabling us to sell additional products and services to these customers over time.

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

<i>(Dollars in billions)</i>	2005		2004		2003	
Pharmaceutical Solutions	\$ 76.3	95%	\$ 65.5	94%	\$ 53.1	93%
Medical-Surgical Solutions	2.9	4	2.8	4	2.8	5
Provider Technologies	1.3	1	1.2	2	1.2	2
Total	\$ 80.5	100%	\$ 69.5	100%	\$ 57.1	100%

Pharmaceutical Solutions

Our Pharmaceutical Solutions segment consists of the following businesses: Pharmaceutical Distribution, McKesson Canada Corporation, Retail Automation, Payor Group and McKesson Specialty. We also own an approximately 49% interest in Nadro, S.A. de C.V. (“Nadro”), a pharmaceutical distributor in Mexico.

U.S. Pharmaceutical Distribution. This business supplies pharmaceuticals and other healthcare related products to customers in three primary customer segments: national and regional retail chains, institutional providers, and retail independent pharmacies.

The U.S. Pharmaceutical Distribution business operates and serves thousands of customer locations through a network of 28 distribution centers, as well as a master distribution center and a repackaging facility, serving all 50 states. We invest in technology and other systems at all of our distribution centers to enhance safety, reliability and the best product availability for our customers. For example, in all of our distribution centers we use Acumax® Plus, a Smithsonian award-winning technology, which integrates and tracks all internal functions, such as receiving, put-away and order fulfillment. Acumax® Plus uses bar code technology, wrist-mounted computer hardware, and

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radio frequency signals to provide our customers with industry leading order quality and fulfillment at up to 99.9% accuracy. Closed Loop DistributionSM, which integrates portable Palm technology with Acumax® Plus to give customers complete ordering and inventory control, and Supply Management OnlineSM, an Internet-based ordering, purchasing, third-party reconciliation and account management system, help ensure that our customers have the right products at the right time for their facilities and patients.

Our investment in operational performance also includes Six Sigma — an analytical methodology that emphasizes setting high quality objectives, collecting data, and analyzing results to a fine degree in order to improve processes to reduce costs and errors. Furthermore, we continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

The U.S. Pharmaceutical Distribution business' major value-added offerings, by customer group, include the following:

Retail Chains (drug stores, food/drug combinations, mail order pharmacies, and mass merchandisers) — Business solutions that help chains increase revenues and profitability:

- Rx-PakSM — Bulk repackaging leverages our purchasing power and supplier relationships, offers pharmaceuticals at reduced prices, helps increase inventory turns and reduces working capital investment;
- Central Fill — Improves pharmacy productivity and reduces costs by managing prescription refill volume remotely;
- Inventory Management Solutions — Reduces inventory carrying costs through forecasting integrated with automated replenishment technologies; and
- Re-Distribution Centers — Two large facilities which offer access to inventory for single source purchasing, including pharmaceuticals and biologicals.

Retail Independent Pharmacies — Marketing, merchandising, operational efficiencies and industry leadership that help pharmacists focus on patient care while improving profitability:

- Valu-Rite® and Health Mart® — Networks of independent pharmacies that leverage group branding and purchasing power;
- AccessHealth — Saves time and costs through comprehensive managed care and reconciliation assistance services;
- McKesson OneStop Generics SM — Helps pharmacies maximize their cost savings with a broad selection of rebate-eligible generic drugs, lower up-front pricing and one-stop shopping; and
- Pharma 360 — Profitability analysis tool that helps pharmacists measure and compare results with their local and national competitors.

Institutional Providers (hospitals and health systems, integrated delivery networks, clinics and other acute-care facilities, and long-term care providers) — Electronic ordering/purchasing and supply chain management systems that help improve efficiencies, save labor and improve capital:

- Fulfill-RxTM — Streamlines pharmacy inventory replenishing, automates inventory re-ordering, and optimizes medication cabinet inventory to easily value the pharmacy's total inventory investment;
- Asset Management — Comprehensive program designed to deliver improved inventory management controls; and
- Medication Management — Complete pharmacy management focused on improving patient outcomes by increasing drug safety, developing pharmacy staff, and streamlining administrative processes.

International Pharmaceutical Distribution. Consists of McKesson Canada Corporation, a wholly-owned subsidiary, the largest pharmaceutical distributor in Canada. We also own an approximately 49% interest in Nadro, the leading pharmaceutical distributor in Mexico.

Retail Automation. Manufactures and markets automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies through its McKesson Automation Pharmacy Systems ("APS") unit. Key products and services include:

- A wide range of pharmacy counting and weighing technologies including Baker Cells®, Baker Cassettes® and AccuMedTM powered by AutoLinkTM, modular counting and dispensing units, and the Baker Universal 2010TM and AccuCountTM, counting and weighing prescription scales;
- AutoScript III® and AccuScriptTM — Robotic dispensing systems designed for accuracy and throughput with, modular, variable capacity design;
- Pharmacy 2000® — Productivity workflow software system that provides stand-alone reporting and

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prescription tracking value. It also drives automation systems in a logical task order to improve productivity throughout the prescription fulfillment process;

- Productivity Station™ — An easy-to-use interactive workstation system for customers desiring a compact, multi-tasking automation unit;
- AccuSign™—Electronically captures patient signatures for prescription pick-up, patient counseling acknowledgement and HIPAA privacy acknowledgement; and
- Automated Will Call—Securely and discreetly groups and presents patient prescriptions for pick-up.

Payor Group. The following suite of services and software products is marketed to payors, employers and government organizations to help manage the cost and quality of care:

- Disease management programs to improve overall healthcare of a patient;
- Nurse triage services to direct patients to the appropriate level of care;
- Clinical and analytical software to support utilization, case and disease management workflow;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- InterQual® Criteria for clinical decision support; and
- Clinical auditing and compliance software for auditing medical claims.

McKesson Specialty. This business' product-specific solutions are directed towards manufacturers, payors and physicians to enable delivery and administration of high-cost, often injectable, bio-pharmaceutical drugs used to treat patients with chronic disease. The business facilitates patient and provider access to specialty pharmaceuticals across multiple delivery channels (direct-to-physician wholesale, patient-direct specialty pharmacy dispensing, and access to retail pharmacy), provides clinical support and treatment compliance programs that help patients stay on complex therapies, and offers reimbursement, data collection and analysis services.

Medical-Surgical Solutions

Our Medical-Surgical Solutions segment provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers that include hospitals, physicians' offices, surgery centers, extended care facilities, and homecare sites through a network of 36 distribution centers within the U.S. This segment is the nation's third largest distributor of medical-surgical supplies to hospitals (acute care) and is the leading provider of supplies to the full range of alternate-site healthcare facilities, including physicians' offices, clinics and surgery centers (primary care), long-term care facilities and homecare sites (extended care). Supply Management On-LineSM, an electronic ordering system, provides an advanced tool for ordering medical-surgical products over the Internet, and the segment's Optipak® program allows physicians to customize ordering of supplies according to individual surgical procedure preferences. In 2004, this segment introduced a state-of-the-art information/data management system, OPTYXSM, designed to help hospital customers track and manage materials expenses. This segment also includes ZEE® Medical, North America's leading provider of first aid, safety, and training solutions, providing services to industrial and commercial customers. This business offers an extensive line of products and services aimed at maximizing headcount productivity and minimizing the liability and cost associated with workplace illnesses and injuries. In addition, this segment includes Moore Medical Corp. ("MMC"), an Internet-enabled, multi-channel marketer and distributor of medical-surgical and pharmaceutical products to non-hospital provider settings, which we acquired in 2005.

Provider Technologies

Our Provider Technologies segment provides a comprehensive portfolio of software, automation, support and services to help healthcare organizations improve patient safety, reduce the cost and variability of care, and better manage their resources and revenue stream. The segment markets its products and services to integrated delivery networks, hospitals, physician group practices, home health providers, and managed care providers. Approximately sixty percent of hospital-based integrated delivery networks in the U.S. use one or more products from this segment. The segment also sells its solutions internationally through subsidiaries and/or distribution agreements in Canada, the United Kingdom, Ireland, France, the Netherlands, Australia, New Zealand and Puerto Rico.

The product portfolio for the Provider Technologies segment is organized into three major solutions sets — clinical solutions, business performance solutions and automation solutions — with a variety of subsets of these solutions designed to address specific healthcare business issues (such as, physician access and medication safety.) To ensure that organizations achieve the maximum value for their information technology investment, the Provider Technologies segment also offers a wide range of services to support the implementation and use of solutions as

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well as assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Clinical Solutions. The segment's clinical solutions are designed to enable organizations to improve medication safety, accelerate physician use of healthcare information technology, improve care team efficiency and reduce variability in healthcare quality and costs. The clinical management solution set, known as Horizon Clinicals™, is built using architecture to facilitate integration and enable modular deployment of systems. It includes a clinical data repository, document imaging, medical imaging, clinical decision support/physician order entry, point-of-care documentation with bar-coded medication administration, enterprise laboratory, radiology and pharmacy, an emergency department solution and a comprehensive ambulatory system that includes e-prescribing and electronic medical records. Horizon Clinicals also includes solutions to facilitate physician access to patient information such as a Web-based physician portal and wireless devices that draw on information from the hospital's information systems. In addition, the segment provides solutions to address patients' needs for information both inside and outside the hospital.

Business Performance Solutions. The segment's business performance solutions support revenue cycle management and resource management. The segment's revenue cycle solution is designed to reduce days in accounts receivable, prevent insurance claim denials, reduce costs and improve productivity for our customers. Solutions include contract management, electronic claims processing and coding compliance checking. The segment's hospital information systems also play a key role in managing the revenue cycle by working with these solutions to automate the operation of individual departments and their respective functions within the inpatient environment. The segment's resource management solutions consist of an integrated suite of applications that enhance an organization's ability to forecast and optimize enterprise-wide use of resources (labor, supplies, equipment and facilities) associated with the delivery of care. These solutions help automate and link resource requirements to care protocols designed to increase profitability, enhance decision-making, and improve business processes.

Automation Solutions. This segment provides market-leading automation technologies that help hospitals to re-engineer and improve their medication use and supply management processes. Examples include centralized pharmacy automation for unit-dose medications, unit-based cabinet technologies for secure medication storage and rapid retrieval, point-of-use supply automation systems for inventory management and revenue capture, and an automated medication administration system for ensuring accuracy at the point of care. Based on a foundation of bar-code scanning technology, these integrated solutions are designed to reduce errors and bring new levels of safety to patients nationwide.

In addition to the product offerings described above, the Provider Technologies segment offers a comprehensive range of services to help organizations derive greater value from, and enhance satisfaction and return on investment throughout the life of the solutions implemented. The range of services includes:

Technology Services. The segment has worked with numerous healthcare organizations to support the smooth operation of their information systems by providing the technical infrastructure designed to maximize application accessibility, availability, security and performance.

Professional Services. Professional services help customers achieve business results from their software or automation investment. The segment offers a wide array of quality service options, including consulting for business and/or clinical process improvement and re-design as well as implementation, project management, technical, and education services relating to all products in the Provider Technologies segment.

Outsourcing Services. The segment helps organizations focus their resources where needed while the segment manages their information technology or revenue cycle operations through outsourcing. Outsourcing service options include managing hospital data processing operations, as well as strategic information systems planning and management, revenue cycle processes, payroll processing, business office administration, and major system conversions.

Acquisitions, Investments and Divestiture

We have undertaken strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. These initiatives are detailed in Financial Notes 2 and 3 to the consolidated financial statements, "Acquisitions and Investments" and "Divestiture," appearing in this Annual Report on Form 10-K.

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Competition

In every area of healthcare distribution operations, our Pharmaceutical Solutions and Medical-Surgical Solutions segments face strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, these segments face competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segments) which may from time to time decide to develop, for their own internal needs, supply management capabilities which are provided by the segments and other competing service providers. Price, quality of service, and, in some cases, convenience to the customer are generally the principal competitive elements in these segments.

Our Provider Technologies segment experiences substantial competition from many firms, including other computer services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, 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.

Intellectual Property

The principal trademarks and service marks of the Pharmaceutical Solutions and Medical-Surgical Solutions segments include: ECONOLINK®, VALU-RITE®, Valu-Rite/CareMax®, McKesson OneStop GenericsSM, Health Mart®, ASK-A-NURSE®, Episode Profiler®, InterQual®, coSource®, Baker CellsTM, Baker CassettesTM, Baker UniversalTM, AutoscriptTM, Pharmacy 2000TM, Productivity StationTM, CRMSTM, Patterns ProfilerTM, CareEnhanceSM, Closed Loop DistributionSM, .com Pharmacy Solutions®, Supply Management OnLineSM, Optipak®, Comets®, e-CometsTM, MediNetTM, OPTIMA®, OPTYXSM, XVIII B Medi Mart®, AccuscriptSM, Zee®, Pharmserv®, Staydry®, SunmarkTM, McKesson Max RewardsSM, MaxImpactSM, Medi-Pak®, McKesson® Brand and Empowering HealthcareSM.

The substantial majority of technical concepts and codes embodied in our Provider Technologies segment's computer programs and program documentation are not protected by patents or copyrights but constitute trade secrets that are proprietary to us. The principal trademarks and service marks for this segment are: HealthQuest®, Paragon®, Pathways 2000®, TRENDSTAR®, Horizon ClinicalsTM, HorizonWP®, Series 2000TM, STAR 2000TM, PracticePoint®, ROBOT-RxTM, MedCarouselTM, PACMEDTM, AcuDose-RxTM, CarePoint-RNTM, Connect-Rx®, Connect-RNTM, Horizon Admin-RxTM, Pak Plus-Rx®, SelfPace®, Fulfill-RxSM and SupplyScanTM.

We also own other registered and unregistered trademarks and service marks and similar rights used by our business segments. All of the principal trademarks and service marks are registered in the United States, or registrations have been applied for with respect to such marks, in addition to certain other jurisdictions. The United States federal registrations of these trademarks have terms of ten or twenty years, depending on date of registration, and are subject to unlimited renewals. We believe we have taken all necessary steps to preserve the registration and duration of our trademarks and service marks, although no assurance can be given that we will be able to successfully enforce or protect our rights there under in the event that they are subject to third-party infringement claims. We do not, however, consider any particular patent, license, franchise or concession to be material to our business.

Other Information About the Business

Customers. In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2005, sales to our largest customer, Rite Aid Corporation, and ten largest customers accounted for approximately 10% and 50% of our total consolidated revenues. At March 31, 2005, accounts receivable from Rite Aid Corporation and our ten largest customers were approximately 7% and 49% of total accounts receivable. The majority of these revenues and accounts receivable are included in our Pharmaceutical Solutions segment.

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Suppliers. During 2005, the U.S. Healthcare pharmaceutical distribution and services business entered into restructured distribution agreements with certain pharmaceutical manufacturers that modify the way we are compensated for our distribution and other related logistic and administrative services and data. This transition in our business was due, in part, to increasing efforts by pharmaceutical manufacturers to control or limit the product availability in the supply channels. Historically, a significant portion of the U.S. Healthcare's gross margin has been derived from purchasing branded product inventory in advance of pharmaceutical price increases and holding this inventory until a price increase occurred, thereby generating a larger gross margin upon the sale of the product to customers ("Buy and Hold"). In more recent years, we also entered into inventory management agreements ("IMA") with certain manufacturers whereby we were paid for not building investment inventories in advance of a price increase. Under both the Buy and Hold and IMA, gross margin dollars were predicated upon pharmaceutical price increases which contributed to volatility in the U.S. Healthcare pharmaceutical distribution and services historical gross margins.

Throughout 2005, we have been actively working with pharmaceutical manufacturers to restructure our distribution agreements towards a more fee-based approach whereby we are appropriately and predictably compensated for the services we provide. Under these fee-based agreements, all or a significant portion of our compensation from pharmaceutical manufacturers is fixed and is no longer dependent upon pharmaceutical price increases. We have made progress towards this objective and expect to be complete by mid-2006. Upon completion, we expect more than 80% of our pharmaceutical manufacturer compensation will not be affected by price inflation.

Research and Development. Our research and development ("R&D") expenditures primarily consist of our investment in software development held for sale. We expended \$231.5 million, \$230.4 million, and \$203.2 million for R&D activities in 2005, 2004 and 2003, and of these amounts, we capitalized 21%, 25% and 26%. R&D expenditures are primarily incurred by our Provider Technologies segment, Payor Group and Retail Automation businesses. Our Provider Technologies segment's product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals. We believe a substantial and sustained commitment to such expenditures is important to the long-term success of this business. Additional information regarding our R&D activities is included in Financial Note 1 to the consolidated financial statements, "Significant Accounting Policies," appearing in this Annual Report on Form 10-K.

Environmental Legislation. 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 Item 3, "Legal Proceedings," of this Annual Report on Form 10-K. Other than any capital expenditures that may be required in connection with those legal matters, 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 2005 and is not expected to be material in the next year.

Employees. On March 31, 2005, we employed approximately 25,200 persons compared to 24,600 in 2004 and 24,500 in 2003.

Financial Information About Foreign and Domestic Operations and Export Sales. Information as to foreign operations is included in Financial Notes 1 and 22 to the consolidated financial statements, "Significant Accounting Policies" and "Segments of Business," appearing in this Annual Report on Form 10-K.

Item 2. Properties

Because of the nature of our principal businesses, plant, warehousing, office and other facilities are operated in widely dispersed locations. The warehouses 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 14 to the consolidated financial statements, "Lease Obligations," appearing in this Annual Report on Form 10-K.

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Item 3. Legal Proceedings

I. Accounting Litigation

Since the announcements by McKesson in April, May and July of 1999 that McKesson had determined that certain software sales transactions in its Information Solutions segment, formerly HBO & Company (“HBOC”) and now known as McKesson Information Solutions LLC, were improperly recorded as revenue and reversed, as of March 31, 2005, ninety-one lawsuits have been filed against McKesson, HBOC, certain of McKesson’s or HBOC’s current or former officers or directors, and other defendants, including Bear Stearns & Co. Inc. and Arthur Andersen LLP.

Federal Actions

On January 12, 2005, we announced that we reached an agreement to settle the previously-reported class action in the Northern District of California captioned: *In re McKesson HBOC, Inc. Securities Litigation* (Case No. C-99-20743 RMW) (the “Consolidated Action”) pending before the Honorable Ronald M. Whyte of the United States District Court (the “Court”) for the Northern District of California. In general, under the agreement to settle the Consolidated Action, we will pay the settlement class a total of \$960 million in cash and accordingly, in the third quarter of 2005, we accrued this amount. The settlement will resolve the Consolidated Action as to all defendants, other than Arthur Andersen LLP and Bear Stearns & Co Inc. Other previously reported federal and state cases are not resolved by the settlement. The settlement agreement is subject to various conditions, including, but not limited to, preliminary approval by the Court, notice to the Class and final approval by the Court after a hearing. Judge Whyte held a hearing on March 25, 2005, to determine whether to grant preliminary approval of the settlement, but has not yet issued a decision.

The previously-reported individual actions in the Northern District of California captioned *Jacobs v. McKesson HBOC, Inc., et al.* (C-99-21192 RMW), *Jacobs v. HBO & Company* (Case No. C-00-20974 RMW), *Bea v. McKesson HBOC, Inc. et al.* (Case No. C-00-20072 RMW), *Cater v. McKesson Corporation et al.* (Case No. C-00-20327 RMW), *Baker v. McKesson HBOC, Inc., et al.* (Case No. CV 00-0188), *Pacha, et al. v. McKesson HBOC, Inc., et al.* (Case No. C01-20713 PVT), and *Hess v. McKesson HBOC, Inc. et al.* (Case No. C-20003862), remain stayed and are consolidated with the Consolidated Action.

The related federal class action, *In re McKesson HBOC Inc. ERISA Litigation* (Northern District of California No. C-02-0685 RMW) (the “ERISA Action”), pending before Judge Whyte, involves ERISA claims brought on behalf of the HBOC Profit Sharing and Savings Plan (the “HBOC Plan”) and the McKesson Profit Sharing and Investment Plan (the “McKesson Plan”), as well as participants in those plans. On May 6, 2005, a Stipulation and Agreement of Settlement was executed for that portion of the ERISA Action that involves HBOC Plan claims. The proposed settlement resolves all claims by the HBOC Plan and its participants in consideration of an \$18.2 million cash payment by the Company. The settlement is subject to various conditions, including, but not limited to, notice to the class and final approval by the Court. Judge Whyte has scheduled a hearing on final approval of the HBOC Plan settlement for September 9, 2005. The separate ERISA claims of the McKesson Plan and its participants are not resolved by this settlement. The Company’s motion to dismiss those claims remains pending before this Court.

State Actions

Twenty-four actions have been filed in various state courts in California, Colorado, Delaware, Georgia, Louisiana and Pennsylvania (the “State Actions”). Like the Consolidated Action, the State Actions generally allege misconduct by McKesson or HBOC (and others) in connection with the events leading to McKesson’s decision to restate HBOC’s financial statements. Ten of those state court actions remain pending in California and Georgia.

In the previously-reported actions pending in California Superior Court captioned *Yurick v. McKesson HBOC, Inc. et al.* (Case No. 303857), *The State of Oregon by and through the Oregon Public Employees Retirement Board v. McKesson HBOC, Inc. et al.* (Case No. 307619), *Utah State Retirement Board v. McKesson HBOC, Inc. et al.* (Case No. 311269), *Minnesota State Board of Investment v. McKesson HBOC, Inc. et al.* (Case No. 311747), and *Merrill Lynch Fundamental Growth Fund et al. v. McKesson HBOC, Inc. et al.* (Case No. CGC-02-405792) (“Merrill Lynch”), the trial court has set a trial date of October 3, 2005. The Merrill Lynch plaintiffs have moved for summary judgment on their common law fraud claim, and the hearing on that motion is presently set for July 1, 2005.

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Five previously-reported actions remain pending in Georgia state courts: *Suffolk Partners Limited Partnership et al. v. McKesson HBOC, Inc. et al.* (Georgia State Court, Fulton County, Case No. 00VS010469A); *Curran Partners, L.P. v. McKesson HBOC, Inc. et al.* (Georgia State Court, Fulton County, Case No. 00 VS 010801); *Holcombe T. Green and HTG Corp. v. McKesson, Inc. et al.* (Georgia Superior Court, Fulton County, Case No. 2002-CV-48407); *Hall Family Investments, L.P. v. McKesson, Inc. et al.* (Georgia Superior Court, Fulton County, Case No. 2002-CV-48612); and *James Gilbert v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 02VS032502C). The allegations in these actions are substantially similar to those in the Consolidated Action. The Company and HBOC have answered the complaints in each of these actions, generally denying the allegations and any liability to plaintiffs. The *Green* and *Hall Family Investments* actions have been consolidated for purposes of discovery and may be consolidated for purposes of trial. Discovery in the *Suffolk Partners*, *Curran Partners*, *Green*, and *Hall Family Investments* actions is proceeding in coordination with the Consolidated Action. The *Gilbert* action has been stayed until final disposition of the Consolidated Action. No trial date has been set for any of these actions.

As a result of the Company's various pretrial motions, only a single post-merger accounting oversight claim against the directors of post-merger McKesson remains to be litigated in the previously-reported action captioned: *Saito, et. al. v. McCall* (Civil Action No. 17132). The Company filed its answer to the Fourth Amended Complaint in *Saito* on February 8, 2005. The parties are currently engaged in discovery. No trial date has been set.

On March 30, 2004, the United States Attorney's Office for the Northern District of California filed a three count indictment against former McKesson Executive Vice President and Chief Financial Officer, Richard H. Hawkins, charging him with conspiracy to commit securities and wire fraud, securities fraud, and making false statements to an accountant. On March 31, 2004, Hawkins pled not guilty to the charges. The Hawkins court trial closed on March 11, 2005. No verdict has yet been issued.

During the third quarter of 2005, we established an additional reserve of \$240 million, which the Company believes will be adequate to address its remaining potential exposure with respect to all other previously reported Accounting Litigation, including the State Actions discussed above. That sum includes the proposed \$18.2 million settlement amount in the HBOC Plan ERISA Action noted above. However, in view of the number of remaining cases, the uncertainties of the timing and outcome of this type of litigation, and the substantial amounts involved, it is possible that the ultimate costs of these matters may exceed or be less than the reserve. The range of possible resolutions of these proceedings could include judgments against the Company or settlements that could require payments by the Company in addition to the reserve, which could have a material adverse impact on McKesson's financial position, results of operations and cash flows.

II. Other Litigations and Claims

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for product liability and other damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. These include:

Product Liability Litigation and Other Claims

Our subsidiary, McKesson Medical-Surgical Inc., is one of multiple defendants in approximately 11 cases in which plaintiffs claim they were injured due to exposure, over many years, to latex proteins in gloves manufactured by numerous manufacturers and distributed by a number of distributors, including McKesson Medical-Surgical Inc. Efforts to resolve tenders of defense to its suppliers are continuing and final agreements have been reached with two major suppliers.

We, along with more than 100 other companies, have been named in a lawsuit brought in 2000 by the Lemelson Medical, Educational & Research Foundation (the "Foundation") alleging that we and our subsidiaries are infringing seven (7) U.S. patents relating to common bar code scanning technology and its use for the automated management and control of product inventory, warehousing, distribution and point-of-sale transactions. Due to the pendency of earlier litigation brought against the Foundation by the manufacturers of bar code devices attacking the validity of the patents at issue, the court stayed the suit against the Company until the conclusion of the earlier case, including any appeals that may be taken. The trial in this earlier case concluded in January 2003 and the court subsequently ruled that each of the patents at issue was unenforceable due to prosecutorial laches. The case is now on appeal to the Federal Circuit Court of Appeals. It is anticipated that oral argument will not occur before May of 2005. While the suit against the Company was stayed, the U.S. Patent and Trademark Office granted petitions for reexamination

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of 3 of the 7 patents asserted by the Foundation against the Company. The reexamination will determine, among other things, whether these patents have expired. Each of the remaining 4 patents in the action has already expired by its own terms, or by the Foundation's disclaiming the remaining portion of the patent's life.

The Company is a defendant in approximately 110 California cases alleging that the plaintiffs were injured by Vioxx, an anti-inflammatory drug manufactured by Merck & Company ("Merck"). The cases typically assert causes of action for strict liability, negligence, breach of warranty and false advertising for improper design, testing, manufacturing, and warnings relating to the manufacture and distribution of Vioxx. None of the cases involving the Company is scheduled for trial. The Company has tendered each of these cases to Merck and has reached an agreement with Merck to defend and indemnify the Company.

The Company is a defendant in approximately 42 cases alleging that the plaintiffs were injured because they took the drugs known as fen-phen, the term commonly used to describe the weight-loss combination of fenfluramine or dexfenfluramine with phentermine. The Company has been named as a defendant along with several other defendants in 41 cases; and has accepted the tender of one of its customers named as defendant in the one remaining case. The cases are pending in state courts in California and Mississippi and in state and federal courts in Florida and New York, and typically assert causes of action for strict liability, negligence, breach of warranty, false advertising and unfair business practices for improper design, testing, manufacturing and warnings relating to the distribution and/or prescription of fen-phen. The Company has tendered each of these cases to its suppliers and has reached an agreement with its major supplier to defend and indemnify the Company and its customers.

We, through our former McKesson Chemical Company division, are named in approximately 200 cases involving the alleged distribution of asbestos. These cases typically involve either single or multiple plaintiffs claiming personal injuries and unspecified compensatory and punitive damages as a result of exposure to asbestos-containing materials. Pursuant to an indemnification agreement signed at the time of the 1986 sale of McKesson Chemical Company to what is now called Univar USA Inc. ("Univar"), we have tendered each of these actions to Univar. Univar has raised questions concerning the extent of its obligations under the indemnification agreement, and while Univar continues to defend us in many of these cases, it has been rejecting our tenders of new cases since February 2005. We believe Univar remains obligated for all tendered cases under the terms of the indemnification agreement, however we are beginning to incur defense costs in connection with these more recently-served actions. We also believe that a portion of the claims against us will be covered by insurance, and we are pursuing the available coverage.

On May 3, 2004, judgment was entered against the Company and one of its employees in the action *Roby v. McKesson HBOC, Inc. et al.* (Superior Court of Yolo County, California, Case No. CV01-573). Former employee Charlene Roby brought claims for wrongful termination, disability discrimination and disability-based harassment against the Company and a claim for disability-based harassment against her former supervisor. The jury awarded Roby compensatory damages in the amount of \$3.5 million against the Company and \$0.5 million against her supervisor, and punitive damages in the amount of \$15.0 million against the Company and a nominal amount against her supervisor. Following post-trial motions, the trial court reduced the amount of compensatory damages against the Company to \$2.8 million; the punitive damages awarded against both defendants and the compensatory damages awarded against the individual employee defendant were not reduced. On October 18, 2004, the trial court awarded Roby her attorney's fees in the amount of \$0.7 million. The Company has filed a Notice of Appeal, seeking reduction or reversal of the compensatory and punitive damage awards and the award of attorney's fees. If these efforts are not successful, the judgment in this case could have an adverse impact on our consolidated financial statements.

In December 2004, the Company received a request for documents from the Federal Trade Commission ("FTC") that asks the Company to voluntarily produce certain documents to the FTC. The document request, which does not allege wrongdoing, is part of an FTC non-public investigation to determine whether the Company, in violation of Section 5 of the Federal Trade Commission Act, may have engaged, or may be engaging, in anti-competitive practices with other wholesale pharmaceutical distributors in order to limit competition for provider customers seeking distribution services. The investigation is at an early stage, and the Company is in the process of responding to the FTC document request.

In April 2005, we received a subpoena from the office of the Attorney General of the State of New York ("NYAG") requesting the production of documents, responses to interrogatories and other information concerning our participation in the secondary or "alternate source" market for pharmaceutical products. This investigation appears to be in its early stages; and we are cooperating with the NYAG and intend to be fully responsive to the subpoena.

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Environmental Matters

Primarily as a result of the operation of our former chemical businesses, which were fully divested by 1987, we are involved in various matters pursuant to environmental laws and regulations. We have received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at six sites where we, or entities acquired by us, formerly conducted operations; and we, by administrative order or otherwise, have agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, we are one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages (“NRD”) associated with one of these six sites. Although the Company’s potential allocation under either directive cannot be determined at this time, we have agreed to participate with a potentially responsible party (“PRP”) group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by our environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of reasonably possible remediation costs for these six sites is \$11.5 million, net of approximately \$2 million that third parties have agreed to pay in settlement or we expect, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$11.5 million is expected to be paid out between April 2005 and March of 2028. Our estimated liability for these environmental matters has been accrued in the accompanying balance sheets.

In addition, we have been designated as a PRP under the Comprehensive Environmental Compensation and Liability Act of 1980 (as amended, the “Superfund” law or its state law equivalent) for environmental assessment and cleanup costs as the result of our alleged disposal of hazardous substances at 28 sites. With respect to each of 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. Our estimated liability at those 28 sites is approximately \$2 million. The aggregate settlements and costs paid by us in Superfund matters to date have not been significant. The accompanying consolidated balance sheets include this environmental liability.

The potential costs to us related to environmental matters are uncertain due to such factors as: the unknown magnitude of possible pollution and cleanup costs; the complexity and evolving nature of governmental laws and regulations and their interpretations; the timing, varying costs and effectiveness of alternative cleanup technologies; the determination of our liability in proportion to that of other PRPs; and the extent, if any, to which such costs are recoverable from insurance or other parties.

While it is not possible to determine with certainty the ultimate outcome or the duration of any of the litigation or governmental proceedings discussed under this section II, “Other Litigation and Claims”, we believe based on current knowledge and the advice of our counsel that, except as otherwise noted, such litigation and proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

III. Contingency

In 2002, we entered into a \$500 million, ten year contract with the National Health Services Information Authority (“NHS”), an organization of the British government charged with the responsibility of delivering healthcare in England and Wales. The contract engages the Company to develop, implement and operate a human resources and payroll system at more than 600 NHS locations.

As previously reported, there have been contract delays to date which have increased costs and decreased the amount of time in which we can earn revenues. These delays have adversely impacted the contract’s projected profitability and no material revenue has yet been recognized on this contract. As of March 31, 2005, our consolidated balance sheet includes an investment of approximately \$114 million in net assets, consisting of prepaid expenses, software and capital assets, net of cash received, related to this contract. Due to the delays and other desired modifications to the original contract, we have negotiated a tentative agreement with the NHS on changes to certain key terms and conditions in the contract including a term extension and updated implementation plan. We expect this contract amendment to be signed in the first quarter of the 2006 fiscal year. While we believe it is likely that we can deliver and operate a satisfactory system and recover our investment in this contract, failure to sign the tentative agreement in its current form and/ or further implementation delays may result in significant losses that could be material. Additionally, if there is further modification to the tentative amended contract terms and

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conditions and implementation plan, it is possible that the terms of that agreement may result in significant losses, that could be material.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the three months ended March 31, 2005.

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 chosen annually to serve until the first meeting of the Board of Directors following the next annual meeting of stockholders and 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	46	Chairman of the Board since July 31, 2002; President and Chief Executive Officer since April 1, 2001; Co-President and Co-Chief Executive Officer from July 1999 to April 1, 2001 and a director since July 1999. Formerly Executive Vice President, President and Chief Executive Officer of the Supply Solutions Business (January-July 1999); Group President, McKesson Health Systems (1997-1999) and Vice President of the Company since 1996. Service with the Company — 9 years.
Jeffrey C. Campbell	44	Executive Vice President and Chief Financial Officer since April 2004, Chief Financial Officer since December 2003, Senior Vice President since January 2004. Senior Vice President and Chief Financial Officer, AMR Corporation (2002-2003), Vice President Europe (2000-2002), Vice President Corporate Development and Treasurer (1998-2000), various AMR management positions beginning 1990. Service with the Company — 1 year.
Paul C. Julian	49	Executive Vice President, Group President since April 2004; Senior Vice President since August 1999, and President of the Supply Solutions Business since March 2000; Group President, McKesson General Medical (1997-2000); Executive Vice President, McKesson Health Systems (1996-1997). Service with the Company — 9 years.
Paul E. Kirincic	54	Executive Vice President, Human Resources since April 2004, Senior Vice President, Human Resources since January 2001; Vice President, Human Resources, Consumer Health Sector, Warner Lambert (1998-2001); Vice President, Human Resources, Whirlpool Europe, Whirlpool Corporation (1996-1998). Service with the Company — 4 years.
Ivan D. Meyerson	60	Corporate Secretary since April 1999, Executive Vice President and General Counsel since April 2004, and Senior Vice President and General Counsel since January 1999; Vice President and General Counsel (1987-January 1999). Service with the Company — 27 years.
Marc E. Owen	45	Executive Vice President, Corporate Strategy and Business Development since April 2004, Senior Vice President, Corporate Strategy and Business Development since October 2001; consultant to the Company April 2001-September 2001, when he joined the Company; President and CEO, MindCrossing (April-November 2000); Senior Partner, McKinsey and Company (1987-2000). Service with the Company - 4 years.

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<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
Pamela J. Pure	44	Executive Vice President, President, McKesson Provider Technologies since April 2004; McKesson Information Solutions, Chief Operating Officer (2002-2004), Group President (2001-2002), Chief Operating Officer, Channel Health (1999-2001). Service with the Company — 4 years.
Cheryl T. Smith	53	Executive Vice President and Chief Information Officer since April 2004, Senior Vice President and Chief Information Officer since October 2002; Senior Vice President and Chief Information Officer, KeySpan Corporation and President, KeySpan Technologies, Inc. (1998-August 2002); Vice President, IS — Strategic Systems, Verizon, Inc. (1994-1998). Service with the Company — 3 years.

PART II

Item 5. Market for the Registrant's Common Stock, 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 Company's common stock is also traded on the Pacific Exchange, Inc. High and low prices for the common stock by quarter are included in Financial Note 23 to the consolidated financial statements, "Quarterly Financial Information (Unaudited)," appearing in this Annual Report on Form 10-K.
- (b) *Holder.* The number of record holders of the Company's common stock at March 31, 2005 was approximately 11,500.
- (c) *Dividends.* Dividend information is included in Financial Note 23 to the consolidated financial statements, "Quarterly Financial Information (Unaudited)," appearing in this Annual Report on Form 10-K.
- (d) *Share Repurchase Plans.* The Company made no share repurchases during the year ended March 31, 2005. The dollar value of shares that may yet be purchased under our currently authorized share repurchase program is approximately \$209 million.

Item 6. Selected Financial Data

Selected financial data is presented in the Five-Year Highlights section of this Annual Report on Form 10-K.

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

Management's discussion and analysis of the Company's results of operations and financial condition are presented in the Financial Review section of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is included in the Financial Review section of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data are included as separate sections of this Annual Report on Form 10-K. See Item 15.

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

Not applicable.

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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 defined in the 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 Rules 13a-15(f) and 15d-15(f) in the Exchange Act), and the related report of our independent registered public accounting firm, are included on page 50 and page 51 of 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 on Internal Control Over Financial Reporting", 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 most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information about our Directors is incorporated by reference from the discussion under Item 1 of our proxy statement for the 2005 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 "10-K Section 16(a) Beneficial Ownership 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 Report" and "Audit Committee Financial Expert" in our Proxy Statement. The balance of the information required by this item is contained in the discussion entitled "Executive Officers of the Registrant" in Item 4 of Part I of this 2005 Form 10-K.

Information about the Code of Ethics governing our Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers can be found on our Web site, www.mckesson.com under the Governance tab. The Company's Corporate Governance Guidelines and Charters for the Audit and Compensation Committees and the Committee on Directors and Corporate Governance can also be found on our Web site under the Governance tab.

Copies of these documents may be obtained from:

Corporate Secretary
McKesson Corporation
One Post Street, 33rd Floor
San Francisco, CA 94104
(800) 826-9360

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Item 11. Executive Compensation

Information with respect to this item is incorporated by reference from the 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 Proxy Statement.

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 Directors' Plan (defined below) which is administered by the Committee on Directors and Corporate Governance.

1994 Stock Option and Restricted Stock Plan (the "1994 Plan"): The 1994 Plan was adopted by the Board of Directors in 1994 and provided for the grant of approximately 41.2 million shares, which includes awards granted under predecessor plans, in the form of nonqualified stock options, incentive stock options with or without tandem stock appreciation rights ("SARs"), restricted stock, or restricted stock units ("RSUs"). Options granted under the 1994 Plan were generally subject to the same terms and conditions as those granted under the 1999 Plan, discussed below, except that under the 1994 Plan only executive officers of the Company were eligible to receive option grants. The 1994 Plan expired in October 2004 and thus we no longer grant any awards under this plan.

1997 Non-Employee Directors' Equity Compensation and Deferral Plan (the "Directors' Plan"): The Directors' Plan was adopted in 1997 and provides for the grant of approximately 1.3 million shares in the form of nonqualified stock options or restricted stock units to non-employee directors of the Company. Shares subject to option grants, which cease to be exercisable, shall not be counted against the number of shares available under the Directors' Plan. RSUs (described below), whether or not distributed in the form of restricted stock, will be counted against the number of shares available.

Under the Director's Plan, each director receives an annual stock option grant of 7,500 shares. In addition, each director is required to defer 50% of his or her annual retainer into either RSUs payable in cash or stock at the Director's election, or nonqualified stock options, and may also elect to defer the remaining 50% of the annual retainer into RSUs or Retainer Options or the Company's Deferred Compensation Administration Plan (DCAP II), or may elect to receive cash. Meeting fees and Committee Chair annual retainers may be deferred into RSUs or DCAP II or may be paid in cash. Options are granted at fair market value and have a term of ten years. If the Company's stockholders approve the new 2005 Stock Incentive Plan at the Annual Meeting on July 27, 2005, as described in the Company's Proxy Statement, this Plan will be replaced by the 2005 Stock Incentive Plan.

1973 Stock Purchase Plan (the "SPP"): The SPP was adopted by the stockholders of the Company's predecessor in 1973. The Company's stockholders approved an additional 2.5 million shares to be issued under the SPP in 1999, which remain available for issuance. Rights to purchase shares are granted under the SPP to key employees of the Company as determined by the Compensation Committee of the Board. The purchase price, to be paid in cash or using promissory notes of the Company common stock subject to rights granted under the SPP, is the fair market value of such stock on the date the right is exercised.

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 so qualify. Currently, 11.1 million shares have been authorized for issuance under the ESPP.

The ESPP was implemented through a continuous series of 24-month offerings beginning on the first trading day on or after each May 1 and November 1 (the "Offering Dates") and ending on the last trading day of the month which is 24 months later (the "Offering Periods") and six-month periods beginning on each May 1 and November 1 and ending on the following October 31 and April 30, during which contributions could be made toward the purchase of common stock under the plan ("Purchase Periods"). Effective April 1, 2005, the ESPP has been amended to eliminate the 24-month lookback feature, and following a one-time four-month Purchase Period, effective August 1, 2005, Purchase Periods will occur every three months.

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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 was the lesser of (i) 85% of the fair market value of such share on the first day of the Offering Period; or (ii) 85% of the fair market value of such share on the last day of the applicable Purchase Period. Effective April 1, 2005, the purchase price of each share of the Company's common stock will be based on 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 Purchase Period is determined by dividing \$12,500 by the fair market value of one share of common stock on the Offering Date.

The following are descriptions of equity plans that have not been submitted for approval by the Company's stockholders:

1999 Stock Option and Restricted Stock Plan (the "1999 Plan"): The 1999 Plan was adopted by the Board of Directors in 1999. The Plan provides for the grant to eligible employees of 45.2 million shares in the form of nonqualified stock options, with or without SARs, restricted stock or restricted stock units. No executive officers or directors participate in this Plan. If the Company's stockholders approve the new 2005 Stock Incentive Plan at the Annual Meeting on July 27, 2005, this 1999 Plan will be replaced by the 2005 Stock Incentive Plan.

Options are granted at not less than fair market value and have a term of ten years. Options generally become exercisable in four equal annual installments beginning one year after the grant date, or after four years from the date of grant. Restricted stock granted under the 1999 Plan contains certain restrictions on transferability and may not be transferred until such restrictions lapse (generally two to four years). Grantees may elect to use stock to satisfy any withholding tax obligation upon the lapsing of restrictions on restricted stock awards.

1998 Canadian Stock Incentive Plan (the "Canadian Plan"): The Canadian Plan was adopted by the Board of Directors in January 1998, following the Company's acquisition of a Canadian company, to provide nonqualified stock options, with or without tandem SARs, to eligible employees of the Canadian company. The Canadian Plan has subsequently been amended to allow for the grant of stock options to employees of any of the Company's Canadian subsidiaries. A total of 0.9 million shares have been authorized for issuance under the Canadian Plan. Options granted under the Canadian Plan are generally subject to the same terms and conditions as those granted under the 1999 Plan, discussed above, except that (i) options may be granted for less than the fair market value of the Company's common stock on the date of grant, and (ii) all options will become immediately exercisable upon an employee's disability or death and must be exercised within three years of such date. If the Company's shareholders approve the new stock incentive plan at the Annual Meeting on July 27, 2005, this plan will be replaced by the 2005 Stock Incentive Plan.

Stock Option Plans Adopted in January 1999 and August 1999: On January 27, 1999 and August 25, 1999 the Board of Directors adopted certain stock option plans (the "January 1999 Plan" and the "August 1999 Plan", or together the "Plans") to provide stock options to purchase shares of the Company's common stock to eligible employees of the Company pursuant to NYSE rules in effect at the time the Plans were established. A maximum of 5.8 million and 5.2 million shares of common stock were authorized for issuance under the January 1999 and August 1999 Plans. In each case the Plans state that: (i) under each of the Plans no single officer or director of the Company or any subsidiary could acquire more than 1% of the Company's common stock outstanding at the time the Plans were adopted, and (ii) each of the Plans, together with all stock option or purchase plans, or any other arrangements pursuant to which officers or directors of the Company may acquire common stock (other than stock plans for which stockholder approval is not required under Section 312.03 of the NYSE rules), does not authorize the issuance of more than 5% of the Company's common stock outstanding at the time the Plans were adopted (collectively the "NYSE Limits"). Options were granted under each of the Plans to eligible employees of the Company. No further grants will be made from either of the Plans.

Options granted under the Plans are generally subject to the same terms and conditions as those granted under the 1994 Plan and 1999 Plan.

1999 Executive Stock Purchase Plan (the "1999 SPP"): The 1999 SPP was adopted by the Board of Directors in February 1999. The 1999 SPP provided for the grant of rights to purchase a maximum of 0.7 million shares of common stock subject to the NYSE Limits. No further grants will be made from the 1999 SPP. Rights to purchase shares were granted under the 1999 SPP to eligible employees of the Company. The purchase price, to be paid in cash or using promissory notes, for the Company common stock subject to rights granted under the 1999 SPP was

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equal to the fair market value of the Company's common stock on the date the right was exercised (which was the closing price of the Company's common stock on the NYSE). Purchases were evidenced by written stock purchase agreements which provide for the payment of the purchase price by (i) payment in cash, or (ii) a promissory note payable on a repayment schedule determined by the Compensation Committee of the Board, or (iii) a combination of (i) and (ii).

HBOC 1994 UK Sharesave Scheme (the "1994 Scheme"): In connection with the acquisition by the Company of HBO & Company ("HBOC"), we assumed the HBOC 1994 Scheme, which is similar to the ESPP, under which approximately 0.2 million shares remain available for issuance. Employees and previous directors of HBOC and its subsidiaries, who are residents of the United Kingdom, are eligible to receive options under the 1994 Scheme. The exercise price of the stock covered by each option shall not be less than 85% of the fair market value of the Company's common stock on the date the option is granted. Participants under the 1994 Scheme pay for options through monthly contributions, subject to minimum and maximum monthly limits. We no longer offer any new options under the 1994 Scheme.

Item 13. Certain Relationships and Related Transactions

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 related party transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 21, "Related Party Balances and Transactions," to the consolidated financial statements.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is set forth under the heading "Ratification of Appointment of Deloitte & Touche LLP as Independent Registered Public Accountants for 2006" in our Proxy Statement and all such information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a) *Financial Statements, Financial Statement Schedule and Exhibits*

	<u>Page</u>
Consolidated Financial Statements, Report of Independent Registered Public Accounting Firm, and Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting." See "Index to Consolidated Financial Information"	24
Supplementary Consolidated Financial Statement Schedule— Valuation and Qualifying Accounts	20
Financial statements and 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	
Exhibits: Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index	21

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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.

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Dated: May 12, 2005

By Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief Financial Officer

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

*

John H. Hammergren
Chairman, President, and Chief Executive Officer
(Principal Executive Officer)

*

Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

*

Nigel A. Rees
Vice President and Controller
(Principal Accounting Officer)

*

Wayne A. Budd, Director

*

Alton F. Irby III, Director

*

M. Christine Jacobs, Director

*

Marie L. Knowles, Director

*

David M. Lawrence M.D., Director

*

Robert W. Matschullat, Director

*

James V. Napier, Director

*

Jane E. Shaw, Director

*

Richard F. Syron, Director

Ivan D. Meyerson

Ivan D. Meyerson
*Attorney-in-Fact

Dated: May 12, 2005

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2005, 2004 and 2003
(In millions)

Description	Balance at Beginning of Year	Additions		Deductions From Allowance Accounts ⁽¹⁾	Balance at End of Year ⁽²⁾
		Charged to Costs and Expenses	Charged to Other Accounts		
Year Ended March 31, 2005					
Allowances for doubtful accounts	\$ 139.3	\$ 15.6	\$ 9.3	\$ (47.7) ⁽³⁾	\$ 116.5
Other allowances	37.5	9.5	5.1	(9.1)	43.0
	<u>\$ 176.8</u>	<u>\$ 25.1</u>	<u>\$ 14.4</u>	<u>\$ (56.8)</u>	<u>\$ 159.5</u>
Year Ended March 31, 2004					
Allowances for doubtful accounts	\$ 261.1	\$ 54.4 ⁽⁴⁾	\$ 0.4	\$ (176.6) ⁽³⁾	\$ 139.3
Other allowances	29.0	20.5	0.8	(12.8)	37.5
	<u>\$ 290.1</u>	<u>\$ 74.9</u>	<u>\$ 1.2</u>	<u>\$ (189.4)</u>	<u>\$ 176.8</u>
Year Ended March 31, 2003					
Allowances for doubtful accounts	\$ 289.3	\$ 68.5	\$ 4.4	\$ (101.1) ⁽³⁾	\$ 261.1
Other allowances	30.0	13.4	0.2	(14.6)	29.0
	<u>\$ 319.3</u>	<u>\$ 81.9</u>	<u>\$ 4.6</u>	<u>\$ (115.7)</u>	<u>\$ 290.1</u>

	2005	2004	2003
(1) Deductions:			
Written off	\$ 49.3	\$ 122.6	\$ 88.1
Credited to other accounts	7.5	66.8	27.6
Total	<u>\$ 56.8</u>	<u>\$ 189.4</u>	<u>\$ 115.7</u>
(2) Amounts shown as deductions from:			
Current receivables	\$ 159.3	\$ 176.8	\$ 285.4
Notes receivable and other assets	0.2	—	4.7
Total	<u>\$ 159.5</u>	<u>\$ 176.8</u>	<u>\$ 290.1</u>

(3) Includes \$4.0 million, \$66.4 million and \$22.3 million in 2005, 2004 and 2003 in reversals of the allowance for customer settlements within our Provider Technologies segment.

(4) Includes a \$30.0 million provision for a customer bankruptcy.

McKESSON CORPORATION

EXHIBIT INDEX

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Amendment of Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on August 1, 2002 (Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, File No. 1-13252).
3.2	Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on November 9, 2001 (Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, File No. 1-13252).
3.3	Amended and Restated By-Laws of the Company dated as of January 28, 2004. (Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004, File No. 1-13252.)
4.1	Rights Agreement dated as of October 22, 2004 between the Company and The Bank of New York, as Rights Agent (Exhibit 4.19 to the Company's Current Report on Form 8-K Date of Report October 22, 2004, File No. 1-13252).
4.3	Indenture, dated as of March 11, 1997, between the Company, as Issuer, and The First National Bank of Chicago, as Trustee (Exhibit 4.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997, File No. 1-13252).
4.4	Amended and Restated Declaration of Trust of McKesson Financing Trust, dated as of February 20, 1997, among the Company, The First National Bank of Chicago, as Institutional Trustee, First Chicago, Inc., as Delaware Trustee and the Regular Trustees (Exhibit 4.2 to Amendment No. 1 to the Company's Registration Statement on Form S-8, Registration No. 333-26433, filed on June 18, 1997).
4.5	McKesson Corporation Preferred Securities Guarantee Agreement, dated as of February 20, 1997, between the Company, as Guarantor, and The First National Bank of Chicago, as Preferred Guarantor (Exhibit 4.7 to the Company's Registration Statement on Form S-3, Registration No. 333-26433, filed on May 2, 1997).
4.6	Indenture, dated as of January 29, 2002, between the Company, as Issuer and the Bank of New York, as Trustee (Exhibit 4.6 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002, File No. 1-3252).
4.7	7.75% Notes due 2012 (Exhibit 4.7 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002, File No 1-3252).
10.1	Letter Agreement and Annex A (Stipulation and Agreement of settlement between Lead Plaintiff and Defendants McKesson HBOC, Inc. and HBO & Company) thereto in connection with the consolidated securities class action (Exhibit 99.1 to the Company's Current Report on Form 8-K. Date of Report January 18, 2005, File No. 1-13252).
10.2	McKesson Corporation 1999 Stock Option and Restricted Stock Plan, as amended through March 31, 2004 (Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 13252).
10.3	Statement of Terms and Conditions Applicable to certain Stock Options granted on August 16, 1999 (Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2000, File No. 1-13252).
10.4	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003. (Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004, File No. 1-13252).
10.5	McKesson Corporation Restated Supplemental PSIP (Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.6	McKesson Corporation Deferred Compensation Administration Plan, amended and restated effective October 28, 2004.
10.7	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated effective October 28, 2004.
10.8	McKesson Corporation 1994 Option Gain Deferral Plan, as amended and restated effective October 28, 2004.

McKESSON CORPORATION

Exhibit Number	Description
10.9	McKesson Corporation Management Deferred Compensation Plan, amended and restated as of October 28, 2004.
10.10	McKesson Corporation 1984 Executive Benefit Retirement Plan, as amended and restated as of October 28, 2004.
10.11	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of October 28, 2004.
10.12	McKesson Corporation Executive Medical Plan, as amended and restated effective January 1, 2004.
10.13	McKesson Corporation Severance Policy for Executive Employees, as amended and restated January 27, 2004 (Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004, File No. 1-13252).
10.14	McKesson Corporation Management Incentive Plan, as amended through July 26, 2000 (Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002, File No 1-13252).
10.15	McKesson Corporation Amended and Restated Long-Term Incentive Plan (Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.16	McKesson Corporation Stock Purchase Plan, as amended through July 31, 2002 (Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.17	McKesson Corporation 1999 Executive Stock Purchase Plan (Exhibit 99.1 to the Company's Registration Statement No. 333-71917 filed on February 5, 1999).
10.18	Statement of Terms and Conditions Applicable to Certain Stock Options Granted on January 27, 1999 (Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999, File No. 1-13252).
10.19	McKesson Corporation 1998 Canadian Stock Incentive Plan, as amended through October 26, 2001 (Exhibit 10.43 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002, File No 1-13252).
10.20	Amended and Restated Receivables Purchase Agreement dated as of June 11, 2004 among the Company, as servicer, CGSF Funding Corporation, as seller, the several conduit purchasers from time to time party to the Agreement, the several committed purchasers from time to time party to the Agreement, the several managing agents from time to time party to the Agreement, and Bank One, N.A. (Main Office Chicago), as collateral agent.
10.21	Credit Agreement dated as of September 24, 2004 among McKesson Corporation, McKesson Canada Corporation, Bank of America, N.A. as Administrative Agent, Bank of America, N.A. acting through its Canada branch, as Canadian Administrative Agent with respect to the Canadian Loans and the Bankers' Acceptance Facility, Wachovia Bank, National Association, as L/C Issuer, and each lender from time to time party thereto (Exhibit 99.1 to the Company's Current Report on Form 8-K, Date of Report September 24, 2004, File No. 1-13252).
10.22	Purchase Agreement dated as of December 31, 2002 between McKesson Capital Corp. and General Electric Capital Corporation (Exhibit 10.41 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.23	Services Agreement dated as of December 31, 2002 between McKesson Capital Corp. and General Electric Capital Corporation (Exhibit 10.42 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.24	Form of Termination Agreement by and between the Company and certain designated Corporate Officers (Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1995, File No. 1-13252).
10.25	Employment Agreement, dated as of April 1, 2004, by and between the Company and its Chairman, President and Chief Executive Officer (Exhibit 10.43 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004, File No 1-13252).
10.26	Employment Agreement, dated as of April 1, 2004, by and between the Company and its Executive Vice President and President Provider Technologies (Exhibit 10.44 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004, File No. 1-13252).
10.27	Employment Agreement, dated as of April 1, 2004, by and between the Company and its Executive Vice President and Group President (Exhibit 10.45 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004, File No. 1-13252).

McKESSON CORPORATION

Exhibit Number	Description
12	Calculation of Ratio of Earnings to Fixed Charges
21	List of Subsidiaries of the Registrant
23	Consent of 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, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer and Principal Accounting Officer Pursuant to Rule 13a - 14(a) and Rule 15d-14(a) of the Securities Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

McKESSON CORPORATION

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McKESSON CORPORATION

FIVE-YEAR HIGHLIGHTS

<i>(In millions, except per share amounts and ratios)</i>	As of and for the Years Ended March 31,				
	2005	2004	2003	2002	2001⁽¹⁾
Operating Results					
Revenues	\$80,514.6	\$69,506.1	\$57,120.8	\$49,988.1	\$42,000.1
Percent change	15.8%	21.7%	14.3%	19.0%	14.5%
Gross profit	3,464.7	3,248.2	3,102.5	2,788.5	2,417.0
Income (loss) from continuing operations before income taxes	(239.8)	911.4	851.4	602.1	4.6
Income (loss) from continuing operations	(156.7)	646.5	562.1	421.8	(43.3)
Income (loss) from discontinued operations	—	—	(6.7)	(3.2)	(5.0)
Net income (loss)	(156.7)	646.5	555.4	418.6	(48.3)
Financial Position					
Working capital	3,539.7	3,587.9	3,278.4	3,112.0	2,610.7
Days sales outstanding for: ⁽²⁾					
Customer receivables	23	25	26	26	26
Inventories	34	36	39	44	43
Drafts and accounts payable	40	39	42	46	44
Total assets	18,775.0	16,240.2	14,361.1	13,333.9	11,540.3
Total debt, including capital lease obligations	1,210.5	1,484.6	1,507.1	1,636.2	1,436.2
Stockholders' equity	5,275.1	5,165.3	4,525.5	3,937.2	3,490.1
Property acquisitions	139.9	115.0	116.0	130.8	158.0
Common Share Information					
Common shares outstanding at year-end	299.3	290.4	291.2	287.9	284.0
Shares on which earnings (loss) per common share were based					
Diluted	293.5	298.6	298.8	298.1	283.1
Basic	293.5	290.0	289.3	285.2	283.1
Diluted earnings (loss) per common share					
Continuing operations	(0.53)	2.19	1.90	1.44	(0.15)
Discontinued operations	—	—	(0.02)	(0.01)	(0.02)
Total	(0.53)	2.19	1.88	1.43	(0.17)
Cash dividends declared ⁽³⁾	70.7	69.7	69.7	68.5	68.3
Cash dividends declared per common share ⁽³⁾	0.24	0.24	0.24	0.24	0.24
Book value per common share ⁽⁴⁾	17.62	17.79	15.54	13.68	12.29
Market value per common share — year end	37.75	30.09	24.93	37.43	26.75
Supplemental Data					
Capital employed ⁽⁵⁾	6,485.6	6,649.9	6,032.6	5,573.4	4,926.3
Debt to capital ratio ⁽⁶⁾	18.7%	22.3%	25.0%	29.4%	29.2%
Net debt to net capital employed ⁽⁷⁾	(12.8)%	12.9%	17.7%	21.4%	22.1%
Average stockholders' equity ⁽⁸⁾	5,264.0	4,834.8	4,216.5	3,701.9	3,608.8
Return on stockholders' equity ⁽⁹⁾	(3.0)%	13.4%	13.2%	11.3%	(1.3)%

Footnotes to Five Year Highlights:

- (1) 2001 results include goodwill amortization. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," we discontinued amortizing goodwill in 2002.
- (2) Based on year-end balances and sales or cost of sales for the last 90 days of the year. Days sales outstanding for customer receivables are adjusted to include accounts receivable sold.
- (3) Cash dividends declared and dividends per common share amounts do not reflect the effects of pooling of interests transactions prior to the adoption of Statement of Financial Accounting Standard No. 141, "Business Combinations," in 2002.
- (4) Represents stockholders' equity divided by year-end common shares outstanding.
- (5) Consists of total debt and stockholders' equity.
- (6) Ratio is computed as total debt divided by capital employed.
- (7) Ratio is computed as total debt, net of cash, cash equivalents and marketable securities ("net debt"), divided by net debt and stockholders' equity ("net capital employed").
- (8) Represents a five-quarter average of stockholders' equity.
- (9) Ratio is computed as net income (loss), divided by a five-quarter average of stockholders' equity.

McKESSON CORPORATION

FINANCIAL REVIEW

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

GENERAL

Management's discussion and analysis of results of operations and financial condition, 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. 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.

We conduct our business through three operating segments: Pharmaceutical Solutions, Medical-Surgical Solutions and Provider Technologies. See Financial Note 1 to the accompanying consolidated financial statements, "Significant Accounting Policies," for a description of these segments.

RESULTS OF OPERATIONS

Overview:

(In millions, except per share data)

	Years Ended March 31,		
	2005	2004	2003
Revenues	\$80,514.6	\$69,506.1	\$57,120.8
Income (Loss) from Continuing Operations Before Income Taxes	(239.8)	911.4	851.4
Net Income (Loss)	(156.7)	646.5	555.4
Diluted Earnings (Loss) Per Share	\$ (0.53)	\$ 2.19	\$ 1.88

Revenues increased 16% to \$80.5 billion in 2005 and 22% to \$69.5 billion in 2004 primarily reflecting growth in our Pharmaceutical Solutions segment which is attributable to market growth rates as well as new customers and expanded business with certain existing customers.

Gross profit increased 7% to \$3.5 billion and 5% to \$3.2 billion in 2005 and 2004. As a percentage of revenues, gross profit declined 37 and 76 basis points in 2005 and 2004. Declines in our gross profit margins primarily reflect declines in our sell margin due to a shift in customer mix and competitive pressures. Additionally, declines in our gross profit margin in 2004 were also due to a higher proportion of our revenue derived from our Pharmaceutical Solutions segment, which has lower margins relative to our other segments. The Pharmaceutical Solutions segment's gross profit margin was impacted by declines in our sell margin due to the competitive environment in which we operate, as well as pressure on its buy side margin and, for 2004, by a higher proportion of sales to customers' warehouses which have lower margins. In addition, gross profit was impacted by a number of significant items, which are discussed in further detail, including a \$51.0 million provision for expected losses on five multi-year contracts in our Provider Technologies segment's international business in 2003.

Operating expenses were \$3.7 billion, \$2.3 billion and \$2.2 billion in 2005, 2004 and 2003. Operating expenses for 2005 include a \$1.2 billion pre-tax charge relating to our Securities Litigation as disclosed on page 33 of this Financial Review. As a percentage of revenues, operating expenses were 4.54% (3.05% without the Securities Litigation charge), 3.26% and 3.80% in 2005, 2004 and 2003. Excluding the Securities Litigation charge, operating expenses as a percentage of revenues have declined over the last two years, mainly due to leveraging of our fixed cost infrastructure and productivity improvements in back-office and field operations, as well as in 2004, due to a higher proportion of sales to customers' warehouses which have lower operating expense margins. Increases in operating expense dollars were primarily due to the Securities Litigation charge as well as additional expenses incurred to support our sales volume growth. Operating expenses were also impacted by a number of significant items which are discussed in further detail, including a \$66.4 million credit pertaining to the reversal of a portion of customer settlement reserves within our Provider Technologies segment in 2004.

Income (loss) before income taxes was (\$239.8) million, \$911.4 million and \$851.4 million in 2005, 2004 and 2003, reflecting the above noted factors. On an operating segment basis, results for 2005 primarily reflect revenue growth and a decline in gross profit margins in our Pharmaceutical Solutions segment as well as a decrease in the Provider Technologies segment operating profit. Results for 2004 reflect revenue growth and a decrease in gross

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

profit margins in our Pharmaceutical Solutions segment, and improved operating profit in our Medical-Surgical Solutions and Provider Technologies segments.

Net income (loss) was (\$156.7) million, \$646.5 million and \$555.4 million in 2005, 2004 and 2003. Diluted earnings (loss) per share was (\$0.53), \$2.19 and \$1.88 in 2005, 2004 and 2003. Excluding the Securities Litigation charge, net income and net income per diluted share for 2005 would have been \$653.3 million and \$2.19. In addition to those factors discussed above, net income (loss) reflects an increase in our reported income tax rate to 35% in 2005 and a decrease in our reported income tax rate to 29% in 2004. Fluctuations in our reported income tax rates primarily reflect changes within state and foreign income tax rates resulting from the Company's business mix as well as favorable tax settlements and adjustments.

Revenues:

(In millions)	Years Ended March 31,		
	2005	2004	2003
Pharmaceutical Solutions			
U.S. Healthcare direct distribution & services	\$47,006.9	\$39,412.1	\$34,802.9
U.S. Healthcare sales to customers' warehouses	24,100.2	21,622.1	14,832.9
Subtotal	71,107.1	61,034.2	49,635.8
Canada distribution & services	5,211.0	4,458.9	3,423.0
Total Pharmaceutical Solutions	76,318.1	65,493.1	53,058.8
Medical-Surgical Solutions	2,894.7	2,810.5	2,842.9
Provider Technologies			
Services	936.2	868.3	829.4
Software and software systems	245.6	218.2	288.7
Hardware	120.0	116.0	101.0
Total Provider Technologies	1,301.8	1,202.5	1,219.1
Total Revenues	\$80,514.6	\$69,506.1	\$57,120.8

Revenues increased 16% in 2005 and 22% in 2004. The growth in revenues was primarily driven by the Pharmaceutical Solutions segment, which accounted for more than 90% of revenues. Revenues were not materially impacted by business acquisitions.

The customer mix of our U.S. pharmaceutical distribution revenues was as follows:

	2005	2004	2003
Direct Sales			
Independents	12%	13%	14%
Retail Chains	20	22	26
Institutions	34	29	29
Subtotal	66	64	69
Sales to customers' warehouses	34	36	31
Total	100%	100%	100%

Increases in U.S. Healthcare pharmaceutical distribution and services revenues for 2005, excluding sales to customers' warehouses, primarily reflect market growth rates, new institutional customers as well as growth from existing institutional customers, which includes mail-order businesses. In the first quarter of 2005, we implemented a new pharmaceutical distribution contract with the Department of Veterans Affairs, which significantly contributed to the segment's total increase in revenues. Increases in these revenues for 2004 also reflect market growth rates as well as new independent pharmacy, mail order and institutional customers in our pharmaceutical distribution business. Market growth rates reflect growing drug utilization and price increases, which are offset in part by the increased use of lower priced generics.

U.S. Healthcare sales to customers' warehouses increased primarily as a result of greater volume to, and expanded agreements with, existing customers. Sales to customers' warehouses include the AdvancePCS business acquired by our customer, Caremark, which began in the second quarter of 2005. Sales to customers' warehouses represent

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

large volume sales of pharmaceuticals primarily to a limited number of large self-warehousing customers whereby we order and subsequently deliver bulk products from the manufacturer to the customers' warehouses through a central distribution facility. These sales provide a benefit to our customers in that they can use one source for both their direct store-to-store business and their warehouse business.

Canadian pharmaceutical distribution revenues increased reflecting market growth rates, favorable exchange rates and new business from manufacturers which formerly engaged in direct distribution activities. On a constant currency basis, revenues from our Canadian operations would have increased approximately 10% in 2005 compared to 2004.

Medical-Surgical Solutions segment distribution revenues increased slightly in 2005 as growth in revenues in the alternative site sector exceeded a decline in revenues in the acute care sector. Increases in our alternate site sector include revenues of Moore Medical Corporation ("MMC"), which we acquired in the first quarter of 2005. MMC is an Internet-enabled, multi-channel marketer and distributor of medical-surgical and pharmaceutical products to non-hospital provider settings. Revenues for 2004 decreased nominally as increases in our primary and alternate site sectors were more than fully offset by a decline in revenues in the acute care sector. Declines in our acute care sector reflect the loss of the segment's largest customer in the third quarter of 2004.

Provider Technologies segment revenues increased in 2005 reflecting greater demand for our clinical applications and imaging technology offerings as well as growth in automation product installations. Revenues for 2004 decreased reflecting growth in software services and hardware which were fully offset by decreases in sales of non-clinical solutions, longer installation periods required for certain large complex clinical implementations and contracting changes in the segment's automation business both of which had the effect of delaying revenue recognition.

Gross Profit:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2005	2004	2003
Gross Profit			
Pharmaceutical Solutions	\$2,203.3	\$2,076.9	\$1,956.3
Medical-Surgical Solutions	653.6	603.9	589.0
Provider Technologies	607.8	567.4	557.2
Total	\$3,464.7	\$3,248.2	\$3,102.5
Gross Profit Margin			
Pharmaceutical Solutions	2.89%	3.17%	3.69%
Medical-Surgical Solutions	22.58	21.49	20.72
Provider Technologies	46.69	47.19	45.71
Total	4.30	4.67	5.43

Gross profit increased by 7% in 2005 and 5% in 2004. As a percentage of revenues, gross profit decreased 37 and 76 basis points in 2005 and 2004. Gross profit margin decreased primarily reflecting a decline in the Pharmaceutical Solutions segment margin. Additionally, declines in our gross profit margin were due to a higher proportion of revenues attributable to our Pharmaceutical Solutions segment, which has lower margins relative to our other segments in 2004. Gross profit was also impacted by a \$51.0 million provision for expected contract losses in 2003 within our Provider Technologies segment.

In 2005, gross profit margin for our Pharmaceutical Solutions segment was impacted by:

- a lower number of and average magnitude of price increases on branded pharmaceuticals in the current year compared to 2004,
- pressure on other buy side margins as the industry continues to evolve. Certain types of vendor product incentives and sources of supply, such as certain inventory purchases in the secondary market, are not available at historical levels to the major distributors, which has the impact of reducing gross margins,
- lower selling margins within our U.S. pharmaceutical distribution business which reflect a higher proportion of revenues attributable to institutional customers, and continued competitive pressures which moderated

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

somewhat in the second half of the year,

- partially offsetting the above decreases, is increased compensation from pharmaceutical manufacturers under certain new fee-based arrangements. Throughout 2005, we have been actively working with pharmaceutical manufacturers to restructure our distribution agreements towards a fee-based model whereby we are appropriately and predictably compensated for the services we provide. Under these fee-based agreements, all or a significant portion of our compensation from pharmaceutical manufacturers is fixed and is no longer dependent upon pharmaceutical price increases. We have made progress towards this objective and expect to be complete by mid 2006,
- the benefit of sales volume growth for U.S. and Canadian pharmaceutical distribution and services,
- a lower proportion of revenues attributed to sales to customers' warehouses within our U.S. pharmaceutical distribution business. Sales to customers' warehouses represent bulk shipments, which we purchase and bring into our central distribution center and subsequently ship out in bulk to our customers' warehouses. These revenues differ from our traditional direct store business in that we do not break the merchandise down; the merchandise comes in and goes out in the original bulk containers and we ship only to warehouse locations. We have significantly lower gross margin on these sales as we pass much of the efficiencies of this low cost-to-serve model on to the customer. These sales do, however, contribute to our gross profit dollars in that the volume allows us to earn incremental product sourcing profits. In addition, our cash flows benefit from these sales due to favorable timing between the customer payment to us and our payment to the supplier,
- higher supplier cash discounts from a change in customer mix,
- the benefit of increased sales of generic drugs with higher margins,
- a last-in, first-out ("LIFO") inventory credit of \$59.2 million, reflecting a number of generic product launches and the lower level of branded pharmaceutical price increases. In 2004, gross profit was impacted by a LIFO charge of \$27.9 million which was primarily attributable to a small number of pharmaceutical drugs which did not move to the generic category (i.e., the price did not decrease) until 2005,
- the receipt of \$41.2 million cash proceeds representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer. In 2006, \$51.2 million has been received for another settlement of an antitrust class action lawsuit. This additional settlement will be recorded in the first quarter of 2006. A similar credit of \$21.7 million was received in 2004, and
- improved performance in the segment's pharmacy outsourcing business.

The decrease in our Pharmaceutical Solutions segment gross profit margin in 2004 primarily reflects:

- lower selling margins within our U.S. Pharmaceutical distribution business which reflect competitive pricing pressure, as well as lower buy side margin as the industry is evolving, including the ways in which distributors are being compensated by manufacturers. In addition, the proportion of cash discounts to revenues increased reflecting a change in customer mix,
- a higher proportion of revenues attributed to sales to customers' warehouses within our U.S. pharmaceutical distribution business,
- a LIFO charge of \$27.9 million compared to a credit of \$13.7 million in 2003,
- unfavorable adjustments from certain fixed-price contracts in this segment's pharmacy outsourcing business,
- partially offsetting the above decreases, the benefit of increased sales of generic drugs with higher margins, and
- the receipt of \$21.7 million cash proceeds representing our share of a settlement of an antitrust class action lawsuit brought against the manufacturer of a cardiac drug.

Our Pharmaceutical Solutions segment 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 do other accounting methods, thereby mitigating the effects of inflation and deflation on operating profit. The practice in the Pharmaceutical Solutions distribution businesses is to pass on to customers published price changes from suppliers. Manufacturers generally

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

provide us with price protection, which prevents inventory losses. Price declines on many generic pharmaceutical products in this segment over the last few years have moderated the effects of inflation in other product categories, which resulted in minimal overall price changes in those fiscal years.

Over the past two years, gross profit margin increased in our Medical-Surgical Solutions segment primarily due to a higher proportion of revenues being derived from our alternative site sector, which includes MMC, which has higher margins relative to the segment's other sectors.

Gross profit margin decreased in 2005 and increased in 2004 in our Provider Technologies segment. Excluding a \$51.0 million provision for expected losses on certain of the segment's international contracts in 2003, gross profit margin for 2004 approximated that of 2003. The decrease in the segment's gross profit margin in 2005 primarily reflects a greater mix of revenue associated with clinical products which, because of their complexity, have a higher cost of installation and support than other more established products.

In addition, in 2003, our Provider Technologies segment recorded a \$51.0 million provision for expected losses on five multi-year contracts in the segment's international business. Substantially all of these expected losses pertain to contracts that were entered into in 2001 or earlier. These contracts contained multiple-element deliverables, including customization of software. In addition, these contracts place significant reliance on third party vendors, as well as the customers. During the software development and implementation phases of these contracts, despite experiencing certain operational issues, we believed these contracts could be fully performed on a timely basis and remain profitable. In 2003, after experiencing numerous delays in product delivery and functionality, we conducted a reassessment of the contract delivery and project methodology, including assessment of our third party vendors' ability to perform under these contracts. We determined that certain contract obligations, including software functionality, could not be met within existing contract cost estimates and delivery dates. Accordingly, in 2003, we reassessed our estimate of the costs to fulfill our contract obligations and recorded a \$51.0 million provision for the expected contract losses.

Operating Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2005	2004	2003
Operating Expenses			
Pharmaceutical Solutions	\$1,151.5	\$1,119.3	\$1,021.2
Medical-Surgical Solutions	555.8	501.2	511.9
Provider Technologies	513.8	450.7	473.5
Corporate	234.1	193.6	162.9
Subtotal	2,455.2	2,264.8	2,169.5
Securities Litigation charge	1,200.0	—	—
Total	\$3,655.2	\$2,264.8	\$2,169.5
Operating Expenses as a Percentage of Revenues			
Pharmaceutical Solutions	1.51%	1.71%	1.92%
Medical-Surgical Solutions	19.20	17.83	18.01
Provider Technologies	39.47	37.48	38.84
Total	4.54	3.26	3.80

Operating expenses increased 61% to \$3.7 billion in 2005 and 4% to \$2.3 billion in 2004. Operating expenses for 2005 include a \$1.2 billion charge pertaining to our Securities Litigation. Operating expenses as a percentage of revenues increased 128 basis points (or decreased 21 basis points excluding the Securities Litigation charge) in 2005 and decreased 54 basis points in 2004. Excluding the items noted below, increases in operating expenses were primarily due to additional expenses incurred to support our sales volume growth, including distribution expenses, higher foreign currency exchange rates for our Canadian operations, and for 2005, expenses from the MMC business which was acquired at the beginning of the fiscal year. Partially offsetting these increases was a decrease in bad debt expense as a result of improved management of accounts receivable. Excluding the Securities Litigation charge, decreases in operating expenses as a percentage of revenue were primarily due to the leveraging of our fixed cost infrastructure and productivity improvements in back-office and field operations within our Pharmaceutical Solutions segment. In addition, for 2004, the decrease was also attributable to a higher proportion of sales to customers' warehouses, which have lower operating expense margins.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Operating expenses included the following significant items:

2005

- a \$1.2 billion charge relating to the Securities Litigation as well as incremental legal costs which were included in Corporate expenses, and
- approximately \$12 million of settlement charges pertaining to a non-qualified pension plan, which were primarily included in Corporate expenses.

2004

- a \$21.0 million charge for uncollected balances on loans made to former employees for the purchase of McKesson common stock primarily in February 1999, which were included in Corporate expenses,
- increases in pension expense of \$13.9 million primarily for our U.S. defined benefit pension plans. In 2004 and 2003, we reduced the assumed long-term rate of asset return and the discount rate for our U.S. defined benefit pension plans to better reflect long-term expectations for the plans' portfolios and rates for high-quality corporate long-term bonds,
- a \$66.4 million credit pertaining to the reversal of a portion of customer settlement reserves in our Provider Technologies segment. Information regarding this and other restructuring programs is included under the caption "Restructuring Activities," included in this Financial Review,
- a net decrease in bad debt expense of \$14.1 million; however, bad debt expense varied greatly by operating segment, and
- \$14.8 million of gains on the sales of three surplus properties, recorded primarily in Corporate expenses.

2003

- a \$22.3 million credit for the reversal of a portion of customer settlement reserves within our Provider Technologies segment.

Other Income and Gain (Loss) on Investments, net:

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Other Income, net	\$ 68.7	\$ 49.4	\$ 45.1
Gain (Loss) on Investments, net	—	(1.2)	1.4
Total	<u>\$ 68.7</u>	<u>\$ 48.2</u>	<u>\$ 46.5</u>
By Segment			
Pharmaceutical Solutions	\$ 24.9	\$ 22.5	\$ 31.6
Medical-Surgical Solutions	4.3	3.7	2.3
Provider Technologies	12.7	11.5	17.9
Corporate	26.8	10.5	(5.3)
Total	<u>\$ 68.7</u>	<u>\$ 48.2</u>	<u>\$ 46.5</u>

Other income increased in 2005 primarily due to greater Corporate interest income and increases in equity in earnings of our investments. In 2004, other income increased nominally as increases in Corporate interest income were almost fully offset by decreases in our Pharmaceutical Solutions segment, which primarily reflected decreases in equity earnings of our investments and gains on sales of investments.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Segment Operating Profit and Corporate Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2005	2004	2003
Segment Operating Profit			
Pharmaceutical Solutions	\$ 1,076.7	\$ 980.1	\$ 966.7
Medical-Surgical Solutions	102.1	106.4	79.4
Provider Technologies	106.7	128.2	101.6
Subtotal	1,285.5	1,214.7	1,147.7
Corporate Expenses, net	(207.3)	(183.1)	(168.2)
Securities Litigation charge	(1,200.0)	—	—
Interest Expense	(118.0)	(120.2)	(128.1)
Income (Loss) from Continuing Operations, Before Income Taxes	\$ (239.8)	\$ 911.4	\$ 851.4
Segment Operating Profit Margin			
Pharmaceutical Solutions	1.41%	1.50%	1.82%
Medical-Surgical Solutions	3.53	3.79	2.79
Provider Technologies	8.20	10.66	8.33

Segment operating profit includes gross margin, net of operating expenses, other income and gain (loss) on investments for our three business segments. In addition to the significant items previously discussed, increases in operating profit reflect revenue growth and increased operating profit in our Pharmaceutical Solutions segment, partially offset by lower operating profit in our Medical-Surgical Solutions and Provider Technologies segments for 2005. Increases in operating profit in 2004 reflect revenue growth and increased operating profit in our Pharmaceutical Solutions segment, combined with improved operating profits in our Medical-Surgical Solutions and Provider Technologies segments.

Operating profit, as a percentage of revenues, over the last two years decreased in our Pharmaceutical Solutions segment. This decrease primarily reflects a net decline in gross margins, offset in part with cost reductions by leveraging the segment's fixed cost infrastructure and productivity improvements in back-office and field operations. In addition, in 2004, operating profit included a \$30.0 million bad debt provision for a customer bankruptcy and a decrease in gains on sales of venture investments, offset in part by lower restructuring charges.

Medical-Surgical Solutions segment's operating profit as a percentage of revenues declined in 2005 primarily reflecting an increase in gross profit margins which were more than offset by a higher proportion of operating expenses. Operating expenses increased, in both dollars and as a percentage of revenues, primarily due to the acquisition of MMC, and a higher proportion of costs incurred to serve the segment's alternative site customers, which have a higher cost-to-serve ratio than the segment's other customers. Operating profit for 2005 was also impacted by the lack of flu vaccine supply as well as a \$7.4 million charge to operating expenses due to an increase in litigation reserves. Operating profit as a percentage of revenues increased in 2004 for this segment primarily reflecting improvements in gross profit and a reduction in operating expenses. The reduction in 2004 operating expenses reflects the removal of duplicate operating expenses as a result of the segment's 2002/2003 distribution center network consolidation plan, as well as other operational improvements including a significant decrease in bad debt expense. In 2003, operating profit benefited from \$12.0 million in reversals of the prior year's accrued restructuring charges as a result of a modification to the segment's distribution center network consolidation plan. This benefit was partially offset by an increase in bad debt expense of approximately \$11 million.

Provider Technologies segment's operating profit as a percentage of revenues decreased in 2005 and increased in 2004. Operating profit for 2005 reflects a decrease in gross profit margin as well as an increase in operating expenses to support the segment's revenue growth and a decrease in customer settlement reserve reversals. Increases in operating profit as a percentage of revenues for 2004 reflects a higher gross profit margin, \$66.4 million of reversals of customer settlement reserves due to favorable settlements and negotiations (or \$44.1 million more than 2003), and better control of expenses. Operating profit for 2003 reflects a \$51.0 million provision for expected losses on five multi-year contracts within the segment's international business and a \$22.3 million credit for the reversal of a portion of customer settlement reserves.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Corporate expenses, net of other income, increased over the last two years. Expenses for 2005 reflect \$25.1 million of incremental legal costs due to accelerating activity in our Securities Litigation, approximately \$10 million of the previously discussed settlement charges pertaining to a non-qualified pension plan and additional administrative expenses to support various initiatives. In 2005, we made several lump sum cash payments totaling approximately \$42 million from an unfunded U.S. pension plan. In accordance with accounting standards, additional charges for settlements associated with lump sum payments of pension obligations were expensed in the period in which the payments were made. Corporate expenses, net of other income, were partially offset by higher interest income earned. Expenses for 2004 reflect a \$21.0 million charge for uncollected balances on loans made to former employees for the purchase of McKesson common stock primarily in February 1999, \$13.8 million incremental legal costs associated with our Securities Litigation, higher pension expense, and severance costs associated with the restructuring of our enterprise-wide information network support departments. Partially offsetting these increases was approximately \$13 million of gains on the sales of surplus properties.

Securities Litigation Charge: As discussed in Financial Note 19, numerous legal proceedings arose out of our April 28, 1999 announcement regarding accounting improprieties at HBOC, now known as McKesson Information Solutions LLC (the "Securities Litigation"). In 2005, we recorded a pre-tax charge totaling \$1.2 billion (\$810.0 million after-tax) for the Securities Litigation charge. The charge consists of \$960.0 million for the Consolidated Action and \$240.0 million for other Securities Litigation proceedings, as discussed in the following two paragraphs.

On January 12, 2005, we announced that we had reached an agreement to settle the action captioned *In re McKesson HBOC, Inc. Securities Litigation* (N.D. Cal. Case No. C-99-20743-RMW) (the "Consolidated Action"). In general, under the agreement to settle the Consolidated Action, we will pay the settlement class a total of \$960.0 million in cash. Plaintiffs' attorneys' fees will be deducted from the settlement amount prior to payments to class members. The parties have agreed on the terms of a stipulation of settlement and are finalizing the exhibits to the stipulation before submitting it to the Court. The settlement agreement is subject to various conditions, including, but not limited to, preliminary approval by the Court, notice to the Class, and final approval by the Court after a hearing.

During the third quarter of 2005, we also established a reserve of \$240.0 million, which the Company believes will be adequate to address its remaining potential exposure with respect to other previously reported Securities Litigation. However, in view of the number of remaining cases, the uncertainties of the timing and outcome of this type of litigation, and the substantial amounts involved, it is possible that the ultimate costs of these matters may exceed or be below the reserve.

Interest Expense: Interest expense decreased nominally in 2005 as the benefit of lower average borrowings was almost fully offset by increases in our effective interest rate. Interest expense decreased in 2004 primarily due to lower average borrowings, including the repayment of \$125.0 million of 6.55% notes in November 2002.

Income Taxes: The Company's reported tax rate was 34.7%, 29.1% and 34.0% in 2005, 2004 and 2003. In addition to the items noted below, fluctuations in the reported tax rate are primarily due to changes within state and foreign tax rates resulting from the Company's business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates.

In 2005, we recorded an income tax benefit of \$390.0 million for the Securities Litigation. We believe the proposed settlement of the consolidated securities class action and the ultimate resolution of the lawsuits brought independently by other shareholders will be tax deductible. However, the tax attributes of the litigation are complex and the Company expects challenges from the taxing authorities, and accordingly such deductions will not be finalized until all the lawsuits are concluded and an examination of the Company's tax returns is completed. Accordingly, we have provided a reserve of \$85.0 million for future resolution of these uncertain tax matters. While we believe the tax reserve is adequate, the ultimate resolution of these tax matters may exceed or be below the reserve.

In 2005, we recorded a \$9.6 million income tax benefit arising primarily from settlements and adjustments with various taxing authorities and a \$2.8 million income tax benefit primarily due to a reduction of a valuation allowance related to state income tax net operating loss carryforwards. We believe that the income tax benefit from a portion of these state net operating loss carryforwards will now be realized.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In 2004, our reported tax rate benefited from various state tax initiatives. We recorded a \$23.2 million tax benefit relating to favorable tax settlements and adjustments with the U.S. Internal Revenue Service and with various taxing authorities. A large portion of this benefit, which was not previously recognized by the Company, resulted from the filing of amended tax returns by our subsidiary, McKesson Information Solutions LLC (formerly known as HBO & Company) for the years ended December 31, 1998 and 1997.

Net Income: Net income (loss) was (\$156.7) million, \$646.5 million and \$555.4 million in 2005, 2004 and 2003. Diluted earnings (loss) per share was (\$0.53), \$2.19 and \$1.88 in 2005, 2004 and 2003. Excluding the Securities Litigation charge, 2005 net income and net income per diluted share would have been \$653.3 million and \$2.19.

A reconciliation between our net loss per share reported for U.S. GAAP purposes and our earnings per diluted share, excluding the charge for the Securities Litigation for 2005 is as follows:

<i>(In millions except per share amounts)</i>	Year Ended March 31, 2005
Net loss, as reported	\$ (156.7)
Exclude:	
Securities Litigation charge	(1,200.0)
Estimated income tax benefit	390.0
Securities Litigation charge, net of tax	<u>(810.0)</u>
Net income, excluding Securities Litigation charge	<u>\$ 653.3</u>
Diluted earnings per common share, excluding Securities Litigation charge (1)	\$ 2.19
Shares on which diluted earnings per common share, excluding the Securities Litigation charge, were based	<u>301.4</u>

- (1) Interest expense, net of related income taxes of \$6.2 million, has been added to net income, excluding the Securities Litigation charge, for purpose of calculating diluted earnings per share. This calculation also includes the impact of dilutive securities (stock options, convertible junior subordinated debentures and restricted stock).

Discontinued Operations: Net loss from discontinued operations was \$6.7 million (\$0.02 per diluted share) in 2003. Results from discontinued operations include those of a marketing fulfillment business, which we sold in 2003, as well as adjustments made in 2003 relating to the 2000 divestiture of our Water Products business.

Weighted Average Diluted Shares Outstanding: Diluted earnings (loss) per share were calculated based on an average number of shares outstanding of 293.5 million, 298.6 million and 298.8 million for 2005, 2004 and 2003. For 2005, potentially dilutive securities were excluded from the per share computations due to their antidilutive effect.

International Operations

International operations accounted for 6.7%, 6.7% and 6.3% of 2005, 2004 and 2003 of consolidated revenues. International 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. Additional information regarding our international operations is also included in Financial Notes 4 and 22, "Contracts" and "Segments of Business" to the accompanying consolidated financial statements.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Restructuring Activities

Net charges (credits) from restructuring activities over the last three years were as follows:

<i>(In millions, except for number of employees)</i>	Years Ended March 31,		
	2005	2004	2003
By Expense Type:			
Severance	\$ 0.4	\$ 5.8	\$ (5.8)
Exit-related costs	0.1	(2.3)	(0.3)
Asset impairments	—	0.3	1.3
Subtotal	0.5	3.8	(4.8)
Customer settlement reserve reversals	(4.0)	(66.4)	(22.3)
Total	<u>\$ (3.5)</u>	<u>\$ (62.6)</u>	<u>\$ (27.1)</u>
By Segment:			
Pharmaceutical Solutions	\$ 0.6	\$ (0.2)	\$ 7.7
Medical-Surgical Solutions	0.3	0.6	(11.7)
Provider Technologies	(4.4)	(66.6)	(22.3)
Corporate	—	3.6	(0.8)
Total	<u>\$ (3.5)</u>	<u>\$ (62.6)</u>	<u>\$ (27.1)</u>
Number of employees terminated (primarily in distribution, delivery and associated back-office functions)	111	151	326

In 2005 and 2004, net charges for restructuring activities, excluding customer settlement reserve reversals, amounted to \$0.5 million and \$3.8 million. These charges related to a number of smaller initiatives offset in part by adjustments to prior years' restructuring reserves.

In 2003, net credits for restructuring activities, excluding customer settlement reserve reversals, amounted to \$4.8 million. These net credits primarily related to \$12.0 million of reversals of severance and exit-related accruals pertaining to our re-evaluation of our 2002 Medical-Surgical Solutions segment distribution center network consolidation plan. The original consolidation plan included a net reduction of 20 distribution centers, from 51, compared to a net reduction of 14 under the revised plan. Net credits for 2003 also include \$5.1 million of charges for additional facility closure costs associated with prior years' restructuring plans in our Pharmaceutical Solutions segment.

In addition to the above restructuring activities, we are still managing a 2001/2000 restructuring plan associated with customer settlements for the discontinuance of overlapping and nonstrategic products and other product development projects within our Provider Technologies segment. Customer settlement reserves were established, reviewed and assessed on a customer and contract specific basis, and actual settlements for each customer varied significantly depending on the specific mix and number of products, and each customer contract or contracts. In 2005, 2004 and 2003, we reversed \$4.0 million, \$66.4 million and \$22.3 million of accrued customer settlement reserves into operating expenses due to favorable settlements and negotiations with affected customers. There have been no significant offsetting changes in estimates that increase the provision for customer settlements. Total cash and non-cash settlements of \$45.3 million and \$95.6 million have been incurred since the inception of this restructuring plan. Non-cash settlements represent write-offs of customer receivables. As of March 31, 2005, accrued customer settlement reserves were \$1.6 million and we do not anticipate any significant adjustments to the reserve.

Refer to Financial Note 5, "Restructuring and Related Asset Impairments," to the accompanying consolidated financial statements for further discussion regarding our restructuring activities.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Acquisitions and Investments

We made the following acquisitions and investments:

- In 2005, we invested \$32.7 million in return for a 79.7% interest in Pahema, S.A. de C.V. ("Pahema"), a Mexican holding company. Two additional investors, owners of approximately 30% of the outstanding shares of Nadro S.A. de C.V. ("Nadro") (collectively, "investors"), contributed \$9.6 million for the remaining interest in Pahema. In December 2004, Pahema completed a 6.50 Mexican Pesos per share, or approximately \$164 million, tender offer for approximately 284 million shares (or approximately 46%) of the outstanding publicly held shares of common stock of Nadro. Pahema financed the tender offer utilizing the cash contributed by us and the investors, and borrowings totaling 1.375 billion Mexican Pesos, in the form of two notes with Mexican financial institutions. Subsequently, the common stock of Pahema was exchanged for common stock of Nadro, resulting in the merger of the two companies. As a result, we currently own approximately 49% of Nadro. Prior to the tender offer, we owned approximately 22% of the outstanding common shares of Nadro. We continue to utilize the equity method in accounting for our investment in Nadro.
- In the first quarter of 2005, we acquired all of the issued and outstanding shares of Moore Medical Corp. ("MMC"), of New Britain, Connecticut, for an aggregate cash purchase price of approximately \$37 million. MMC is an Internet-enabled, multi-channel marketer and distributor of medical-surgical and pharmaceutical products to non-hospital provider settings. Approximately \$19 million of the purchase price has been assigned to goodwill, none of which is deductible for tax purposes. The results of MMC's operations have been included in the consolidated financial statements within our Medical-Surgical Solutions segment since the acquisition date.
- In 2003, we acquired the outstanding stock of A.L.I. Technologies Inc. ("A.L.I.") for an aggregate cash purchase price of \$347.0 million. A.L.I. provides digital medical imaging solutions, which are designed to streamline access to diagnostic information, automate clinical workflow and eliminate the need for film purchase and storage. The acquisition of A.L.I. complemented our Horizon Clinicals™ offering by incorporating medical images into a computerized patient record. Approximately \$328 million of A.L.I.'s purchase price was assigned to goodwill, none of which is deductible for tax purposes. The aggregate purchase price was financed through cash and short-term borrowings. The results of A.L.I.'s operations have been included in the consolidated financial statements within our Provider Technologies segment since its acquisition date.
- In 2003, we purchased the remaining interest in an investment of our Pharmaceutical Solutions segment for approximately \$32 million, retained a small portion of the business and subsequently sold the balance for approximately \$40 million, the proceeds of which consisted of an interest bearing ten-year note receivable, resulting in a nominal loss.

During the last three years we also completed several smaller acquisitions and investments within all three of our operating segments. Purchase prices have been allocated based on estimated fair values at the date of acquisition and may be subject to change. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or aggregate basis.

2006 Outlook

Information regarding the Company's 2006 outlook, including business risks and opportunities, is contained in our Form 8-K dated May 5, 2005. This Form 8-K should be read in conjunction with the sections "Factors Affecting Forward-looking Statements" and "Additional Factors That May Affect Future Results" included in this Financial Review.

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, would 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 our consolidated financial statements. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Valuation of Receivables: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories, and lease and credit financing. 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. An allowance is recorded in our consolidated financial statements for these amounts.

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. At March 31, 2005, trade and notes receivables were \$5,492.2 million, and other customer financing was \$189.8 million, prior to allowances of \$159.5 million.

In addition, at March 31, 2005, we had \$44.9 million of notes receivable from certain of our current and former officers and senior managers related to purchases of common stock under our various employee stock purchase plans. These notes were issued for amounts equal to the market value of the stock on the date of the purchase, are full recourse to the borrower and were due at various dates through February 2004. As of March 31, 2005, the value of the underlying stock collateral was \$23.8 million. We evaluate the collectability of these notes on an ongoing basis. As a result, in 2004, we recorded a \$21.0 million charge for notes due from former employees whose uncollected balances relate to the purchase of the Company's common stock primarily in February 1999. In 2005, we reversed approximately \$6 million of this reserve based on an increase in price of the underlying stock collateral. There can be no assurance that we will recover the full amounts due under any of the notes and we continue to assess their collectability.

Valuation of Inventories: We state inventories at the lower of cost or market. Inventories for our Pharmaceutical Solutions and Medical-Surgical Solutions segments consist of merchandise held for resale. For our Pharmaceutical Solutions segment, the majority of the cost of domestic inventories was determined on the LIFO method and international inventories are stated using the first-in, first-out ("FIFO") method. Cost of inventories for our Medical-Surgical Solutions segment was primarily determined on the FIFO method. Provider Technologies segment's inventories consist of computer hardware with cost determined either by the specific identification or the FIFO method. Total inventories were \$7.5 billion and \$6.7 billion at March 31, 2005 and 2004. 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.

Valuation of Goodwill: We have significant goodwill assets as a result of acquiring businesses. We account for goodwill under Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which requires us to maintain goodwill assets on our books unless the assets are deemed to be impaired. We perform an impairment test on goodwill balances annually or when indicators of impairment exist. Such impairment tests require that we first compare the carrying value of net assets to the estimated fair value of net assets for the operations in which goodwill is assigned. If carrying value exceeds fair value, a second step would be performed to calculate the amount of impairment. Fair values can be determined using income, market or cost approaches.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

We predominately use a discounted cash flow model derived from internal budgets in assessing fair values for our goodwill impairment testing. Factors that could change the result of our goodwill impairment test include, but are not limited to, different assumptions used to forecast future revenues, expenses, capital expenditures and working capital requirements used in our cash flow models. In addition, selection of a risk-adjusted discount rate on the estimated undiscounted cash flows is susceptible to future changes in market conditions, and when unfavorable, can adversely affect our original estimates of fair values. At March 31, 2005, we concluded that there was no impairment in our goodwill.

Contract Accounting: We use the percentage of completion method of accounting to recognize certain revenues and costs, primarily for long-term software contracts within our Provider Technologies segment. This method of accounting requires us to estimate the timing and amounts of total revenue to be earned and total costs to be incurred over the life of a contract. Revenue estimates are derived primarily from negotiated contract prices modified by assumptions regarding change orders, contract arrangements and assumptions regarding penalty provisions associated with technical performance. Revenues are recorded based on the percentage of costs incurred to date compared to the most recent estimate of total costs to complete each contract. Cost estimates are based primarily on the expected amount of resources required to complete the contract.

The estimated revenue to be earned and costs to complete a project can change significantly throughout the period of a contract. Factors that could change estimates include, but are not limited to, the ability to successfully complete milestones, the timing of milestones, and modifications in the amount of resources or other costs required to complete the project. Changes in estimates to complete, and revisions in overall profit estimates on percentage of completion contracts, are recognized 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. Such a provision is subject to change as additional information is obtained and as contracts progress towards completion.

In 2002, we entered into a \$500 million, ten year contract with the National Health Services Information Authority (“NHS”), an organization of the British government charged with the responsibility of delivering healthcare in England and Wales. The contract engages the Company to develop, implement and operate a human resources and payroll system at more than 600 NHS locations.

As previously reported, there have been contract delays to date which have increased costs and decreased the amount of time in which we can earn revenues. These delays have adversely impacted the contract’s projected profitability and no material revenue has yet been recognized on this contract. As of March 31, 2005, our consolidated balance sheet includes an investment of approximately \$114 million in net assets, consisting of prepaid expenses, software and capital assets, net of cash received, related to this contract. Due to the delays and other desired modifications to the original contract, we have negotiated a tentative agreement with the NHS on changes to certain key terms and conditions in the contract including a term extension and updated implementation plan. We expect this contract amendment to be signed in the first quarter of the 2006 fiscal year. While we believe it is likely that we can deliver and operate a satisfactory system and recover our investment in this contract, failure to sign the tentative agreement in its current form and/ or further implementation delays may result in significant losses that could be material. Additionally, if there is further modification to the tentative amended contract terms and conditions and implementation plan, it is possible that the terms of that agreement may result in significant losses, that could be material.

Stock Options: We account for employee stock-based compensation in accordance with Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees.” In accordance with APB No. 25, compensation expense is recorded based on a stock option’s intrinsic value, which is the difference between the market value of a company’s stock and the exercise price at the date of grant. As we generally grant stock options to employees at market value at the date of grant, compensation expense as a result of option grants has been nominal.

Effective April 1, 2006, we anticipate recording stock-based compensation expense in accordance with SFAS No. 123(R), “Share-Based Payment.” SFAS No. 123(R) requires the recognition of cost resulting from all share-based payments, including grants of employee stock options, in the financial statements based on the grant-date fair values. We intend to adopt this standard using the modified prospective method of transition, whereby compensation cost will be recognized for new awards granted and awards modified, repurchased and cancelled after April 1, 2006 and for the unvested portion of all awards issued prior to and outstanding at April 1, 2006 at their respective grant date fair value as the remaining requisite service is rendered.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

We have historically used the Black-Scholes option pricing model in determining the fair value of the stock options for our stock-based compensation disclosures. Key assumptions for this option pricing model include the expected term of the option, stock price volatility, risk-free interest rate and dividend yield. Many of these assumptions are judgmental and highly sensitive in the determination of the option's fair value and hence the related compensation expense. The expected term of the option represents the period of time that options are expected to remain outstanding and is derived from historical data on option exercises. Expected volatility is based on historical volatility of our common stock over a period of time that approximates the expected term. The risk-free interest rate is based on the U.S. Treasury rate in effect at the time of grant with a remaining term equal to the expected term of the option. We calculate the expected dividend yield using the historical annual dividend payments and the expected future stock price. An increase in the expected term of the option, stock price volatility and/or risk-free interest rate will increase compensation expense. An increase in the dividend yield will decrease compensation expense.

Had we accounted for employee stock options based on fair value for all awards that vested during the year, net loss and net loss per share for 2005 would have been \$207.7 million and \$0.71 compared to the reported net loss and net loss per share of \$156.7 million and \$0.53. Pro forma amounts including stock-based compensation were impacted by certain stock option vesting period accelerations and as a result, are not indicative of future estimated stock-based compensation expense.

Historically, options granted by the Company generally vest over four years and have a term of seven or ten years. However, for employee retention purposes and in anticipation of the requirements of SFAS No. 123(R), in 2004, the Compensation Committee of the Company's Board of Directors (the "Committee") approved the accelerated vesting of substantially all unvested stock options outstanding at that time. Furthermore in 2005, the Committee approved a shorter vesting period for approximately 6 million stock options that were granted during the year. These 2005 options were fully vested by March 31, 2005. As SFAS No. 123(R) compensation expense is typically amortized over the related vesting period, the stock options that received accelerated vesting in 2004 did not impact the pro forma expense in 2005. Offsetting this decrease, was the significant pro forma expense associated with the 2005 stock options that received a shorter vesting period.

We are currently assessing the impact of SFAS No. 123(R) on our consolidated financial statements. As part of this assessment, we are evaluating modifications to our long-term compensation program for key employees across the Company, which may limit stock option grants in favor of restricted share grants and long-term, performance-based cash compensation. Nevertheless, we do believe that this standard could have a material impact on our consolidated financial statements.

Securities Litigation: As discussed in Financial Note 19, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements, in the third quarter of 2005, we announced that we had reached an agreement to settle the action captioned *In re McKesson HBOC, Inc. Securities Litigation* (N.D. Cal. Case No. C-99-20743-RMW) (the "Consolidated Action"). In general, under the agreement to settle the Consolidated Action, we will pay the settlement class a total of \$960 million in cash. The settlement agreement is subject to various conditions, including, but not limited to, preliminary approval by the Court, notice to the Class, and final approval by the Court after a hearing. Other than the Consolidated Action, none of the previously reported Securities Litigation has been resolved by the settlement described above. As a result, during the third quarter of 2005, we recorded a pre-tax charge totaling \$1.2 billion (\$810.0 million after-tax) for the Securities Litigation charge, which consists of \$960 million settlement payment and \$240 million reserve. In addition, for the litigation costs not covered under our directors and officers' liability insurance policies, we accrue costs when it is probable that a liability has been incurred and the amount can be reasonably estimated. We expensed \$42.8 million, \$17.7 million and \$3.9 million in 2005, 2003 and 2002 in connection with these matters.

We believe these recorded amounts will be adequate to address our remaining potential exposures in relation with the Securities Litigation. However, in view of the number of remaining cases, the uncertainties of the timing and outcome of this type of litigation, and the substantial amounts involved, it is possible that the ultimate costs of these matters may exceed or be below the reserve.

Pension and Other Postretirement Benefits: Our pension and other postretirement benefit costs and obligations are dependent upon various actuarial assumptions used in calculating such amounts. Our major assumptions for determining net pension and postretirement benefit costs include the discount rate, long-term return on assets, and medical cost trends rates. We evaluate these critical assumptions at least annually.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

We base the discount rate assumption on current investment yields on high quality fixed-income investments. A lower discount rate increases the present value of benefit obligations and increases pension expense. Long-term return on plan assets is determined based on the historical experience of our portfolio and the review of projected returns by asset class on broad, publicly traded equity and fixed-income indices, as well as target asset allocation. Our target asset allocation is determined based on the risk tolerance characteristics of the plan and, at times, may be adjusted to achieve our overall investment objective. Our medical trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trend. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors. The effects of actual results differing from our assumptions are included in unamortized net gain and loss, which is amortized over future periods.

Sensitivity to changes in the major assumptions for our U.S. pension and postretirement plans are as follows:

<i>(In millions)</i>	Percentage Point Change	Pension Plans		Other Postretirement	
		Projected Benefit Obligation	Expense	Projected Benefit Obligation	Expense
Long-term return on assets	+/- 1.0 pt	\$ —	\$ 3.2/(3.2)	\$ —	\$ —
Discount rate	+/- 1.0 pt	(35.6)/39.4	(3.2)/ 3.2	(14.8)/15.9	(4.3)/4.5

Further information on our pension and postretirement benefit plans is provided in Financial Note 15, "Pension Benefits," and Note 16, "Other Postretirement Benefits", to the accompanying consolidated financial statements.

Income Taxes: As discussed in Financial Note 17, "Income Taxes", we recorded an income tax benefit of \$390 million relating to the Securities Litigation in the third quarter of 2005. We believe the proposed settlement of the consolidated securities class action and the ultimate resolution of the lawsuits brought independently by other shareholders will be tax deductible. However, the tax attributes of the litigation are complex and the Company expects challenges from the taxing authorities, and accordingly such deductions will not be finalized until all the lawsuits are concluded and an examination of the Company's tax returns is completed. Accordingly, we have provided a reserve of \$85 million for future resolution of these uncertain tax matters. While we believe the tax reserve is adequate, the ultimate resolution of these tax matters may exceed or be below the reserve.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining the estimated worldwide provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional amounts will be due. As of March 31, 2005, approximately \$242 million has been accrued for such matters. To the extent that the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

On October 22, 2004, the American Jobs Creation Act of 2004 (the "AJCA") was signed into law. The AJCA provides a new deduction for certain qualified domestic production activities. As discussed in Financial Note 1, "New Accounting Pronouncements", to the accompanying consolidated financial statements, we are currently evaluating whether a tax deduction on qualified production activities provided by the AJCA may be available to us and the impact of FSP No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" on our consolidated financial statements. We will recognize the tax benefit of such deductions, if any, beginning in 2006.

In addition, the AJCA provides a one-time 85% dividends received deduction for certain foreign earnings that are repatriated under a plan for reinvestment in the United States, provided certain criteria are met. We are also evaluating the effects of the repatriation provision and the impact of FSP No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" on our consolidated financial statements. We expect to complete this evaluation before the end of 2006. The range of possible amounts of unremitted earnings that is being considered for repatriation under this provision is between zero and \$500 million. The related potential range of income tax is between zero and \$27.7 million.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Net cash flow from operating activities was \$1,538.4 million in 2005, compared with \$595.2 million in 2004 and \$773.4 million in 2003. Net cash flow from operating activities in 2005 includes an \$810.0 million non-cash after-tax charge for the Securities Litigation. We anticipate paying this liability commencing in mid-2006. Net cash flow from operating activities improved in 2005 reflecting greater earnings, excluding the Securities Litigation charge, as well as the evolving nature of our U.S. pharmaceutical distribution business. Notably, purchases from certain of our suppliers are better aligned with customer demand and as a result, net financial inventory (inventory net of accounts payable) has decreased. In addition, working capital levels benefited from favorable receivable terms on our new contract with the Department of Veterans Affairs and improved accounts receivable management. Partially offsetting this working capital decrease is increased working capital associated with revenue growth, including our new contract with the Department of Veterans Affairs. Included in our 2005 net cash flow from operating activities is \$40.0 million of cash provided to a customer in exchange for a note receivable as well as a cancellation of a credit facility guarantee and other guarantee in favor of this customer. 2004 and 2003 net cash flow from operations primarily reflects greater earnings, offset in part by net increases in working capital required to support our revenue growth.

Net cash used in investing activities was \$355.3 million in 2005, compared with \$299.7 million in 2004 and \$664.0 million in 2003. The increased use of cash in 2005 includes \$108.9 million of business acquisition expenditures, primarily for the acquisition of MMC and the increased investment in Nadro. Business acquisition expenditures in 2003 include \$347.0 million paid for the acquisition of A.L.I. Capitalized software expenditures decreased in 2005 compared to prior years primarily due to the completion of certain technology related initiatives. This decrease was partially offset by a higher level of property acquisitions which primarily reflect improvements to our warehouse distribution and information technology networks.

Financing activities utilized cash of \$91.1 million, \$109.5 million and \$145.2 million in 2005, 2004 and 2003. Financing activities for 2005 include repayment of \$268.3 million of long-term debt and an incremental \$130.7 million from common stock issuances primarily resulting from an increase in employees' exercises of stock options. Financing activities for 2004 include \$156.8 million of stock repurchases and the receipt of \$32.8 million pertaining to the collection of employee loans. 2003 financing activities include the repayment of \$125.0 million of term debt that had matured and \$25.0 million of stock repurchases.

In 2004 and 2003, we repurchased 3.9 million and 0.9 million shares of our common stock for \$115.1 million and \$25.0 million. In 2004, we effectively completed a \$250.0 million repurchase program initiated in 2001, which resulted in the repurchase of a total of 8.3 million shares of our common stock. Also in 2004, the Company's Board of Directors approved a new program to repurchase up to \$250.0 million of additional common stock of the Company. Under this new program, we repurchased 1.4 million shares for \$41.5 million in 2004. The Company made no stock repurchases in 2005. Stock repurchases may be made in open market or private transactions.

Selected Measures of Liquidity and Capital Resources:

<i>(Dollars in millions)</i>	March 31,		
	2005	2004	2003
Cash, cash equivalents and marketable securities	\$1,809.3	\$ 717.8	\$ 533.5
Working capital	3,539.7	3,587.9	3,278.4
Debt net of cash, cash equivalents and marketable securities	(598.8)	766.8	973.6
Debt to capital ratio ⁽¹⁾	18.7%	22.3%	25.0%
Net debt to net capital employed ⁽²⁾	(12.8)%	12.9%	17.7%
Return on stockholders' equity ⁽³⁾	(3.0)%	13.4%	13.2%

(1) Ratio is computed as total debt divided by total debt and stockholders' equity.

(2) Ratio is computed as total debt, net of cash, cash equivalents and marketable securities ("net debt"), divided by net debt and stockholders' equity ("net capital employed").

(3) Ratio is computed as net income (loss), divided by a five-quarter average of stockholders' equity.

Working capital primarily includes receivables and inventories, net of drafts and accounts payable and deferred revenue. Our Pharmaceutical 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, new customer build-up requirements, the desired level of

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

investment inventory and the number and timing of new fee-based arrangements with pharmaceutical manufacturers. Consolidated working capital has increased over the past two years primarily as a result of our higher sales volume.

Our ratio of net debt to net capital employed declined over the past two years as a growth in our operating profit was in excess of the growth in working capital and other investments needed to fund the increase in revenue.

As previously discussed in this financial review, we recorded a pre-tax charge of \$1.2 billion (\$810.0 million after-tax) for the Securities Litigation charge in the third quarter of 2005. We do not expect to have difficulties financing the settlement as payment becomes due later this calendar year 2005 based on available information.

The Company has paid quarterly cash dividends at the rate of \$0.06 per share on its common stock since the fourth quarter of 1999. Recently, a dividend of \$0.06 per share was declared by the Company's Board of Directors on January 26, 2005, and was paid on April 1, 2005 to stockholders of record at the close of business on March 1, 2005. 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 Company's Board of Directors and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Financial Obligations and Commitments:

The table below presents our significant financial obligations and commitments at March 31, 2005:

<i>(In millions)</i>	Total	Years			
		Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Securities Litigation	\$1,200.0	\$1,200.0	\$ —	\$ —	\$ —
Long-term debt	1,208.1	7.8	184.4	230.7	785.2
Other (1)	325.7	27.9	56.0	49.3	192.5
Off balance sheet					
Purchase obligations	2,742.1	2,681.9	15.6	12.5	32.1
Customer guarantees	189.8	24.2	33.9	1.7	130.0
Other (2)	323.3	87.9	123.5	53.2	58.7
Total	\$5,989.0	\$4,029.7	\$ 413.4	\$ 347.4	\$1,198.5

(1) Primarily includes estimated payments for pension and postretirement benefit plans.

(2) Primarily includes operating lease obligations.

We define a purchase obligation 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 service agreements.

We have agreements with certain of our customers' financial institutions (primarily for our Canadian business) under which we have guaranteed the repurchase of inventory at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other limitations, these inventories must be in resalable condition. We have also guaranteed loans, credit facilities and the payment of leases for some customers; and we are a secured lender for substantially all of these guarantees. Customer guarantees range from one to ten years and were primarily provided to facilitate financing for certain strategic customers. At March 31, 2005, the maximum amounts of inventory repurchase guarantees and other customer guarantees were \$179.5 million and \$10.3 million. In 2005, we converted a \$40.0 million credit facility guarantee in favor of a customer to a note receivable due from this customer. This secured note bears interest and is repayable in 2007. In conjunction with this modification, an inventory repurchase guarantee in favor of this customer for approximately \$12 million was also terminated in 2004. The amount due under the note receivable from this customer was approximately \$36 million at March 31, 2005. We consider it unlikely that we would make significant payments under these guarantees, and accordingly, amounts accrued for these guarantees were nominal.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In addition, our banks and insurance companies have issued \$84.9 million of standby letters of credit and surety bonds on our behalf in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations, and our workers' compensation and automotive liability programs.

Credit Resources:

We fund our working capital requirements primarily with cash, short-term borrowings and our receivables sale facility. In September 2004, we entered into a \$1.3 billion five-year, senior unsecured revolving credit facility. Borrowings under the new credit facility bear interest at a fixed base rate, or a floating rate based on the London Interbank Offering Rate ("LIBOR") rate or a Eurodollar rate. Effective as of the closing date of the new credit facility agreement, we terminated the commitments under a \$550 million, three-year revolving credit facility that would have expired in September 2005, and a \$650 million, 364-day credit facility that would have expired in September 2004. At March 31, 2005, no amounts were outstanding under the current revolving credit facility.

We also have a \$1.4 billion revolving receivables sale facility, which was renewed in June 2004, the terms of which are substantially similar to those previously in place with the exception that the facility was increased by \$300.0 million. This facility expires in June 2005. At March 31, 2005, no amounts were outstanding or utilized under the receivables sale facility.

Our senior debt credit ratings from S&P, Fitch, and Moody's are currently BBB, BBB and Baa3, and our commercial paper ratings are currently A-2, F-2 and P-3. Our ratings outlook is stable with all three agencies. Our various borrowing facilities and certain long-term debt instruments are subject to covenants. Our principal debt covenant is our debt to capital ratio, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility and \$235.0 million of term debt could be accelerated. At March 31, 2005, this ratio was 18.7% and we were in compliance with all other covenants. A reduction in our credit ratings or the lack of compliance with our covenants could result in a negative impact on our ability to finance our operations through our credit facilities, as well as the issuance of additional debt at the interest rates then currently available.

Funds necessary for future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flows from operations, existing credit sources and other capital market transactions.

MARKET RISKS

Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates. If the underlying weighted average interest rate on our variable rate debt were to have changed by 50 basis points in 2005, interest expense would not have been materially different from that reported.

As of March 31, 2005, the aggregate fair value of our long-term debt was \$1,334.5 million. Fair value was estimated on the basis of quoted market prices, although trading in these debt securities is limited and may not reflect fair value. Fair value is subject to fluctuations based on our performance, our credit ratings, changes in the value of our stock and changes in interest rates for debt securities with similar terms.

We derive revenues from Canada, the United Kingdom, Ireland, France, the Netherlands, Australia, New Zealand and Puerto Rico. In addition, as discussed in Part I, "Business" of this Annual Report on Form 10-K, we currently own an approximate 49% equity interest in a pharmaceutical distributor in Mexico. We are subject to foreign currency exchange risk on cash flows related to sales, expenses, financing and investment transactions. If exchange rates on such currencies were to fluctuate 10%, we believe that our results from operations and cash flows could be materially affected. Aggregate foreign exchange translation gains and losses included in operations, comprehensive income and stockholders' equity are discussed in Financial Note 1 to the accompanying consolidated financial statements, "Significant Accounting Policies."

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in "Critical Accounting Policies" appearing within this Financial Review and Financial Note 21, "Related Party Balances and Transactions," to the accompanying consolidated financial statements.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

NEW ACCOUNTING PRONOUNCEMENTS

There are a number of new accounting pronouncements that may impact our financial results. These new pronouncements are described in Financial Note 1, "Significant Accounting Policies," to the accompanying consolidated financial statements.

FACTORS AFFECTING FORWARD-LOOKING STATEMENTS

In addition to historical information, management's discussion and analysis includes certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended (the "Securities Act") and section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Some of the forward-looking statements can be identified by use of forward-looking words such as "believes," "expects," "anticipates," "may," "will," "should," "seeks," "approximately," "intends," "plans," or "estimates," or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected. 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 under "Additional Factors That May Affect Future Results." The reader should not consider this list to be a complete statement of all potential risks and uncertainties.

These and other risks and uncertainties are described herein or in our other public documents. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. 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.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

The following additional factors may affect our future results:

Adverse resolution of pending Securities Litigation regarding the restatement of our historical financial statements may cause us to incur material losses.

As discussed in Financial Note 19, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements, in the third quarter of 2005, we announced that we had reached an agreement to settle the action captioned *In re McKesson HBOC, Inc. Securities Litigation* (N.D. Cal. Case No. C-99-20743-RMW) (the "Consolidated Action"). In general, under the agreement to settle the Consolidated Action, we will pay the settlement class a total of \$960.0 million in cash. The settlement agreement is subject to various conditions, including, but not limited to, preliminary approval by the Court, notice to the Class, and final approval by the Court after a hearing. Other than the Consolidated Action, none of the previously reported Securities Litigation has been resolved by the settlement described above. As a result, during the third quarter of 2005, we recorded a pre-tax charge totaling \$1.2 billion (\$810.0 million after-tax) for the Securities Litigation charge, which consists of \$960.0 million settlement payment and \$240.0 million reserve. In addition, for the litigation costs not covered under our directors and officers' liability insurance policies, we accrue costs when it is probable that a liability has been incurred and the amount can be reasonably estimated. We recorded \$42.8 million, \$17.7 million and \$3.9 million of such expenses in 2005, 2004 and 2003.

We believe these recorded amounts will be adequate to address our remaining potential exposures in relation with the Securities Litigation. However, in view of the number of remaining cases, the uncertainties of the timing and outcome of this type of litigation, and the substantial amounts involved, it is possible that the ultimate costs of these matters may exceed or be below the reserve.

Changes in the United States healthcare environment could have a material negative impact on our revenues and net income.

Our products and services are primarily 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 has changed significantly in an effort to reduce costs. These changes include increased use of managed care, cuts in

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors, and the development of large, sophisticated purchasing groups.

We expect the healthcare industry to continue to change significantly in the future. Some of these changes, such as adverse changes in government funding of healthcare services, legislation or regulations governing the privacy of patient information, or the delivery or pricing of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to greatly reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services.

Changes in pharmaceutical and medical-surgical manufacturers' pricing, selling, inventory, distribution or supply policies or practices, or changes in our customer mix could also 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 may adversely impact us, while not affecting some of our competitors who offer a narrower range of products and services.

There have been increasing efforts by pharmaceutical manufacturers to control or limit the product availability in the supply channels, which impacts the ways in which distributors are being compensated by manufacturers. For instance, certain types of vendor product incentives and sources of supply, such as certain inventory purchases on the secondary market, are not available at historical levels to the major distributors, which have the impact of reducing gross margins. We have been actively working with manufacturers through restructured distribution agreements to ensure that we are appropriately and predictably compensated for the services we provide and are making solid progress toward this objective. However, if we fail to negotiate favorable terms, or if we fail to negotiate successfully in a timely manner as we anticipate, such efforts by certain pharmaceutical manufacturers could have an adverse impact on our profitability.

Healthcare and public policy trends indicate that the number of generic drugs will increase over the next few years as a result of the expiration of certain drug patents. In recent years, our revenues and gross margins have increased from our generic drug offering programs. An increase or a decrease in the availability of these generic drugs could have a material impact on our net income.

There have been increasing efforts by various levels of government including state boards and comparable agencies to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit drugs, adulterated, and/or mislabeled drugs into the pharmaceutical distribution system. Certain states, such as Florida, have already adopted laws and regulations that are intended to protect the integrity of the pharmaceutical distribution system while other government agencies are currently evaluating their recommendations. These laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and may negatively impact our operating results.

We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud. The federal government continues to strengthen its position and scrutiny over practices involving healthcare fraud affecting the Medicare, Medicaid and other government healthcare programs. Furthermore, our relationships with pharmaceutical manufacturers and healthcare providers subject our business to laws and regulations on fraud and abuse. Many of the regulations applicable to us, including those relating to marketing incentives offered by pharmaceutical or medical-surgical suppliers, are vague or indefinite and have not been interpreted by the courts. They 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 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.

Under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act"), the U.S. government recently proposed changes in certain pharmaceutical reimbursement rates. We may be adversely impacted by changes or changes that may be proposed in the future under the Act. We are in the process of developing plans to mitigate any exposures from these changes in reimbursement rates and the way our customers conduct their business under the Act. However, if we fail to successfully implement such plans, our business and the results of operations may be adversely impacted.

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FINANCIAL REVIEW (Continued)

Substantial defaults in payment or a material reduction in purchases of our products by large customers could have a significant negative impact on our financial condition and results of operations and liquidity.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During the year ended March 31, 2005, sales to our ten largest customers accounted for approximately 50% of our total consolidated revenues (including sales to customers' warehouses). Sales to our largest customer, Rite Aid Corporation, represented approximately 10% of our 2005 total consolidated revenues. At March 31, 2005, accounts receivable from our ten largest customers and Rite Aid Corporation were approximately 49% and 7% of total accounts receivable. As a result, our sales and credit concentration is significant. Any defaults in payment or a material reduction in purchases from this or any other large customer could have a significant negative impact on our financial condition, results of operations and liquidity.

Our Pharmaceutical Solutions and Medical-Surgical Solutions segments are dependent upon sophisticated information systems. The implementation delay, malfunction or failure of these systems for any extended period of time could adversely affect our business.

We rely on sophisticated information systems in our business to obtain, rapidly process, analyze and manage data to: facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers; receive, process and ship orders on a timely basis; manage the accurate billing and collections for thousands of customers and process payments to suppliers. Our business and results of operations may be materially adversely affected if these systems are interrupted, damaged by unforeseen events, or fail for any extended period of time.

We could become subject to liability claims that are not adequately covered by our insurance, and may have to pay damages and other expenses which could have a material adverse effect on us.

Our business exposes us to risks that are inherent in the distribution and dispensing of pharmaceuticals, the provision of ancillary services (such as our pharmacy management business) and the conduct of our medical management businesses (which include disease management programs and our nurse triage services.) A successful product or professional liability claim not fully covered by our insurance or any applicable contractual indemnity could have a material adverse effect on our business, financial condition or results of operations.

The ability of our Provider Technologies business to attract and retain customers due to challenges in software product integration and technological advances may significantly reduce our revenues or increase our expenses.

Our Provider Technologies business delivers enterprise-wide patient care, clinical, financial, managed care, payor and strategic management software solutions, as well as networking technologies, electronic commerce, outsourcing and other services to healthcare organizations throughout the United States and certain foreign countries. Challenges in integrating Provider Technologies software products could impair our ability to attract and retain customers and may reduce our revenues or increase our expenses.

Future advances in the healthcare information systems industry could lead to new technologies, products or services that are competitive with the products and services offered by our Provider Technologies business. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure. The success of our Provider Technologies business will depend, in part, on its ability to be responsive to technological developments, pricing pressures and changing business models. To remain competitive in the evolving healthcare information systems marketplace, our Provider Technologies business must develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of our Provider Technologies business to attract and retain customers and thereby significantly reduce our net income.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

The loss of third party licenses utilized by our Provider Technologies segment may adversely impact our operating results.

We license the rights to use certain technologies from third-party vendors to incorporate in or complement our Provider Technologies segment products and solutions. These licenses are generally nonexclusive, must be renewed periodically by mutual consent, and may be terminated if we breach the terms of the license. As a result, we may have to discontinue, delay or reduce product shipments until we obtain equivalent technology, which could hurt our business. Our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us. In addition, if our vendors choose to discontinue support of the licensed technology in the future, we may not be able to modify or adapt our own products.

Proprietary technology protections may not be adequate and proprietary rights may infringe on 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 to our products. There can be no assurance that these protections will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. Although we believe that our products and other proprietary rights do not infringe upon 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 on other's rights, we may be required to pay substantial damage awards and forced to develop non-infringing technology, obtain a license or cease selling the products that contain the infringing property. 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 cessation of use of infringing technology and development of respective replacement technology could be significant and result in material losses to us.

Potential product liability claims arising from healthcare information technology business products could result in material losses to us.

We provide products that assist clinical decision-making and relate to patient medical histories and treatment plans. If these products fail to provide accurate and timely information, customers could assert liability claims against us. Litigation with respect to liability claims, regardless of the outcome, could result in substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit, by contract, our liability for damages from negligence, errors or mistakes. Despite this precaution, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors and omissions. However, this coverage may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims against us. In addition, the insurer might disclaim coverage as to any future claim.

System errors and warranties in Provider Technologies segment's products could cause unforeseen liabilities.

Our Provider Technologies segment's software and software systems ("systems") are very complex. As with complex systems offered by others, our systems may contain errors, especially when first introduced. Our Provider Technologies business systems are intended to provide information for healthcare providers in providing patient care. Therefore, users of our systems have a greater sensitivity to errors than the general market for software products. Failure of a client'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.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Potential regulation by the U.S. Food and Drug Administration, or FDA, of Provider Technologies products as medical devices could impose increased costs, delay the introduction of new products and negatively impact our business.

The FDA is likely to become increasingly active in regulating computer software intended for use in the healthcare industry. The FDA has increasingly focused on the regulation of computer products and computer-assisted products as medical devices under the Federal Food, Drug and Cosmetic Act. If the FDA chooses to regulate any of our products as medical devices, 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 final FDA policy governing computer products, once issued, may increase the cost and time to market new or existing products or may prevent us from marketing our products.

New and potential federal regulations relating to patient confidentiality and format and data content standards could depress the demand for our Provider Technologies products and impose significant product redesign costs and unforeseen liabilities on us.

State and federal laws regulate the confidentiality of patient records and the circumstances under which those records may be released. These regulations govern both the disclosure and use of confidential patient medical record information and will require the users of such information to implement specified security measures. Regulations currently in place governing electronic health data transmissions continue to evolve and are often unclear and difficult to apply.

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, requires national standards for some types of electronic health information transactions and the data elements used in those transactions, security standards to ensure the integrity and confidentiality of health information and standards to protect the privacy of individually identifiable health information. Healthcare organizations were required to comply with the privacy standards by April 2003 and additional transaction regulations by October 2003. Such organizations must also be in compliance with security regulations by April 2005.

Provider Technologies systems have been updated and modified to comply with the current requirements of HIPAA. In addition, the division has been testing and sending HIPAA compliant transactions through its clearinghouse directly to payors and to competitive clearinghouses. However, not all testing is complete, and there are payors and competitive clearinghouses which cannot yet accommodate all HIPAA compliant transactions. As of March 31, 2005, over 95% of all electronic claims transmitted directly by Provider Technologies to payors and competitive cleaning houses are in a HIPAA compliant format. As the remaining payors and other clearing houses indicate their readiness to accept HIPAA compliant transactions, our conversion and testing efforts will continue. CMS has implemented a flexible, complaint-driven enforcement strategy regarding electronic transactions, taking into account good faith efforts to comply with the HIPAA standards. It is possible, however, that CMS may change its existing enforcement strategy in the future in a manner that increases the likelihood of fines or penalties for non-compliance with standards. To the extent that other payors adopt policies similar to CMS regarding adjudication and payment of nonstandard electronic transactions and testing of standard transactions has not been completed with such payors, payor reimbursement of claims submitted by customers through the McKesson clearinghouse may be slowed, thereby negatively impacting the demand for our clearinghouse services and negatively affecting our financial condition.

Evolving HIPAA-related laws or regulations could restrict the ability of our customers to obtain, use or disseminate patient information. This could adversely affect demand for our products if they are not re-designed in a timely manner in order to meet the requirements of any new regulations that seek to protect the privacy and security of patient data or enable our customers to execute new or modified healthcare transactions. We may need to expend additional capital, research and development and other resources to modify our products to address these evolving data security and privacy issues.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Due to the length of our sales and implementation cycles for our Provider Technologies segment, our future operating results may be impacted.

Our Provider Technologies segment has long sales and implementation cycles, which could range from several months to over two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. The solutions we provide typically require significant capital expenditures and time commitments by the customer. Any decision by our customers to delay implementation may adversely affect our revenues. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

Reduced capacity in the commercial property insurance market exposes us to potential loss.

In order to provide prompt and complete service to our major Pharmaceutical Solutions 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 materially harm our business, results of operations or financial condition.

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 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 and the realization of potential operating synergies; the assimilation and retention of the personnel of the acquired companies; challenges in retaining the customers of the combined businesses; and potential adverse effects on operating results. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable. 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.

In addition to the above, the following factors could affect future results: changes in generally accepted accounting principles, including the requirement by accounting setting standards boards to expense stock options; tax legislation initiatives, foreign currency fluctuations and general economic and market conditions.

McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of March 31, 2005.

McKesson Corporation's independent auditor, Deloitte & Touche LLP, an independent registered public accounting firm, has issued an audit report on our management's assessment of our internal control over financial reporting. This audit report appears on page 51 of this annual report on Form 10-K.

May 12, 2005

John H. Hammergren

John H. Hammergren

Chairman, President, and Chief Executive Officer
(Principal Executive Officer)

Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Stockholders and Board of Directors of
McKesson Corporation:

We have audited management's assessment, included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting" that McKesson Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of March 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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 the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2005 of the Company and our report dated May 12, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule.

Deloitte & Touche LLP
San Francisco, California
May 12, 2005

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors of
McKesson Corporation:

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the "Company") as of March 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended March 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries at March 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 12, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP
San Francisco, California
May 12, 2005

McKESSON CORPORATION

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

	Years Ended March 31,		
	2005	2004	2003
Revenues	\$80,514.6	\$69,506.1	\$57,120.8
Cost of Sales	77,049.9	66,257.9	54,018.3
Gross Profit	3,464.7	3,248.2	3,102.5
Operating Expenses			
Selling	550.1	513.1	499.0
Distribution	676.0	625.7	571.7
Research and development	182.0	172.7	149.4
Administrative	1,047.1	953.3	949.4
Securities Litigation charge	1,200.0	—	—
Total	3,655.2	2,264.8	2,169.5
Operating Income (Loss)	(190.5)	983.4	933.0
Interest Expense	(118.0)	(120.2)	(128.1)
Gain (Loss) on Investments, Net	—	(1.2)	1.4
Other Income, Net	68.7	49.4	45.1
Income (Loss) from Continuing Operations Before Income Taxes	(239.8)	911.4	851.4
Income Tax Benefit (Provision)	83.1	(264.9)	(289.3)
Income (Loss) After Income Taxes			
Continuing operations	(156.7)	646.5	562.1
Discontinued operations	—	—	(3.0)
Discontinued operations – loss on sale	—	—	(3.7)
Net Income (Loss)	<u>\$ (156.7)</u>	<u>\$ 646.5</u>	<u>\$ 555.4</u>
Earnings (Loss) Per Common Share			
Diluted			
Continuing operations	\$ (0.53)	\$ 2.19	\$ 1.90
Discontinued operations	—	—	(0.01)
Discontinued operations – loss on sale	—	—	(0.01)
Total	<u>\$ (0.53)</u>	<u>\$ 2.19</u>	<u>\$ 1.88</u>
Basic			
Continuing operations	\$ (0.53)	\$ 2.23	\$ 1.94
Discontinued operations	—	—	(0.01)
Discontinued operations – loss on sale	—	—	(0.01)
Total	<u>\$ (0.53)</u>	<u>\$ 2.23</u>	<u>\$ 1.92</u>
Weighted Average Shares			
Diluted	293.5	298.6	298.8
Basic	293.5	290.0	289.3

See Financial Notes

McKESSON CORPORATION

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

	March 31,	
	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,800.0	\$ 708.0
Marketable securities available for sale	9.3	9.8
Receivables, net	5,731.5	5,418.8
Inventories	7,495.5	6,735.1
Prepaid expenses and other	296.0	132.5
Total	<u>15,332.3</u>	<u>13,004.2</u>
Property, Plant and Equipment, Net	630.5	599.9
Capitalized Software Held for Sale	129.7	129.4
Notes Receivable	162.6	172.2
Goodwill	1,452.4	1,405.8
Intangibles	89.4	84.4
Other Assets	978.1	844.3
Total Assets	<u>\$18,775.0</u>	<u>\$16,240.2</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Drafts payable	\$ 548.4	\$ 564.6
Accounts payable	8,186.2	6,797.5
Deferred revenue	593.1	503.2
Current portion of long-term debt	8.8	274.8
Salaries and wages	225.2	200.5
Taxes	292.0	378.9
Securities Litigation	1,200.0	—
Other	738.9	696.8
Total	<u>11,792.6</u>	<u>9,416.3</u>
Postretirement Obligations and Other Noncurrent Liabilities	505.6	448.8
Long-Term Debt	1,201.7	1,209.8
Other Commitments and Contingent Liabilities (Note 19)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 100.0 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value		
Shares authorized: 2005 and 2004 – 800.0		
Shares issued: 2005 – 306.1, 2004 – 297.1	3.1	3.0
Additional paid-in capital	2,320.3	2,047.1
Other capital	(41.8)	(43.2)
Retained earnings	3,193.5	3,420.6
Accumulated other comprehensive income (loss)	32.3	(15.6)
ESOP notes and guarantees	(36.1)	(52.5)
Treasury shares, at cost, 2005 and 2004 – 6.8	(196.2)	(194.1)
Total Stockholders' Equity	<u>5,275.1</u>	<u>5,165.3</u>
Total Liabilities and Stockholders' Equity	<u>\$18,775.0</u>	<u>\$16,240.2</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2005, 2004 and 2003
(Shares in thousands, dollars in millions)

	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	ESOP Notes and Guarantees	Treasury		Stockholders' Equity	Comprehensive Income (Loss)
	Shares	Amount						Common Shares	Amount		
Balances, March 31 2002	287,928	\$ 2.9	\$ 1,831.0	\$(97.8)	\$2,357.2	\$ (81.6)	\$ (74.5)	—	\$ —	\$ 3,937.2	\$ 412.0
Issuance of shares under employee plans	4,352		90.2	5.3						95.5	
ESOP note collection							12.8			12.8	
Translation adjustment						29.7				29.7	29.7
Additional minimum pension liability, net of tax of \$(2.1)						(5.1)				(5.1)	(5.1)
Net income					555.4					555.4	555.4
Unrealized loss on investment net of tax of \$(0.7)						(1.3)				(1.3)	(1.3)
Repurchase of shares								(1,113)	(28.6)	(28.6)	
Other					0.4	(0.8)				(0.4)	(0.8)
Cash dividends declared, \$0.24 per common share					(69.7)					(69.7)	
Balances, March 31 2003	292,280	2.9	1,921.2	(92.5)	2,843.3	(59.1)	(61.7)	(1,113)	(28.6)	4,525.5	\$ 577.9
Issuance of shares under employee plans	4,832	0.1	125.9					(286)	(8.7)	117.3	
ESOP note collection							9.2			9.2	
Note collections				28.6						28.6	
Note reserves				20.7						20.7	
Translation adjustment						48.1				48.1	48.1
Additional minimum pension liability, net of tax of \$(3.6)						(4.9)				(4.9)	(4.9)
Net income					646.5					646.5	646.5
Unrealized gain on investment net of tax of \$0.1						0.3				0.3	0.3
Repurchase of shares								(5,362)	(156.8)	(156.8)	
Other					0.5					0.5	
Cash dividends declared, \$0.24 per common share					(69.7)					(69.7)	
Balances, March 31 2004	297,112	3.0	2,047.1	(43.2)	3,420.6	(15.6)	(52.5)	(6,761)	(194.1)	5,165.3	\$ 690.0

Issuance of shares under employee plans	8,996	0.1	273.2	(11.6)			(84)	(2.1)	259.6		
ESOP note collection						16.4			16.4		
Note collections				18.6					18.6		
Note reserves				(5.6)					(5.6)		
Translation adjustment						45.0			45.0	45.0	
Additional minimum pension liability, net of tax of \$(2.8)						3.1			3.1	3.1	
Net loss				(156.7)					(156.7)	(156.7)	
Unrealized loss on investment net of tax of \$(0.1)						(0.2)			(0.2)	(0.2)	
Other				0.3					0.3		
Cash dividends declared, \$0.24 per common share				(70.7)					(70.7)		
Balances, March 31, 2005	<u>306,108</u>	<u>\$ 3.1</u>	<u>\$ 2,320.3</u>	<u>\$(41.8)</u>	<u>\$3,193.5</u>	<u>\$ 32.3</u>	<u>\$ (36.1)</u>	<u>(6,845)</u>	<u>\$(196.2)</u>	<u>\$ 5,275.1</u>	<u>\$(108.8)</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2005	2004	2003
Operating Activities			
Income (loss) from continuing operations	\$ (156.7)	\$ 646.5	\$ 562.1
Adjustments to reconcile to net cash provided by (used in) operating activities:			
Depreciation	111.5	104.8	101.2
Amortization	139.4	127.3	102.5
Provision for bad debts	15.6	54.4	68.5
Securities Litigation charge	1,200.0	—	—
Notes receivable reserve	(5.6)	21.0	—
Customer settlement reserve reversal	(4.0)	(66.4)	(22.3)
International contract loss accruals	—	4.8	51.0
Deferred taxes	(328.8)	69.5	126.6
Other non-cash items	(0.8)	13.0	(18.4)
Total	<u>970.6</u>	<u>974.9</u>	<u>971.2</u>
Effects of changes in:			
Receivables	(324.9)	(716.7)	(697.6)
Inventories	(720.0)	(681.3)	13.4
Drafts and accounts payable	1,312.2	834.5	277.5
Deferred revenue	88.4	80.7	50.7
Taxes	113.2	61.6	16.6
Proceeds from sale of notes receivable	59.3	45.4	117.9
Other	39.6	(3.9)	24.2
Total	<u>567.8</u>	<u>(379.7)</u>	<u>(197.3)</u>
Net cash provided by continuing operations	<u>1,538.4</u>	<u>595.2</u>	<u>773.9</u>
Discontinued operations	—	—	(0.5)
Net cash provided by operating activities	<u>1,538.4</u>	<u>595.2</u>	<u>773.4</u>
Investing Activities			
Property acquisitions	(139.9)	(115.0)	(116.0)
Capitalized software expenditures	(137.7)	(172.0)	(188.0)
Acquisitions of businesses, less cash and cash equivalents acquired	(108.9)	(49.4)	(385.8)
Other	31.2	36.7	25.8
Net cash used in investing activities	<u>(355.3)</u>	<u>(299.7)</u>	<u>(664.0)</u>
Financing Activities			
Repayment of debt	(268.3)	(17.5)	(142.5)
Capital stock transactions:			
Issuances	223.3	92.6	78.8
Share repurchases	—	(156.8)	(25.0)
ESOP notes and guarantees	16.4	9.2	12.8
Dividends paid	(70.6)	(69.8)	(69.7)
Other	8.1	32.8	0.4
Net cash used in financing activities	<u>(91.1)</u>	<u>(109.5)</u>	<u>(145.2)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,092.0</u>	<u>186.0</u>	<u>(35.8)</u>
Cash and cash equivalents at beginning of year	<u>708.0</u>	<u>522.0</u>	<u>557.8</u>
Cash and cash equivalents at end of year	<u>\$ 1,800.0</u>	<u>\$ 708.0</u>	<u>\$ 522.0</u>
Supplemental Information:			
Cash paid for:			
Interest	\$ 126.3	\$ 119.9	\$ 122.0
Income taxes	131.7	138.2	139.2

See Financial Notes

McKESSON CORPORATION

FINANCIAL NOTES

1. Significant Accounting Policies

Nature of Operations. The consolidated financial statements of McKesson Corporation (“McKesson,” the “Company,” or “we” and other similar pronouns) include the financial statements of all majority-owned or controlled companies. Significant intercompany transactions and balances have been eliminated. 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.

We conduct our business through three segments. Through our Pharmaceutical Solutions segment, we are a leading distributor of ethical and proprietary drugs, and health and beauty care products throughout North America. This segment also manufactures and sells automated pharmaceutical dispensing systems for retail pharmacies, and provides medical management and specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, patient and other services for payors, and software, and consulting and outsourcing services to pharmacies. Our Medical-Surgical Solutions segment distributes medical-surgical supplies, first-aid products and equipment, and provides logistics and other services within the United States and Canada. Our Provider Technologies segment delivers enterprise-wide patient care, clinical, financial, supply chain, managed care and strategic management software solutions, automated pharmaceutical dispensing systems for hospitals, as well as outsourcing and other services, to healthcare organizations throughout North America, the United Kingdom and other European countries.

Reclassifications. Certain prior year amounts have been reclassified to conform to the current year presentation. In addition, we have revised the presentation of our 2004 and 2003 Consolidated Statements of Cash Flows to include cash flows from notes receivable related to sales of inventory as an operating cash flow. These amounts were previously included in cash flows from investing activities. Cash flows from notes receivable generally relate to the sale of automated pharmacy and supply management systems to hospitals and retail pharmacies, as well as the subsequent sale of those notes receivable to a third party. These reclassifications resulted from guidance recently issued by Securities and Exchange Commission (“SEC”) staff to all public registrants.

The table below reconciles the revised presentation of our Consolidated Statements of Cash Flows to our prior presentation:

<i>(In millions)</i>	Years Ended March 31,	
	2004	2003
Operating Activities		
Net cash provided by operating activities, as previously reported	\$ 563.4	\$ 710.3
Notes receivable issuances and other	(13.6)	(54.8)
Proceeds from sale of notes receivable	45.4	117.9
Net cash provided by operating activities, revised	<u>\$ 595.2</u>	<u>\$ 773.4</u>
Investing Activities		
Net cash used by investing activities, as previously reported	\$ (267.9)	\$ (600.9)
Notes receivable issuances and other	13.6	54.8
Proceeds from sale of notes receivable	(45.4)	(117.9)
Net cash used in investing activities, revised	<u>\$ (299.7)</u>	<u>\$ (664.0)</u>

In April 2004, we reconfigured our operating segments to better align product development and selling efforts with the evolving needs of the healthcare market. Accordingly, historical segment information has been reclassified to conform with the new presentation.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents include all highly liquid debt instruments purchased with a maturity of three months or less at the date of acquisition.

Marketable Securities Available for Sale are carried at fair value and the net unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders' equity.

Inventories are stated at the lower of cost or market. Inventories for the Pharmaceutical Solutions and Medical-Surgical Solutions segments consist of merchandise held for resale. For our Pharmaceutical Solutions segment, the majority of the cost of domestic inventories is determined on the last-in, first-out ("LIFO") method and international inventories are stated using the first-in, first-out ("FIFO") method. Cost of inventories for our Medical-Surgical Solutions segment is primarily determined on the FIFO method. Provider Technologies segment inventories consist of computer hardware with cost determined either by the specific identification or the FIFO method. The LIFO method is used to value approximately 90% of our inventories at March 31, 2005 and 2004. Total inventories before the LIFO cost adjustment, which approximates replacement cost, were \$7,682.7 million and \$6,981.5 million at March 31, 2005 and 2004. Vendor rebates, allowances and chargebacks received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold.

Property, Plant and Equipment is stated at cost and depreciated on the straight-line method at rates designed to distribute the cost of properties over estimated service lives ranging from one to 30 years.

Capitalized Software Held for Sale consists of development costs for software held for sale primarily for our Provider Technologies segment. Such costs 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. We monitor the net realizable value of capitalized software held for sale to ensure that the investment will be recovered through future sales.

Additional information regarding our capitalized software expenditures is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Amounts capitalized	\$ 49.5	\$ 57.7	\$ 53.8
Amortization expense	51.9	53.2	44.3
Third-party royalty fees paid	25.2	25.0	24.9

Long-lived Assets. We assess the recoverability of goodwill on at least an annual basis and other long-lived assets when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Measurement of impairment losses for long-lived assets, including goodwill, which we expect to hold and use, is based on estimated fair values of the assets. Estimates of fair values are based on quoted market prices, when available, the results of valuation techniques utilizing discounted cash flows (using the lowest level of identifiable cash flows) or fundamental analysis. Long-lived assets to be disposed of, either by sale or abandonment, are reported at the lower of carrying amount or fair value less costs to sell.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Capitalized Software Held for Internal Use is amortized over estimated useful lives ranging from one to ten years and is included in other assets in the consolidated balance sheets. As of March 31, 2005 and 2004, capitalized software held for internal use was \$410.1 million and \$389.3 million, net of accumulated amortization of \$243.0 million and \$182.0 million.

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. Revenues for our Pharmaceutical Solutions and Medical-Surgical Solutions segments are recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, the fee is fixed or determinable, product delivery has occurred or services have been rendered, there are no further obligations to customers, and collectability is probable. Revenues for performance-based contracts, whereby revenue is dependent upon successful predefined outcomes, are recognized by measuring actual results against the expected performance criteria.

Revenues are recorded net of sales returns, allowances and rebates. Sales returns are recorded when goods are returned to us and are generally not accepted unless the inventory can be returned to the manufacturer for credit. Commencing in 2005, the Company changed its accounting policy for customer sales returns to reflect an accrual for estimated customer returns at the time of sales to the customer in accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, "Revenue Recognition when Right of Return Exists." Previously, the Company accounted for customer sales returns as a reduction of sales and cost of goods sold at the time of the return. This change in accounting policy did not have a material impact on our consolidated financial statements. Sales returns were approximately \$853 million, \$766 million and \$755 million in 2005, 2004 and 2003. Amounts recorded in revenue and cost of sales under our previous accounting policy approximated what would have been recorded under SFAS No. 48.

Included in our Pharmaceutical Solutions segment revenues are large volume sales of pharmaceuticals to a limited number of large self-warehousing customers whereby we order and subsequently deliver bulk products directly from the manufacturer to the customers' warehouses through a central distribution facility. In addition to these revenues, we also record revenues associated with direct store deliveries from most of these same customers. Sales to customer warehouses amounted to \$24.1 billion in 2005, \$21.6 billion in 2004, and \$14.8 billion in 2003. These sales are recorded gross as we take title to and possession of the inventory and assume the risk of loss for collection, delivery or return. We have significantly lower gross margin on these sales as we pass much of the efficiencies of this low cost-to-serve model on to the customer. These sales do, however, contribute to our gross profit dollars in that the volume allows us to earn incremental product sourcing profits.

Revenues for our Provider Technologies segment are generated primarily by licensing software systems (consisting of software, hardware and maintenance support), and providing outsourcing and professional services. Revenue for this segment is recognized as follows:

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

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 in accordance with Statement of Position (“SOP”) 97-2, “Software Revenue Recognition,” and SOP 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts,” based on the terms and conditions in the contract. Contracts accounted for under the percentage-of-completion method are generally measured based on the ratio of labor costs incurred to date to total estimated labor costs 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.

Hardware revenues are generally recognized upon delivery. Revenue from multi-year 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 contract method. Maintenance and support agreements are marketed under annual or multiyear agreements and are recognized ratably over the period covered by the agreements. 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 our products on an application service provider (“ASP”) basis, making available our software functionality 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 ASP basis is recognized on a monthly basis over the term of the contract starting when the hosting services begin.

This segment also engages in multiple-element arrangements, which may contain any combination of software, hardware, implementation or consulting services, or maintenance services. When some elements are delivered prior to others in an arrangement and vendor-specific objective evidence of fair value (“VSOE”) 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.

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. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Foreign Currency Translation. Assets and liabilities of international subsidiaries are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates during the year. Cumulative currency translation adjustments are included in accumulated other comprehensive losses 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 2005, 2004 or 2003.

Derivative Financial Instruments. Derivative financial instruments are used principally in the management of our foreign currency and interest rate exposures and are recorded on the balance sheet at fair value. If the 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. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive losses and are recognized in the consolidated statement of earnings when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow 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 results included in earnings.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Concentrations of Credit Risk. Trade receivables subject us to a concentration of credit risk with customers primarily in our Pharmaceutical Solutions segment. A significant proportion of our revenue growth has been with a limited number of large customers and as a result, our credit concentration has increased. Accordingly, any defaults in payment by or a reduction in purchases from these large customers could have a significant negative impact on our financial condition, results of operations and liquidity. At March 31, 2005, revenues and accounts receivable from our ten largest customers accounted for approximately 50% of consolidated revenues and approximately 49% of accounts receivable. Fiscal 2005 revenues and March 31, 2005 receivables from our largest customer, Rite Aid Corporation, represented approximately 10% of total consolidated revenues and 7% of accounts receivable. We have also provided financing arrangements to certain of our customers within our Pharmaceutical Solutions segment, some of which are on a revolving basis. At March 31, 2005, these customer financing arrangements totaled approximately \$206 million.

Accounts Receivable Sales. At March 31, 2005, we had a \$1.4 billion revolving receivables sales facility, which was fully available. The program qualifies for sale treatment under SFAS No. 140, "Accounting For Transfers and Servicing Financial Assets and Extinguishments of Liabilities." Sales are recorded at the estimated fair values of the receivables sold, reflecting discounts for the time value of money based on U.S. commercial paper rates and estimated loss provisions. Discounts are recorded in administrative expenses in the consolidated statements of operations.

Employee Stock Options. We account for our employee stock-based compensation plans using the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." We apply the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Had compensation cost for our employee stock-based compensation been recognized based on the fair value method, consistent with the provisions of SFAS No. 123, net income (loss) and earnings (loss) per share would have been as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2005	2004	2003
Net income (loss), as reported	\$ (156.7)	\$ 646.5	\$ 555.4
Compensation expense, net of tax:			
APB Opinion No. 25 expense included in net income	8.8	5.3	3.2
SFAS No. 123 expense	(59.8)	(209.8)	(159.5)
Pro forma net income (loss)	\$ (207.7)	\$ 442.0	\$ 399.1
Earnings (loss) per common share:			
Diluted – as reported	\$ (0.53)	\$ 2.19	\$ 1.88
Diluted – pro forma	(0.71)	1.50	1.36
Basic – as reported	(0.53)	2.23	1.92
Basic – pro forma	(0.71)	1.52	1.38

In 2004, the Compensation Committee of the Company's Board of Directors (the "Committee") approved the accelerated vesting of substantially all unvested stock options outstanding whose exercise price was equal to or greater than \$28.20, or substantially all of the total unvested stock options outstanding. SFAS No. 123 expense related to this acceleration amounted to approximately \$117 million (or \$0.39 per diluted share) on an after-tax basis. In 2005, we granted 6.3 million stock options. Substantially all of these options vested on or before March 31, 2005. Prior to 2004, stock options typically vested over a four year period. The 2004 accelerated vesting and 2005 shorter vesting periods were approved by the Committee for employee retention purposes and in anticipation of the requirements of SFAS No. 123(R). As further discussed in this financial note, under the caption, "New Accounting Pronouncements", when adopted by us in 2007, SFAS No. 123(R) requires us to recognize the fair value of the equity awards granted to employees as an expense. In addition, this standard requires that the fair value of the unvested equity awards outstanding as of April 1, 2006 be recognized at the grant-date fair value as the remaining requisite service is rendered. The pro forma disclosure under SFAS No. 123 will be prospectively eliminated. Accordingly, SFAS No. 123 expense of approximately \$117 million (after-tax) for the stock option grants that received accelerated vesting in 2004, as well as the related compensation expense associated with the 2005 fully vested stock options, will not be recognized in our earnings after SFAS 123(R) is adopted.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

New Accounting Pronouncements. In January 2004, the FASB issued Financial Staff Position (“FSP”) No. FAS 106-1, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.” The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) allows employers that sponsor a postretirement plan providing a qualifying or eligible prescription drug benefit to receive a federal subsidy. As permitted by FSP No. FAS 106-1, we elected to defer recognizing the effects of the Act until authoritative guidance on accounting for the new subsidy was issued. In May 2004, the FASB issued FSP No. FAS 106-2 which provides accounting guidance for this new subsidy. Management has concluded that the prescription drug benefits provided to our Medicare-eligible retirees are actuarially equivalent based on the current interpretation of the guidance included in the Act and accordingly, the Company adopted the provisions of FSP No. FAS 106-2 in the second quarter of 2005. The expected subsidy had the effect of reducing the Company’s accumulated postretirement benefit obligation by approximately \$19 million. This reduction is recognized as an actuarial gain and is being amortized over three years. The expected subsidy also resulted in a nominal reduction in interest cost in 2005. As required by this FSP, the Company recognized reductions in postretirement benefit expense of \$7.4 million in 2005.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs — an amendment of ARB No. 43, Chapter 4.” SFAS No. 151 clarifies the accounting guidance included in Accounting Research Bulletin (“ARB”) No. 43, Chapter 4, “Inventory Pricing” related to abnormal amounts of idle facility expense, freight, handling and spoilage costs. SFAS No. 151 is effective for inventory costs incurred during 2007. We are currently assessing the impact of SFAS No. 151 on our consolidated financial statements; however, we do not believe the adoption of this standard will have a material effect on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123(R), “Share-Based Payment,” which requires the recognition of cost resulting from transactions in which the Company acquires goods and services by issuing its shares, share options, or other equity instruments. This standard requires a fair value-based measurement method in accounting for share-based payment transactions. This standard replaces SFAS No. 123, and supersedes APB Opinion No. 25. Accordingly, the use of the intrinsic value method as provided under APB Opinion No. 25 will be eliminated. Based on guidance provided by the SEC in April 2005, SFAS No. 123(R) will become effective for us no later than 2007. The Company intends to adopt this standard using the modified prospective method of transition. This transition method requires that compensation cost be recognized for new awards granted and awards modified, repurchased or cancelled after April 1, 2006. This method also requires us to recognize cost for the unvested portion of all awards issued prior to and outstanding as of April 1, 2006 at the grant-date fair value as the remaining requisite service is rendered. In addition, under SFAS No. 123(R), we must determine the appropriate fair value model to be used for valuing share-based payments and the amortization method for compensation cost. We are currently assessing the impact of SFAS No. 123(R) on our consolidated financial statements, however, we do believe that this standard could have a material impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29,” which eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets that do not culminate an earning process under APB Opinion No. 29, “Accounting for Nonmonetary Transactions.” SFAS No. 153 requires that measurement be based on the recorded amount of the assets relinquished for nonmonetary exchanges that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This standard is effective for nonmonetary asset exchanges occurring in 2007. We do not believe the adoption of this standard will have a material impact on our consolidated financial statements.

In December 2004, the FASB issued FSP No. FAS 109-1, “Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004.” On October 22, 2004, the American Jobs Creation Act of 2004 (the “AJCA”) was signed into law. The AJCA provides a new deduction for certain qualified domestic production activities. FSP No. 109-1 is effective immediately and clarifies that such deduction should be accounted for as a special deduction, not as a tax rate reduction, under SFAS No. 109, “Accounting for Income Taxes,” no earlier than the year in which the deduction is reported on the tax return. We are currently evaluating whether such deduction may be available to us and its impact on our consolidated financial statements. We will recognize the tax benefit of such deductions, if any, beginning in 2006.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

In December 2004, the FASB issued FSP No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." The AJCA provides a one-time 85% dividends received deduction for certain foreign earnings that are repatriated under a plan for reinvestment in the United States, provided certain criteria are met. FSP No. 109-2 is effective immediately and provides accounting and disclosure guidance for the repatriation provision. FSP No. 109-2 allows companies additional time to evaluate the effects of the law on its unremitted earnings for the purpose of applying the "indefinite reversal criteria" under APB Opinion No. 23, "Accounting for Income Taxes — Special Areas," and requires explanatory disclosures from companies that have not yet completed the evaluation. The Company is currently evaluating the effects of the repatriation provision and their impact on our consolidated financial statements. We expect to complete this evaluation before the end of 2006. The range of possible amounts of unremitted earnings that is being considered for repatriation under this provision is between zero and \$500 million. The related potential range of income tax is between zero and \$27.7 million.

In March 2005, SEC staff issued Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment", which provides guidance on the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as on the valuation of share-based payments. SAB No. 107 does not modify any of the requirements under SFAS No. 123(R). SAB No. 107 provides interpretive guidance related to valuation methods (including assumptions such as expected volatility and expected term), first-time adoption of SFAS No. 123(R) in an interim period, the classification of compensation expense and disclosures subsequent to adoption of SFAS No. 123(R). We are currently evaluating the impact of SAB No. 107 on our consolidated financial statements.

2. Acquisitions and Investments

We made the following acquisitions and investments:

- In 2005, we invested \$32.7 million in return for a 79.7% interest in Pahema, S.A. de C.V. ("Pahema"), a Mexican holding company. Two additional investors, owners of approximately 30% of the outstanding shares of Nadro S.A. de C.V. ("Nadro") (collectively, "investors"), contributed \$9.6 million for the remaining interest in Pahema. In December 2004, Pahema completed a 6.50 Mexican Pesos per share, or approximately \$164 million, tender offer for approximately 284 million shares (or approximately 46%) of the outstanding publicly held shares of common stock of Nadro. Pahema financed the tender offer utilizing the cash contributed by us and the investors, and borrowings totaling 1.375 billion Mexican Pesos, in the form of two notes with Mexican financial institutions. Subsequently, the common stock of Pahema was exchanged for common stock of Nadro, resulting in the merger of the two companies. As a result, we currently own approximately 49% of Nadro. Prior to the tender offer, we owned approximately 22% of the outstanding common shares of Nadro. We continue to utilize the equity method in accounting for our investment in Nadro.
- In the first quarter of 2005, we acquired all of the issued and outstanding shares of Moore Medical Corp. ("MMC"), of New Britain, Connecticut, for an aggregate cash purchase price of approximately \$37 million. MMC is an Internet-enabled, multi-channel marketer and distributor of medical-surgical and pharmaceutical products to non-hospital provider settings. Approximately \$19 million of the purchase price has been assigned to goodwill, none of which is deductible for tax purposes. The results of MMC's operations have been included in the consolidated financial statements within our Medical-Surgical Solutions segment since the acquisition date.
- In 2003, we acquired the outstanding stock of A.L.I. Technologies Inc. ("A.L.I.") for an aggregate cash purchase price of \$347.0 million. A.L.I. provides digital medical imaging solutions, which are designed to streamline access to diagnostic information, automate clinical workflow and eliminate the need for film purchase and storage. The acquisition of A.L.I. complemented our Horizon Clinicals™ offering by incorporating medical images into a computerized patient record. Approximately \$328 million of A.L.I.'s purchase price was assigned to goodwill, none of which is deductible for tax purposes. The aggregate purchase price was financed through cash and short-term borrowings. The results of A.L.I.'s operations have been included in the consolidated financial statements within our Provider Technologies segment since its acquisition date.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

- In 2003, we purchased the remaining interest in an investment of our Pharmaceutical Solutions segment for approximately \$32 million, retained a small portion of the business and subsequently sold the balance for approximately \$40 million, the proceeds of which consisted of an interest bearing ten-year note receivable, resulting in a nominal loss.

During the last three years we also completed several smaller acquisitions and investments within all three of our operating segments. Purchase prices have been allocated based on estimated fair values at the date of acquisition and may be subject to change. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or aggregate basis.

3. Divestiture

In 2003, we sold the net assets of a marketing fulfillment business which was previously included in our Pharmaceutical Solutions segment. Net proceeds from the sale of this business were \$4.5 million. The disposition resulted in an after-tax loss of \$3.7 million or \$0.01 per diluted share. The net assets and results of operations of this business have been presented as a discontinued operation.

4. Contracts

In 2003, we recorded a \$51.0 million provision for expected losses on five multi-year contracts in our Provider Technologies segment's international business. Substantially all of the expected losses pertain to contracts that were entered into in 2001 or earlier. These contracts contained multiple-element deliverables, including customization of software. In addition, these contracts place significant reliance on third party vendors as well as the customers.

During the software development and implementation phases of these contracts, despite experiencing certain operational issues, we believed these contracts could be fully performed on a timely basis and remain profitable. In 2003, after experiencing numerous delays in product delivery and functionality, we conducted a reassessment of the contract delivery and project methodology, including assessment of our third party vendors' ability to perform under these contracts. We determined that certain contract obligations, including software functionality, could not be met within existing contract cost estimates and delivery dates. Accordingly in 2003, we reassessed our estimate of the costs to fulfill our contract obligations and recorded a \$51.0 million provision for the expected contract losses.

During the third quarter of 2004, the Company and a customer decided to exit one contract and had commenced discussions to mutually terminate the contract and negotiate settlement terms and conditions, and as a result, we recorded an additional \$20.0 million contract loss provision. In the fourth quarter of 2004, we reduced our accrued contract loss provision by \$15.2 million primarily to reflect the final terms and conditions of our termination agreement with this customer.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

5. Restructuring and Related Asset Impairments

Net charges (credits) from restructuring activities over the last three years were as follows:

<i>(In millions, except for number of employees)</i>	Years Ended March 31,		
	2005	2004	2003
By Expense Type:			
Severance	\$ 0.4	\$ 5.8	\$ (5.8)
Exit-related costs	0.1	(2.3)	(0.3)
Asset impairments	—	0.3	1.3
Subtotal	0.5	3.8	(4.8)
Customer settlement reserve reversals	(4.0)	(66.4)	(22.3)
Total	<u>\$ (3.5)</u>	<u>\$ (62.6)</u>	<u>\$ (27.1)</u>
By Segment:			
Pharmaceutical Solutions	\$ 0.6	\$ (0.2)	\$ 7.7
Medical-Surgical Solutions	0.3	0.6	(11.7)
Provider Technologies	(4.4)	(66.6)	(22.3)
Corporate	—	3.6	(0.8)
Total	<u>\$ (3.5)</u>	<u>\$ (62.6)</u>	<u>\$ (27.1)</u>
Number of employees terminated (primarily in distribution, delivery and associated back-office functions)	111	151	326

In 2005 and 2004, net charges for restructuring activities, excluding customer settlement reserve reversals, amounted to \$0.5 million and \$3.8 million. These charges related to a number of smaller initiatives offset in part by adjustments to prior years' restructuring reserves.

In 2003, net credits for restructuring activities, excluding customer settlement reserve reversals, amounted to \$4.8 million. These net credits primarily related to \$12.0 million of reversals of severance and exit-related accruals pertaining to our re-evaluation of our 2002 Medical-Surgical Solutions segment distribution center network consolidation plan. The original consolidation plan included a net reduction of 20 distribution centers, from 51, compared to a net reduction of 14 under the revised plan. Net credits for 2003 also include \$5.1 million of charges for additional facility closure costs associated with prior years' restructuring plans in our Pharmaceutical Solutions segment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes the activity related to the restructuring liabilities, excluding customer settlement reserves, for the three years ended March 31, 2005:

<i>(In millions)</i>	Pharmaceutical Solutions		Medical-Surgical Solutions		Provider Technologies		Corporate		Total
	Severance	Exit-Related	Severance	Exit-Related	Severance	Exit-Related	Severance	Exit-Related	
Balance, March 31, 2002	\$ 1.2	\$ 4.4	\$ 10.9	\$ 14.3	\$ 5.6	\$ 4.5	\$ 16.8	\$ 0.3	\$ 58.0
Current year expenses	0.8	1.1	—	—	—	—	—	—	1.9
Adjustments to prior years' expenses	(0.3)	5.1	(5.5)	(6.5)	—	—	(0.8)	—	(8.0)
Net expense for the period	0.5	6.2	(5.5)	(6.5)	—	—	(0.8)	—	(6.1)
Cash expenditures	(1.7)	(2.5)	(3.7)	(3.8)	(4.7)	(1.5)	(2.0)	(0.3)	(20.2)
Balance, March 31, 2003	—	8.1	1.7	4.0	0.9	3.0	14.0	—	31.7
Current year expenses	0.6	0.2	2.0	0.1	—	—	3.9	—	6.8
Adjustments to prior years' expenses	—	(1.3)	(0.4)	(1.1)	—	(0.2)	(0.3)	—	(3.3)
Net expense for the period	0.6	(1.1)	1.6	(1.0)	—	(0.2)	3.6	—	3.5
Cash expenditures	(0.2)	(1.8)	(1.6)	(1.1)	(0.7)	(0.9)	(7.1)	—	(13.4)
Balance, March 31, 2004	0.4	5.2	1.7	1.9	0.2	1.9	10.5	—	21.8
Current year expenses	—	0.2	0.7	—	—	—	—	—	0.9
Adjustments to prior years' expenses	(0.1)	0.5	(0.2)	(0.2)	—	(0.4)	—	—	(0.4)
Net expense for the period	(0.1)	0.7	0.5	(0.2)	—	(0.4)	—	—	0.5
Liabilities related to the MMC acquisition	—	—	1.7	—	—	—	—	—	1.7
Cash expenditures	(0.3)	(2.6)	(3.0)	(0.6)	—	(0.5)	(10.0)	—	(17.0)
Balance, March 31, 2005	\$ —	\$ 3.3	\$ 0.9	\$ 1.1	\$ 0.2	\$ 1.0	\$ 0.5	\$ —	\$ 7.0

Accrued restructuring liabilities are included in other liabilities in the consolidated balance sheets. In connection with the acquisition of MMC in 2005, we recorded \$1.7 million of liabilities for employee severance costs. The balances at March 31, 2004 for Corporate included approximately \$7 million of retirement costs, which were paid in April 2004.

In addition to the above restructuring activities, we are still managing a 2001/2000 restructuring plan associated with customer settlements for the discontinuance of overlapping and nonstrategic products and other product development projects within our Provider Technologies segment. Customer settlement reserves were established, reviewed and assessed on a customer and contract specific basis, and actual settlements for each customer varied significantly depending on the specific mix and number of products, and each customer contract or contracts. In 2005, 2004 and 2003, we reversed \$4.0 million, \$66.4 million and \$22.3 million of accrued customer settlement reserves into operating expenses due to favorable settlements and negotiations with affected customers. There have been no significant offsetting changes in estimates that increase the provision for customer settlements. Total cash and non-cash settlements of \$45.3 million and \$95.6 million have been incurred since the inception of this restructuring plan. Non-cash settlements represent write-offs of customer receivables.

During the third quarter of 2003, we had completed, on a cumulative basis, settlements with 71% of our affected customers. Additionally, we announced the general availability of a critical software component of our clinical strategy, which helped us refine our estimate of customers expected to move forward with the clinical product replacements and provided a more favorable prognosis of remaining settlements. Accordingly, we reversed \$22.3 million of the customer settlement reserve in the fiscal year. In 2004, we had significant settlement activity, including the completion and execution of a number of the more difficult customer settlements. As of March 31, 2004, we were substantially complete (97%) with our customer settlements. As a result, the customer settlement reserve was reduced by \$66.4 million. The reserves were further reduced by \$4.0 million based on favorable settlements finalized as of March 31, 2005. We do not anticipate additional significant adjustments to the customer settlement reserves.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes the activity related to the customer settlement reserves for the three years ended March 31, 2005:

<i>(In millions)</i>	Beginning Balance	Settlements		Reversals of Prior Years' Expenses	Ending Balance
		Cash	Non-cash		
March 31, 2003	\$ 133.4	\$ (13.0)	\$ (11.2)	\$ (22.3)	\$ 86.9
March 31, 2004	86.9	(2.1)	(12.2)	(66.4)	6.2
March 31, 2005	6.2	—	(0.6)	(4.0)	1.6

6. Gain (Loss) on Investments, Net

Gain (loss) on investments includes gains and losses from the sale or liquidation of investments and other-than-temporary impairment losses. We recorded other-than-temporary impairment losses of \$1.5 million and \$8.5 million in 2004 and 2003 on equity investments as a result of significant declines in the market values of these investments. We used quoted market prices, if available, to determine the fair value of our investments. For investments that do not trade regularly, we estimated fair value using a variety of pricing techniques including discounted cash flow analyses and market transactions.

7. Other Income, Net

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Interest income	\$ 41.0	\$ 28.5	\$ 24.4
Equity in earnings, net	14.8	7.4	12.2
Gain on sale of notes receivable	1.3	3.1	5.3
Other, net	11.6	10.4	3.2
Total	\$ 68.7	\$ 49.4	\$ 45.1

8. Earnings (Loss) Per Share

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings per 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. For 2005, because of our reported net loss, potentially dilutive securities were excluded from the per share computations due to their antidilutive effect.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The computations for basic and diluted earnings (loss) per share from continuing operations are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2005	2004	2003
Income (loss) from continuing operations	\$ (156.7)	\$ 646.5	\$ 562.1
Interest expense on convertible junior subordinated debentures, net of tax benefit	—	6.2	6.2
Income (loss) from continuing operations – diluted	<u>\$ (156.7)</u>	<u>\$ 652.7</u>	<u>\$ 568.3</u>
Weighted average common shares outstanding:			
Basic	293.5	290.0	289.3
Effect of dilutive securities:			
Options to purchase common stock	—	2.8	3.5
Convertible junior subordinated debentures	—	5.4	5.4
Restricted stock	—	0.4	0.6
Diluted	<u>293.5</u>	<u>298.6</u>	<u>298.8</u>
Earnings (loss) per share from continuing operations:			
Basic	\$ (0.53)	\$ 2.23	\$ 1.94
Diluted	<u>(0.53)</u>	<u>2.19</u>	<u>1.90</u>

Approximately 37.8 million and 33.3 million stock options were excluded from the computations of diluted net earnings per share in 2004 and 2003 as their exercise price was higher than the Company's average stock price.

9. Receivables, net

<i>(In millions)</i>	March 31,	
	2005	2004
Customer accounts	\$5,281.6	\$4,986.1
Other	609.2	609.5
Total	5,890.8	5,595.6
Allowances	(159.3)	(176.8)
Net	<u>\$5,731.5</u>	<u>\$5,418.8</u>

The allowances are for uncollectible accounts, discounts, returns, refunds, customer settlements and other adjustments.

10. Property, Plant and Equipment, net

<i>(In millions)</i>	March 31,	
	2005	2004
Land	\$ 35.8	\$ 34.2
Building, machinery and equipment	1,398.3	1,289.1
Total property, plant and equipment	1,434.1	1,323.3
Accumulated depreciation	(803.6)	(723.4)
Property, plant and equipment, net	<u>\$ 630.5</u>	<u>\$ 599.9</u>

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

11. Goodwill and Other Intangibles

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	Pharmaceutical Solutions	Medical-Surgical Solutions	Provider Technologies	Total
Balance, March 31, 2003	\$ 264.6	\$ 722.1	\$ 367.5	\$1,354.2
Goodwill acquired	30.0	3.1	1.8	34.9
Translation adjustments	3.1	—	13.6	16.7
Balance, March 31, 2004	297.7	725.2	382.9	1,405.8
Goodwill acquired	24.5	18.8	3.9	47.2
Sale of business	(10.3)	—	—	(10.3)
Translation adjustments	1.1	—	8.6	9.7
Balance, March 31, 2005	\$ 313.0	\$ 744.0	\$ 395.4	\$1,452.4

Information regarding other intangible assets is as follows:

<i>(In millions)</i>	March 31,	
	2005	2004
Customer lists	\$ 102.8	\$ 92.9
Technology	71.0	61.2
Trademarks and other	32.7	23.8
Gross intangibles	206.5	177.9
Accumulated amortization	(117.1)	(93.5)
Other intangible assets, net	\$ 89.4	\$ 84.4

Amortization expense of other intangible assets was \$23.6 million, \$21.2 million and \$18.2 million for 2005, 2004 and 2003. The weighted average remaining amortization period for customer lists, technology, and trademarks and other intangible assets at March 31, 2005 was: 8 years, 4 years and 4 years. Estimated future annual amortization expense of these assets is as follows: \$18.9 million, \$18.7 million, \$15.0 million, \$6.5 million and \$2.0 million for 2006 through 2010, and \$7.2 million thereafter. At March 31, 2005, there were \$21.1 million of other intangible assets not subject to amortization.

12. Long-Term Debt and Other Financing

<i>(In millions)</i>	March 31,	
	2005	2004
8.91% Series A Senior Notes due February, 2005	\$ —	\$ 100.0
8.95% Series B Senior Notes due February, 2007	20.0	20.0
9.13% Series C Senior Notes due February, 2010	215.0	215.0
6.30% Notes due March, 2005	—	150.0
6.40% Notes due March, 2008	150.0	150.0
7.75% Notes due February, 2012	398.6	398.4
7.65% Debentures due March, 2027	175.0	175.0
5.00% Convertible Junior Subordinated Debentures due June 2027	206.2	206.2
ESOP related debt (see Financial Note 15)	36.1	52.5
Other	9.6	17.5
Total debt	1,210.5	1,484.6
Less current portion	8.8	274.8
Total long-term debt	\$1,201.7	\$1,209.8

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Convertible Junior Subordinated Debentures

In February 1997, we issued 5% Convertible Junior Subordinated Debentures (the “Debentures”) in an aggregate principal amount of \$206,186,000. The Debentures, which are included in long-term debt, mature on June 1, 2027, bear interest at an annual rate of 5%, payable quarterly, and are currently redeemable by us at 101.0% of the principal amount. The Debentures were purchased by the McKesson Financing Trust (“Trust”), which is wholly owned by the Company, with proceeds from its issuance of four million shares of preferred securities to the public and 123,720 common securities to us. These preferred securities are convertible at the holder’s option into the Company’s common stock. The Debentures represent the sole assets of the Trust. The Company was not designated as the primary beneficiary of the Trust and as a result, does not consolidate its investment in the Trust.

Holders of the preferred securities are entitled to cumulative cash distributions at an annual rate of 5% of the liquidation amount of \$50 per security. Each preferred security is convertible at the rate of 1.3418 shares of the Company’s common stock, subject to adjustment in certain circumstances. The preferred securities will be redeemed upon repayment of the Debentures and are callable by us on or after March 4, 2000, in whole or in part, initially at 103.5% of the liquidation preference per share, and thereafter at prices declining at 0.5% per annum to 100% of the liquidation preference on and after March 4, 2007 plus, in each case, accumulated, accrued and unpaid distributions, if any, to the redemption date.

We have guaranteed, on a subordinated basis, distributions and other payments due on the preferred securities (the “Guarantee”). The Guarantee, when taken together with our obligations under the Debentures, and in the indenture pursuant to which the Debentures were issued, and our obligations under the Amended and Restated Declaration of Trust governing the subsidiary trust, provides a full and unconditional guarantee of amounts due on the preferred securities.

Other Financing

In September 2004, we entered into a \$1.3 billion five-year, senior unsecured revolving credit facility. Borrowings under the new credit facility bear interest at a fixed base rate, or a floating rate based on the London Interbank Offering Rate (“LIBOR”) rate or a Eurodollar rate. Effective as of the closing date of the new credit facility agreement, we terminated the commitments under a \$550 million, three-year revolving credit facility that would have expired in September 2005 and a \$650 million, 364-day credit facility that would have expired in September 2004. At March 31, 2005, no amounts were outstanding under the revolving credit facility.

In June 2004, we renewed our committed revolving receivables sale facility under substantially similar terms to those previously in place, with the exception that the facility was increased by \$300.0 million to \$1.4 billion. The renewed facility expires in June 2005. At March 31, 2005 and March 31, 2004, no amounts were outstanding or utilized under the receivables sale facility.

In 2005, 2004 and 2003, we sold customer lease portfolio receivables for cash proceeds of \$50.7 million, \$45.4 million and \$117.9 million.

The employee stock ownership program (“ESOP”) debt bears interest at rates ranging from 8.6% fixed rate to approximately 89% of the London Interbank Offering Rate (“LIBOR”) or LIBOR plus 0.4% and is due in semi-annual and annual installments through 2009.

Our various borrowing facilities and certain long-term debt instruments are subject to covenants. Our principal debt covenant is our debt to capital ratio, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility and \$235.0 million of term debt could be accelerated. At March 31, 2005, this ratio was 18.7% and we were in compliance with all other covenants.

Aggregate annual payments on long-term debt, including capital lease obligations, for the years ending March 31, are as follows: \$8.8 million in 2006, \$27.5 million in 2007, \$157.5 million in 2008, \$8.0 million in 2009, \$222.9 million in 2010 and \$785.8 million thereafter.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

13. Financial Instruments and Hedging Activities

At March 31, 2005 and 2004, the carrying amounts of cash and cash equivalents, marketable securities, receivables, drafts and accounts payable, and other liabilities approximated their estimated fair values because of the short maturity of these financial instruments. The carrying amounts and estimated fair values of our long-term debt were \$1,210.5 million and \$1,334.5 million at March 31, 2005 and \$1,484.6 million and \$1,701.8 million at March 31, 2004. The estimated fair value of our long-term debt was determined based on quoted market prices and may not be representative of actual values that could have been realized or that will be realized in the future.

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

The net fair value of our derivatives was as follows:

<i>(In millions)</i>	Hedge Designation	March 31,			
		2005		2004	
		Fair Value	Maturity	Fair Value	Maturity
Net asset (liability):					
Interest rate swaps	Fair Value	\$ —		\$ 6.4	2005
Foreign currency exchange contracts	Fair Value	(13.1)	Various dates through 2009	(6.4)	Various dates through 2008
Total		\$ (13.1)		\$ —	

14. Lease Obligations

We lease facilities and equipment under both capital and operating leases. Net assets held under capital leases included in property, plant and equipment were \$3.0 million and \$4.5 million at March 31, 2005 and 2004. Rental expense under operating leases was \$115.4 million, \$111.0 million and \$109.6 million in 2005, 2004 and 2003. 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. Most real property leases contain renewal options and provisions requiring us to pay property taxes and operating expenses in excess of base period amounts.

Future minimum lease payments and sublease rental income for years ending March 31 are:

<i>(In millions)</i>	Non-cancelable Operating Leases	Non-cancelable Sublease Rentals	Capital Leases
2006	\$ 84.4	\$ 5.1	\$ 1.0
2007	73.0	4.1	0.5
2008	47.0	1.9	0.1
2009	29.0	0.6	0.1
2010	24.2	0.4	0.1
Thereafter	57.2	1.9	0.6
Total minimum lease payments	\$ 314.8	\$ 14.0	2.4
Less amounts representing interest			(0.3)
Present value of minimum lease payments			\$ 2.1

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

15. Pension Benefits

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

Defined Pension Benefit Plans

Eligible U.S. employees who were employed by the Company prior to December 31, 1996 are covered under the Company-sponsored defined benefit retirement plan. In 1997, we amended this plan to freeze all plan benefits based on each employee's plan compensation and creditable service accrued to that date. The Company has made no annual contributions since this plan was frozen. The benefits for this defined benefit retirement plan are based primarily on age of employees at date of retirement, years of service and employees' pay during the five years prior to retirement. We also have defined benefit pension plans for eligible Canadian and United Kingdom employees as well as nonqualified supplemental defined benefit plans for certain U.S. executives, which are non-funded. The measurement date for all of our pension plans is December 31.

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

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Service cost—benefits earned during the year	\$ 5.7	\$ 6.8	\$ 6.0
Interest cost on projected benefit obligation	26.0	27.2	26.4
Expected return on assets	(30.1)	(25.9)	(30.5)
Amortization of unrecognized loss, prior service costs and net transitional obligation	9.1	11.9	2.9
Immediate recognition of pension cost	7.6	—	1.3
Settlement charges	11.8	—	—
Net periodic pension expense	\$ 30.1	\$ 20.0	\$ 6.1

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

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

<i>(In millions)</i>	Years Ended March 31,	
	2005	2004
Change in benefit obligations		
Benefit obligation at beginning of year	\$ 465.2	\$ 406.1
Service cost	5.7	6.8
Interest cost	26.0	27.2
Participant contributions	0.8	1.2
Amendments	10.9	1.4
Immediate recognition of pension cost	7.6	—
Actuarial losses	19.0	42.1
Benefit payments	(70.6)	(27.5)
Foreign exchange impact	3.0	7.9
Benefit obligation at end of year	<u>467.6</u>	<u>465.2</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 371.7	\$ 322.1
Actual return on plan assets	42.7	65.3
Employer and participant contributions	52.6	7.2
Expenses paid	(1.0)	(0.8)
Benefits paid	(70.6)	(27.5)
Foreign exchange impact	1.9	5.4
Fair value of plan assets at end of year	<u>\$ 397.3</u>	<u>\$ 371.7</u>

The accumulated benefit obligations for our pension plans were \$451.6 million at March 31, 2005 and \$449.5 million at March 31, 2004.

In April 2004, we made several lump sum cash payments totaling \$41.6 million from an unfunded U.S. pension plan. In accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," \$11.8 million in settlement charges associated with these payments were expensed in the first quarter of 2005.

A reconciliation of the pension plans' funded status to the net asset recognized is as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2005	2004
Funded status		
Funded status at end of year	\$ (70.3)	\$ (93.5)
Unrecognized net actuarial loss and transitional obligations	110.8	120.4
Unrecognized prior service cost	15.1	6.1
Employer contributions	2.7	1.5
Prepaid benefit cost	<u>\$ 58.3</u>	<u>\$ 34.5</u>
Net amounts recognized in the consolidated balance sheets		
Prepaid benefit cost	105.8	100.6
Accrued benefit cost	(91.0)	(112.3)
Intangible asset	15.0	5.9
Accumulated other comprehensive loss, net of tax of \$10.0 and \$14.6	<u>18.5</u>	<u>25.7</u>
Net asset	<u>\$ 48.3</u>	<u>\$ 19.9</u>

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Additional minimum liabilities were established to increase accrued benefit cost, totaling \$43.6 million and \$46.2 million at March 31, 2005 and 2004 for our plans. The additional minimum liabilities were partially offset by intangible assets of \$15.0 million and \$5.9 million at March 31, 2005 and 2004, and charged to other comprehensive loss included in the consolidated stockholders' equity, net of tax.

Projected benefit obligations relating to our unfunded U.S. plans were \$77.9 million and \$99.3 million at March 31, 2005 and 2004. Pension costs are funded based on the recommendations of independent actuaries. We expect contributions for our pension plans in 2006 to be approximately \$10 million.

Expected benefit payments for our pension plans are as follows:

<i>(In millions)</i>	
2006	\$ 27.9
2007	25.9
2008	29.5
2009	25.5
2010	23.4
2011 – 2015	184.8

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

Weighted average asset allocations of the investment portfolio for our pension plans at December 31 and target allocations are as follows:

<i>(In millions)</i>	Target Allocation	Percentage of Fair Value of Total Plan Assets	
		2005	2004
Assets Category			
U.S. equity securities	46%	46%	46%
International equity securities	16%	17%	17%
Fixed income	31%	29%	28%
Other	7%	8%	9%
Total	100%	100%	100%

We develop our expected long-term rate of return assumption based on the historical experience of our portfolio and the review of projected returns by asset class on broad, publicly traded equity and fixed-income indices. Our target asset allocation was determined based on the risk tolerance characteristics of the plan and, at times, may be adjusted to achieve our overall investment objective.

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

	2005	2004	2003
Net periodic expense			
Discount rates	6.00%	6.58%	6.42%
Rate of increase in compensation	4.00	4.00	4.00
Expected long-term rate of return on plan assets	8.23	8.21	8.21
Benefit obligation			
Discount rates	5.75%	6.00%	6.27%
Rate of increase in compensation	4.00	4.00	4.00
Expected long-term rate of return on plan assets	8.23	8.21	8.21

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Other Defined Benefit Plans

Under various U.S. bargaining unit labor contracts, we make payments into multi-employer pension plans established for union employees. We are liable for a proportionate part of the plans' unfunded vested benefits liabilities upon our withdrawal from the plan, however information regarding the relative position of each employer with respect to the actuarial present value of accumulated benefits and net assets available for benefits is not available. Contributions to the plans and amounts accrued were not material for the years ended March 31, 2005, 2004 and 2003.

Defined Contribution Plans

We have a contributory profit sharing investment plan ("PSIP") for U.S. employees not covered by collective bargaining arrangements. Eligible employees may contribute up to 20% of their compensation to an individual retirement savings account. The Company makes matching contributions equal to or greater than 50% of employee contributions, not to exceed 3% of employee compensation. An additional annual matching contribution may be granted at the discretion of the Company. The Company provides for the PSIP contributions primarily with its common shares through its leveraged ESOP or cash payments.

The ESOP has purchased an aggregate of 24.3 million shares of the Company's common stock since its inception. These purchases were financed by 10 to 20-year loans from or guaranteed by us. The ESOP's outstanding borrowings are reported as long-term debt of the Company and the related receivables from the ESOP are shown as a reduction of stockholders' equity. The loans are repaid by the ESOP from interest earnings on cash balances and common dividends on shares not yet allocated to participants, common dividends on certain allocated shares and Company cash contributions. The ESOP loan maturities and rates are identical to the terms of related Company borrowings. Stock is made available from the ESOP based on debt service payments on ESOP borrowings.

Contribution expense for the PSIP in 2005, 2004 and 2003 was primarily ESOP related. After-tax ESOP expense and other contribution expense, including interest expense on ESOP debt, was \$9.1 million, \$7.8 million and \$7.9 million in 2005, 2004 and 2003. Approximately 0.8 million, 1.6 million and 1.7 million shares of common stock were allocated to plan participants in 2005, 2004 and 2003. Through March 31, 2005, 21.6 million common shares have been allocated to plan participants, resulting in a balance of 2.7 million common shares in the ESOP, which have not yet been allocated to plan participants.

16. Other Postretirement Benefits

We maintain a number of postretirement benefits, consisting of healthcare and life insurance benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retire 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. The measurement date for our postretirement plans is December 31.

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

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Service cost—benefits earned during the year	\$ 2.1	\$ 2.1	\$ 1.3
Interest cost on projected benefit obligation	10.7	11.5	11.0
Amortization of unrecognized loss and prior service costs	22.0	23.3	16.7
Net periodic postretirement expense	\$ 34.8	\$ 36.9	\$ 29.0

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

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

<i>(In millions)</i>	Years Ended March 31,	
	2005	2004
Change in benefit obligations		
Benefit obligation at beginning of year	\$ 213.4	\$ 178.3
Service cost	2.1	2.1
Interest cost	10.7	11.5
Immediate recognition of actuarial losses	(0.6)	39.0
Benefit payments	(19.7)	(17.5)
Benefit obligation at end of year	\$ 205.9	\$ 213.4

As described in Note 1, we adopted the provisions of FSP No. FAS 106-2 in the second quarter of 2005. The expected Medicare subsidy had the effect of reducing the Company's accumulated postretirement benefit obligations by approximately \$19 million. This reduction is recognized as an actuarial gain and amortized over three years. The expected subsidy also resulted in a nominal reduction in interest cost in 2005. As required by the FSP, the Company recognized total reductions in postretirement benefit expense of \$7.4 million in 2005.

A reconciliation of the other postretirement plans' funded status to the net liability recognized is as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2005	2004
Funded status		
Funded status at end of year	\$ (205.9)	\$ (213.4)
Unrecognized net actuarial loss	40.9	64.4
Unrecognized prior service cost	(2.4)	(3.3)
Accrued benefit cost recognized in the consolidated balance sheet	\$ (167.4)	\$ (152.3)

Other postretirement benefits are funded as claims are paid. Expected benefit payments for our other postretirement benefit plans, net of expected Medicare subsidy receipts, are as follows:

<i>(In millions)</i>	
2006	\$ 20.9
2007	21.3
2008	21.4
2009	21.2
2010	20.9
2011 - 2015	113.0

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

Weighted-average assumptions used to estimate other postretirement benefit expenses and the actuarial present value of benefit obligations were as follows:

	2005	2004	2003
Net periodic expense			
Discount rates	6.00%	6.75%	7.25%
Benefit obligation			
Discount rates	5.75%	6.00%	6.75%

Actuarial losses for the postretirement benefit plan are amortized over a three-year period. The assumed healthcare cost trends used in measuring the accumulated postretirement benefit obligation were 15% and 14% for prescription drugs, 13% and 15% for medical and 6% and 7% for dental in 2005 and 2004. The healthcare cost trend rate assumption has a significant effect on the amounts reported. The table below presents the impact of a one-

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

percentage-point increase and a one-percentage-point decrease in the assumed healthcare cost trend rate on the total service and interest cost components and on the postretirement benefit obligation:

<i>(In millions)</i>	2005	2004	2003
One-percentage-point increase			
Effect on total service and interest cost components	\$ 1.1	\$ 1.2	\$ 0.9
Effect on postretirement benefit obligation	13.8	13.0	10.7
One-percentage-point decrease			
Effect on total service and interest cost components	(1.0)	(1.0)	(0.8)
Effect on postretirement benefit obligation	(12.3)	(11.5)	(9.5)

17. Income Taxes

The provision (benefit) for income taxes related to continuing operations consists of the following:

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Current			
Federal	\$ 236.7	\$ 157.4	\$ 117.2
State and local	(0.8)	25.3	21.1
Foreign	9.8	12.7	24.4
Total current	245.7	195.4	162.7
Deferred			
Federal	(277.1)	73.9	116.3
State and local	(52.3)	1.8	31.4
Foreign	0.6	(6.2)	(21.1)
Total deferred	(328.8)	69.5	126.6
Income tax provision (benefit)	\$ (83.1)	\$ 264.9	\$ 289.3

In 2005, we recorded an income tax benefit of \$390 million for the Securities Litigation described in more detail in Financial Note 19. We believe the settlement of the consolidated securities class action and the ultimate resolution of the lawsuits brought independently by other shareholders will be tax deductible. However, the tax attributes of the litigation are complex and the Company expects challenges from the taxing authorities, and accordingly such deductions will not be finalized until all the lawsuits are concluded and an examination of the Company's tax returns is completed. Accordingly, we have provided a reserve of \$85 million for future resolution of these uncertain tax matters. While we believe the tax reserve is adequate, the ultimate resolution of these tax matters may exceed or be below the reserve.

In 2005, we recorded a \$9.6 million income tax benefit arising primarily from settlements and adjustments with various taxing authorities and a \$2.8 million income tax benefit primarily due to a reduction of a valuation allowance related to state income tax net operating loss carryforwards. We believe that the income tax benefit from a portion of these state net operating loss carryforwards will now be realized.

In 2004, we recorded a \$23.2 million income tax benefit relating to favorable tax settlements with the U.S. Internal Revenue Service and with various other taxing authorities. A large portion of this benefit, which was not previously recognized by the Company, resulted from the filing of amended tax returns by our subsidiary, McKesson Information Solutions LLC (formerly known as HBO & Company ("HBOC")) for the years ended December 31, 1998 and 1997.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining the estimated worldwide provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional amounts will be due. As of March 31, 2005, approximately \$242 million has been accrued for such matters. To the extent that the final tax

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outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory tax rate is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Income taxes at federal statutory rate	\$ (83.9)	\$ 319.0	\$ 298.0
State and local income taxes net of federal tax benefit	(34.5)	17.6	34.0
Foreign tax rate differential	(72.0)	(63.4)	(50.0)
Reserve for Securities Litigation charge	85.0	—	—
Nondeductible/nontaxable items	5.9	(3.0)	0.1
Tax settlements	8.0	6.6	6.6
Other—net	8.4	(11.9)	0.6
Total income taxes	\$ (83.1)	\$ 264.9	\$ 289.3

Foreign pre-tax earnings were \$235.4 million, \$199.7 million and \$152.2 million in 2005, 2004 and 2003. At March 31, 2005, undistributed earnings of our foreign operations totaling \$621.9 million were considered to be permanently reinvested. No deferred tax liability has been recognized for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations as well as to fund certain research and development activities for an indefinite period of time, or to repatriate such earnings when it is tax efficient to do so. The determination of the amount of deferred taxes on these earnings is not practicable since the computation would depend on a number of factors that cannot be known until a decision to repatriate the earnings is made.

As discussed in Note 1, on October 22, 2004, the AJCA was signed into law. The AJCA provides a one-time 85% dividends received deduction for certain foreign earnings that are repatriated under a plan for reinvestment in the United States, provided certain criteria are met. FSP No. 109-2 allows companies additional time to evaluate the effects of the law on its unremitted earnings for the purpose of applying the "indefinite reversal criteria" under APB Opinion No. 23, "Accounting for Income Taxes — Special Areas", and requires explanatory disclosures from companies that have not yet completed the evaluation. The Company is currently analyzing the effects of the repatriation provision and their impact on our consolidated financial statements. We expect to complete this evaluation before the end of 2006. The range of possible amounts of undistributed earnings that is being considered for repatriation under this provision is between zero and \$500 million. The related potential range of income tax is between zero and \$27.7 million.

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Deferred tax balances consisted of the following:

<i>(In millions)</i>	March 31,	
	2005	2004
Assets		
Receivable allowances	\$ 74.6	\$ 79.2
Deferred revenue	241.5	176.9
Compensation and benefit-related accruals	119.3	110.8
Deferred compensation	50.9	68.4
Intangibles	44.1	51.3
Investment valuation	15.3	15.8
Securities Litigation	475.0	—
Loss and credit carryforwards	51.7	45.8
Other	132.5	65.7
Subtotal	1,204.9	613.9
Less: valuation allowance	(3.9)	(20.4)
Total assets	<u>\$ 1,201.0</u>	<u>\$ 593.5</u>
Liabilities		
Basis differences for inventory valuation and other assets	\$ (767.2)	\$ (515.9)
Basis difference for fixed assets	(53.2)	(47.4)
Systems development costs	(114.4)	(115.5)
Retirement plans	(15.2)	(13.8)
Other	(76.1)	(57.0)
Total liabilities	(1,026.1)	(749.6)
Net deferred tax asset (liability)	<u>\$ 174.9</u>	<u>\$ (156.1)</u>
Current net deferred tax asset (liability)	\$ 149.8	\$ (187.7)
Long term net deferred tax asset	25.1	31.6
Net deferred tax asset (liability)	<u>\$ 174.9</u>	<u>\$ (156.1)</u>

We have income tax net operating loss carryforwards related to our U.K. operations of approximately \$88.3 million, which have an indefinite life.

We also have state income tax net operating loss carryforwards of approximately \$259.6 million which will expire at various dates from 2006 through 2025. We believe that it is more likely than not that the benefit from certain state net operating loss carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance of \$3.9 million on the deferred tax assets relating to these state net operating loss carryforwards.

In 2005, we have reversed a portion of the valuation allowance related to these state net operating loss carryforwards, of which \$10.2 million of the tax benefit, net of impairment, was credited to equity.

18. Financial Guarantees and Warranties

Financial Guarantees

We have agreements with certain of our customers' financial institutions under which we have guaranteed the repurchase of inventory (primarily for our Canadian business) at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other requirements, these inventories must be in resalable condition. We have also guaranteed loans, credit facilities and the payment of leases for some customers; and we are a secured lender for substantially all of these guarantees. Customer guarantees range from one to ten years and were primarily provided to facilitate financing for certain strategic customers. At March 31, 2005, the maximum amounts of inventory repurchase guarantees and other customer guarantees were \$179.5 million and \$10.3 million of which a nominal amount had been accrued.

In 2004, a Pharmaceutical Solutions customer filed for bankruptcy. Accordingly, we reviewed all amounts owed to us from this customer as well as financial guarantees provided to third parties in favor of this customer, and

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as a result, we increased our provision for doubtful accounts by \$30.0 million. On April 21, 2004, we converted a \$40.0 million credit facility guarantee in favor of this customer to a note receivable due from this customer. This secured note bears interest and is repayable in 2007. In conjunction with this modification, an inventory repurchase guarantee in favor of this customer for approximately \$12 million was also terminated. The amount due under the note receivable from this customer was approximately \$36 million at March 31, 2005.

At March 31, 2005, we had commitments of \$8.5 million, primarily consisting of the purchase of services from our equity-held investments, for which no amounts had been accrued.

The expirations of the above noted financial guarantees and commitments are as follows: \$27.7 million, \$34.8 million, \$2.6 million, \$1.6 million and \$0.1 million from 2006 through 2010, and \$131.5 million thereafter.

In addition, our banks and insurance companies have issued \$84.9 million of standby letters of credit and surety bonds on our behalf 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 on 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 significant 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 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 automation 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. Revenue from these maintenance agreements is 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.

19. Other Commitments and Contingent Liabilities

I. Accounting Litigation

Since the announcements by McKesson in April, May and July of 1999 that McKesson had determined that certain software sales transactions in its Information Solutions segment, formerly HBO & Company ("HBOC") and now known as McKesson Information Solutions LLC, were improperly recorded as revenue and reversed, as of March 31, 2005, ninety-one lawsuits have been filed against McKesson, HBOC, certain of McKesson's or HBOC's current or former officers or directors, and other defendants, including Bear Stearns & Co. Inc. and Arthur Andersen LLP.

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Federal Actions

On January 12, 2005, we announced that we reached an agreement to settle the previously-reported class action in the Northern District of California captioned: *In re McKesson HBOC, Inc. Securities Litigation* (Case No. C-99-20743 RMW) (the “Consolidated Action”) pending before the Honorable Ronald M. Whyte of the United States District Court (the “Court”) for the Northern District of California. In general, under the agreement to settle the Consolidated Action, we will pay the settlement class a total of \$960 million in cash and accordingly, in the third quarter of 2005, we accrued this amount. The settlement will resolve the Consolidated Action as to all defendants, other than Arthur Andersen LLP and Bear Stearns & Co Inc. Other previously reported federal and state cases are not resolved by the settlement. The settlement agreement is subject to various conditions, including, but not limited to, preliminary approval by the Court, notice to the Class and final approval by the Court after a hearing. Judge Whyte held a hearing on March 25, 2005, to determine whether to grant preliminary approval of the settlement, but has not yet issued a decision.

The previously-reported individual actions in the Northern District of California captioned *Jacobs v. McKesson HBOC, Inc., et al.* (C-99-21192 RMW), *Jacobs v. HBO & Company* (Case No. C-00-20974 RMW), *Bea v. McKesson HBOC, Inc. et al.* (Case No. C-00-20072 RMW), *Cater v. McKesson Corporation et al.* (Case No. C-00-20327 RMW), *Baker v. McKesson HBOC, Inc., et al.* (Case No. CV 00-0188), *Pacha, et al. v. McKesson HBOC, Inc., et al.* (Case No. C01-20713 PVT), and *Hess v. McKesson HBOC, Inc. et al.* (Case No. C-20003862), remain stayed and are consolidated with the Consolidated Action.

The related federal class action, *In re McKesson HBOC Inc. ERISA Litigation* (Northern District of California No. C-02-0685 RMW) (the “ERISA Action”), pending before Judge Whyte, involves ERISA claims brought on behalf of the HBOC Profit Sharing and Savings Plan (the “HBOC Plan”) and the McKesson Profit Sharing and Investment Plan (the “McKesson Plan”), as well as participants in those plans. On May 6, 2005, a Stipulation and Agreement of Settlement was executed for that portion of the ERISA Action that involves HBOC Plan claims. The proposed settlement resolves all claims by the HBOC Plan and its participants in consideration of an \$18.2 million cash payment by the Company. The settlement is subject to various conditions, including, but not limited to, notice to the class and final approval by the Court. Judge Whyte has scheduled a hearing on final approval of the HBOC Plan settlement for September 9, 2005. The separate ERISA claims of the McKesson Plan and its participants are not resolved by this settlement. The Company’s motion to dismiss those claims remains pending before this Court.

State Actions

Twenty-four actions have been filed in various state courts in California, Colorado, Delaware, Georgia, Louisiana and Pennsylvania (the “State Actions”). Like the Consolidated Action, the State Actions generally allege misconduct by McKesson or HBOC (and others) in connection with the events leading to McKesson’s decision to restate HBOC’s financial statements. Ten of those state court actions remain pending in California and Georgia.

In the previously-reported actions pending in California Superior Court captioned *Yurick v. McKesson HBOC, Inc. et al.* (Case No. 303857), *The State of Oregon by and through the Oregon Public Employees Retirement Board v. McKesson HBOC, Inc. et al.* (Case No. 307619), *Utah State Retirement Board v. McKesson HBOC, Inc. et al.* (Case No. 311269), *Minnesota State Board of Investment v. McKesson HBOC, Inc. et al.* (Case No. 311747), and *Merrill Lynch Fundamental Growth Fund et al. v. McKesson HBOC, Inc. et al.* (Case No. CGC-02-405792) (“Merrill Lynch”), the trial court has set a trial date of October 3, 2005. The Merrill Lynch plaintiffs have moved for summary judgment on their common law fraud claim, and the hearing on that motion is presently set for July 1, 2005.

Five previously-reported actions remain pending in Georgia state courts: *Suffolk Partners Limited Partnership et al. v. McKesson HBOC, Inc. et al.* (Georgia State Court, Fulton County, Case No. 00VS010469A); *Curran Partners, L.P. v. McKesson HBOC, Inc. et al.* (Georgia State Court, Fulton County, Case No. 00 VS 010801); *Holcombe T. Green and HTG Corp. v. McKesson, Inc. et al.* (Georgia Superior Court, Fulton County, Case No. 2002-CV-48407); *Hall Family Investments, L.P. v. McKesson, Inc. et al.* (Georgia Superior Court, Fulton County, Case No. 2002-CV-48612); and *James Gilbert v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 02VS032502C.) The allegations in these actions are substantially similar to those in the Consolidated Action. The Company and HBOC have answered the complaints in each of these actions, generally denying the allegations and any liability to plaintiffs. The *Green* and *Hall Family Investments* actions have been consolidated for purposes of discovery and may be consolidated for purposes of trial. Discovery in the *Suffolk*

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Partners, Curran Partners, Green, and Hall Family Investments actions is proceeding in coordination with the Consolidated Action. The *Gilbert* action has been stayed until final disposition of the Consolidated Action. No trial date has been set for any of these actions.

As a result of the Company's various pretrial motions, only a single post-merger accounting oversight claim against the directors of post-merger McKesson remains to be litigated in the previously-reported action captioned: *Saito, et. al. v. McCall* (Civil Action No. 17132.) The Company filed its answer to the Fourth Amended Complaint in *Saito* on February 8, 2005. The parties are currently engaged in discovery. No trial date has been set.

On March 30, 2004, the United States Attorney's Office for the Northern District of California filed a three count indictment against former McKesson Executive Vice President and Chief Financial Officer, Richard H. Hawkins, charging him with conspiracy to commit securities and wire fraud, securities fraud, and making false statements to an accountant. On March 31, 2004, Hawkins pled not guilty to the charges. The Hawkins court trial closed on March 11, 2005. No verdict has yet been issued.

During the third quarter of 2005, we also established a reserve of \$240 million, which the Company believes will be adequate to address its remaining potential exposure with respect to all other previously reported Accounting Litigation, including the State Actions discussed above. That sum includes the proposed \$18.2 million settlement amount in the HBOC Plan ERISA Action noted above. However, in view of the number of remaining cases, the uncertainties of the timing and outcome of this type of litigation, and the substantial amounts involved, it is possible that the ultimate costs of these matters may exceed or be less than the reserve. The range of possible resolutions of these proceedings could include judgments against the Company or settlements that could require payments by the Company in addition to the reserve, which could have a material adverse impact on McKesson's financial position, results of operations and cash flows.

II. Other Litigations and Claims

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for product liability and other damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. These include:

Product Liability Litigation and Other Claims

Our subsidiary, McKesson Medical-Surgical Inc., is one of multiple defendants in approximately 11 cases in which plaintiffs claim they were injured due to exposure, over many years, to latex proteins in gloves manufactured by numerous manufacturers and distributed by a number of distributors, including McKesson Medical-Surgical Inc. Efforts to resolve tenders of defense to its suppliers are continuing and final agreements have been reached with two major suppliers.

We, along with more than 100 other companies, have been named in a lawsuit brought in 2000 by the Lemelson Medical, Educational & Research Foundation (the "Foundation") alleging that we and our subsidiaries are infringing seven (7) U.S. patents relating to common bar code scanning technology and its use for the automated management and control of product inventory, warehousing, distribution and point-of-sale transactions. Due to the pendency of earlier litigation brought against the Foundation by the manufacturers of bar code devices attacking the validity of the patents at issue, the court stayed the suit against the Company until the conclusion of the earlier case, including any appeals that may be taken. The trial in this earlier case concluded in January 2003 and the court subsequently ruled that each of the patents at issue was unenforceable due to prosecutorial laches. The case is now on appeal to the Federal Circuit Court of Appeals. It is anticipated that oral argument will not occur before May of 2005. While the suit against the Company was stayed, the U.S. Patent and Trademark Office granted petitions for reexamination of 3 of the 7 patents asserted by the Foundation against the Company. The reexamination will determine, among other things, whether these patents have expired. Each of the remaining 4 patents in the action has already expired by its own terms, or by the Foundation's disclaiming the remaining portion of the patent's life.

The Company is a defendant in approximately 110 California cases alleging that the plaintiffs were injured by Vioxx, an anti-inflammatory drug manufactured by Merck & Company ("Merck"). The cases typically assert causes of action for strict liability, negligence, breach of warranty and false advertising for improper design, testing, manufacturing, and warnings relating to the manufacture and distribution of Vioxx. None of the cases involving the

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Company is scheduled for trial. The Company has tendered each of these cases to Merck and has reached an agreement with Merck to defend and indemnify the Company.

The Company is a defendant in approximately 42 cases alleging that the plaintiffs were injured because they took the drugs known as fen-phen, the term commonly used to describe the weight-loss combination of fenfluramine or dexfenfluramine with phentermine. The Company has been named as a defendant along with several other defendants in 41 cases; and has accepted the tender of one of its customers named as defendant in the one remaining case. The cases are pending in state courts in California and Mississippi and in state and federal courts in Florida and New York, and typically assert causes of action for strict liability, negligence, breach of warranty, false advertising and unfair business practices for improper design, testing, manufacturing and warnings relating to the distribution and/or prescription of fen-phen. The Company has tendered each of these cases to its suppliers and has reached an agreement with its major supplier to defend and indemnify the Company and its customers.

We, through our former McKesson Chemical Company division, are named in approximately 200 cases involving the alleged distribution of asbestos. These cases typically involve either single or multiple plaintiffs claiming personal injuries and unspecified compensatory and punitive damages as a result of exposure to asbestos-containing materials. Pursuant to an indemnification agreement signed at the time of the 1986 sale of McKesson Chemical Company to what is now called Univar USA Inc. ("Univar"), we have tendered each of these actions to Univar. Univar has raised questions concerning the extent of its obligations under the indemnification agreement, and while Univar continues to defend us in many of these cases, it has been rejecting our tenders of new cases since February 2005. We believe Univar remains obligated for all tendered cases under the terms of the indemnification agreement, however we are beginning to incur defense costs in connection with these more recently-served actions. We also believe that a portion of the claims against us will be covered by insurance, and we are pursuing the available coverage.

On May 3, 2004, judgment was entered against the Company and one of its employees in the action *Roby v. McKesson HBOC, Inc. et al.* (Superior Court of Yolo County, California, Case No. CV01-573.) Former employee Charlene Roby brought claims for wrongful termination, disability discrimination and disability-based harassment against the Company and a claim for disability-based harassment against her former supervisor. The jury awarded Roby compensatory damages in the amount of \$3.5 million against the Company and \$0.5 million against her supervisor, and punitive damages in the amount of \$15.0 million against the Company and a nominal amount against her supervisor. Following post-trial motions, the trial court reduced the amount of compensatory damages against the Company to \$2.8 million; the punitive damages awarded against both defendants and the compensatory damages awarded against the individual employee defendant were not reduced. On October 18, 2004, the trial court awarded Roby her attorney's fees in the amount of \$0.7 million. The Company has filed a Notice of Appeal, seeking reduction or reversal of the compensatory and punitive damage awards and the award of attorney's fees. If these efforts are not successful, the judgment in this case could have an adverse impact on our consolidated financial statements.

In December 2004, the Company received a request for documents from the Federal Trade Commission ("FTC") that asks the Company to voluntarily produce certain documents to the FTC. The document request, which does not allege wrongdoing, is part of an FTC non-public investigation to determine whether the Company, in violation of Section 5 of the Federal Trade Commission Act, may have engaged, or may be engaging, in anti-competitive practices with other wholesale pharmaceutical distributors in order to limit competition for provider customers seeking distribution services. The investigation is at an early stage, and the Company is in the process of responding to the FTC document request.

In April 2005, we received a subpoena from the office of the Attorney General of the State of New York ("NYAG") requesting the production of documents, responses to interrogatories and other information concerning our participation in the secondary or "alternate source" market for pharmaceutical products. This investigation appears to be in its early stages; and we are cooperating with the NYAG and intend to be fully responsive to the subpoena.

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Environmental Matters

Primarily as a result of the operation of our former chemical businesses, which were fully divested by 1987, we are involved in various matters pursuant to environmental laws and regulations. We have received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at six sites where we, or entities acquired by us, formerly conducted operations; and we, by administrative order or otherwise, have agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, we are one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages (“NRD”) associated with one of these six sites. Although the Company’s potential allocation under either directive cannot be determined at this time, we have agreed to participate with a potentially responsible party (“PRP”) group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by our environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of reasonably possible remediation costs for these six sites is \$11.5 million, net of approximately \$2 million that third parties have agreed to pay in settlement or we expect, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$11.5 million is expected to be paid out between April 2005 and March of 2028. Our estimated liability for these environmental matters has been accrued in the accompanying balance sheets.

In addition, we have been designated as a PRP under the Comprehensive Environmental Compensation and Liability Act of 1980 (as amended, the “Superfund” law or its state law equivalent) for environmental assessment and cleanup costs as the result of our alleged disposal of hazardous substances at 28 sites. With respect to each of 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. Our estimated liability at those 28 sites is approximately \$2 million. The aggregate settlements and costs paid by us in Superfund matters to date have not been significant. The accompanying consolidated balance sheets include this environmental liability.

The potential costs to us related to environmental matters are uncertain due to such factors as: the unknown magnitude of possible pollution and cleanup costs; the complexity and evolving nature of governmental laws and regulations and their interpretations; the timing, varying costs and effectiveness of alternative cleanup technologies; the determination of our liability in proportion to that of other PRPs; and the extent, if any, to which such costs are recoverable from insurance or other parties.

While it is not possible to determine with certainty the ultimate outcome or the duration of any of the litigation or governmental proceedings discussed under this section II, “Other Litigation and Claims”, we believe based on current knowledge and the advice of our counsel that, except as otherwise noted, such litigation and proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

III. Contingency

In 2002, we entered into a \$500 million, ten year contract with the National Health Services Information Authority (“NHS”), an organization of the British government charged with the responsibility of delivering healthcare in England and Wales. The contract engages the Company to develop, implement and operate a human resources and payroll system at more than 600 NHS locations.

As previously reported, there have been contract delays to date which have increased costs and decreased the amount of time in which we can earn revenues. These delays have adversely impacted the contract’s projected profitability and no material revenue has yet been recognized on this contract. As of March 31, 2005, our consolidated balance sheet includes an investment of approximately \$114 million in net assets, consisting of prepaid expenses, software and capital assets, net of cash received, related to this contract. Due to the delays and other desired modifications to the original contract, we have negotiated a tentative agreement with the NHS on changes to certain key terms and conditions in the contract including a term extension and updated implementation plan. We expect this contract amendment to be signed in the first quarter of the 2006 fiscal year. While we believe it is likely that we can deliver and operate a satisfactory system and recover our investment in this contract, failure to sign the tentative agreement in its current form and/ or further implementation delays may result in significant losses that

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could be material. Additionally, if there is further modification to the tentative amended contract terms and conditions and implementation plan, it is possible that the terms of that agreement may result in significant losses, that could be material.

20. 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 ("Board").

In 2001, the Board approved a plan to repurchase up to \$250.0 million of common stock of the Company in open market or private transactions. In 2004 and 2003, we repurchased 3.9 million and 0.9 million shares for \$115.1 million and \$25.0 million. Since the inception of this plan, we repurchased 8.3 million shares for \$249.9 million. In 2004, the Board approved a new plan to repurchase up to \$250.0 million of additional common stock of the Company. Under this plan, we have repurchased 1.4 million shares for \$41.5 million in 2004. No common stock was repurchased under either of the plans in 2005. The repurchased shares will be used to support the Company's stock-based employee compensation plans and for other general corporate purposes.

In 2005, the Board renewed the common stock rights plan. Under the renewal of the plan, effective October 22, 2004, the Board declared a dividend distribution of one right (a "Right") for each outstanding share of Company common stock. Each Right entitles the holder to purchase, upon the occurrence of certain triggering events, a unit consisting of one one-hundredth of a share of Series A Junior Participating Preferred Stock. Triggering events include, without limitation, the acquisition by another entity of 15% or more of the Company's common stock without the prior approval of the Board. The Rights have certain anti-takeover effects that will cause substantial dilution to the ownership interest of a person or group that attempts to acquire the Company on terms not approved by the Board. The new Rights will expire in 2014, unless the date is extended or the Rights are redeemed or exchanged earlier by the Board.

We have several equity compensation plans (stock option, restricted stock and stock purchase plans) for the benefit of certain officers, directors and employees. As a result of acquisitions, we also have 17 other option plans under which no further awards have been made since the date of acquisition. Under the active equity compensation plans, we were authorized to grant up to 117.3 million shares as of March 31, 2005, of which 100.8 million shares have been granted.

The following is a summary of options outstanding at March 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Options Outstanding At Year End	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End	Weighted-Average Exercise Price	
\$ 0.01 - \$ 13.67	87,467	4	\$ 0.75	77,467	\$ 0.84	
\$ 13.68 - \$ 27.35	4,899,316	4	21.58	4,706,291	21.41	
\$ 27.36 - \$ 41.02	41,766,275	6	33.04	41,102,059	33.09	
\$ 41.03 - \$ 54.70	1,917,743	3	47.59	1,917,743	47.59	
\$ 54.71 - \$ 68.37	724,392	3	58.26	724,392	58.26	
\$ 68.38 - \$ 82.04	8,972,847	3	72.90	8,972,847	72.90	
\$ 82.05 - \$ 95.72	389,532	3	90.76	389,532	90.76	
\$ 95.73 - \$123.07	373,334	3	113.50	373,334	113.50	
\$ 123.08 - \$136.74	373,334	3	136.74	373,334	136.74	
	59,504,240	5	40.37	58,636,999	40.54	

Expiration dates range from April 2005 to February 2015.

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The following is a summary of changes in the options for the stock option plans:

	2005		2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	65,227,548	\$ 40.76	63,938,789	\$ 40.36	63,198,584	\$ 40.39
Granted	6,298,785	34.67	7,030,785	33.77	7,061,927	30.70
Exercised	(7,088,417)	25.42	(3,010,288)	19.92	(2,774,642)	17.28
Canceled	(4,933,676)	59.57	(2,731,738)	35.68	(3,547,080)	39.80
Outstanding at end of year	59,504,240	40.37	65,227,548	40.77	63,938,789	40.36

The weighted average fair values of the options granted during 2005, 2004 and 2003 were \$12.79, \$13.83 and \$12.27 per share. Fair values of the options were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Years Ended March 31,		
	2005	2004	2003
Expected stock price volatility	28.6%	34.3%	34.5%
Expected dividend yield	0.67%	0.59%	0.59%
Risk-free interest rate	4.2%	3.8%	3.4%
Expected life (in years)	7	7	7

The Company also has an employee stock purchase plan ("ESPP") under which 11.1 million shares have been authorized for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at a discount of up to 15% of the market value at certain plan-defined dates. In 2005, 2004 and 2003, 1.9 million, 1.3 million and 1.5 million shares were issued under the ESPP. At March 31, 2005, 3.1 million shares were available for issuance under the ESPP.

21. Related Party Balances and Transactions

Notes receivable outstanding from certain of our current and former officers and senior managers totaled \$44.9 million and \$62.7 million at March 31, 2005 and 2004. These notes related to purchases of common stock under our various employee stock purchase plans. The notes bear interest at rates ranging from 2.7% to 8.0% and were due at various dates through February 2004. Interest income on these notes is recognized only to the extent that cash is received. These notes, which are included in other capital in the consolidated balance sheets, were issued for amounts equal to the market value of the stock on the date of the purchase and are full recourse to the borrower. At March 31, 2005, the value of the underlying stock collateral was \$23.8 million. The collectability of these notes is evaluated on an ongoing basis. As a result, in 2004, we recorded a \$21.0 million charge for notes from the former officers and employees. In 2005, we reversed approximately \$6 million of this reserve based on an increase in price of the underlying stock collateral. Other receivable balances held with related parties, consisting of loans made to certain officers and senior managers, at March 31, 2005 and 2004 amounted to \$2.1 million and \$2.6 million.

In 2005, 2004 and 2003 we incurred approximately \$8 to \$9 million annually of rental expense from an equity-held investment. In addition, in 2005, 2004 and 2003 we purchased \$3.0 million of services per year from an equity-held investment.

22. Segments of Business

Our segments include Pharmaceutical Solutions, Medical-Surgical Solutions and Provider Technologies. We evaluate the performance of our operating segments based on operating profit before interest expense, income taxes and results from discontinued operations. Our Corporate segment includes expenses associated with Corporate functions and projects, certain employee benefits, and the results of certain joint venture investments. Corporate

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

expenses are allocated to the operating segments to the extent that these items can be directly attributable to the segment.

Financial information relating to the reportable operating segments is presented below:

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Revenues			
Pharmaceutical Solutions ⁽¹⁾	\$76,318.1	\$65,493.1	\$53,058.8
Medical-Surgical Solutions	2,894.7	2,810.5	2,842.9
Provider Technologies			
Software and software systems	245.6	218.2	288.7
Services	936.2	868.3	829.4
Hardware	120.0	116.0	101.0
Total Provider Technologies	1,301.8	1,202.5	1,219.1
Total	<u>\$80,514.6</u>	<u>\$69,506.1</u>	<u>\$57,120.8</u>
Operating profit			
Pharmaceutical Solutions ^{(2) (3)}	\$ 1,076.7	\$ 980.1	\$ 966.7
Medical-Surgical Solutions	102.1	106.4	79.4
Provider Technologies	106.7	128.2	101.6
Total	1,285.5	1,214.7	1,147.7
Corporate ⁽⁴⁾	(207.3)	(183.1)	(168.2)
Securities Litigation charge	(1,200.0)	—	—
Interest Expense	(118.0)	(120.2)	(128.1)
Income (loss) from continuing operations before income taxes	<u>\$ (239.8)</u>	<u>\$ 911.4</u>	<u>\$ 851.4</u>
Depreciation and amortization ⁽⁵⁾			
Pharmaceutical Solutions	\$ 109.6	\$ 98.1	\$ 89.6
Medical-Surgical Solutions	26.7	23.6	22.3
Provider Technologies	80.2	84.1	69.3
Corporate	34.4	26.3	22.5
Total	<u>\$ 250.9</u>	<u>\$ 232.1</u>	<u>\$ 203.7</u>
Expenditures for long-lived assets ⁽⁶⁾			
Pharmaceutical Solutions	\$ 65.5	\$ 44.0	\$ 50.1
Medical-Surgical Solutions	7.4	8.9	18.2
Provider Technologies	19.4	19.7	23.0
Corporate	47.6	42.4	24.7
Total	<u>\$ 139.9</u>	<u>\$ 115.0</u>	<u>\$ 116.0</u>
Segment assets, at year end			
Pharmaceutical Solutions	\$13,157.7	\$12,050.5	\$10,593.0
Medical-Surgical Solutions	1,636.3	1,539.2	1,519.7
Provider Technologies	1,449.7	1,402.7	1,265.4
Total	16,243.7	14,992.4	13,378.1
Corporate			
Cash, cash equivalents and marketable securities	1,809.3	717.8	533.5
Other	722.0	530.0	449.5
Total	<u>\$18,775.0</u>	<u>\$16,240.2</u>	<u>\$14,361.1</u>

- (1) In addition to the distribution of pharmaceutical and healthcare products, our Pharmaceutical Solutions segment includes the manufacture and sale of automated pharmaceutical dispensing systems for retail pharmacies, disease management and patient and other services for payors, and software, and consulting and outsourcing to pharmacies. Revenues from these products and services were not a material component of segment revenues in 2005, 2004 and 2003.
- (2) Includes \$13.0 million, \$7.4 million and \$12.2 million of earnings from equity investments in 2005, 2004 and 2003.
- (3) Operating profit for 2005 and 2004 includes \$41.2 million and \$21.7 million representing our share of settlements of antitrust class action lawsuits brought against certain drug manufactures. These settlements were recorded as reductions to cost of sales within our consolidated statements of operations in our Pharmaceutical Solutions segment. In 2006, \$51.2 million has been received for another settlement of an antitrust class action lawsuit. This additional settlement will be recorded in the first quarter of 2006.
- (4) Corporate expenses in 2004 included approximately \$13 million of gains on the sales of surplus properties.
- (5) Includes amortization of intangibles, capitalized software held for sale and capitalized software for internal use.
- (6) Long-lived assets consist of property, plant and equipment.

McKESSON CORPORATION
FINANCIAL NOTES (Concluded)

Revenues and property, plant and equipment by geographic areas were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2005	2004	2003
Revenues			
United States	\$75,102.6	\$64,856.7	\$53,544.8
International	5,412.0	4,649.4	3,576.0
Total	<u>\$80,514.6</u>	<u>\$69,506.1</u>	<u>\$57,120.8</u>
Property, plant and equipment, at year end			
United States	\$ 563.5	\$ 535.2	\$ 538.8
International	67.0	64.7	54.9
Total	<u>\$ 630.5</u>	<u>\$ 599.9</u>	<u>\$ 593.7</u>

International operations primarily consist of our Canadian pharmaceutical and healthcare products distribution business and our investment in Nadro for our Pharmaceutical Solutions segment. Our Provider Technologies business has operations in the United Kingdom, Canada and Europe. We also have a software manufacturing and a printing facility in Ireland. Net revenues were attributed to geographic areas based on the customers' shipment locations.

23. Quarterly Financial Information (Unaudited)

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2005					
Revenues	\$19,186.6	\$19,934.3	\$20,781.9	\$20,611.8	\$80,514.6
Gross profit	852.0	735.0	840.6	1,037.1	3,464.7
Net income (loss)	163.6	86.1	(665.4) ⁽¹⁾	259.0	(156.7) ⁽¹⁾
Earnings (loss) per common share					
Diluted	\$ 0.55	\$ 0.29	\$ (2.26) ⁽¹⁾	\$ 0.85	\$ (0.53) ⁽¹⁾
Basic	\$ 0.56	\$ 0.29	\$ (2.26) ⁽¹⁾	\$ 0.87	\$ (0.53) ⁽¹⁾
Cash dividends per common share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.24
Market prices per common share					
High	\$ 35.90	\$ 32.90	\$ 32.72	\$ 38.56	\$ 38.56
Low	29.67	24.90	22.61	30.13	22.61
Fiscal 2004					
Revenues	\$16,524.2	\$16,810.1	\$18,231.9	\$17,939.9	\$69,506.1
Gross profit	786.5	811.7	755.5	894.5	3,248.2
Net income	155.6	156.5	120.2	214.2	646.5
Earnings per common share					
Diluted	\$ 0.53	\$ 0.53	\$ 0.41	\$ 0.73	\$ 2.19
Basic	\$ 0.54	\$ 0.54	\$ 0.41	\$ 0.74	\$ 2.23
Cash dividends per common share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.24
Market prices per common share					
High	\$ 37.1	\$ 36.7	\$ 34.8	\$ 32.0	\$ 37.1
Low	22.6	31.9	28.1	27.0	22.6

(1) Net loss and net loss per common share for the third quarter and full year of 2005 includes the \$1.2 billion pre-tax charge relating to the Securities Litigation, as discussed in Financial Note 19.

McKESSON CORPORATION

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John H. Hammergren
Chairman, President and
Chief Executive Officer,
McKesson Corporation

Wayne A. Budd
Senior Counsel,
Goodwin Procter LLP

Alton F. Irby III
Partner,
Tricorn Partners LLP

M. Christine Jacobs
Chairman, President and
Chief Executive Officer,
Theragenics Corporation

Marie L. Knowles
Executive Vice President and
Chief Financial Officer, Retired,
Atlantic Richfield Company

David M. Lawrence M.D.
Chairman Emeritus,
Kaiser Foundation Health Plan, Inc., and
Kaiser Foundation Hospitals

Robert W. Matschullat
Vice Chairman and Chief Financial Officer, Retired
The Seagram Company Ltd.

James V. Napier
Chairman of the Board, Retired,
Scientific-Atlanta, Inc.

Jane E. Shaw, Ph.D.
Chairman and Chief Executive Officer,
Aerogen, Inc.

Richard F. Syron, Ph.D.
Chairman and Chief Executive Officer,
Freddie Mac

CORPORATE OFFICERS

John H. Hammergren
Chairman, President and
Chief Executive Officer

Jeffrey C. Campbell
Executive Vice President and
Chief Financial Officer

Paul C. Julian
Executive Vice President,
Group President

Paul E. Kirincic
Executive Vice President, Human Resources

Nicholas A. Loiacono
Vice President and Treasurer

Ivan D. Meyerson
Executive Vice President, General Counsel
and Secretary

Marc E. Owen
Executive Vice President, Corporate Strategy
and Business Development

Pamela J. Pure
Executive Vice President,
President, McKesson Provider Technologies

Nigel A. Rees
Vice President and Controller

Cheryl T. Smith
Executive Vice President,
Chief Information Officer

Heidi E. Yodowitz
Senior Vice President, Finance

McKESSON CORPORATION
CORPORATE INFORMATION

Common Stock

McKesson Corporation 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

The Bank of New York, 101 Barclay Street, 11 East, New York, NY 10286 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, 1099-DIV's, or to have your dividend check deposited directly into your checking or savings account, stockholders may call The Bank of New York's telephone response center at (800) 524-4458, weekdays 9:00 a.m. to 5:00 p.m., ET. For the hearing impaired call (888) 269-5221. The Bank of New York also has a Web site: <http://stock.bankofny.com> – that stockholders may use 24 hours a day to request account information. An Interactive Voice Response System is available 24 hours a day, seven days a week at (800) 524-4458.

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, the Bank of New York. For more information, or to request an enrollment form, call The Bank of New York's telephone response center at (866) 216-0306. From outside the United States, call +1-610-382-7833.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m., PDT, on Wednesday July 27, 2005, at the A. P. Giannini Auditorium, 555 California Street, San Francisco, California.

**McKESSON CORPORATION
DEFERRED COMPENSATION ADMINISTRATION PLAN (“DCAP” or “DCAP I”)**

(Amended and Restated as of October 28, 2004)

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**McKESSON CORPORATION
DEFERRED COMPENSATION ADMINISTRATION PLAN**

(Amended and Restated as of October 28, 2004)

A. PURPOSE

This Plan was established to provide a select group of executives employed by the Company an opportunity to defer for later payment amounts earned as compensation. Since its original effective date, the Plan has been amended and restated on various occasions. This amendment and restatement has been approved by the Board as of October 28, 2004 and shall be effective as of such date except as indicated otherwise below.

B. ERISA PLAN

This Plan is an unfunded deferred compensation program intended primarily for a select group of management or highly compensated employees of the Company and members of the Board who are not employees of the Company. The Plan, therefore, is covered by Title I of ERISA except that it is exempt from Parts 2, 3 and 4 of Title I of ERISA.

C. PARTICIPATION AND DEFERRALS

This Plan and participation in the Plan were frozen as of January 1, 1994. No individual who was not a Participant in the Plan prior to January 1, 1994 shall become a Participant in this Plan.

D. AMOUNTS OF DEFERRAL

No new deferrals shall be made under this Plan on and after January 1, 1994. Deferrals made prior to such date were governed by the Plan as in effect at that time.

E. PAYMENT OF DEFERRED COMPENSATION

1. Election of Account. Each Participant's deferred compensation shall be credited to a separate bookkeeping account of McKesson maintained for such Participant (the "Account"). The Participant may elect that deferrals be credited either to the "Retained Account" or the "Stock Account" as defined below. All such elections shall be irrevocable.

2. Retained Account.

a. The Retained Account shall accrue interest during each calendar year equal to the median yield of all non-convertible debt issues coming to market during the twelve-month period ending one month prior to the end of the month in which the election instructions are issued in the prior fiscal year from companies rated A (includes A- and A+), as reported by the Standard & Poor's Monthly Bond Guides in its calendar of new offerings. The rate of interest so determined shall be applied to each Participant's entire Retained Account balance. The Retained Account balance shall be compounded at the end of each calendar year by the annual rate of interest so determined.

b. Notwithstanding Section E.2.a, above, beginning January 1, 1994, all deferrals made by a Participant into his or her Retained Account after 1992 shall earn interest at the same rate as deferrals to the McKesson Deferred Compensation Administration Plan II ("DCAP II") (the "Declared Rate"). Notwithstanding the foregoing, if a Change in Control (as defined in Section E.12 below) occurs, the Declared Rate for the balance of the calendar year in

which the Change in Control occurs and for the two calendar years immediately following the year in which the Change in Control occurs shall not be less than the Declared Rate as in effect on the day before the Change in Control occurs. Interest on each Retained Account balance shall be compounded daily on each business day within the Year to yield the Declared Rate for the Year. In the case of installment payments as provided in Section E.5 below, interest shall be credited on all amounts remaining in a Participant's Account until all amounts are paid out.

3. Stock Account.

a. The amount of stock credited to the Stock Account of the Participant shall be determined by the number of shares of Common Stock which could be purchased with the amount of the deferred compensation using the closing price of Common Stock on the New York Stock Exchange on the day coinciding with each date on which his or her deferred compensation is credited to his or her Stock Account. If the date of credit is not a business day, then the closing price referred to in the prior sentence shall be the closing price on the business day immediately preceding the date of credit.

b. Under this bookkeeping arrangement, no shares of McKesson Common Stock shall be issued to or held in any Stock Account.

c. The total number of shares of Common Stock which may be credited during any single year to the Stock Account of a Participant who is a non-employee director shall be the lesser of (i) the number of shares which could be purchased with the aggregate amount of compensation eligible for deferral under this Plan which such Participant elects to defer for such year, or (ii) 1,000 shares. The total number of shares of Common Stock which may be credited during any single year to the Stock Account of a Participant who is an employee shall be the number of shares which could be purchased with the aggregate amount of compensation eligible for deferral under this Plan which such Participant elects to defer for such year, provided that such number, when combined with all other shares of Common Stock theretofore credited to the Participant's Stock Account under this Plan, shall not exceed one percent (1%) of the then outstanding shares of McKesson Common Stock. For purposes of this Section E.3.c, the calculation of the number of shares which a Participant could purchase shall be determined in accordance with Section D.3.a above.

4. Length of Deferral. Amounts deferred under the Plan by other eligible Participants shall be distributed in whichever of the following forms was irrevocably elected by the Participant at the time that he or she made an irrevocable election to defer compensation; provided, however, that any such distribution must commence no later than the January following the year in which the Participant attains age 72 or, in the case of a Participant who is an Eligible Director, the January after McKesson's annual meeting of stockholders next following the Eligible Director's 72nd birthday. Once such an election has been made, the Eligible Executive or Eligible Director may alter the period of deferral, provided that:

a. such alteration is made at least one year prior to the earliest date the Participant could have received distribution of the amounts credited to his or her Account under the earlier election, and

b. such alteration does not provide for the receipt of such amounts earlier than one year from the date of the alteration.

5. Change in Election of Form and Time of Payment. Subject to the provisions of Section E.4 above, a Participant may change a previous election as to form and time of payment of benefits by completing in writing and filing with the Administrator a new election of form and time of payment of benefits under this Plan from the following:

a. Form.

i. Payment of the amount credited to the Participant's Account in a single sum.

ii. Payment of amounts credited to the Participant's Account in any specified number of approximately equal annual installments (not in excess of ten).

b. Time.

i. The lump sum or first installment to be paid in January of the year designated by the Participant.

ii. The lump sum or first installment to be paid in January after the designated interval following the earlier of the Participant's Retirement or of the determination of Disability.

6. Payments on Termination. If a Participant terminates service with the Company for any reason other than Retirement, Disability or death, then, notwithstanding the election made by the Participant pursuant to Sections E.4 and E.5 above, the entire undistributed amount credited to his or her Account shall be paid in the form of a lump sum in the January of the calendar year following the calendar year of termination of service.

7. Payments on Death.

a. On and after January 1, 2003, each Participant shall make an election at the time of any election to defer compensation under the Plan of the time and form in which any amount remaining in the Participant's Account at the time of the Participant's death shall be paid to his or her Beneficiary. Such election shall be made in writing and filed with the Administrator. Benefits shall be paid in one of the forms specified in Section E.5. The Participant may modify such election at any time up until the date of the Participant's death in a writing filed with the Administrator. In addition, within one year following the death of the Participant the Beneficiary may elect to receive payment in a lump sum; provided, however, that such election shall not take effect until 12 months after the date it is made, and payment otherwise scheduled to be made in that 12-month period shall be made on schedule. The foregoing notwithstanding, the Administrator may, at his or her discretion, distribute all benefits to a Beneficiary in a single payment as soon as reasonably practicable after the death of the Participant if the value of the Participant's Account is less than \$5,000 on the date of death of the Participant.

b. Prior to January 1, 2003, if a Participant died after payments from his or her Account had begun, the remainder of the amounts credited to the Participant's Account was paid to his or her Beneficiary at the same time and in the same manner as they would have been paid to the Participant had the Participant survived. If a Participant died before payments from his or her Account had begun, the amount credited to his or her Account was paid to his or her Beneficiary at the time and in the manner elected by the Participant.

8. Designation of Beneficiary. A Participant may designate any person(s) or any entity as his or her Beneficiary. Designation shall be in writing and shall become effective only when filed with the Administrator. Such filing must occur before the Participant's death. A Participant may change the Beneficiary, from time to time, by filing a new written designation with the Administrator. Effective January 1, 2003, if the Participant fails to effectively designate a Beneficiary in accordance with the Administrator's procedures or the person designated by the Participant is not living at the time the distribution is to be made, then the Participant's Beneficiary shall be the Participant's surviving spouse, if any, or, if there is no surviving spouse, the Participant's surviving children, if any, in equal shares, or if there are no surviving children, the Participant's estate.

9. Payments on Disability. If the Administrator determines that a Participant has become Disabled, the entire undistributed amount credited to his or her Account shall be paid in the form and at the time elected by the Participant, or, if no election has been made, in a lump sum as soon as practicable after such determination is made.

10. Payments on Hardship. The Administrator may, in his or her sole discretion, direct payment to a Participant of all or of any portion of the Participant's Account balance, notwithstanding an election under Section E.5, above, at any time that he or she determines that such Participant has suffered an event of undue hardship which causes an emergency condition in the Participant's financial affairs.

11. Other Withdrawals. Effective June 1, 2000 and subject to approval by the Administrator, a Participant may elect to receive a withdrawal of all or part of the Participant's Account under the Plan at any time not otherwise expressly authorized pursuant to the terms of the Plan; provided, however, that ten percent (10%) of the amount of the withdrawal requested shall be permanently forfeited to the Company and the Participant shall have no further right to that amount. The terms of such withdrawal shall be governed by the provisions of the Participant's election form in effect at the time of such election to the extent not otherwise specified in the Participant's election made pursuant to this Section E.11.

12. Change in Control. For purposes of this Plan, a Change in Control shall be deemed to have occurred if any of the events set forth in any of the following paragraphs shall occur:

a. any "person" (as defined in section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as such term is modified in sections 13(d) and 14(d) of the Exchange Act), excluding McKesson or any of its subsidiaries, a trustee or any fiduciary holding securities under an employee benefit plan of the McKesson or any of its subsidiaries, an underwriter temporarily holding securities pursuant to an offering of such securities or a corporation owned, directly or indirectly, by stockholders of McKesson in substantially the same proportions as their ownership of McKesson, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of McKesson representing 30% or more of the combined voting power of McKesson's then outstanding securities; or

b. during any period of not more than two consecutive years, individuals who at the beginning of such period constitute the Board and any new members of the Board (other than a member designated by a "person" who has entered into an agreement with McKesson to effect a transaction described in Sections E.12.a, c and d) whose election by the Board or

nomination for election by McKesson's stockholders was approved by a vote of at least two-thirds (2/3) of the members of the Board then still in office who either were members of the Board at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

c. consummation of a merger or consolidation of McKesson with any other corporation, which has been approved by the shareholders of McKesson, other than (I) a merger or consolidation which would result in the voting securities of McKesson outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of McKesson, at least 50% of the combined voting power of the voting securities of McKesson or such surviving entity outstanding immediately after such merger or consolidation, or (II) a merger or consolidation effected to implement a recapitalization of McKesson (or similar transaction) in which no person acquires more than 50% of the combined voting power of McKesson's then outstanding securities; or

d. the shareholders of McKesson approve a plan of complete liquidation of McKesson or an agreement for the sale or disposition by McKesson of all or substantially all of McKesson's assets.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the holders of McKesson's common stock immediately prior to such transaction or series of transactions continue to have the same proportionate ownership in an entity which owns all or substantially all of the assets of McKesson immediately prior to such transaction or series of transactions.

With respect to deferrals made prior to January 1, 1994, deferred funds shall be distributed upon a Change in Control, if the Participant has so elected.

F. SOURCE OF PAYMENT

Amounts paid under this Plan shall be paid from the general funds of the Company, and each Participant and his or her Beneficiaries shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Participant or Beneficiary, or create any fiduciary relationship between the Company and any Participant or Beneficiary with respect to any assets of the Company.

G. MISCELLANEOUS

1. Withholding. Each Participant and Beneficiary shall make appropriate arrangements with the Company for the satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employment tax requirements applicable to the payment of benefits under this Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

2. No Assignment.

a. Other than as provided in Section G.2.b below, the benefits provided under this Plan may not be alienated, assigned, transferred, pledged or hypothecated by any person, at any time or to any person whatsoever. These benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishments or executions to the fullest extent allowed by law.

b. If a court of competent jurisdiction determines pursuant to a judgment, order or approval of a marital settlement agreement that all or any portion of the benefits payable hereunder to a Participant constitute community property of the Participant and his or her spouse or former spouse (hereafter, the "Alternate Payee") or property which is otherwise subject to division by the Participant and the Alternate Payee, a division of such property shall not constitute a violation of Section G.2.a, and any portion of such property may be paid or set aside for payment to the Alternate Payee. The preceding sentence of this Section G.2.b, however, shall not create any additional rights and privileges for the Alternate Payee (or the Participant) not already provided under the Plan; in this regard, the Administrator shall have the right to refuse to recognize any judgment, order or approval of a marital settlement agreement that provides for any additional rights and privileges not already provided under the Plan, including without limitation with respect to form and time of payment.

3. Applicable Law and Severability. The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and the laws of the State of California to the extent that the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective. If any provision this amendment and restatement is deemed to be a "material modification" of this Plan which would cause amounts deferred under this Plan prior to 2005 to be subject to the deferred compensation provisions of section 885 of the American Jobs Creation Act of 2004, if such legislation is enacted into law, such provision shall be null, void and without effect retroactive to October 28, 2004.

H. ADMINISTRATION OF THE PLAN

1. In General. The Administrator of the Plan shall be the Executive Vice President, Human Resources, of McKesson. If the Executive Vice President, Human Resources, is a Participant, any discretionary action taken as Administrator which directly affects him or her as a Participant shall be specifically approved by the Compensation Committee. The Administrator shall have the authority and responsibility to interpret this Plan and shall adopt such rules and regulations for carrying out this Plan as it may deem necessary or appropriate. Decisions of the Administrator shall be final and binding on all parties who have or claim any interest in this Plan.

2. Elections and Notices. All elections and notices made under this Plan shall be in writing and filed with the Administrator at the time and in the manner specified by him or her. All elections to defer under this Plan shall be irrevocable.

I. AMENDMENT OR TERMINATION OF THE PLAN

The Compensation Committee may at any time amend this Plan. Such action shall be prospective only and shall not adversely affect the rights of any Participant or Beneficiary to any

benefit previously earned under this Plan. The Board may at any time terminate this Plan; thereupon compensation previously deferred plus interest credited thereon shall promptly be paid, in single lump sums to the respective Participants or Beneficiaries entitled thereto. The foregoing notwithstanding, no amendment adopted following the occurrence of a Change in Control shall be effective if it (a) would reduce the Declared Rate for the balance of the calendar year in which the Change in Control occurs or for the two calendar years immediately following the year in which the Change in Control occurs to a rate lower than the Declared Rate as in effect on the day before the Change in Control occurred or (b) modify the provisions of (a) above.

J. CLAIMS AND APPEALS

1. Informal Resolution of Questions. Any Participant or Beneficiary who has questions or concerns about his or her benefits under the Plan is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Participant or Beneficiary satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section J.

2. Formal Benefits Claim – Review by Executive Vice President, Human Resources. A Participant or Beneficiary may make a written request for review of any matter concerning his or her benefits under this Plan. The claim must be addressed to the Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, Human Resources or his or her delegate (“Executive Vice President”) shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The Executive Vice President shall review the request and shall issue his or her decision, in writing, no later than 90 days after the date the request is received, unless the circumstances require an extension of time. If such an extension is required, written notice of the extension shall be furnished to the person making the request within the initial 90-day period, and the notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the request. In no event shall the extension exceed a period of 90 days from the end of the initial period.

3. Notice of Denied Request. If the Executive Vice President denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section J.2. The notice shall set forth the specific reason for the denial, reference to the specific Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Plan’s appeal procedures and the time limits applicable to such procedures, including a statement of the claimant’s right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

4. Appeal to Executive Vice President.

a. A person whose request has been denied in whole or in part (or such person’s authorized representative) may file an appeal of the decision in writing with the Executive Vice President within 60 days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, for good cause shown,

may extend the period during which the appeal may be filed for another 60 days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant should be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant's claim.

b. The Executive Vice President's review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Executive Vice President shall not be restricted in his or her review to those provisions of the Plan cited in the original denial of the claim.

c. The Executive Vice President shall issue a written decision within a reasonable period of time but not later than 60 days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than 120 days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial 60-day period. This notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the appeal.

d. If the decision on the appeal denies the claim in whole or in part written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial, including references to specific Plan provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits. The notice shall describe any voluntary appeal procedures offered by the Plan and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.

e. The decision of the Executive Vice President on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.

5. Exhaustion of Remedies. No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section J.2, has been notified that the claim is denied in accordance with Section J.3, has filed a written request for a review of the claim in accordance with Section J.4, and has been notified in writing that the Executive Vice President has affirmed the denial of the claim in accordance with Section J.4.

K. DEFINITIONS

For purposes of this Plan, the following terms shall have the meanings indicated:

1. "Account" means the Account specified in Section D.1.
2. "Administrator" shall mean the person specified in Section H.
3. "Beneficiary" shall mean the person or entity described by Section E.8.

4. "Board" shall mean the Board of Directors of McKesson.

5. "Common Stock" means the common stock of McKesson.

6. "Compensation Committee" shall mean the Compensation Committee of the Board.

7. "Company" shall mean McKesson and any member of its controlled group as defined by Section 414(b) and Section 414(c) of the Internal Revenue Code of 1986, as amended.

8. "Disabled" or "Disability" shall mean a physical or mental condition which the Social Security Administration has determined renders the Participant eligible to receive Social Security benefits on account of disability.

9. "Eligible Director" shall mean a member of the Board who was designated as eligible to participate in the Plan prior to the date participation was frozen.

10. "Eligible Executive" shall mean an employee of the Company selected as being eligible to participate in the Plan prior to the date participation was frozen.

11. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

12. "McKesson" shall mean McKesson Corporation, a Delaware corporation.

13. "Participant" shall be any Company executive or member of the Board for whom amounts are credited to an Account under this Plan. Upon the Participant's death, the Participant's Beneficiary shall be a Participant until all amounts are paid out of the Participant's Account.

14. "Plan" shall mean the McKesson Corporation Deferred Compensation Administration Plan I ("DCAP" or "DCAP I").

15. "Retirement" shall mean termination of employment after (a) the date on which the Participant's number of points under the Retirement Share Plan portion of the McKesson Corporation Profit-Sharing Investment Plan equals 65, (b) attaining eligibility for a Retirement Allowance under the terms of the McKesson Corporation Retirement Plan or (c) receiving an Approved Retirement under the terms of the McKesson Corporation Executive Benefit Retirement Plan. Notwithstanding the foregoing, for purposes of this Plan, Retirement for an Eligible Director shall mean cessation of service as a member of the Board on or after the completion of at least two successive terms as a member of the Board.

16. "Year" shall mean the calendar year.

L. SUCCESSORS

This Plan shall be binding on the Company and any successors or assigns thereto.

M. EXECUTION

To record the amendment and restatement of the Plan by the Board of Directors of McKesson Corporation at a meeting held on October 28, 2004.

McKESSON CORPORATION

By: _____
Paul E. Kirincic
Executive Vice President, Human Resources

**McKESSON CORPORATION
DEFERRED COMPENSATION ADMINISTRATION PLAN II (“DCAP II”)**

(Amended and Restated as of October 28, 2004)

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**McKESSON CORPORATION
DEFERRED COMPENSATION ADMINISTRATION PLAN II**

(Amended and Restated as of October 28, 2004)

A. PURPOSE

This Plan was established to enhance the Company's ability to attract and retain executive personnel and members of the Board who are not otherwise employees of the Company. The Plan replaced and superseded the Directors' Deferred Compensation Plan, the Management Deferred Compensation Plan, the Deferred Compensation Administration Plan, and the PCS, Inc. Optional Deferred Compensation Administration Plan. This Plan was originally approved by the Board and became effective on January 27, 1993. Since its original effective date, the Plan has been amended and restated on various occasions. This amendment and restatement has been approved by the Board as of October 28, 2004 and shall be effective as of such date except as otherwise set forth below.

B. ERISA PLAN

This Plan is an unfunded deferred compensation program intended primarily for a select group of management or highly compensated employees of the Company and members of the Board who are not employees of the Company. The Plan, therefore, is covered by Title I of ERISA except that it is exempt from Parts 2, 3 and 4 of Title I of ERISA.

C. PARTICIPATION

1. Eligibility to Participate.

a. Eligible Executives. The Administrator may, at his or her discretion, and at any time, and from time to time, select Company executives who may elect to participate in this Plan ("Eligible Executives"). Selection of Eligible Executives may be evidenced by the terms of the executive's employment contract with the Company, or by inclusion among the persons or classes of persons specified by the Administrator.

The Administrator may, at his or her discretion, and at any time, and from time to time, designate additional Eligible Executives and/or provide that executives previously designated are no longer Eligible Executives. If the Administrator determines that an executive is no longer an Eligible Executive, he or she shall remain a Participant in the Plan until all amounts credited to his or her Account prior to such determination are paid out under the terms of the Plan (or until death, if earlier).

b. Eligible Directors. Each individual who is a member of the Board of McKesson and who is not a Company employee may participate in this Plan ("Eligible Directors").

2. Election to Participate. An Eligible Executive or an Eligible Director may become a Participant in the Plan by electing to defer compensation in accordance with the terms of this Plan. An election to defer shall be in writing, shall be irrevocable and shall be made at the

time and in the form specified by the Administrator. On electing to defer compensation under this Plan, the Participant shall be deemed to accept all of the terms and conditions of this Plan. All elections to defer amounts under this Plan shall be made pursuant to an election executed and filed with the Administrator before the amounts so deferred are earned.

3. Notification of Participants. The Administrator shall annually notify each Eligible Executive and each Eligible Director that he or she may participate in the Plan for the next Year. Such notice shall also set forth the Declared Rate for the next Year.

4. Relation to Other Plans.

a. Participation in Other Plans. An Eligible Executive or an Eligible Director may participate in this Plan and may also participate in any other benefit plan of the Company in effect from time to time for which he or she is eligible, unless the other plan may otherwise exclude participation on the basis of eligibility for, or participation in, this Plan. No amounts may be deferred under this Plan which have been deferred under any other plan of the Company. Deferrals under this Plan may result in a reduction of benefits payable under the Social Security Act, the Retirement Plan and the PSIP.

b. Automatic Deferral. Prior to January 1, 2000 and subject to the last sentence of Section D.2 below, an Eligible Executive who makes an election to defer compensation under this Plan shall have an additional amount automatically deferred from his or her remaining compensation. The amount of such additional deferral shall be an amount equal to (x) the amount deferred by the Eligible Executive into the Plan, multiplied by (y) the percentage rate of the Eligible Executive's deferrals into the PSIP, as in effect at the beginning of each Year.

Effective as of January 1, 2000, an Eligible Executive's base salary deferrals and annual bonus award deferrals (but not DCAP housing deferrals, sign-on and retention bonus deferrals and Long-Term Incentive Plan award deferrals) shall be credited, in a separate Account under the Plan with an amount calculated to be the Matching Employer Contribution percentage that would have been credited to the Eligible Executive's PSIP account if six percent (6%) of such deferrals under DCAP II had been made under the PSIP. For these purposes, Matching Employer Contribution shall have the meaning defined in the PSIP. (Prior to January 1, 2000, the additional deferrals were credited to the Eligible Executive's account in the McKesson Corporation Supplemental PSIP and governed by the terms of that plan.)

D. AMOUNTS OF DEFERRAL

1. Minimum Deferral. The minimum amount that an Eligible Executive may defer under this Plan for any Year is \$5,000 of base salary, or \$5,000 of any annual bonus award(s) and \$5,000 of any Long-Term Incentive Plan award. The minimum amount of compensation that an Eligible Director may defer for any Year is \$5,000.

2. Maximum Deferral for Eligible Executives. The maximum amount of compensation which an Eligible Executive may defer under this Plan for any Year is (i) 75% (80% prior to January 1, 2000) of the amount of such Eligible Executive's base salary for such Year, and (ii) 90% (100% prior to January 1, 2002) of any annual bonus award and/or any Long-Term Incentive Plan award determined and payable to him or her in such Year. Additionally,

effective January 1, 2000, the Executive Vice President of Human Resources may change the maximum amount (expressed as a percentage limit) of base salary that Eligible Executives as a group may defer under the Plan for any Year. Notwithstanding these limits, deferrals may be reduced by the Company to leave sufficient remaining compensation legally required for taxes and other authorized deductions, including, but not limited to, those for Company benefit programs.

3. Maximum Deferral for Eligible Directors. The maximum amount of compensation which an Eligible Director may defer under this Plan for any Year is the amount of any annual retainer (other than the portion of the annual retainer subject to Mandatory Deferral under and as defined in the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan) and other fees from McKesson earned by him or her in any such Year.

E. PAYMENT OF DEFERRED COMPENSATION

1. Book Account and Interest Credit. Compensation deferred by a Participant under the Plan shall be credited to a separate bookkeeping account for such Participant (the "Account"). (Sub-Accounts may be established for each Year for which the Participant elects to defer compensation.) Interest shall be credited to each Account (including Sub-Accounts established thereunder) for each Year at a rate equal to a rate declared by the Compensation Committee acting in its sole discretion after taking into account, among other things, the following factors: McKesson's cost of funds, corporate tax brackets, expected amount and duration of deferrals, number and age of eligible Participants, expected time and manner of payment of deferred amounts, and expected performance of available fixed-rate insurance contracts covering the lives of Participants (the "Declared Rate"). Notwithstanding the foregoing, if a Change in Control (as defined in Section E.10 below) occurs, the Declared Rate for the balance of the calendar year in which the Change in Control occurs and for the two calendar years immediately following the year in which the Change in Control occurs shall not be less than the Declared Rate as in effect on the day before the Change in Control occurs. Interest on each Account balance shall be compounded daily on each business day within the Year to yield the Declared Rate for the Year. (Prior to January 1, 2000, each Account balance was compounded monthly at the twelfth root of the annual Declared Rate.) In the case of installment payments as provided in Section E.3 below, interest shall be credited on all amounts remaining in a Participant's Account until all amounts are paid out.

2. Length of Deferral. An Eligible Executive or Eligible Director shall elect in writing, and file with the Administrator, at the same time as such Eligible Executive or Eligible Director makes any election to defer compensation, the period of deferral with respect to such election, subject to the minimum required period of deferral and the maximum permissible period of deferral. The minimum required period of deferral is five years after the end of the Year for which compensation is deferred. Notwithstanding the foregoing, the five-year minimum deferral period shall not apply to payments made as a result of death, Disability, Retirement, pre-retirement termination, a Change in Control or hardship. Payment must commence no later than the end of the maximum period of deferral, which is the January following the year in which the Eligible Executive reaches age 72 or, in the case of an Eligible Director, the January after McKesson's annual meeting of stockholders next following the

Eligible Director's 72nd birthday. Once such an election has been made, the Eligible Executive or Eligible Director may alter the period of deferral, provided that:

a. such alteration is made at least one year prior to the earliest date the Participant could have received distribution of the amounts credited to his or her Account under the earlier election, and

b. such alteration does not provide for the receipt of such amounts earlier than one year from the date of the alteration, subject to the five-year minimum deferral rule stated above.

3. Election of Form and Time of Payment. A Participant shall elect in writing, and file with the Administrator, at the same time as any election to defer compensation, a form and time of payment of benefits under this Plan from the following:

a. Form.

i. Payment of the amount credited to the Participant's Account in a single sum.

ii. Payment of amounts credited to the Participant's Account in any specified number of approximately equal annual installments (not in excess of ten).

b. Time.

i. The lump sum or first installment to be paid in January of the year designated by the Participant.

ii. The lump sum or first installment to be paid in January after the designated interval following the earlier of the Participant's Retirement or of the determination of Disability.

4. Payments on Termination. If a Participant terminates service with the Company for any reason other than Retirement, Disability or death, then, notwithstanding the election made by the Participant pursuant to Sections E.2 and E.3 above, the entire undistributed amount credited to his or her Account shall be paid in the form of a lump sum in the January of the calendar year following the calendar year of termination of service.

5. Payments on Death.

a. On and after January 1, 2003, each Participant shall make an election at the time of any election to defer compensation under the Plan of the time and form in which any amount remaining in the Participant's Account at the time of the Participant's death shall be paid to his or her Beneficiary. Such election shall be made in writing and filed with the Administrator. Benefits shall be paid in one of the forms specified in Section E.3. The Participant may modify such election at any time up until the date of the Participant's death in a writing filed with the Administrator. In addition, within one year following the death of the Participant the Beneficiary may elect to receive payment in a lump sum; provided, however, that

such election shall not take effect until 12 months after the date it is made, and payment otherwise scheduled to be made in that 12-month period shall be made on schedule. The foregoing notwithstanding, the Administrator may, at his or her discretion, distribute all benefits to a Beneficiary in a single payment as soon as reasonably practicable after the death of the Participant if the value of the Participant's Account is less than \$5,000 on the date of death of the Participant.

b. Prior to January 1, 2003, if a Participant died after payments from his or her Account had begun, the remainder of the amounts credited to the Participant's Account was paid to his or her Beneficiary at the same time and in the same manner as they would have been paid to the Participant had the Participant survived. If a Participant died before payments from his or her Account had begun, the amount credited to his or her Account was paid to his or her Beneficiary at the time and in the manner elected by the Participant.

6. Designation of Beneficiary. A Participant may designate any person(s) or any entity as his or her Beneficiary. Designation shall be in writing and shall become effective only when filed with the Administrator. Such filing must occur before the Participant's death. A Participant may change the Beneficiary, from time to time, by filing a new written designation with the Administrator. Effective January 1, 2003, if the Participant fails to effectively designate a Beneficiary in accordance with the Administrator's procedures or the person designated by the Participant is not living at the time the distribution is to be made, then the Participant's Beneficiary shall be the Participant's surviving spouse, if any, or, if there is no surviving spouse, the Participant's surviving children, if any, in equal shares, or if there are no surviving children, the Participant's estate.

7. Payments on Disability. If the Administrator determines that a Participant has become Disabled, the entire undistributed amount credited to his or her Account shall be paid in the form and at the time elected by the Participant, or, if no election has been made, in a lump sum as soon as practicable after such determination is made.

8. Payments on Hardship. The Administrator may, in his or her sole discretion, direct payment to a Participant of all or of any portion of the Participant's Account balance, notwithstanding an election under Section E.3 above, at any time that he or she determines that such Participant has suffered an event of undue hardship which causes an emergency condition in the Participant's financial affairs.

9. Other Withdrawals. Effective June 1, 2000 and subject to approval by the Administrator, a Participant may elect to receive a withdrawal of all or part of the Participant's Account under the Plan at any time not otherwise expressly authorized pursuant to the terms of the Plan; provided, however, that ten percent (10%) of the amount of the withdrawal requested shall be permanently forfeited to the Company and the Participant shall have no further right to that amount. The terms of such withdrawal shall be governed by the provisions of the Participant's election form in effect at the time of such election to the extent not otherwise specified in the Participant's election made pursuant to this Section E.9.

10. Change in Control. For purposes of this Plan, a Change in Control shall be deemed to have occurred if any of the events set forth in any of the following paragraphs shall occur:

a. any “person” (as defined in section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and as such term is modified in sections 13(d) and 14(d) of the Exchange Act), excluding McKesson or any of its subsidiaries, a trustee or any fiduciary holding securities under an employee benefit plan of McKesson or any of its subsidiaries, an underwriter temporarily holding securities pursuant to an offering of such securities or a corporation owned, directly or indirectly, by stockholders of McKesson in substantially the same proportions as their ownership of McKesson, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of McKesson representing 30% or more of the combined voting power of McKesson’s then outstanding securities; or

b. during any period of not more than two consecutive years, individuals who at the beginning of such period constitute the Board and any new members of the Board (other than a member designated by a “person” who has entered into an agreement with McKesson to effect a transaction described in Sections E.10.a, c and d) whose election by the Board or nomination for election by McKesson’s stockholders was approved by a vote of at least two-thirds (2/3) of the members of the Board then still in office who either were members of the Board at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

c. consummation of a merger or consolidation of McKesson with any other corporation, which has been approved by the shareholders of McKesson, other than (I) a merger or consolidation which would result in the voting securities of McKesson outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of McKesson, at least 50% of the combined voting power of the voting securities of McKesson or such surviving entity outstanding immediately after such merger or consolidation, or (II) a merger or consolidation effected to implement a recapitalization of McKesson (or similar transaction) in which no person acquires more than 50% of the combined voting power of McKesson’s then outstanding securities; or

d. the shareholders of McKesson approve a plan of complete liquidation of McKesson or an agreement for the sale or disposition by McKesson of all or substantially all of McKesson’s assets.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the holders of McKesson’s common stock immediately prior to such transaction or series of transactions continue to have the same proportionate ownership in an entity which owns all or substantially all of the assets of McKesson immediately prior to such transaction or series of transactions.

With respect to deferrals made prior to January 1, 1994, deferred funds shall be distributed upon a Change in Control, if the Participant has so elected.

F. SOURCE OF PAYMENT

Amounts paid under this Plan shall be paid from the general funds of the Company, and each Participant and his or her Beneficiaries shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Participant or Beneficiary, or create any fiduciary relationship between the Company and any Participant or Beneficiary with respect to any assets of the Company.

G. MISCELLANEOUS

1. Withholding. Each Participant and Beneficiary shall make appropriate arrangements with the Company for the satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employment tax requirements applicable to the payment of benefits under this Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

2. No Assignment.

a. Other than as provided in Section G.2.b below, the benefits provided under this Plan may not be alienated, assigned, transferred, pledged or hypothecated by any person, at any time or to any person whatsoever. These benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishments or executions to the fullest extent allowed by law.

b. If a court of competent jurisdiction determines pursuant to a judgment, order or approval of a marital settlement agreement that all or any portion of the benefits payable hereunder to a Participant constitute community property of the Participant and his or her spouse or former spouse (hereafter, the "Alternate Payee") or property which is otherwise subject to division by the Participant and the Alternate Payee, a division of such property shall not constitute a violation of Section G.2.a, and any portion of such property may be paid or set aside for payment to the Alternate Payee. The preceding sentence of this Section G.2.b, however, shall not create any additional rights and privileges for the Alternate Payee (or the Participant) not already provided under the Plan; in this regard, the Administrator shall have the right to refuse to recognize any judgment, order or approval of a marital settlement agreement that provides for any additional rights and privileges not already provided under the Plan, including without limitation, with respect to form and time of payment.

3. Applicable Law and Severability. The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and the laws of the State of California to the extent that the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective. If any provision this amendment and restatement is deemed to be a "material modification" of this Plan which would cause

amounts deferred under this Plan prior to 2005 to be subject to the deferred compensation provisions of section 885 of the American Jobs Creation Act of 2004, if such legislation is enacted into law, such provision shall be null, void and without effect retroactive to October 28, 2004.

H. ADMINISTRATION OF THE PLAN

1. In General. The Administrator of the Plan shall be the Executive Vice President, Human Resources, of McKesson. If the Executive Vice President, Human Resources, is a Participant, any discretionary action taken as Administrator which directly affects him or her as a Participant shall be specifically approved by the Compensation Committee. The Administrator shall have the authority and responsibility to interpret this Plan and shall adopt such rules and regulations for carrying out this Plan as it may deem necessary or appropriate. Decisions of the Administrator shall be final and binding on all parties who have or claim any interest in this Plan.

2. Elections and Notices. All elections and notices made under this Plan shall be in writing and filed with the Administrator at the time and in the manner specified by him or her. All elections to defer compensation under this Plan shall be irrevocable.

I. AMENDMENT OR TERMINATION OF THE PLAN

The Compensation Committee may at any time amend this Plan. Such action shall be prospective only and shall not adversely affect the rights of any Participant or Beneficiary to any benefit previously earned under this Plan. The Board may at any time terminate this Plan; thereupon, compensation previously deferred plus interest credited thereon shall promptly be paid in single lump sums to the respective Participants or Beneficiaries entitled thereto. The foregoing notwithstanding, no amendment adopted following the occurrence of a Change in Control shall be effective if it (a) would reduce the Declared Rate for the balance of the calendar year in which the Change in Control occurs or for the two calendar years immediately following the year in which the Change in Control occurs to a rate lower than the Declared Rate as in effect on the day before the Change in Control occurred or (b) modify the provisions of (a) above.

J. CLAIMS AND APPEALS

1. Informal Resolution of Questions. Any Participant or Beneficiary who has questions or concerns about his or her benefits under the Plan is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Participant or Beneficiary satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section J.

2. Formal Benefits Claim – Review by Executive Vice President, Human Resources. A Participant or Beneficiary may make a written request for review of any matter concerning his or her benefits under this Plan. The claim must be addressed to the Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, Human Resources or his or her delegate (“Executive Vice President”) shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The Executive Vice President shall review the request and shall issue his or her decision, in writing, no later than 90

days after the date the request is received, unless the circumstances require an extension of time. If such an extension is required, written notice of the extension shall be furnished to the person making the request within the initial 90-day period, and the notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the request. In no event shall the extension exceed a period of 90 days from the end of the initial period.

3. Notice of Denied Request. If the Executive Vice President denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section J.2. The notice shall set forth the specific reason for the denial, reference to the specific Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Plan's appeal procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

4. Appeal to Executive Vice President.

a. A person whose request has been denied in whole or in part (or such person's authorized representative) may file an appeal of the decision in writing with the Executive Vice President within 60 days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, for good cause shown, may extend the period during which the appeal may be filed for another 60 days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant should be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant's claim.

b. The Executive Vice President's review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Executive Vice President shall not be restricted in his or her review to those provisions of the Plan cited in the original denial of the claim.

c. The Executive Vice President shall issue a written decision within a reasonable period of time but not later than 60 days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than 120 days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial 60-day period. This notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the appeal.

d. If the decision on the appeal denies the claim in whole or in part written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial, including references to specific Plan provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable

access to, and copies of, all documents, records, and other information relevant to the claim for benefits. The notice shall describe any voluntary appeal procedures offered by the Plan and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.

e. The decision of the Executive Vice President on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.

f. **Exhaustion of Remedies.** No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section J.2, has been notified that the claim is denied in accordance with Section J.3, has filed a written request for a review of the claim in accordance with Section J.4, and has been notified in writing that the Executive Vice President has affirmed the denial of the claim in accordance with Section J.4.

K. DEFINITIONS

For purposes of this Plan, the following terms shall have the meanings indicated:

1. "Account" means the Account specified in Section E.1.
2. "Administrator" shall mean the person specified in Section H.
3. "Beneficiary" shall mean the person or entity described by Section E.6.
4. "Board" shall mean the Board of Directors of McKesson.
5. "Company" shall mean McKesson and any member of its controlled group as defined by Section 414(b) and Section 414(c) of the Internal Revenue Code of 1986, as amended.
6. "Compensation Committee" shall mean the Compensation Committee of the Board.
7. "Declared Rate" shall have the meaning described in Section E.1.
8. "Disabled" or "Disability" shall mean a physical or mental condition which the Social Security Administration has determined renders the Participant eligible to receive Social Security benefits on account of disability.
9. "Eligible Director" shall mean a member of the Board described by Section C.1.b.
10. "Eligible Executive" shall mean an employee of the Company selected as being eligible to participate in this Plan under Section C.1.a.
11. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

12. "McKesson" shall mean McKesson Corporation, a Delaware corporation.

13. "Participant" shall be any Company executive or member of the Board for whom amounts are credited to an Account under this Plan. Upon the Participant's death, the Participant's Beneficiary shall be a Participant until all amounts are paid out of the Participant's Account.

14. "Plan" shall mean the McKesson Corporation Deferred Compensation Administration Plan II ("DCAP II").

15. "PSIP" shall mean the McKesson Corporation Profit-Sharing Investment Plan.

16. "Retirement" shall mean termination of employment after (a) the date on which the Participant's number of points under the Retirement Share Plan portion of the PSIP equals 65, (b) attaining eligibility for a Retirement Allowance under the terms of the Retirement Plan or (c) receiving an Approved Retirement under the terms of the McKesson Corporation Executive Benefit Retirement Plan. Notwithstanding the foregoing, for purposes of this Plan, Retirement for an Eligible Director shall mean cessation of service as a member of the Board on or after the completion of at least two successive terms as a member of the Board.

17. "Retirement Plan" shall mean the McKesson Corporation Retirement Plan.

18. "Year" is the calendar year.

L. SUCCESSORS

This Plan shall be binding on the Company and any successors or assigns thereto.

M. EXECUTION

To record the amendment and restatement of the Plan by the Board of Directors of McKesson Corporation at a meeting held on October 28, 2004.

McKESSON CORPORATION

By _____
Paul E. Kirincic
Executive Vice President, Human Resources

APPENDIX A

DEFERRAL OF RESTRICTED STOCK PROCEEDS

Any other provision of the Plan to the contrary notwithstanding, the following provisions shall apply to the cash paid to the Company by Eli Lilly and Company (“Lilly”) upon the tender of certain shares of restricted stock (the “Transaction Proceeds”), which had been granted to executives under the Company’s 1988 Restricted Stock Plan, at the completion of the transaction involving the acquisition of PCS Health Systems, Inc. (“PCS”) by Lilly (the “Transaction”).

1. Former executives of the Company may be selected to participate in the Plan, and, if so selected, shall be deemed Eligible Executives.
2. The Transaction Proceeds shall be automatically deferred into the Plan on behalf of those Eligible Executives who hold outstanding Restricted Stock Grants under the Company’s 1988 Restricted Stock Plan. Such Eligible Executives shall be deemed to have elected the deferral of the Transaction Proceeds.
3. The five-year minimum deferral period required by Section E.2 of the Plan shall not apply to the deferral of the Transaction Proceeds.
4. Transaction Proceeds shall not be deferred on behalf of Eligible Executives who are also employees of PCS.

**McKESSON CORPORATION
OPTION GAIN DEFERRAL PLAN (“OGDP”)**

(Amended and Restated as of October 28, 2004)

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**McKESSON CORPORATION
OPTION GAIN DEFERRAL PLAN**

(Amended and Restated as of October 28, 2004)

A. PURPOSE

This Plan was established to allow those Company executives and members of the Board who are not employed by the Company who hold exercisable stock options granted under the McKesson Corporation 1978 Stock Option Plan (the "1978 Plan") to defer the cash portion of the gain (the "Cash Gain") such individual realizes from his or her exercisable stock options in connection with the restructuring of McKesson resulting in the sale of PCS Health Systems, Inc. to Eli Lilly and Company (the "Transaction"). The Plan was originally effective on January 27, 1994, the date the Plan was initially approved by the Board. The Plan has been amended and restated on various occasions. This amendment and restatement has been approved by the Board as of October 28, 2004 and shall be effective as of such date except as otherwise indicated below.

B. ERISA PLAN

This Plan is an unfunded deferred compensation program for a select group of management and highly compensated employees of the Company and members of the Board who are not employed by the Company. The Plan, therefore, is covered by Title I of ERISA except that it is exempt from Parts 2, 3 and 4 of Title I of ERISA.

C. PARTICIPATION

1. Eligibility to Participate.

a. Eligible Executives. Company executives who (i) are actively employed, and (ii) hold exercisable stock options granted under the 1978 Plan as of the date the Transaction closes may elect to participate in this Plan ("Eligible Executives").

b. Eligible Directors. Each member of the Board of McKesson who (i) is not a Company employee and (ii) holds exercisable stock options granted under the 1978 Plan as of the date the Transaction closes may participate in this Plan ("Eligible Directors").

2. Election to Participate. An Eligible Executive or an Eligible Director may become a Participant in the Plan by electing to defer the Cash Gain in accordance with the terms of this Plan. An election to defer shall be in writing, shall be irrevocable and shall be made at the time and in the form specified by the Administrator. On electing to defer amounts under this Plan, the Participant shall be deemed to accept all of the terms and conditions of this Plan. All elections to defer under this Plan shall be made pursuant to an election executed and filed with the Administrator before the amounts so deferred are earned. Other than to avoid the expiration of an option in accordance with its terms, a Participant shall not exercise any option with respect to which he or she has made a deferral election.

3. Relation to Other Plans. An Eligible Executive or an Eligible Director may participate in this Plan and may also participate in any other benefit plan of the Company in effect from time to time for which he or she is eligible, unless the other plan may otherwise exclude participation on the basis of eligibility for, or participation in, this Plan. No amounts may be deferred under this Plan which have been deferred under any other plan of the Company.

D. AMOUNTS OF DEFERRAL

1. Minimum Deferral. The minimum amount that an Eligible Executive or Eligible Director may defer under this Plan is \$5,000 of the Cash Gain realized upon the completion of the Transaction.

2. Maximum Deferral. The maximum amount of compensation which an Eligible Executive or an Eligible Director may defer under this Plan for any Year is one hundred percent (100%) of the Cash Gain realized upon the completion of the Transaction. Notwithstanding these limits, deferrals may be reduced by the Company to leave sufficient remaining amounts legally required for taxes and other authorized deductions. In addition, the amount of deferrals allowed to any Participant may be subject to a limit determined by the Administrator.

E. PAYMENT OF DEFERRED COMPENSATION

1. Book Account and Interest Credit. Any Cash Gain deferred by a Participant under the Plan shall be credited to a separate bookkeeping account for such Participant (the "Account"). From the initial effective date of the Plan (January 27, 1994) through the end of Year 1994, interest was credited to each Account at an annual rate of 7.5%. Thereafter, the interest rate is set each year to the Moody's Corporate Bond Yield Average for December of the preceding year (the "Declared Rate"). Notwithstanding the foregoing, if a Change in Control (as defined in Section E.10 below) occurs, the Declared Rate for the balance of the calendar year in which the Change in Control occurs and for the two calendar years immediately following the year in which the Change in Control occurs shall not be less than the Declared Rate as in effect on the day before the Change in Control occurs. Interest on each Account balance shall be compounded daily on each business day within the Year to yield the Declared Rate for the Year. (Prior to January 1, 2000, each Account balance was compounded monthly based on the annual Declared Rate.) In the case of installment payments as provided in Section E.3 below, interest shall be credited on all amounts remaining in a Participant's Account until all amounts are paid out.

2. Length of Deferral. An Eligible Executive or Eligible Director shall elect in writing, and file with the Administrator, at the same time as such Eligible Executive or Eligible Director makes any election to defer any portion of the Cash Gain, the period of deferral with respect to such election, subject to the minimum required period of deferral and the maximum permissible period of deferral. The minimum required period of deferral is two years from the date the compensation is deferred. Notwithstanding the foregoing, the two-year minimum deferral period shall not apply to payments made as a result of death, Disability, Retirement, pre-Retirement termination or hardship. Payment must commence no later than the end of the maximum period of deferral, which is the January following the year in which the Eligible Executive attains age 72 or, in the case of an Eligible Director, the January after the Company's

annual meeting of stock holders next following the Eligible Director's 72nd birthday. Once such an election has been made, the Eligible Executive or Eligible Director may alter the period of deferral, provided that:

a. such alteration is made at least one year prior to the earliest date the Participant could have received distribution of the amounts credited to his or her Account under the earlier election, and

b. such alteration does not provide for the receipt of such amounts earlier than one year from the date of the alteration, subject to the two-year minimum deferral rule stated above.

3. Election of Form and Time of Payment. A Participant shall elect in writing, and file with the Administrator, at the same time as any election to defer compensation, a form and time of payment of benefits under this Plan from the following:

a. Form.

i. Payment of the amount credited to the Participant's Account in a single sum.

ii. Payment of amounts credited to the Participant's Account in any specified number of approximately equal annual installments (not in excess of ten).

b. Time.

i. The lump sum or first installment to be paid in January of the year designated by the Participant.

ii. The lump sum or first installment to be paid in January after the designated interval following the earlier of the Participant's Retirement or of the determination of Disability.

4. Payments on Termination. If a Participant terminates service with the Company for any reason other than Retirement, Disability or death, then, notwithstanding the election made by the Participant pursuant to Sections E.2 and E.3 above, the entire undistributed amount credited to his or her Account shall be paid in the form of a lump sum in the January of the calendar year following the calendar year of termination of service.

5. Payments on Death.

a. On and after January 1, 2003, each Participant shall make an election at the time and manner in which any amount remaining in the Participant's Account at the time of the Participant's death shall be paid to his or her Beneficiary. Such election shall be made in writing and filed with the Administrator. Benefits shall be paid in one of the methods specified in Section E.3. The Participant may modify such election at any time up until the date of the Participant's death in a writing filed with the Administrator. In addition, within one year following the death of the Participant the Beneficiary may elect to receive payment in a lump

sum; provided, however, that such election shall not take effect until 12 months after the date it is made, and payment otherwise scheduled to be made in that 12-month period shall be made on schedule. The foregoing notwithstanding, the Administrator may, at his or her discretion, distribute all benefits to a Beneficiary in a single payment as soon as reasonably practicable after the death of the Participant if the value of the Participant's Account is less than \$5,000 on the date of death of the Participant.

b. Prior to January 1, 2003, if a Participant died after payments from his or her Account had begun, the remainder of the amounts credited to the Participant's Account were paid to his or her Beneficiary at the same time and in the same manner as they would have been paid to the Participant had the Participant survived. If a Participant died before payments from his or her Account had begun, the amount credited to his or her Account were paid to his or her Beneficiary at the time and in the manner elected by the Participant.

6. Designation of Beneficiary. A Participant may designate any person(s) or entity as his or her Beneficiary. Such designation shall be in writing and shall be effective only when filed with the Administrator. Such filing must occur before the Participant's death. A Participant may change the Beneficiary designation from time to time by filing a new written designation with the Administrator. Effective January 1, 2003, if the Participant fails to effectively designate a Beneficiary in accordance with the Administrator's procedures or the person designated by the Participant is not living at the time the distribution is to be made, then the Participant's Beneficiary shall be the Participant's surviving spouse, if any, or, if there is no surviving spouse, the Participant's surviving children, if any, in equal shares, or if there are no surviving children, the Participant's estate.

7. Payments on Disability. If the Administrator determines that a Participant has become Disabled, the entire undistributed amount credited to his or her Account shall be paid in the form and at the time elected by the Participant, or, if no election has been made, in a lump sum as soon as practicable after such determination is made.

8. Payments on Hardship. The Administrator may, in his or her sole discretion, direct payment to a Participant of all or of any portion of the Participant's Account balance, notwithstanding an election under Section E.3. above, at any time that he or she determines that such Participant has suffered an event of undue hardship which causes an emergency condition in his or her financial affairs.

9. Other Payments. Effective June 1, 2000 and subject to approval by the Administrator, a Participant may elect to receive a withdrawal of all or part of the Participant's Account under the Plan at any time not otherwise expressly authorized pursuant to the terms of the Plan; provided, however, that ten percent (10%) of the amount of the withdrawal requested shall be permanently forfeited to the Company and the Participant shall have no further right to that amount. The terms of such withdrawal shall be governed by the provisions of the Participant's election form in effect at the time of such election to the extent not otherwise specified in the Participant's election made pursuant to this Section E.9.

10. Change in Control. For purposes of this Plan, a Change in Control shall be deemed to have occurred if any of the events set forth in any of the following paragraphs shall occur:

a. any “person” (as defined in section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and as such term is modified in sections 13(d) and 14(d) of the Exchange Act), excluding McKesson or any of its subsidiaries, a trustee or any fiduciary holding securities under an employee benefit plan of McKesson or any of its subsidiaries, an underwriter temporarily holding securities pursuant to an offering of such securities or a corporation owned, directly or indirectly, by stockholders of McKesson in substantially the same proportions as their ownership of McKesson, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of McKesson representing 30% or more of the combined voting power of McKesson’s then outstanding securities; or

b. during any period of not more than two consecutive years, individuals who at the beginning of such period constitute the Board and any new members of the Board (other than a member designated by a “person” who has entered into an agreement with McKesson to effect a transaction described in Sections E.10.a, c and d) whose election by the Board or nomination for election by McKesson’s stockholders was approved by a vote of at least two-thirds (2/3) of the members of the Board then still in office who either were members of the Board at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

c. consummation of a merger or consolidation of McKesson with any other corporation, which has been approved by the shareholders of McKesson, other than (I) a merger or consolidation which would result in the voting securities of McKesson outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of McKesson, at least 50% of the combined voting power of the voting securities of McKesson or such surviving entity outstanding immediately after such merger or consolidation, or (II) a merger or consolidation effected to implement a recapitalization of McKesson (or similar transaction) in which no person acquires more than 50% of the combined voting power of McKesson’s then outstanding securities; or

d. the shareholders of McKesson approve a plan of complete liquidation of McKesson or an agreement for the sale or disposition by McKesson of all or substantially all of McKesson’s assets.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the holders of McKesson’s common stock immediately prior to such transaction or series of transactions continue to have the same proportionate ownership in an entity which owns all or substantially all of the assets of McKesson immediately prior to such transaction or series of transactions.

F. SOURCE OF PAYMENT

Amounts paid under this Plan shall be paid from the general funds of the Company, and each Participant and his or her Beneficiaries shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Participant or Beneficiary, or create any fiduciary relationship between the Company and any Participant or Beneficiary with respect to any assets of the Company.

G. MISCELLANEOUS

1. Withholding. Each Participant and Beneficiary shall make appropriate arrangements with the Company for the satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employment tax requirements applicable to deferrals under this Plan or the payment of amounts deferred under this Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

2. No Assignment.

a. Except as provided in Section G.2.b below, the benefits provided under this Plan may not be alienated, assigned, transferred, pledged or hypothecated by any person, at any time. These benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishments or executions.

b. If a court of competent jurisdiction determines pursuant to a judgment, order or approval of a marital settlement agreement that all or any portion of the benefits payable hereunder to a Participant constitute community property of the Participant and his or her spouse or former spouse (hereafter, the "Alternate Payee") or property which is otherwise subject to division by the Participant and the Alternate Payee, a division of such property shall not constitute a violation of Section G.2.a, and any portion of such property may be paid or set aside for payment to the Alternate Payee. The preceding sentence of this Section G.2.b, however, shall not create any additional rights and privileges for the Alternate Payee (or the Participant) not already provided under the Plan; in this regard, the Administrator shall have the right to refuse to recognize any judgment, order or approval of a marital settlement agreement that provides for any additional rights and privileges already not already provided under the Plan, including without limitation with respect to form and time of payment.

3. Applicable Law; Severability. The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and the laws of the State of California to the extent that the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective. If any provision this amendment and restatement is deemed to be a "material modification" of this Plan which would cause amounts deferred under this Plan prior to 2005 to be subject to the deferred compensation provisions of section 885 of the American Jobs Creation Act of 2004, if such legislation is

enacted into law, such provision shall be null, void and without effect retroactive to October 28, 2004.

H. ADMINISTRATION OF THE PLAN

1. In General. The Administrator shall be the Executive Vice President, Human Resources of McKesson. If the Executive Vice President, Human Resources is a Participant, any discretionary action taken as Administrator which directly affects him or her as a Participant shall be specifically approved by the Compensation Committee. The Administrator shall have the authority and responsibility to interpret this Plan and shall adopt such rules and regulations for carrying out this Plan as it may deem necessary or appropriate. Decisions of the Administrator shall be final and binding on all parties who have or claim any interest in this Plan.

2. Elections and Notices. All elections and notices made under this Plan shall be in writing and filed with the Administrator at the time and in the manner specified by him or her. Except as may be specifically otherwise stated in any Plan election form, all elections to defer under this Plan shall be irrevocable.

I. AMENDMENT OR TERMINATION OF THE PLAN

The Compensation Committee may at any time amend this Plan. Such action shall be prospective only and shall not adversely affect the rights of any Participant or Beneficiary to any benefit previously earned under this Plan. The Board may at any time terminate this Plan; thereupon compensation previously deferred plus interest credited thereon shall promptly be paid in single lump sums to the respective Participants or Beneficiaries entitled thereto. The foregoing notwithstanding, no amendment adopted following the occurrence of a Change in Control shall be effective if it (a) would reduce the Declared Rate for the balance of the calendar year in which the Change in Control occurs or for the two calendar years immediately following the year in which the Change in Control occurs to a rate lower than the Declared Rate as in effect on the day before the Change in Control occurred or (b) modify the provisions of (a) above.

J. CLAIMS AND APPEALS

1. Informal Resolution of Questions. Any Participant or Beneficiary who has questions or concerns about his or her benefits under the Plan is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Participant or Beneficiary satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section J.

2. Formal Benefits Claim – Review by Executive Vice President, Human Resources. A Participant or Beneficiary may make a written request for review of any matter concerning his or her benefits under this Plan. The claim must be addressed to the Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, Human Resources or his or her delegate (“Executive Vice President”) shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The Executive Vice President shall review the request and shall issue his or her decision, in writing, no later than 90 days after the date the request is received, unless the circumstances require an extension of time.

If such an extension is required, written notice of the extension shall be furnished to the person making the request within the initial 90-day period, and the notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the request. In no event shall the extension exceed a period of 90 days from the end of the initial period.

3. Notice of Denied Request. If the Executive Vice President denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section J.2. The notice shall set forth the specific reason for the denial, reference the specific Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Plan's appeal procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

4. Appeal to Executive Vice President.

a. A person whose request has been denied in whole or in part (or such person's authorized representative) may file an appeal of the decision in writing with the Executive Vice President within 60 days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, for good cause shown, may extend the period during which the appeal may be filed for another 60 days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant should be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant's claim.

b. The Executive Vice President's review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Executive Vice President shall not be restricted in his or her review to those provisions of the Plan cited in the original denial of the claim.

c. The Executive Vice President shall issue a written decision within a reasonable period of time but not later than 60 days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than 120 days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial 60-day period. This notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the appeal.

d. If the decision on the appeal denies the claim in whole or in part written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial, including references to specific Plan provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for

benefits. The notice shall describe any voluntary appeal procedures offered by the Plan and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.

e. The decision of the Executive Vice President on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.

5. Exhaustion of Remedies. No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section J.2, has been notified that the claim is denied in accordance with Section J.3, has filed a written request for a review of the claim in accordance with Section J.4, and has been notified in writing that the Executive Vice President has affirmed the denial of the claim in accordance with Section J.4.

K. DEFINITIONS

For purposes of this Plan, the following terms shall have the meanings indicated:

1. "Account" shall mean the Account specified in Section E.1.
2. "Administrator" shall mean the person specified in Section H.
3. "Beneficiary" shall mean the person or entity described by Section E.6.
4. "Board" shall mean the Board of Directors of McKesson.
5. "Cash Gain" shall mean the cash gain specified in Section A.
6. "Company" shall mean McKesson and any member of its controlled group as defined by Section 414(b) and Section 414(c) of the Internal Revenue Code of 1986, as amended.
7. "Compensation Committee" shall mean the Compensation Committee of the Board.
8. "Declared Rate" shall have the meaning described in Section E.1.
9. "Disabled" or "Disability" shall mean a physical or mental condition which the Social Security Administration has determined renders the Participant eligible to receive Social Security benefits on account of disability.
10. "Eligible Director" shall mean a director described by Section C.1.b.
11. "Eligible Executive" shall mean an employee of the Company selected as being eligible to participate in this Plan under Section C.1.a.
12. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

13. "McKesson" shall mean McKesson Corporation, a Delaware corporation.

14. "Participant" shall be any Eligible Executive or Eligible Director for whom amounts are credited to an Account under this Plan. Upon the Participant's death, the Participant's Beneficiary shall be a Participant until all amounts are paid out of the Participant's Account.

15. "Plan" shall mean the McKesson Corporation 1994 Option Gain Deferral Plan ("OGDP").

16. "Retirement" shall mean termination of employment after (a) the date on which the Participant's number of points under the Retirement Share Plan portion of the McKesson Corporation Profit-Sharing Investment Plan equals 65, (b) attaining eligibility for a Retirement Allowance under the terms of the McKesson Corporation Retirement Plan or (c) receiving an Approved Retirement under the terms of the McKesson Corporation Executive Benefit Retirement Plan. Notwithstanding the foregoing, for purposes of the Plan, Retirement for an Eligible Director shall mean cessation of service as a member of the Board on or after completion of at least two successive terms as a member of the Board.

17. "Transaction" shall mean the restructuring of the Company that resulted in the sale of PCS Health Systems, Inc. to Eli Lilly and Company, as described in Section A.

18. "Year" is the calendar year.

L. SUCCESSORS

This Plan shall be binding on the Company and any successors and assigns thereto.

M. EXECUTION

To record the amendment and restatement of the Plan by the Board of Directors of McKesson Corporation at a meeting held on October 28, 2004.

McKESSON CORPORATION

By: _____
Paul E. Kirincic
Executive Vice President, Human Resources

**McKESSON CORPORATION
MANAGEMENT DEFERRED COMPENSATION PLAN (“MDCP”)**

(Amended and Restated as of October 28, 2004)

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**McKESSON CORPORATION
MANAGEMENT DEFERRED COMPENSATION PLAN**

(Amended and Restated as of October 28, 2004)

A. PURPOSE

This Plan was established to enhance the Company's ability to attract and retain executive personnel of the Company and members of the Board not employed by the Company. This Plan was originally approved by the Board and became effective on November 1, 1989. Since its original effective date, the Plan has been amended and restated on various occasions. This amendment and restatement has been approved by the Board as of October 28, 2004 and shall be effective as of such date except as otherwise set forth below.

B. ERISA PLAN

This Plan is an unfunded deferred compensation program for a select group of management employees of the Company and members of the Board who are not employed by the Company. The Plan, therefore, is covered by Title I of ERISA except that it is exempt from Parts 2, 3 and 4 of Title I of ERISA.

C. PARTICIPATION

This Plan and participation in the Plan were frozen as of January 1, 1994. No individual who was not a Participant in the Plan prior to January 1, 1994 shall become a Participant in this Plan.

D. AMOUNTS OF DEFERRAL

No new deferrals shall be made under this Plan on and after January 1, 1994. Deferrals made prior to such date are governed by the provisions of the Plan as in effect on the date of such deferrals.

E. PAYMENT OF DEFERRED COMPENSATION

1. Book Account and Interest Credit. Compensation deferred by a Participant under the Plan prior to January 1, 1994 is credited to a separate bookkeeping account for such Participant (the "Account"). (Sub-Accounts may be established for each Year for which the Participant elects to defer compensation.) Interest shall be credited to each Account (including Sub-Accounts established thereunder) for each Year at a rate equal to a rate declared by the Compensation Committee acting in its sole discretion after taking into account, among other things, the following factors: the Company's cost of funds, corporate tax brackets, expected amount and duration of deferrals, number and age of eligible Participants, expected time and manner of payment of deferred amounts, and expected performance of available fixed-rate insurance contracts covering the lives of Participants (the "Declared Rate"). Notwithstanding the foregoing, if a Change in Control (as defined in Section E.10 below) occurs, the Declared Rate for the balance of the calendar year in which the Change in Control occurs and for the two calendar years immediately following the year in which the Change in Control occurs shall not be less than the Declared Rate as in effect on the day before the Change in Control occurs. Interest on each Account balance shall be compounded daily on each business day within the Year to yield the Declared Rate for the Year. (Prior to January 1, 2000 each Account balance was compounded monthly at the twelfth root of the annual Declared Rate. In the case of

installment payments as provided in Section E.3 below, interest shall be credited on all amounts remaining in a Participant's Account until all amounts are paid out.

2. Length of Deferral. Prior to January 1, 1994, an Eligible Executive or Eligible Director elected in writing and filed with the Administrator, at the same time as such Eligible Executive or Eligible Director made any election to defer compensation, the period of deferral with respect to such election, subject to the minimum required period of deferral and the maximum permissible period of deferral. The minimum required period of deferral is five years after the end of the Year for which compensation is deferred. Notwithstanding the foregoing, the five-year minimum deferral period shall not apply to payments made as a result of death, Disability, Retirement, pre-retirement termination, a Change in Control or hardship. Payment must commence no later than the end of the maximum period of deferral, which is the January following the year in which the Eligible Executive attains age 72 or, in the case of an Eligible Director, the January after McKesson's annual meeting of stockholders next following the Eligible Director's 72nd birthday. An Eligible Executive or Eligible Director may alter the period of deferral, provided that:

a. such alteration is made at least one year prior to the earliest date the Participant could have received distribution of the amounts credited to his or her Account under the earlier election, and

b. such alteration does not provide for the receipt of such amounts earlier than one year from the date of the alteration, subject to the five-year minimum deferral rule stated above.

3. Change in Election of Form and Time of Payment. Subject to the provisions of Section E.2 above, a Participant may change a previous election as to form and time of payment of benefits by completing in writing and filing with the Administrator a new election of form and time of payment of benefits under this Plan from the following:

a. Form.

i. Payment of the amount credited to the Participant's Account in a single sum.

ii. Payment of amounts credited to the Participant's Account in any specified number of approximately equal annual installments (not in excess of ten).

b. Time.

i. The lump sum or first installment to be paid in January of the year designated by the Participant.

ii. The lump sum or first installment to be paid in January after the designated interval following the earlier of the Participant's Retirement or of the determination of Disability.

4. Payments on Termination. If a Participant terminates service with the Company for any reason other than Retirement, Disability or death, then, notwithstanding the election made by the Participant pursuant to Sections E.2 and E.3 above, the entire undistributed amount credited to his or her Account shall be paid in the form of a lump sum in the January of the calendar year following the calendar year of termination of service.

5. Payments on Death.

a. On and after January 1, 2003, each Participant shall make an election at the time of any election to defer compensation under the Plan of the time and form in which any amount remaining in the Participant's Account at the time of the Participant's death shall be paid to his or her Beneficiary. Such election shall be made in writing and filed with the Administrator. Benefits shall be paid in one of the forms specified in Section E.3. The Participant may modify such election at any time up until the date of the Participant's death in a writing filed with the Administrator. In addition, within one year following the death of the Participant the Beneficiary may elect to receive payment in a lump sum; provided, however, that such election shall not take effect until 12 months after the date it is made, and payment otherwise scheduled to be made in that 12-month period shall be made on schedule. The foregoing notwithstanding, the Administrator may, at his or her discretion, distribute all benefits to a Beneficiary in a single payment as soon as reasonably practicable after the death of the Participant if the value of the Participant's Account is less than \$5,000 on the date of death of the Participant.

b. Prior to January 1, 2003, if a Participant died after payments from his or her Account had begun, the remainder of the amounts credited to the Participant's Account was paid to his or her Beneficiary at the same time and in the same manner as they would have been paid to the Participant had the Participant survived. If a Participant died before payments from his or her Account had begun, the amount credited to his or her Account was paid to his or her Beneficiary at the time and in the manner elected by the Participant.

6. Designation of Beneficiary. A Participant may designate any person(s) or any entity as his or her Beneficiary. Designation shall be in writing and shall become effective only when filed with the Administrator. Such filing must occur before the Participant's death. A Participant may change the Beneficiary, from time to time, by filing a new written designation with the Administrator. Effective January 1, 2003, if the Participant fails to effectively designate a Beneficiary in accordance with the Administrator's procedures or the person designated by the Participant is not living at the time the distribution is to be made, then the Participant's Beneficiary shall be the Participant's surviving spouse, if any, or, if there is no surviving spouse, the Participant's surviving children, if any, in equal shares, or if there are no surviving children, the Participant's estate.

7. Payments on Disability. If the Administrator determines that a Participant has become Disabled, the entire undistributed amount credited to his or her Account shall be paid in the form and at the time elected by the Participant, or, if no election has been made, in a lump sum as soon as practicable after such determination is made.

8. Payments on Hardship. The Administrator may, in his or her sole discretion, direct payment to a Participant of all or of any portion of the Participant's Account balance, notwithstanding an election under Section E.3 above, at any time that he or she determines that such Participant has suffered an event of undue hardship which causes an emergency condition in the Participant's financial affairs.

9. Other Withdrawals. Effective June 1, 2000 and subject to approval by the Administrator, a Participant may elect to receive a withdrawal of all or part of the Participant's Account under the Plan at any time not otherwise expressly authorized pursuant to the terms of the Plan; provided, however, that ten percent (10%) of the amount of the withdrawal requested

shall be permanently forfeited to the Company and the Participant shall have no further right to that amount. The terms of such withdrawal shall be governed by the provisions of the Participant's election form in effect at the time of such election to the extent not otherwise specified in the Participant's election made pursuant to this Section E.9.

10. Effect of Change in Control on Minimum Deferral Period. The five-year minimum deferral period described in Section E.2 shall not apply in the event of a Change in Control.

For purposes of this Plan, a Change in Control shall be deemed to have occurred if any of the events set forth in any one of the following paragraphs shall occur:

a. any "person" (as defined in section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as such term is modified in sections 13(d) and 14(d) of the Exchange Act), excluding McKesson or any of its subsidiaries, a trustee or any fiduciary holding securities under an employee benefit plan of McKesson or any of its subsidiaries, an underwriter temporarily holding securities pursuant to an offering of such securities or a corporation owned, directly or indirectly, by stockholders of McKesson in substantially the same proportions as their ownership of McKesson, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of McKesson representing 30% or more of the combined voting power of McKesson's then outstanding securities; or

b. during any period of not more than two consecutive years, individuals who at the beginning of such period constitute the Board and any new members of the Board (other than a member designated by a "person" who has entered into an agreement with McKesson to effect a transaction described in Sections E.9.a, c and d) whose election by the Board or nomination for election by McKesson's stockholders was approved by a vote of at least two-thirds (2/3) of the members of the Board then still in office who either were members of the Board at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

c. consummation of a merger or consolidation of McKesson with any other corporation, which has been approved by the shareholders of McKesson, other than (I) a merger or consolidation which would result in the voting securities of McKesson outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of McKesson, at least 50% of the combined voting power of the voting securities of McKesson or such surviving entity outstanding immediately after such merger or consolidation, or (II) a merger or consolidation effected to implement a recapitalization of McKesson (or similar transaction) in which no person acquires more than 50% of the combined voting power of McKesson's then outstanding securities; or

d. the shareholders of McKesson approve a plan of complete liquidation of McKesson or an agreement for the sale or disposition by McKesson of all or substantially all of McKesson's assets.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following

which the holders of the McKesson's common stock immediately prior to such transaction or series of transactions continue to have the same proportionate ownership in an entity which owns all or substantially all of the assets of McKesson immediately prior to such transaction or series of transactions.

With respect to deferrals made prior to January 1, 1994, deferred funds shall be distributed upon a Change in Control, if the Participant has so elected.

F. SOURCE OF PAYMENT

Amounts paid under this Plan shall be paid from the general funds of the Company, and each Participant and his or her Beneficiaries shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Participant or Beneficiary, or create any fiduciary relationship between the Company and any Participant or Beneficiary with respect to any assets of the Company.

G. MISCELLANEOUS

1. Withholding. Each Participant and Beneficiary shall make appropriate arrangements with the Company for the satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employment tax requirements applicable to the payment of benefits under this Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

2. No Assignment.

a. Except as provided in Section G.2.b below, the benefits provided under this Plan may not be alienated, assigned, transferred, pledged or hypothecated by any person, at any time. These benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishments or executions.

b. If a court of competent jurisdiction determines pursuant to a judgment, order or approval of a marital settlement agreement that all or any portion of the benefits payable hereunder to a Participant constitute community property of the Participant and his or her spouse or former spouse (hereafter, the "Alternate Payee") or property which is otherwise subject to division by the Participant and the Alternate Payee, a division of such property shall not constitute a violation of Section G.2.a, and any portion of such property may be paid or set aside for payment to the Alternate Payee. The preceding sentence of this Section G.2.b, however, shall not create any additional rights and privileges for the Alternate Payee (or the Participant) not already provided under the Plan; in this regard, the Administrator shall have the right to refuse to recognize any judgment, order or approval of a marital settlement agreement that provides for any additional rights and privileges already not already provided under the Plan, including without limitation with respect to form and time of payment.

3. Applicable Law; Severability. The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and the laws of the State of California to the extent that the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective. If any provision this amendment and restatement is deemed to be a "material modification" of this Plan which would cause

amounts deferred under this Plan prior to 2005 to be subject to the deferred compensation provisions of section 885 of the American Jobs Creation Act of 2004, if such legislation is enacted into law, such provision shall be null, void and without effect retroactive to October 28, 2004.

H. ADMINISTRATION OF THE PLAN

1. In General. The Plan Administrator shall be the Executive Vice President, Human Resources of McKesson. If the Executive Vice President, Human Resources is a Participant, any discretionary action taken as Administrator which directly affects him or her as a Participant shall be specifically approved by the Compensation Committee. The Administrator shall have the authority and responsibility to interpret this Plan and shall adopt such rules and regulations for carrying out this Plan as it may deem necessary or appropriate. Decisions of the Administrator shall be final and binding on all parties who have or claim any interest in this Plan.

2. Elections and Notices. All elections and notices made under this Plan shall be in writing and filed with the Administrator at the time and in the manner specified by him or her. All elections to defer compensation under this Plan shall be irrevocable.

I. AMENDMENT OR TERMINATION OF THE PLAN

The Compensation Committee may at any time amend this Plan. Such action shall be prospective only and shall not adversely affect the rights of any Participant or Beneficiary to any benefit previously earned under this Plan. The Board may at any time terminate this Plan; thereupon compensation previously deferred plus interest credited thereon shall promptly be paid, on termination, in single lump sums to the respective Participants or Beneficiaries entitled thereto. The foregoing notwithstanding, no amendment adopted following the occurrence of a Change in Control shall be effective if it (a) would reduce the Declared Rate for the balance of the calendar year in which the Change in Control occurs or for the two calendar years immediately following the year in which the Change in Control occurs to a rate lower than the Declared Rate as in effect on the day before the Change in Control occurred or (b) modify the provisions of (a) above.

J. CLAIMS AND APPEALS

1. Informal Resolution of Questions. Any Participant or Beneficiary who has questions or concerns about his or her benefits under the Plan is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Participant or Beneficiary satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section J.

2. Formal Benefits Claim – Review by Executive Vice President, Human Resources. A Participant or Beneficiary may make a written request for review of any matter concerning his or her benefits under this Plan. The claim must be addressed to the Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, Human Resources or his or her delegate (“Executive Vice President”) shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The Executive Vice President shall review the request and shall issue his or her decision, in writing, no later than 90 days after the date the request is received, unless the circumstances require an extension of time. If such an extension is required, written notice of the extension shall be furnished to the person

making the request within the initial 90-day period, and the notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the request. In no event shall the extension exceed a period of 90 days from the end of the initial period.

3. Notice of Denied Request. If the Executive Vice President denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section J.2. The notice shall set forth the specific reason for the denial, reference to the specific Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Plan's appeal procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

4. Appeal to Executive Vice President.

a. A person whose request has been denied in whole or in part (or such person's authorized representative) may file an appeal of the decision in writing with the Executive Vice President within 60 days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, for good cause shown, may extend the period during which the appeal may be filed for another 60 days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant should be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant's claim.

b. The Executive Vice President's review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Executive Vice President shall not be restricted in his or her review to those provisions of the Plan cited in the original denial of the claim.

c. The Executive Vice President shall issue a written decision within a reasonable period of time but not later than 60 days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than 120 days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial 60-day period. This notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the appeal.

d. If the decision on the appeal denies the claim in whole or in part written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial, including references to specific Plan provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits. The notice shall describe any voluntary appeal procedures offered by the Plan and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.

e. The decision of the Executive Vice President on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.

5. Exhaustion of Remedies. No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section J.2, has been notified that the claim is denied in accordance with Section J.3, has filed a written request for a review of the claim in accordance with Section J.4, and has been notified in writing that the Executive Vice President has affirmed the denial of the claim in accordance with Section J.4.

K. DEFINITIONS

For purposes of this Plan, the following terms shall have the meanings indicated:

1. "Account" means the Account specified in Section E.1.
2. "Administrator" shall mean the person specified in Section H.
3. "Beneficiary" shall mean the person or entity described by Section E.6.
4. "Board" shall mean the Board of Directors of McKesson.
5. "Company" shall mean McKesson and any member of its controlled group as defined by Section 414(b) and 414(c) of the Internal Revenue Code of 1986, as amended.
6. "Compensation Committee" shall mean the Compensation Committee of the Board.
7. "Declared Rate" shall have the meaning described in Section E.1.
8. "Disabled" or "Disability" shall mean a physical or mental condition which the Social Security Administration has determined renders the Participant eligible to receive Social Security benefits on account of disability.
9. "Eligible Director" shall mean a member of the Board designated as eligible to participate in this Plan prior to the date participation was frozen.
10. "Eligible Executive" shall mean an employee of the Company selected as being eligible to participate in this Plan prior to the date participation was frozen.
11. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.
12. "McKesson" shall mean McKesson Corporation, a Delaware corporation.
13. "Participant" shall be any Company executive or member of the Board for whom amounts are credited to an Account under this Plan. Upon a Participant's death, a Participant's Beneficiary shall be a Participant until all amounts are paid out of the Participant's Account.
14. "Plan" shall mean the McKesson Corporation Management Deferred Compensation Plan ("MDCP").
15. "Retirement" shall mean termination of employment after (a) the date on which the Participant's number of points under the Retirement Share Plan portion of the McKesson Corporation Profit-Sharing Investment Plan equals 65, (b) attaining eligibility for a Retirement Allowance under the terms of the McKesson Corporation Retirement Plan or (c) receiving an

Approved Retirement under the terms of the McKesson Corporation Executive Benefit Retirement Plan. Notwithstanding the foregoing, for purposes of this Plan, Retirement for an Eligible Director shall mean cessation of service as a member of the Board on or after the completion of at least two successive terms as a member of the Board.

16. "Year" is the calendar year.

L. SUCCESSORS

This Plan shall be binding on the Company and any successors or assigns thereto.

M. EXECUTION

To record the amendment and restatement of the Plan by the Board of Directors of McKesson Corporation at a meeting held on October 28, 2004.

McKESSON CORPORATION

By: _____
Paul E. Kirincic
Executive Vice President, Human Resources

**McKESSON CORPORATION
EXECUTIVE BENEFIT RETIREMENT PLAN**

(Amended and Restated as of October 28, 2004)

**McKESSON CORPORATION
EXECUTIVE BENEFIT RETIREMENT PLAN**

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**McKESSON CORPORATION
EXECUTIVE BENEFIT RETIREMENT PLAN**

(Amended and Restated as of October 28, 2004)

A. PURPOSE

This Plan was established to enable the Company to attract and retain key executive personnel by assisting them and their survivors in maintaining their standards of living on the Executive's retirement or earlier death. The Plan has been amended and restated on various occasions. The Plan as set forth in here is amended and restated effective October 28, 2004, except as otherwise indicated below.

B. ERISA PLAN

This Plan is an unfunded deferred compensation program for a select group of management or highly compensated employees of the Company. The Plan, therefore, is covered by Title I of ERISA, except that it is exempt from Parts 2, 3, and 4 of Title I of ERISA.

C. PARTICIPATION

1. Selection by the Compensation Committee. The Compensation Committee may select, at its discretion and from time to time as it decides, the Executives who participate in this Plan. Participation in the Plan shall be limited to those Executives of the Company who are selected by the Compensation Committee. Selection of an Executive to participate in the Plan may be evidenced by the terms of the Executive's contract of employment with the Company.

2. Addition and Removal of Participants. The Compensation Committee may, at its discretion and at any time, designate additional Executives to participate in the Plan and remove Executives from participation in the Plan. If an Executive is removed from participation prior to reaching age 65, he or she shall be entitled to receive benefits, if any, as specified in Section D or F.

3. Relation to Other Plans. If an Executive participates in this Plan, he or she shall not participate in or receive benefits under any other Company-paid plan, program or agreement that provides Company Executives, or the individual Executive, with retirement benefits that supplement or are in addition to the benefits under the Retirement Plan, Profit-Sharing Investment Plan or Supplemental Profit-Sharing Investment Plan, unless otherwise specifically approved by the Compensation Committee. This paragraph shall not limit an Executive's participation in or benefits under any plan or program under which the Executive voluntarily defers for later payment compensation otherwise currently payable to the Executive (such as, but not limited to, the Deferred Compensation Administration Plan II).

D. BENEFITS ON APPROVED RETIREMENT

1. Amount of Benefits.

a. In General. Except as otherwise provided herein, each Executive who participates in the Plan and terminates employment by reason of an Approved Retirement shall be entitled to receive monthly payments equal to (1) reduced by (2), as follows:

(1) the percentage of Average Final Compensation specified for the Executive, which shall be as provided herein and no higher than 60%

reduced by

(2) the Executive's Basic Retirement Benefits.

The percentage stated in clause (1) may be specified by the Compensation Committee or may be specified in the Executive's written employment contract with the Company. Unless otherwise determined by the Compensation Committee, the percentage of Average Final Compensation specified in clause (1) shall be 20% plus 0.148% for each completed month (1.77% per completed year) of the Executive's full-time continuous employment with the Company, but in no event shall such percentage be higher than 60%.

b. Special Rule. The benefit of an Executive under this Section D. who is a participant in the Plan as of August 28, 1996, shall not be less than such Executive's benefit calculated pursuant to Section F.1.a of the Plan, without regard to any reduction required by Section D.3 of the Plan.

c. Effect of Plan Termination. If the Plan is terminated with respect to any or all Executives, each affected Executive who later terminates employment by reason of an Approved Retirement shall be entitled to receive upon such Approved Retirement monthly payments equal to (1) the applicable percentage of Average Final Compensation under Section D.1.a multiplied by the Executive's Pro Rata Percentage, reduced by (2) the Executive's Basic Retirement Benefits. For purposes of this section, the Executive's Pro Rata Percentage and Average Final Compensation shall be calculated by treating the date of Plan termination as the date that the Executive's employment with the Company terminates.

d. Removal from Participation. If an Executive is removed from Plan participation and later terminates employment by reason of an Approved Retirement, the Executive shall be treated as if the Plan were terminated with respect to the Executive as of the date of removal, and the Executive's benefits shall be determined under Section D.1.b above except that the Executive's Basic Retirement Benefits reduction shall be determined as of the date of the Executive's Approved Retirement.

e. Change in Percentage.

If the percentage of Average Final Compensation specified in Section D.1.a is reduced, the percentage applied to determine the Executive's benefit shall be determined by averaging over the Executive's period of participation in the Plan (and in the Executive Benefit

Plan) the percentages that have been so specified. For example, if an Executive's percentage is reduced from 60% to 50%, and one-half of the Executive's Plan participation is at 60% and one-half at 50%, the percentage used to determine the Executive's benefits shall be 55%.

In addition, the benefit payable under this Plan after a reduction in such percentage shall not be less than the benefit that would have been paid if the Plan had been terminated with respect to the Executive on the date of such reduction.

If the percentage of Average Final Compensation specified in Section D.1.a is increased, such increased percentage shall apply for determining Plan benefits without averaging it with prior percentages, and all prior Plan participation shall be treated as having been participation under that increased percentage.

f. Reduction for Basic Retirement Benefits. The reduction for the Executive's Basic Retirement Benefits shall be applied, unless otherwise provided herein, by calculating all benefits as if they were payable in the form of a straight life annuity beginning at the date of Approved Retirement, without survivor benefits. There is no requirement, however, that the benefits payable under this Plan and any other plan be paid in the same form or at the same time.

2. Time of Payment. The benefits provided on Approved Retirement shall commence on the first day of the month following the date the Executive's Service terminates.

3. Reduction for Early Commencement of Approved Retirement. If an Executive's Approved Retirement occurs before the date the Executive attains age 62, the Executive shall receive a reduced benefit commencing on the first day of the month following such Approved Retirement. This benefit shall be reduced by 0.3% for each month the Executive's Approved Retirement precedes the date the Executive will attain age 62. The reduction for Basic Retirement Benefits shall be applied by calculating all benefits as if they were payable in the form of a straight life annuity at the date of such Approved Retirement before age 62, without survivor benefits, to determine the net benefit payable under this Plan. See Appendix A for an example of this calculation.

4. No Election of Delayed Retirement Benefit. An Executive may not elect to delay the beginning of his or her retirement benefits under the Plan after the time for commencement specified in Section D.2.

E. DEATH BENEFITS

1. Death After Approved Retirement. If an Executive dies after Approved Retirement, benefits shall be paid after the Executive's death only in accordance with the method of payment determined under Section H. For example, if the Executive received a straight life annuity or a lump sum, no benefits shall be paid under this Plan after the Executive's death.

2. Death While Employed.

a. Benefits Payable to Beneficiary. If an Executive dies while employed by the Company, the Executive's beneficiary shall receive the monthly benefit that would have been paid to such beneficiary if the Executive had terminated employment by reason of an Approved Retirement on the last day of the month before the Executive's death, had elected to receive benefits in the actuarially reduced form of a joint and 100% survivor annuity with the Executive's beneficiary as the contingent annuitant, had begun to receive such benefits on the day prior to the Executive's death, and died immediately thereafter. Such payment shall be calculated by first determining the amount payable to the Executive under this Plan without reduction for Basic Retirement Benefits (applying the reduction, if applicable, for early commencement of such benefit as set forth in Section D.3 and applying the actuarial reduction for joint and 100% survivor annuity) and only thereafter making a reduction for Basic Retirement Benefits. The reduction for Basic Retirement Benefits in connection with the Retirement Plan in this case shall be in the amount payable, if any, under the Retirement Plan as a spouse allowance; if any spouse allowance is payable under the Retirement Plan on account of the Executive, this reduction shall be made even if the Executive's beneficiary under this Plan is not the Executive's surviving spouse. See Appendix B for an example of this calculation. The foregoing notwithstanding, if prior to death the Executive had made an election to receive a lump sum form of distribution and the Compensation Committee approves such form of distribution, distribution shall be made to the beneficiary in the form of a lump sum payment.

b. Average Final Compensation. For purposes of the calculations under this Section E.2, the Executive's Average Final Compensation shall be based on the compensation by the Executive actually earned during the Executive's employment with the Company.

c. No Designated Beneficiary. If an Executive dies before Approved Retirement without having designated a beneficiary, and was married on the date of death, the Executive's surviving spouse shall be the Executive's beneficiary, unless otherwise provided by applicable community property or other laws or court order. If an Executive dies before Approved Retirement, has no surviving spouse and has not designated a beneficiary, the present value of the benefits that would be paid to a surviving spouse of the same age as the Executive under a joint and 100% survivor annuity form (and under the method of calculation provided in Section E.2.a and b) shall be paid to the Executive's estate in two equal amounts in the 14 months following death. The present value of benefits shall be determined under factors established and uniformly applied by the Administrator.

3. Designation of Beneficiary. An Executive may designate any natural person as his or her beneficiary, but may not designate more than one person, or any person not a natural person, without the approval of the Administrator. Designation shall be made in writing and shall become effective only when filed with the Administrator. Such filing must occur before the Executive's death. An Executive may change his or her beneficiary, from time to time, by filing a new written designation with the Administrator. If the Executive is married, any beneficiary designation which does not designate the Executive's spouse to receive at least one-half of the benefit payable on the Executive's death shall only become effective when approved in writing by the Executive's spouse.

F. TERMINATION BEFORE APPROVED RETIREMENT

1. Basic Rule.

a. Termination Benefits. Subject to other applicable provisions in this Plan, an Executive who terminates employment with the Company other than on Approved Retirement or death shall be entitled to receive, beginning at age 65, monthly payments equal to his Termination Benefits. An Executive's Termination Benefits are equal to (1) the applicable percentage of Average Final Compensation under Section D.1.a., multiplied by the Executive's Pro Rata Percentage and reduced by (2) the Executive's Basic Retirement Benefits at the later of age 65 or the date of actual termination. See Appendix C for an example of this calculation.

b. Plan Termination or Removal from Participation. An Executive who terminates employment with the Company other than on Approved Retirement or death and who has been removed from Plan participation ("removal") or with respect to whom the Plan has terminated prior to his or her termination of employment ("termination") shall be entitled to receive, beginning at age 65, monthly payments determined under this Section F but treating the date of "removal" or "termination", whichever is applicable, as the date of termination of employment for purposes of calculating the Executive's Pro Rata Percentage and Average Final Compensation.

c. Reduction for Subsequent Employer Benefits. Any amount payable under Section F.1.a or b shall be reduced by any retirement benefit payable to the Executive or the Executive's beneficiary on account of service rendered to another employer after the Executive's termination of employment with the Company.

2. Limitations. No benefits shall be paid under this Section F to:

a. Termination for Cause. An Executive who is terminated for Cause. If the Executive has a written employment agreement, Cause shall be determined in accordance with that agreement. Otherwise, Cause shall be determined by the Administrator.

b. Violation of Employment Agreement. An Executive who terminates employment in violation of a written employment agreement (if any). Termination is in violation of an employment agreement if termination occurs before the end of the term of that contract and is not allowed by the agreement (e.g., for "good reason").

c. No Vested Interest. An Executive who has not at the time of his or her termination of employment with the Company (i) completed five Years of Service or (ii) attained age 65, or if later, the fifth anniversary of participation in the Plan (or, in the case of an Executive who was terminated prior to April 26, 1999, an Executive who had no vested interest in benefits under the Retirement Plan at the time of his or her termination of employment with the Company) shall have no vested interest in benefits under the Plan and upon termination of employment with the Company shall forfeit any benefit the Executive had accrued under the Plan. For purposes of the foregoing, Years of Service before a Break in Service shall not be counted if the consecutive one-year Breaks in Service equal or exceed the greater of five or the aggregate number of Years of Service before the Break in Service. An Executive who would have such a vested interest (1) if the Executive's employment was not terminated by the

Company in violation of the Executive's employment agreement or (2) if the Executive's employment was not terminated for "good reason" under such agreement, shall be treated as having such a vested interest. This Section F.2 shall not apply to any Executive who was a participant in this Plan on September 29, 1993. The foregoing notwithstanding, effective January 30, 2002, the Compensation Committee may in its sole discretion waive the five Years of Service requirement and confer vested rights on any Executive.

3. Pro Rata Percentage. An Executive's Pro Rata Percentage is the higher of the following two percentages (but not greater than 100%). The first percentage is determined by dividing the number of the Executive's whole months of employment with the Company by the number of whole months from the date that the Executive was first hired by the Company to the date that the Executive will reach age 65 and multiplying by 100. The second percentage is determined by multiplying 4.44% by the number of the Executive's whole and partial years of completed employment with the Company.

4. Rules of Application.

a. Periods of Employment. Effective April 26, 1999, for purposes of determining employment with the Company, Years of Service before a Break in Service (and, at the discretion of the Administrator, any other periods of Service that would be disregarded under the Retirement Plan) shall not be counted under this Section F if the consecutive one-year Breaks in Service equal or exceed the greater of five or the aggregate number of the Executive's Years of Service before the Break in Service.

b. Basic Retirement Benefits. For purposes of this Section F, an Executive's Basic Retirement Benefits shall be determined at the time that the Executive terminates employment with the Company, calculating all benefits as if they were payable in the form of a straight life annuity beginning at the later of age 65 or the date of actual termination of employment, without survivor benefits.

c. Method of Payment. Benefits under this Section shall be paid in the form provided in Section H.

d. Date Benefits Begin. Benefits payable under this Section shall begin on the first day of the month following the date the Executive reaches age 65.

e. Death Benefits. For purposes of this Section:

If an Executive dies after benefits have begun, benefits payable thereafter, if any, shall be paid in accordance with the method of payment determined under Section H.

If an Executive who has terminated employment and is entitled to receive benefits under this Section F dies before benefits begin, the Executive's beneficiary shall receive the monthly benefit payable under an actuarially reduced form of joint and 100% survivor annuity with the Executive's beneficiary as the contingent annuitant, payable beginning on the first day of the month after the Executive would have reached age 65. The principles of the second and third sentences of Section E.2.a and the principles of Section E.2.b and of this Section shall apply for calculating these survivor benefits.

The principles of Section E.2.c and of this Section shall apply if there is no surviving spouse and no designation of beneficiary. The rules of Section E.3 concerning designation of beneficiary shall apply.

f. Change in Percentage. The principles of Section D.1.d shall apply to benefits calculated under this Section F.

5. Other Agreement. If an Executive's written employment agreement with the Company provides higher benefits on termination of employment before Approved Retirement than provided under this Section F, such higher benefits shall be paid.

6. Forfeiture of Benefits. Except as provided in this Section, and as provided elsewhere in this Plan with respect to Approved Retirement or death of an Executive, an Executive or the Executive's beneficiaries shall not be entitled to any benefits under this Plan, all obligations of the Company to the Executive and his or her beneficiaries shall cease, and the Company shall have no further liability to the Executive or any other person under this Plan.

G. SPECIAL FORFEITURE AND REPAYMENT RULES

Any other provisions of this Plan to the contrary notwithstanding, if the Compensation Committee determines that an Executive has engaged in any of the actions described in Section G.3 below, the consequences set forth in Sections G.1 and 2 below shall result.

1. Forfeiture of Benefits. To the extent that the benefit that otherwise would be payable under this Plan exceeds the benefit, if any, that would have been payable if the Executive's termination of employment had occurred on November 1, 1993, such excess portion shall be forfeited and shall not be payable at any time under this Plan.

2. Repayment. If the Executive received a payment under this Plan at any time within six months prior to the date the Company discovered that the Executive engaged in any action described in Section G.3 below, the Executive, upon written notice from the Company, shall repay to the Company in cash the excess portion of any such payment, such excess portion to be calculated in the manner described in Section G.1 above.

3. The consequences described in Sections G.1 and 2 above shall apply if the Executive, either before or after termination of employment with the Company, engages in any of the following:

a. Accepts a position as a consultant to or an employee of a business enterprise that is in direct competition with any line of business engaged in by the Company at the time of the termination of the Executive's employment.

b. Discloses to others, or takes or uses for the Executive's own purpose or the purpose of others, any trade secrets, confidential information, knowledge, data or know-how belonging to the Company and obtained by the Executive during the term of the Executive's employment, whether or not they are the Executive's work product. Examples of such confidential information or trade secrets include (but are not limited to) customer lists, supplier lists, pricing and cost data, computer programs, delivery routes, advertising plans, wage and

salary data, financial information, research and development plans, processes, equipment, product information and all other types and categories of information as to which the Executive knows or has reason to know that the Company intends or expects secrecy to be maintained.

c. Fails to promptly return all documents and other tangible items belonging to the Company in the Executive's possession or control, including all complete or partial copies, recordings, abstracts, notes or reproductions of any kind made from or about such documents or information contained therein, upon termination of employment, whether pursuant to an Approved Retirement or otherwise.

d. Fails to provide the Company with at least 30 days' written notice prior to directly or indirectly engaging in, becoming employed by, or rendering services, advice or assistance to any business in competition with the Company. As used herein, "business in competition" means any person, organization or enterprise which is engaged in or is about to become engaged in any line of business engaged in by the Company at the time of the termination of the Executive's employment with the Company.

e. Fails to inform any new employer, before accepting employment, of the terms of this Section and of the Executive's continuing obligation to maintain the confidentiality of the trade secrets and other confidential information belonging to the Company and obtained by the Executive during the term of the Executive's employment with the Company.

f. Induces or attempts to induce, directly or indirectly, any of the Company's customers, employees, representatives or consultants to terminate, discontinue or cease working with or for the Company, or to breach any contract with the Company, in order to work with or for, or enter into a contract with, the Executive or any third party.

g. Engages in conduct which is not in good faith and which disrupts, damages, impairs or interferes with the business, reputation or employees of the Company.

The Compensation Committee shall determine in its sole discretion whether the Executive has engaged in any of the acts set forth in a through g above, and its determination shall be conclusive and binding on all interested persons.

Any provision of this Section which is determined by a court of competent jurisdiction to be invalid or unenforceable shall be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by such invalid or unenforceable provision, without invalidating or rendering unenforceable the remaining provisions of this Section.

H. METHOD OF PAYMENT

1. Normal Form. The Normal Form of Benefit under this Plan shall be a straight life annuity of monthly payments over the lifetime of the Executive, with payments ceasing on the first day of the month in which the Executive dies.

2. Joint and Survivor Annuity. If the Executive is married at the time benefits become payable, then, unless the Executive has elected otherwise (as described below), the

Executive's benefits shall be paid in the actuarially reduced form of a joint and 50% survivor annuity payable to the Executive and the Executive's spouse. With the approval of the Administrator, the Executive may elect, in writing, not to receive this form of benefit, but any such election which provides a benefit for a beneficiary other than the Executive's spouse must be approved in writing by the Executive's spouse to be effective. Such election shall become effective when filed with the Administrator and must be filed before the Executive's termination of employment with the Company.

3. Lump Sum Distribution. An Executive whose employment terminates by reason of an Approved Retirement on or after June 1, 1997, may elect to have the actuarial equivalent value of his or her benefits paid in the form of a lump sum distribution in cash, where actuarial equivalence is determined as follows: (i) the interest rate prescribed by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution on plan termination for the month in which the Executive makes the lump sum distribution election and (ii) a table based upon a fixed blend of 50 percent of male mortality rates and 50 percent of female mortality rates from the 1983 Group Annuity Mortality Table; provided, however, that effective October 28, 2004 the table shall be based on the 1994 Group Annuity Reserving Table (1994 GAR).

An election of a lump sum form of distribution must be made at least 12 months prior to the Executive's Approved Retirement (except that an election made prior to January 1, 1997 shall be effective as to any Approved Retirement occurring during calendar year 1997) and shall be void and of no effect if either of the following occurs: (a) the Executive's employment with the Company does not terminate within 24 months after the date on which the Executive made the election of a lump sum form of distribution; or (b) the Executive makes a new election under this Section H.3 at least 12 months after the date of the Executive's previous election under this Section H.3.

An Executive who is married at the time benefits become payable under this Section H.3 may not receive a lump sum form of distribution unless the Executive's spouse approves of the election in writing.

An Executive may elect a lump sum form of distribution less than 12 months prior to Approved Retirement, but in such event the amount of the lump sum distribution shall be reduced by ten percent.

4. Additional Forms of Benefits. With the approval of the Administrator, the Executive may elect to receive his or her benefits in the form of a single life annuity, a joint and survivor annuity with a 100% or 50% annuity to the surviving spouse, or a lump sum distribution or such other form as permitted by the Administrator. All such forms of payment shall be the actuarial equivalent of the single life annuity with actuarial equivalence determined pursuant to Section H.3. If the Executive is married, any such election must be approved in writing by the Executive's spouse to be effective, if it would provide the spouse with a benefit less than that provided under Section H.2. Prior to April 26, 1999, the Executive, with the approval of the Administrator, could elect to receive benefits in one of the actuarially equivalent benefit forms permitted under the Retirement Plan or such other form as permitted by the Administrator.

I. SOURCE OF PAYMENT

The benefits paid under this Plan shall be paid from the general funds of the Company, and the Executive and the Executive's beneficiaries shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of the Executive or any beneficiary, or create any fiduciary relationship between the Company and the Executive or any beneficiary with respect to any assets of the Company.

J. MISCELLANEOUS

1. Withholding. The Executive and any beneficiary shall make appropriate arrangements with the Company for the satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employee tax requirements applicable to the payment of benefits under this Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

2. No Assignment.

a. Other than as provided in Section J.2.b below, benefits provided under this Plan may not be alienated, assigned, transferred, pledged or hypothecated by any person, at any time, or to any person whatsoever. These benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishment or executions to the fullest extent allowed by law.

b. If a court of competent jurisdiction determines pursuant to a judgment, order or approval of a marital settlement agreement that all or any portion of the benefits payable hereunder to an Executive constitute community property of the Executive and his or her spouse or former spouse (hereafter, the "Alternate Payee") or property which is otherwise subject to division by the Executive and the Alternate Payee, a division of such property shall not constitute a violation of Section J.2.a, and any portion of such property may be paid or set aside for payment to the Alternate Payee. The preceding sentence of this Section J.2.b, however, shall not create any additional rights and privileges for the Alternate Payee (or the Executive) not already provided under the Plan; in this regard, the Administrator shall have the right to refuse to recognize any judgment, order or approval of a marital settlement agreement that provides for any additional rights and privileges already not already provided under the Plan, including without limitation with respect to form and time of payment.

3. Fiduciary Insurance. The Company may purchase insurance for its directors, officers, employees and agents to cover potential liability arising from their acts and omissions concerning this Plan.

4. Applicable Law; Severability. The Plan hereby created shall be construed, administered, and governed in all respects in accordance with ERISA and the laws of the State of California to the extent the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective. If any provision this amendment

and restatement is deemed to be a “material modification” of this Plan which would cause amounts deferred or accrued under this Plan prior to 2005 to be subject to the deferred compensation provisions of section 885 of the American Jobs Creation Act of 2004, if such legislation is enacted into law, such provision shall be null, void and without effect retroactive to October 28, 2004.

5. No Right to Continued Employment. Each Executive selected to participate in the Plan is deemed by the Company to be a bona fide executive or in a high policy making position for purposes of the Age Discrimination in Employment Act and state laws of similar effect. Accordingly, the terms of the Plan shall not confer any legal rights upon any Executive to continued employment or employment past age 65, nor shall the Plan interfere with the rights of the Company to discharge any Executive or to treat the Executive without regard to the effect which that treatment might have upon the Executive as a participant in the Plan.

6. Offset for Indebtedness. To the extent permitted by law, if at the time an Executive becomes entitled to receive any payment under the Plan the Executive is indebted to the Company, the amount of the payment shall be reduced by the amount of any such indebtedness then due and owing to the Company. The indebtedness shall then be reduced to the extent of such reduction.

K. ADMINISTRATION OF THE PLAN

1. In General. The Plan shall be administered by the Executive Vice President, Human Resources of McKesson under the direction of the Compensation Committee. If the Executive Vice President, Human Resources, is an Executive participating in the Plan, then any discretionary action taken as Administrator which directly affects the Executive Vice President, Human Resources, as an Executive shall be specifically approved by the Compensation Committee. The Administrator shall have the ultimate responsibility to interpret the Plan and shall adopt such rules and regulations for carrying out the Plan as it may deem necessary or appropriate. Decisions of the Administrator shall be final and binding on all parties who have an interest in the Plan.

2. Elections and Notices. All elections and notices made by an Executive under this Plan shall be in writing and filed with the Administrator.

3. Action by Board of Directors and Compensation Committee. The Board and the Compensation Committee may act under this Plan in accordance with their normal procedures and practices, including but not limited to delegation of their authority to act under the Plan.

4. Plan Year. The Plan Year is the calendar year.

L. AMENDMENT OR TERMINATION OF THE PLAN

The Compensation Committee may at any time amend, alter or modify and the Board may at any time terminate the Plan. This Plan shall be treated as a plan covered by Section 301 of the Retirement Equity Act for purposes of amendment and termination.

M. CLAIMS AND APPEALS

1. Informal Resolution of Questions. Any Executive or beneficiary who has questions or concerns about his or her benefits under the Plan is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Executive or beneficiary satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section M.

2. Formal Benefits Claim – Review by Executive Vice President, Human Resources. An Executive or beneficiary may make a written request for review of any matter concerning his or her benefits under this Plan. The claim must be addressed to the Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, Human Resources, or his or her delegate (the “Executive Vice President”) shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The Executive Vice President shall review the request and shall issue his or her decision, in writing, no later than 90 days after the date the request is received, unless the circumstances require an extension of time. If such an extension is required, written notice of the extension shall be furnished to the person making the request within the initial 90-day period, and the notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the request. In no event shall the extension exceed a period of 90 days from the end of the initial period.

3. Notice of Denied Request. If the Executive Vice President denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section M.2. The notice shall set forth the specific reason for the denial, reference to the specific Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Plan’s appeal procedures and the time limits applicable to such procedures, including a statement of the claimant’s right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

4. Appeal to Executive Vice President.

a. A person whose request has been denied in whole or in part (or such person’s authorized representative) may file an appeal of the decision in writing with the Executive Vice President within 60 days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, for good cause shown, may extend the period during which the appeal may be filed for another 60 days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant shall be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant’s claim.

b. The Executive Vice President's review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Executive Vice President shall not be restricted in his or her review to those provisions of the Plan cited in the original denial of the claim.

c. The Executive Vice President shall issue a written decision within a reasonable period of time but not later than 60 days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than 120 days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial 60 day period. This notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the appeal.

d. If the decision on the appeal denies the claim in whole or in part written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial, including references to specific Plan provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information Relevant to the claim for benefits. The notice shall describe any voluntary appeal procedures offered by the Plan and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.

e. The decision of the Executive Vice President on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.

5. Exhaustion of Remedies. No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section M.2, has been notified that the claim is denied in accordance with Section M.3, has filed a written request for a review of the claim in accordance with Section M.4, and has been notified in writing that the Executive Vice President has affirmed the denial of the claim in accordance with Section M.4.

N. DEFINITIONS

For purposes of the Plan, the following terms shall have the meanings indicated:

1. "Administrator" shall mean the person specified in Section K.

2. "Approved Retirement" shall mean (i) any termination of employment with the Company after attainment of age 62; (ii) any involuntary termination of employment after both attainment of age 55 and completion of 15 Years of Service; or (iii) any other termination of employment prior to (i) or (ii) above (but not earlier than the Executive's attainment of age 55 and completion of five Years of Service) if the Compensation Committee has determined that such termination will be an Approved Retirement. Such a determination by the Compensation Committee may occur at the time of the Executive's termination of employment with the Company or at any earlier time. Notwithstanding the foregoing, if an Executive's written

employment agreement so requires or if the Board so decides, the Board may, in its sole discretion, grant an Approved Retirement at any earlier termination of employment either with or without the reduction for early commencement of benefits in Section D.3.

Notwithstanding the foregoing, “Approved Retirement” shall not include any termination for “cause,” which shall be determined as provided in Section F.2.a. hereof.

3. “Average Final Compensation” shall mean one-fifth of the sum of the base salary and annual bonuses under the Management Incentive Plan (“MIP”) or any successor or replacement plans (including base salary and annual MIP bonuses or portions thereof voluntarily deferred under a cash or deferred plan or any other tax qualified or non-qualified salary deferral plan such as the Deferred Compensation Administration Plan II or bonuses relinquished in favor of a stock option grant under the 1994 Stock Option and Restricted Stock Plan) earned by an Executive for the five consecutive years of full-time continuous employment with the Company which (a) fall within the 15-year period ending on the first day of the month following the Executive’s termination of service with the Company and (b) produce the highest such sum. If the Executive has had less than five years of full time continuous employment, Average Final Compensation shall be base salary and annual bonuses, including amounts voluntarily deferred or relinquished as described in the previous sentence, for the entire period of such employment with the Company, divided by the number of whole and partial years of service.

4. “Basic Retirement Benefits” shall mean the monthly annuity benefit payable under the Retirement Plan and a hypothetical monthly annuity benefit payable to the Executive under the Profit-Sharing Investment Plan as follows:

Benefits from the Executive’s interest in the Retirement Plan shall be calculated on a straight life annuity basis payable (i) to the Executive in the event of normal retirement, retirement after age 65, early retirement, or termination allowance as defined in the Retirement Plan, or (ii) as a spouse allowance in the event of the Executive’s death before Approved Retirement or before benefits begin (Section F.4.e).

The hypothetical annuity benefit payable under the Profit-Sharing Investment Plan shall be calculated by first determining the value of each share credited to the Executive’s Retirement Share Plan account under the Profit-Sharing Investment Plan as of the date it was credited and applying an annual rate of 12% to such value from the date such share was credited to such account to the date the Executive’s benefit under this Plan is to commence. The aggregate value of all of the shares credited to the Executive’s Retirement Share Plan account so determined shall then be converted to a straight life annuity using the factors for determining actuarial equivalence set forth in Section H.3.

5. “Board” shall mean the Board of Directors of McKesson.

6. “Break in Service” shall occur when an Executive does not perform any Service during a 12 consecutive month period beginning on a date after the Executive separates from Service. Separation from Service occurs on the earlier of (i) the date on which the Executive quits, retires, is discharged or dies, or (ii) he or she fails to return to work as determined at the discretion of the Administrator.

7. "Cause" shall be determined in accordance with the terms of the Executive's written employment agreement, if any; or if there is none, "Cause" shall mean (i) Executive's misconduct, dishonesty, habitual neglect, or other knowing and material violation of Company's policies and procedures in effect from time to time, (ii) actions (or failures to act) by Executive in bad faith and to the detriment of Company, or (iii) conviction of a felony or a crime of moral turpitude.

8. "Company" shall mean McKesson and any member of its controlled group as defined by Section 414(b) and Section 414(c) of the Internal Revenue Code of 1986, as amended.

9. "Compensation Committee" shall mean the Compensation Committee of the Board.

10. "Deferred Compensation Administration Plan II" or "DCAP II" shall mean the McKesson Corporation Deferred Compensation Administration Plan II.

11. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

12. "Executive" shall mean an employee of the Company selected to participate in this Plan.

13. "McKesson" shall mean McKesson Corporation, a Delaware corporation.

14. "Normal Form of Benefit" is that form described in Section H.1.

15. "Plan" or "EBRP" shall mean this McKesson Corporation 1984 Executive Benefit Retirement Plan.

16. "Pro Rata Percentage" is defined in Section F.3.

17. "Profit-Sharing Investment Plan" or "PSIP" shall mean the McKesson Corporation Profit-Sharing Investment Plan.

18. "Retirement Plan" shall mean the McKesson Corporation Retirement Plan.

19. "Service" shall mean the period commencing with the first day of an Executive's employment with the Company and ending with the day he or she separates from Service with the Company. An Executive separates from Service on the earlier of the date he or she resigns, retires, is discharged or dies, or on the first anniversary of his or her absence from work for any other reason. Notwithstanding the foregoing, an Executive's period of Service shall also include certain periods after he or she has separated from Service:

(1) If an Executive separates from Service by resignation, discharge or retirement and thereafter returns to the employ of the Company within one year, the period of separation shall be considered as part of the Executive's Service.

(2) An Executive's Service shall also continue during his or her absence caused by sickness, accident, layoff where rehire is anticipated, required military service or any other absence authorized by the Company on a uniform and nondiscriminatory basis. If, after such absence, the individual fails to return to work as an employee of the Company within the time prescribed on a uniform and nondiscriminatory basis by the Administrator for such absences, or within the period during which his or her reemployment rights are protected by law, Service shall be deemed broken as of the date the Executive should have returned to work, as determined by the Administrator.

(3) If an Executive terminates employment because of the pregnancy of the Executive, the birth of a child of the Executive, the placement of a child with the Executive in connection with the adoption of the child by the Executive, or for the purpose of caring for such child by the Executive for a period immediately following birth or placement, the one-year period following such termination shall be deemed Service of the Executive ("maternity or paternity absence"). Also, no separation from Service on account of such absence shall occur until the earliest of resignation, retirement, death, discharge or the second anniversary of the date the maternity or paternity absence began. The period after the first anniversary of such absence and its second anniversary is neither a period of Service or separation. An Executive must furnish the Administrator with such timely information as the Administrator may reasonably require to establish that the absence is for a reason described herein.

(4) Effective as of May 13, 1993, if an Executive who separates from Service receives severance pay immediately after such separation from Service, the period for which the Executive receives such severance pay shall be considered part of the Executive's Service.

20. "Social Security Normal Retirement Age" shall mean age 65 in the case of an Executive attaining age 62 before January 1, 2000, age 66 for an Executive attaining age 62 after December 31, 1999 and before January 1, 2017, and age 67 for an Executive attaining age 62 after December 31, 2016.

21. "Supplemental Profit-Sharing Investment Plan" or "Supplemental PSIP" shall mean the McKesson Corporation Supplemental Profit-Sharing Investment Plan.

22. "Termination Benefits" shall mean those benefits specified in Section F.1.a.

23. "Year of Service" shall mean a period of 365 aggregate days of Service (including holidays, weekends, and other non-working days). A Year of Service is measured beginning on the Executive's first employment commencement date (the "Anniversary Date") with the Company. To determine the number of whole years of an Executive's Service, nonsuccessive periods of Service must be aggregated and less than whole year periods of Service must be aggregated. However, both aggregation rules are subject to the Break in Service and other rules, as set forth in the Retirement Plan, and as applied at the discretion of the Plan Administrator.

O. SUCCESSORS

This Plan shall be binding on the Company and any successors or assigns thereto.

P. EXECUTION

To record the amendment and restatement of the Plan by the Board of Directors of McKesson Corporation at a meeting held on October 28, 2004.

McKESSON CORPORATION

By: _____

Paul E. Kirincic
Executive Vice President, Human Resources

**McKESSON CORPORATION
EXECUTIVE BENEFIT RETIREMENT PLAN**

APPENDIX A

**SAMPLE CALCULATION
EARLY RETIREMENT**

Executive retires at age 59, three years early, with 25 Years of Service

Final Average Compensation:		\$ 600,000
Percentage of Final Average Compensation specified under the Plan: 60% (20% + 1.77% for each of 25 years, capped at 60%)		
Income Objective	(60% x \$600,000)	\$ 360,000
LESS:	Early Retirement Reduction (0.003 per month x 36 months = 10.8%)	(38,800)
Adjusted Objective		321,120
LESS:	Single Life Retirement Plan Benefit and annuitized value of PSIP Retirement Share Plan Account	<u>(38,000)</u>
Annual Single Life EBRP Benefit		\$ 283,120

NOTE: Retirement Plan benefits are governed by the terms of that plan, and incorporate the appropriate reduction for early retirement. As intended, the Plan provides a retirement income that, when added to income from the Retirement Plan and the PSIP, if any, provides the executive with retirement income equal to the adjusted objective.

**McKESSON CORPORATION
EXECUTIVE BENEFIT RETIREMENT PLAN**

APPENDIX B

**SAMPLE CALCULATION
SURVIVOR BENEFIT**

Death age 57 with 20 Years of Service

Final Average Compensation:		\$ 500,000
Percentage of Final Average Compensation specified under the Plan: 55.4% (20% + 1.77% for each of 20 years)		
Income Objective	(55.4% % x \$500,000)	\$ 277,000
LESS:	Early Retirement Reduction (0.003 per month x 60 months = 18%)	<u>(49,860)</u>
Subtotal		\$ 227,140
Application of 100% J&S Factor		80%
Adjusted Objective		\$ 181,712
LESS:	Retirement Plan Spouse Allowance and annuitized value of PSIP Retirement Share Plan Account	<u>(25,000)</u>
Annual EBRP Survivor Benefit		\$ 156,712

NOTE: As intended, the Plan Survivor Benefit provides a supplement to the Retirement Plan and the PSIP so that the total of these sources of Company-provided benefits equals the survivor's adjusted income objective. This method would apply even if the Retirement Plan Spouse Allowance were paid to a minor child, and the Plan benefit were paid to the spouse.

**McKESSON CORPORATION
EXECUTIVE BENEFIT RETIREMENT PLAN**

APPENDIX C

**SAMPLE CALCULATION
TERMINATION BEFORE APPROVED RETIREMENT**

Executive is hired at age 40 and terminated at age 50.

Final Average Compensation:	\$600,000
Percentage of Final Average Compensation specified under the Plan:	37.7% (20% + 1.77% for each of 10 years)
Pro Rata Percentage Applied:	44.4% (Greater of 120 months/300 months and 4.44% x 10 years)
Vested benefit at age 65:	44.4% of 37.7% (or 16.74%) of Final Average Compensation, less the Executive's Basic Retirement Benefit.

**McKESSON CORPORATION
EXECUTIVE SURVIVOR BENEFITS PLAN
(Amended and Restated as of October 28, 2004)**

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**McKESSON CORPORATION
EXECUTIVE SURVIVOR BENEFITS PLAN**

(Amended and Restated as of October 28, 2004)

A. PURPOSE

This Plan was established to enable the Company to attract and retain key executive personnel by providing survivor benefits to Executives' Beneficiaries. This Plan amends, restates and supersedes the 1988 Executive Survivor Benefits Plan. Since its original effective date, the Plan has been amended and restated on various occasions. The amendment and restatement has been approved by the Board as of October 28, 2004 and shall be effective as of such date except as otherwise set forth below.

B. ERISA PLAN

This Plan is a welfare benefit program intended primarily for a select group of management or highly compensated employees of the Company. The Plan, therefore, is covered by Title I of ERISA.

C. PARTICIPATION

1. Selection by Compensation Committee. The Compensation Committee may select, at its discretion and from time to time as it decides, the key Executives who participate in this Plan. Participation in the Plan shall be limited to those Executives of the Company who are selected by the Compensation Committee. Selection of a key Executive to participate in the Plan may be evidenced by the terms of his or her Employment Agreement, if any, with the Company.

2. Election Not to Participate. An Executive may elect not to participate in this Plan at any time; such election shall be in writing and shall become effective upon its receipt by the Administrator. No compensation or benefits in lieu of this Plan shall be paid to an Executive who elects not to participate, unless otherwise specifically approved by the Compensation Committee. An election not to participate shall be irrevocable unless otherwise determined by the Compensation Committee.

3. Insurability. Executives selected by the Compensation Committee are not automatically entitled to the benefits provided under this Plan. Each Executive may be required to satisfy such requirements for insurability as the Company shall establish from time to time, if any, before he is entitled to benefits under this Plan.

4. Addition and Removal of Participants. The Compensation Committee may, at its discretion and at any time, designate additional Executives to participate in the Plan and remove Executives from participation in the Plan. When an Executive is removed from participation in the Plan by the Compensation Committee, his or her benefits, if any, shall be determined under Section E.

5. Relation to Other Plans. If an Executive participates in this Plan, he or she shall

not participate in any other survivor benefit or life insurance plan or similar program solely for Company Executives unless otherwise specifically approved by the Administrator in writing. For example, any Executive who participates in this Plan shall not receive any life insurance benefits under the McKesson Corporation 1984 Executive Insurance Plan, or its predecessor, the McKesson Executive Benefit Plan. This provision shall not preclude the Executive's participation in any Company retirement plan, compensation plan, deferred compensation plan, excess benefit plan, any group life insurance or survivor benefit plan made generally available by the Company to all employees. This provision shall not preclude the payment of survivor benefits which are earned and payable under any Company retirement plan.

D. SURVIVOR BENEFITS

1. Death of Executive While Employed. In the event of the death of an Executive while employed by the Company and except as provided in Sections D.3 and D.4 below, the benefit provided by the Plan and payable to the Executive's Beneficiary as soon as practicable thereafter shall be a lump sum equal to the lesser of (a) three times the Annual Base Salary of the Executive at the time of death, or (b) \$2,000,000. The benefit shall be provided to the Executive's Beneficiary either through the proceeds of life insurance owned by the Company on the Executive's life or as a lump sum cash payment from the general assets of the Company. In the later case, the benefit amount shall be increased by multiplying it by the Tax Factor. The application of this Section D.1 is illustrated in Appendix I to the Plan.

2. Death of Executive After Approved Retirement. In the event of the death of an Executive after his or her Approved Retirement and except as provided in Sections D.3 and D.4 below, the benefit provided by the Plan and payable to the Executive's Beneficiary as soon as practicable thereafter shall be a lump sum equal to the lesser of (a) 1.5 times the Annual Base Salary of the Executive at retirement, and (b) (i) \$500,000 for an Executive who retires on or before January 1, 1997, or (ii) \$1,000,000 for an Executive who retires after January 1, 1997. The benefit shall be provided to the Executive's Beneficiary either through the proceeds of life insurance owned by the Company on the Executive's life or as a lump sum cash payment from the general assets of the Company. In the latter case, the benefit amount shall be increased by multiplying it by the Tax Factor.

3. Limitations on Benefits. No survivor benefits shall be paid under this Section D in the following circumstances:

- a. The Administrator shall determine in his or her discretion that Executive has provided false or misleading information regarding Executive's health or medical history that materially adversely affects the Company, or
- b. The Administrator shall determine in his or her discretion that Executive has committed suicide.

For purposes of this Section D.3, the Administrator in his or her discretion may waive in writing the foregoing limitations in whole or in part, and all determinations by the Administrator shall be final.

4. Executives Removed from Participation. Except as otherwise approved by the Administrator in writing and at his or her sole discretion, no survivor benefits shall be paid under this Section D to any Beneficiary of an Executive (i) who has elected not to participate under Section C.2 or (ii) who has been removed from Plan participation prior to his or her death, or (iii) subject to Section E below, with respect to whom the Plan has been terminated prior to his or her death.

5. Designation of Beneficiary. A Participant may designate any person(s) or any entity as his or her Beneficiary. Designation shall be in writing and shall become effective only when filed with the Administrator. Such filing must occur before the Participant's death. A Participant may change the Beneficiary, from time to time, by filing a new written designation with the Administrator. Effective January 1, 2003, if the Participant fails to effectively designate a Beneficiary in accordance with the Administrator's procedures or the person designated by the Participant is not living at the time the distribution is to be made, then the Participant's Beneficiary shall be the Participant's surviving spouse, if any, or, if there is no surviving spouse, the Participant's surviving children, if any, in equal shares, or if there are no surviving children, his or her estate.

E. TERMINATION OF EMPLOYMENT OTHER THAN ON APPROVED RETIREMENT OR DEATH

1. Basic Rule.

a. In the event of the death of an Executive after his or her termination of employment with the Company other than on Approved Retirement and except as provided in Section E.2 below, the Company shall pay Executive's Beneficiary a lump sum equal to (i) an amount calculated using the formula in Section D.2 above, subject to the limitations of Section D.3 above, (ii) multiplied by the Executive's Pro Rata Percentage, and (iii) reduced by the amount provided in Section E.1.c below. Except as otherwise approved by the Administrator in writing and at his or her sole discretion, final Annual Base Salary shall be determined as of the date of the Executive's termination of employment, for purposes of this Section E.1.a. The application of this Section E.1.a is illustrated in Appendix II to the Plan.

b. In the event of the death of an Executive after the Executive has been removed from Plan participation in accordance with Section C.4 ("removal") or with respect to whom the Plan has been terminated in accordance with Section E ("Plan termination") prior to his or her termination of employment, and except as provided in Section E.2 below, the Company shall pay Executive's Beneficiary a sum equal to the amount calculated as provided in Section E.1.a above, but treating the Executive's date of "removal" or the date of the "Plan termination", whichever is applicable, as his or her date of termination of employment for purposes of calculating his or her Pro Rata Percentage and his or her final Annual Base Salary.

c. Any amount determined under Section E.1.a or Section E.1.b shall be reduced by any death or survivor benefit (other than a retirement benefit paid under a tax qualified retirement plan) payable on account of service rendered by the Executive to another employer after his or her termination of employment with the Company.

2. Limitations on Benefits. No benefits shall be paid under Section E in the following circumstances:

a. The Executive is terminated for Cause, or

b. The Executive has terminated his or her employment in violation of his or her Employment Agreement, if any; termination is in violation of an Employment Agreement if termination occurs before the end of the term of the Employment Agreement and is not allowed by the Employment Agreement (e.g., for “good reason”), or

c. The Executive has not completed five or more years of participation (whether or not consecutive) in this Plan and its predecessors, the McKesson Corporation 1984 Executive Benefit Plan and the McKesson Corporation 1984 Management Benefit Plan; an Executive who would have completed five or more years (i) if his or her employment was not terminated by the Company in violation of his or her Employment Agreement or (ii) if his or her employment was not terminated for “good reason” under such Agreement, shall be treated as having such years of participation.

3. Pro Rata Percentage. An Executive’s Pro Rata Percentage is the higher of the following two percentages (but not exceeding 100%): the first percentage is determined by dividing the number of the Executive’s whole months of employment with the Company by the number of whole months from the date that the Executive was first hired by the Company to the date that he will reach age 65, and multiplied by 100. The second percentage is determined by multiplying 4.44% by the number of his or her whole and partial years of completed employment with the Company.

4. Periods of Employment. For purposes of determining employment with the Company, periods that would be disregarded under the Retirement Plan on account of breaks in service shall be disregarded under this Section E.

5. Other Agreements. If an Executive’s Employment Agreement provides for higher survivor benefits than provided under this Section E, such higher benefit shall be paid.

6. Forfeiture on Other Terminations. Except as provided in this Section E, and as provided elsewhere in this Plan with respect to the death of an Executive, on the death of the Executive, an Executive or his or her Beneficiary shall not be entitled to any additional benefits under this Plan, all obligations of the Company to the Executive and his or her Beneficiary under this Plan shall cease, and the Company shall have no further liability to the Executive or any other person under this Plan.

F. SPECIAL FORFEITURE RULES

Any other provisions of this Plan to the contrary notwithstanding, if the Compensation Committee determines that any Executive engaged in any of the actions described in F.2 below, the consequence set forth in F.1 below shall result.

1. Forfeiture of Benefits. To the extent that the benefit that otherwise would be

payable under the Plan upon the death of the Executive exceeds the benefit, if any, that would have been payable if the Executive had died on November 1, 1993, such excess portion shall be forfeited and shall not be payable under this Plan. In no event shall the amount payable under the Plan with respect to any Executive who was a participant in the Plan on October 27, 1993 be less than the amount, if any, determined pursuant to Section J.

2. Events Resulting in Forfeiture. The consequence described in F.1 above shall apply if the Executive, either before or after termination of employment with the Company:

a. Accepts a position as a consultant to or an employee of a business enterprise that is in direct competition with any line of business engaged in by the Company at the time of the termination of the Executive's employment.

b. Discloses to others, or takes or uses for the Executive's own purpose or the purpose of others, any trade secrets, confidential information, knowledge, data or know-how belonging to the Company and obtained by the Executive during the term of the Executive's employment, whether or not they are the Executive's work product. Examples of such confidential information or trade secrets include (but are not limited to) customer lists, supplier lists, pricing and cost data, computer programs, delivery routes, advertising plans, wage and salary data, financial information, research and development plans, processes, equipment, product information and all other types and categories of information as to which the Executive knows or has reason to know that the Company intends or expects secrecy to be maintained.

c. Fails to promptly return all documents and other tangible items belonging to the Company in the Executive's possession or control, including all complete or partial copies, recordings, abstracts, notes or reproductions of any kind made from or about such documents or information contained therein, upon termination of employment, whether pursuant to an Approved Retirement or otherwise.

d. Fails to provide the Company with at least 30 days' written notice prior to directly or indirectly engaging in, becoming employed by, or rendering services, advice or assistance to any business in competition with the Company or any of its subsidiaries. As used herein, "business in competition" means any person, organization or enterprise which is engaged in or is about to become engaged in any line of business engaged in by the Company at the time of the termination of the Executive's employment with the Company.

e. Fails to inform any new employer, before accepting employment, of the terms of this section and of the Executive's continuing obligation to maintain the confidentiality of the trade secrets and other confidential information belonging to the Company and obtained by the Executive during the term of the Executive's employment with the Company.

f. Induces or attempts to induce, directly or indirectly, any of the Company's customers, employees, representatives or consultants to terminate, discontinue or cease working with or for the Company, or to breach any contract with the Company, in order to work with or for, or enter into a contract with, the Executive or any third party.

g. Engages in conduct which is not in good faith and which disrupts, damages, impairs or interferes with the business, reputation or employees of the Company.

The Compensation Committee shall determine in its sole discretion whether the Executive has engaged in any of the acts set forth in Sections F.2.a through F.2.g above, and its determination shall be conclusive and binding on all interested persons.

Any provision of this Section which is determined by a court of competent jurisdiction to be invalid or unenforceable shall be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by such invalid or unenforceable provision, without invalidating or rendering unenforceable the remaining provisions of this Section.

G. SOURCE OF PAYMENT

Amounts paid under Section D of this Plan may be paid from insurance policy proceeds on the life of the Executive or from the general funds of the Company, and each Executive and his or her Beneficiary shall be no more than an unsecured general creditor of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Executive or Beneficiary, or create any fiduciary relationship between the Company and any Executive or Beneficiary with respect to any assets of the Company.

H. MISCELLANEOUS

1. Withholding. The Executive or any Beneficiary shall make appropriate arrangements with the Company for the satisfaction of any federal, state or local income tax withholding requirements and social security or other employee tax requirements applicable to the provision of benefits under this Plan. If no such arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

2. No Assignment. The benefits provided under this Plan and a Beneficiary's rights may not be alienated, assigned, transferred, pledged, or hypothecated by any person, at any time, unless such benefits are payable from the proceeds of an insurance policy. Such benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishments, or executions to the fullest extent allowed by law.

3. Applicable Law and Severability. The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and the laws of the State of California to the extent that the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective. If any provision this amendment and restatement is deemed to be a "material modification" of this Plan which would cause amounts deferred or accrued under this Plan prior to 2005 to be subject to the deferred compensation provisions of section 885 of the American Jobs Creation Act of 2004, if such legislation is enacted into law, such provision shall be null, void and without effect retroactive to

October 28, 2004.

I. ADMINISTRATION OF THE PLAN

1. In General. The Plan shall be administered by the Executive Vice President, Human Resources of McKesson. If the Executive Vice President, Human Resources is an Executive participating in the Plan, then any discretionary action he or she takes as Administrator which directly affects him or her as Executive shall be specifically approved by the Compensation Committee. The Administrator shall have the ultimate responsibility to interpret the Plan and shall adopt such rules and regulations for carrying out the Plan as it may deem necessary or appropriate. Decisions of the Administrator shall be final and binding on all parties who have an interest in the Plan.

2. Elections and Notices. All elections and notices made by an Executive under this Plan shall be in writing and filed with the Administrator.

3. Action By Board and Compensation Committee. The Board and Compensation Committee may act under this Plan in accordance with their normal procedures and practice, including, but not limited to, delegation of their authority to act under this Plan.

J. AMENDMENT OR TERMINATION OF THE PLAN

The Board may at any time amend, alter, modify or terminate the Plan. Such action shall not reduce the benefits provided under this Plan with respect to any Executive whose employment has terminated before such action. Also, such action shall not reduce the benefits provided under this Plan with respect to any Executive who is participating in the Plan at the time of such action below the amount provided in Section E, treating for purposes of Section E the amendment, alteration, modification, or termination which adversely affects the Executive as though it were a termination of employment. An illustration of the calculation of benefits in the event of termination of the Plan under this Section J is attached as Appendix III.

K. CLAIMS AND APPEALS

1. Informal Resolution of Questions. Any Participant or Beneficiary who has questions or concerns about his or her benefits under the Plan is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Participant or Beneficiary satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section K.

2. Formal Benefits Claim – Review by Executive Vice President, Human Resources. A Participant or Beneficiary may make a written request for review of any matter concerning his or her benefits under this Plan. The claim must be addressed to the Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, Human Resources or his or her delegate (“Executive Vice President”) shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The Executive Vice President shall review the request and shall issue his or her decision, in writing, no later than 90

days after the date the request is received, unless the circumstances require an extension of time. If such an extension is required, written notice of the extension shall be furnished to the person making the request within the initial 90-day period, and the notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the request. In no event shall the extension exceed a period of 90 days from the end of the initial period.

3. Notice of Denied Request. If the Executive Vice President denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section K.2. The notice shall set forth the specific reason for the denial, reference to the specific Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Plan's appeal procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

4. Appeal to Executive Vice President.

a. A person whose request has been denied in whole or in part (or such person's authorized representative) may file an appeal of the decision in writing with the Executive Vice President within 60 days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President, Human Resources, McKesson Corporation, One Post Street, San Francisco, California 94104. The Executive Vice President, for good cause shown, may extend the period during which the appeal may be filed for another 60 days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant should be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant's claim.

b. The Executive Vice President's review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Executive Vice President shall not be restricted in his or her review to those provisions of the Plan cited in the original denial of the claim.

c. The Executive Vice President shall issue a written decision within a reasonable period of time but not later than 60 days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than 120 days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial 60-day period. This notice shall state the circumstances requiring the extension and the date by which the Executive Vice President expects to reach a decision on the appeal.

d. If the decision on the appeal denies the claim in whole or in part written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial,

including references to specific Plan provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits. The notice shall describe any voluntary appeal procedures offered by the Plan and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.

e. The decision of the Executive Vice President on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.

5. Exhaustion of Remedies. No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section K.2, has been notified that the claim is denied in accordance with Section K.3, has filed a written request for a review of the claim in accordance with Section K.4, and has been notified in writing that the Executive Vice President has affirmed the denial of the claim in accordance with Section K.4.

L. DEFINITIONS

For the purposes of the Plan, the following terms shall have the meanings indicated:

1. "Administrator" shall mean the person specified in Section I.

2. "Annual Base Salary" shall mean the annualized rate of pay excluding bonuses, incentive compensation and perquisites.

3. "Approved Retirement" shall mean (i) any termination of employment with the Company after attainment of age 62; (ii) any involuntary termination of employment after both attainment of age 55 and completion of 15 Years of Service; or (iii) any other termination of employment prior to (i) or (ii) above (but not earlier than the Executive's attainment of age 55 and completion of five Years of Service) with the approval of the Compensation Committee. Notwithstanding the foregoing, if an Executive's written employment agreement so requires or if the Board so decides, the Board may, in its sole discretion, grant an Approved Retirement at any earlier termination of employment.

Notwithstanding the foregoing, "Approved Retirement" shall not include any termination for "cause," which shall be determined as provided in Section E.2.a hereof.

4. "Beneficiary" shall mean the beneficiary or beneficiaries entitled to death benefits under this Plan, as designated by Executive or otherwise provided in Section D.5.

5. "Board" shall mean the Board of Directors of McKesson.

6. "Cause" shall mean the circumstances prescribed in the Executive's Employment Agreement, if any, or if there is no Employment Agreement, the circumstances determined by the Compensation Committee.

7. "Company" shall mean McKesson and any member of its controlled group as defined by Sections 414(b) and Section 414(c) of the Internal Revenue Code of 1986, as amended.

8. "Compensation Committee" shall mean the Compensation Committee of the Board.

9. "Employment Agreement" shall mean the written contract of employment, if any, between an Executive and the Company.

10. "Executive" shall mean an employee of the Company selected by the Compensation Committee to participate in this Plan pursuant to Section C.

11. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

12. "McKesson" shall mean McKesson Corporation, a Delaware Corporation.

13. "Participant" shall mean any Executive who is not otherwise excluded from participation in the Plan pursuant to Sections C.2, C.3, C.4 or D.4 hereof.

14. "Pro Rata Percentage" shall mean the percentage determined in Section E.3.

15. "Retirement Plan" shall mean the McKesson Corporation Retirement Plan.

16. "Tax Factor" shall mean one divided by one minus the Top Marginal Rate of Tax.

17. "Top Marginal Rate of Tax" shall be the highest combined marginal individual federal and state income tax rate, if any (giving effect to any deduction then allowable for federal tax purposes for the state income tax) for the year survivor benefits are paid to Executive's Beneficiary under this Plan. For example, if the highest marginal individual federal and state income tax rates are 28% and 10% respectively and the state income tax is deductible for federal tax purposes, the Top Marginal Rate would be 35.2% as follows: $[(\$1.00 \times 10\% = \$0.10 \text{ state income tax})] + [(\$0.90 \text{ federal taxable income of } \$1.00 - \$0.10 \text{ state income tax}) \times 28\% = \$0.252 \text{ federal income tax}] = \$0.352 \text{ total state and federal tax, or } 35.2\%$. For purposes of determining the Top Marginal Rate of Tax, the Administrator in his or her discretion shall determine the highest marginal individual federal and state income tax rates to be used (including without limitation whether, and if so to what extent, surtaxes or similar taxes shall be applicable, and what state income tax, if any, shall be applicable), and all such determinations and all calculations made by the Administrator hereunder shall be final.

M. SUCCESSORS

This Plan shall be binding on the Company and any successors or assigns thereto.

N. EXECUTION

To record the amendment and restatement of the Plan by the Board of Directors of McKesson Corporation at a meeting held on October 28, 2004.

McKESSON CORPORATION

By: _____
Paul E. Kirincic
Executive Vice President, Human Resources

McKESSON CORPORATION
EXECUTIVE SURVIVOR BENEFITS PLAN

Appendix I

This Appendix illustrates the calculation of benefits under Section D.1 of the Plan.

A. Assumptions

Executive is subject to California Income Tax.

Executive's Annual Base Salary: \$350,000

Top Marginal Rate of Tax:

Top Federal Rate: 28.0%
Top California Rate: 10.0%

"Top Marginal Rate of Tax":

$$.10 + [(1.0 - .10) \times .28] = 35.2\%$$

"Tax Factor":

$$1/(1 - .352) = 1.543$$

B. Survivor Benefit on Death Before Approved Retirement

Lesser of (a) \$2,000,000 or (b) (3 x \$350,000)
multiplied by

Tax Factor

equals
\$1,050,000 x 1.543,
which yields a benefit of:

\$1,620,150

McKESSON CORPORATION

EXECUTIVE SURVIVOR BENEFITS PLAN

Appendix II

This Appendix illustrates the calculation of benefits under Section E.1.a of the Plan.

An Executive is hired at age 50, his or her employment is terminated at age 60 and after January 1, 1997, and he otherwise qualifies for a benefit under Section E. On the death of this Executive, a benefit will be paid to his or her Beneficiary equal to the Pro Rata Percentage (see calculation below) times 1-1/2 times the Executive's final Annual Base Salary at the date of his or her termination of employment (or \$1 million, if smaller) multiplied by the Tax Factor, and reduced by any death or survivor benefit payable to a beneficiary of the Executive on account of service rendered to another employer as provided in Section E.1.c. If the above Executive's Annual Base Salary was \$300,000 at the date of his or her termination of employment and the Tax Factor at the date the benefit is paid is 1.543, the benefit payable to his or her Beneficiary would be \$462,900, calculated as follows:

The Executive's Pro Rata Percentage is 66-2/3%, calculated as follows:

The greater of (a) number of whole months of employment divided by total whole months from date of hire to age 65, or (b) 4.44% times whole and partial years of completed employment, or 120 months/180 months = 66-2/3%, which is greater than 4.44% x 10 years = 44.4%.

The Executive's benefit is:

Pro Rata Percentage x [1-1/2 of Annual Base Salary (1-1/2 x \$300,000 = \$450,000) or \$1 million, if smaller] x Tax Factor

66-2/3% x \$450,000 x 1.543 = \$462,900.

McKESSON CORPORATION

EXECUTIVE SURVIVOR BENEFITS PLAN

Appendix III

This Appendix illustrates the calculation of benefits in the event of termination of the Plan under Section J.

A. Assumptions

Executive's age at date of hire: 40
Executive's age
at date of termination of the Plan: 55
Executive's Annual Base Salary
at date of termination of the Plan: \$300,000
Executive's "Tax Factor" for the year
benefits are paid (see Section L
and Appendix I) 1.543
Date of Termination: After January 1, 1997

B. Survivor Benefits Under Section D

Under Section J, benefits are determined under Section D by treating the date the Plan is terminated as the date the Executive terminated employment, as follows:

Pro Rata Percentage: 66-2/3%

Greater of (a) whole months of service divided by total whole months from hire to age 65 or (b) 4.44% times whole and partial years of service, a greater of 60% ($180/300 = 60\%$) or 66-2/3% (4.44×15 years of service)

Benefit: \$452,900

$66\frac{2}{3}\% \times (1\frac{1}{2} \text{ of } \$300,000, \text{ or } \$1 \text{ million if smaller}) \times \text{"Tax Factor"} (1.543)$

$(66\% \times \$450,000) \times 1.543 =$
 $\$300,000 \times 1.543 =$
 $\$462,900$

McKESSON CORPORATION

EXECUTIVE MEDICAL PLAN

(As Amended and Restated Effective January 1, 2004)

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McKESSON CORPORATION

EXECUTIVE MEDICAL PLAN

(As of January 1, 2004)

A. PURPOSE

This Plan was established to enable the Company to attract and retain key executive personnel by providing medical, prescription drug, dental and vision benefits to Executives and their eligible Dependents. This Plan has been amended and restated to read as set forth herein effective January 1, 2004. Claims for benefits under the Plan incurred prior to January 1, 2004 shall be governed by the terms of the Plan as in effect at the time the claim was incurred.

B. ERISA PLAN

This Plan is a welfare benefit plan intended primarily for a select group of management or highly compensated employees of the Company. The Plan therefore is covered by Title I of ERISA except that it is exempt from the reporting and disclosure provisions of Part 1 of Title I of ERISA.

All benefits under the Plan are provided through a group insurance contract or contracts issued by an Insurance Company or Companies.

C. PARTICIPATION OF EXECUTIVES

1. Selection by Compensation Committee. The Compensation Committee may select, at its discretion and from time to time as it decides, the key Executives who participate in this Plan. Participation in the Plan shall be limited to those Executives of the Company who are selected by the Compensation Committee. Selection of a key Executive to participate in the Plan may be evidenced by the terms of his contract of employment with the Company. Prior to January 1, 2004, the Board had reserved to itself the power to select Executives to participate in the Plan.

2. Each eligible Executive shall commence participation in the Plan on the date specified by the Compensation Committee provided that such Executive makes an election to participate in accordance with Section E. and has commenced Active Service with the Company.

An Executive who has been selected by the Compensation Committee to participate in the Plan and has enrolled in the Plan may continue to actively participate in the Plan following the Executive's Approved Retirement from the Company.

3. Election Not to Participate. Subject to the restrictions on cessation of participation in the McKesson Corporation Cafeteria Arrangement, an Executive may elect not to participate in this Plan. Such election shall be in writing and shall become effective upon its receipt by the Administrator. No compensation or benefits in lieu of this Plan shall be paid to an Executive who elects not to participate.

4. Addition and Removal of Participants. The Compensation Committee may, at its discretion and at any time, designate additional Executives to participate in the Plan and remove Executives from participation in the Plan. When an Executive is removed from participation in the Plan by the Compensation Committee, he or she shall be treated, solely for purposes of this Plan, as if he or she had terminated his or her employment with the Company for reasons other than Approved Retirement. Prior to January 1, 2004, the Board had reserved to itself the power to designate additional Executives to participate in the Plan and to remove Executives from participation in the Plan.

5. Notification of Participants. The Administrator shall annually notify each Executive that he or she is a participant in the Plan.

6. Relation to Other Plans. If an Executive participates in this Plan, he or she shall not participate in any other medical, prescription drug, dental and/or vision plan or similar program sponsored by the Company unless otherwise specifically approved by the Administrator in writing.

D. PARTICIPATION OF DEPENDENTS

A Dependent of an Executive is eligible to commence participation in the Plan on the same date as the Executive or, if later, the date on which the Dependent becomes eligible for coverage. If the Dependent is newly acquired and the Executive is already covered, the Dependent becomes eligible on the date the Executive first acquires the Dependent. The date that an Executive first acquires a Dependent is:

1. In the case of marriage, on the date of marriage; or

2. In the case of a Domestic Partnership, within 30 days of meeting the Affidavit Declaring Domestic Partners requirements, provided, however, that the six month Domestic Partner relationship requirement is waived if the Executive had a Domestic Partner who died during the six months prior to meeting the remaining requirements of the Affidavit Declaring Domestic Partners or

3. In the case of a Dependent's birth, on the date of such birth; or

4. In the case of a Dependent's adoption or placement for adoption, on the date of such adoption or placement for adoption.

Notwithstanding the foregoing, no Dependent may become covered for benefits prior to the date the Executive becomes covered.

E. ENROLLMENT PERIODS

1. Initial Enrollment Period. Following an Executive's selection to participate in the Plan by the Compensation Committee, an Executive may elect participation for himself and his eligible Dependents by submitting a notice of election in any manner permitted by the Plan to the Company within 31 days of the later of the following: the date the Executive becomes eligible to

participate or the date enrollment materials are provided by the Plan to the Executive. Coverage will commence on the date the Executive commences Active Service.

If an Executive has a Spouse or child who meets the definition of Dependent but the Executive has not elected coverage for the Spouse or child during the Initial Enrollment Period, the Spouse or child may be enrolled upon the Plan's receipt of a court order requiring the Executive to provide coverage for such Spouse or child. Coverage will become effective on the date of the court order.

2. Special Enrollment Periods. Certain Executives and Dependents may be eligible to enroll mid-year because (a) his or her prior coverage under a different group health plan was lost, or (b) a new Dependent was acquired

a. Criteria to enroll for those losing other coverage. An Executive who has previously waived coverage under the Plan or an eligible Dependent for whom the Executive has previously waived coverage under the Plan is eligible to enroll in the Plan within 31 days after the termination of coverage under any other group medical plan or health insurance. For this purpose, "termination of coverage" includes loss of coverage resulting from:

- i. Reduction in the number of hours of employment of the Dependent through whom the Executive or Dependent had the other coverage; or
- ii. Termination of employment of the Dependent through whom the Executive or Dependent had the other coverage; or
- iii. Death of the Dependent through whom the Executive or Dependent had the other coverage; or
- iv. Divorce or legal separation; or
- v. The termination of employer contributions towards such coverage; or
- vi. The exhaustion of COBRA coverage if the prior coverage was pursuant to COBRA; or
- vii. The termination of no share-of-cost Medi-Cal coverage if the prior coverage was no share-of-cost Medi-Cal coverage.

An Executive or Dependent will not be eligible to enroll in the Plan pursuant to this Section if the prior medical coverage was terminated due to (i) the failure of the Executive or participant in the other medical plan to pay premiums on a timely basis, or (ii) misconduct such as making a fraudulent claim or intentionally misrepresenting a material fact in connection with the prior plan.

Coverage pursuant to this section will become effective on the date of the election.

b. Criteria to enroll for those who acquired a new Dependent through birth, adoption or placement for adoption: An otherwise eligible Executive who has previously waived medical and prescription drug coverage under the Plan who later acquires a Dependent through birth, adoption, or placement for adoption is eligible to commence participation in the Plan on the date that the Executive first acquires the Dependent (i.e., the date of birth, adoption, or placement for adoption), provided that the Dependent enrolls concurrently with the Executive and such enrollment occurs within 31 days of the Executive's acquiring the new Dependent.

Coverage pursuant to this section will commence on the date of the newly acquired Dependent's birth, adoption or placement for adoption.

c. Criteria to enroll for those who acquired a new Dependent through marriage. An otherwise eligible Executive who has previously waived coverage under the Plan and who later acquires a Dependent through marriage is eligible to commence participation in the Plan for himself and his Spouse, provided that the Dependent enrolls concurrently with the Executive and such enrollment occurs within 31 days of the Executive's acquiring the new Dependent. Coverage pursuant to this section will commence on the date of the election.

d. Criteria to enroll for those who acquired a new Dependent through Domestic Partnership: An otherwise eligible Executive who has previously waived coverage under the Plan who later acquires a Dependent through a Domestic Partnership is eligible to commence participation in the Plan on the date that the Executive first acquires the Dependent (i.e., within 30 days of meeting the Affidavit Declaring Domestic Partners requirements provided, however, that the six month Domestic Partnership requirement is waived if the Executive had a Domestic Partner who died during the six months prior to meeting the remaining requirements of the Affidavit Declaring Domestic Partners) provided that the Dependent enrolls concurrently with the Executive and such enrollment occurs within 31 days of the Executive's acquiring the new Dependent.

Coverage pursuant to this section will become effective on the date of the election.

3. Annual enrollment period. An otherwise eligible Executive or Dependent who is not covered by the Plan may enroll or may be enrolled by the Executive during the annual enrollment period conducted by the Company. Such coverage will commence on the date prescribed by the Company, provided the Executive is in Active Service on that date. If the Executive is not in Active Service on that date, coverage will become effective on the date he returns to Active Service.

4. Procedures with Respect to Medical Child Support Orders. In the event that a Medical Child Support Order is received by the Plan, the Company shall promptly notify the affected Executive and the Alternate Recipient (or such recipient's designated representative) of the receipt of such order and the Plan's procedures for determining the qualified status of such order under Section 609 of ERISA. The Company shall then, within a reasonable period after receipt of such order, determine whether such order is a Qualified Medical Child Support Order and notify the Executive and each Alternate Recipient (or such Alternate Recipient's designated representative) of its determination. If the Plan receives a National Medical Support Notice, the

Company shall, within 40 business days after the date of the notice or sooner if reasonable, determine whether such notice is a Qualified Medical Child Support Order and notify the applicable State IV-D agency, the affected Executive and the Alternate Recipient (or such Alternate Recipient's designated representative) of the Company's determination. Coverage for the Alternate Recipient will become effective on the date of the Qualified Medical Child Support Order.

Notwithstanding any other provision of the Plan, any payment for benefits made by the Plan pursuant to a Qualified Medical Child Support Order shall be made to the Alternate Recipient's custodial parent, unless that person authorizes payment to be made directly to the provider of services or supplies.

F. CESSATION OF PARTICIPATION

1. Executives. Subject to Section I., an Executive shall cease to participate in the Plan on the earliest of:

- a. The last day of the month for which the Executive makes the required contribution, if any, as determined by the Company; or
- b. The date that the Executive terminates employment with the Company, unless the Executive retires from the Company under an Approved Retirement and is eligible to receive benefits under the McKesson Corporation Retirement Plan; or
- c. The date the Executive enters the armed forces of any country, unless he is on a leave of absence that requires continued participation in the Plan during the period of the leave, as described in Section I.; or
- d. The date the individual ceases to qualify as an Executive;
- e. The date the Executive dies; or
- f. The date the Plan is terminated.

2. Executives on Leave. An Executive's employment will be considered to terminate when he is no longer actively engaged in work for the Company or its subsidiary or affiliate. However, the Executive may continue participation in the Plan for himself and his Dependents, upon payment of any required contribution, in the event of certain approved circumstances according to the following leave classifications:

- a. Personal Leave and Educational Leave. Duration of the Company approved leave but not to exceed the end of the month following the month in which the leave commenced;
- b. Family and Medical Leave. Duration of the leave as established under the Family and Medical Leave Act;

c. Military Leave. Duration of the leave up to the limits as established under the Uniformed Services Employment and Reemployment Act of 1994, as described in Section I.;

d. Layoff. Duration of leave but not to exceed the end of the month following the month in which the layoff began;

e. Disability Leave. Duration of the Company approved leave but not to exceed beyond 30 months from the start of the leave.

3. Dependents of Executives. Subject to Section I. a Dependent of an Executive ceases to participate in the Plan on the earliest of:

a. The last day of the month that the Executive ceases to participate in the Plan; or

b. The last day of the month for which the Executive makes the required contributions, if any, as determined by the Company; or

c. The last day of the month in which the Dependent ceases to be eligible as defined herein; or

d. The date that Dependent coverage under the Plan is discontinued; or

e. The date the Plan is terminated.

A Dependent child's coverage whose coverage is continued after attainment of age 19 as a result of the Dependent child's handicap will cease on the earliest of the following: (1) the cessation of the child's handicap; (2) the failure to provide proof of the continuation of the child's handicap; (3) the failure to undergo any exam required by the Plan or the Insurance Company; and (4) the termination of child's coverage for any reason other than reaching the maximum age for coverage.

4. Termination of Coverage for False Representations. Notwithstanding any other provision of the Plan, if an Executive or Dependent makes a false representation to the Plan or the Insurance Company, coverage for the Executive and his Dependent(s) may be immediately and permanently terminated by the Plan in its sole discretion. The Plan reserves the right to seek financial damages resulting from such false representation, and may pursue legal action against the Participant and/or Dependent who made the false representation. For purposes of the Plan, "false representation" includes, but is not limited to, submitting falsified claims or covering an individual who does not qualify as a Dependent under the terms of the Plan.

5. Certificate of Group Health Plan Coverage. An Executive or a Dependent having coverage will receive a Certificate of Creditable Coverage upon losing coverage under the Plan for any reason. This Certificate offers proof that the individual had been covered under the Plan, and it may allow the individual to receive credit toward a new plan's waiting period for preexisting conditions.

G. MEDICAL, DENTAL, VISION AND DRUG BENEFITS

The benefits provided under the Plan shall be insured under a group insurance contract or contracts that shall be issued in a form approved by the Company by one or more Insurance Companies selected by the Company. The terms of this Plan together with the Certificate of Coverage and Summary of Coverage issued by the Insurance Company are hereby incorporated by reference and shall be an integral part of the Plan. The Certificate of Coverage and Summary of Coverage describe the terms of coverage, under the group insurance contract or contracts including, but not limited to, the covered services and supplies, exclusions, limitations on benefits, coordination of benefits, right of reimbursement and/or subrogation, any applicable copayments or coinsurance, deductibles, out-of-pocket maximums, lifetime maximum benefits, provider networks, continuation of coverage and conversion privileges, if any, and claims and appeal procedures.

Covered Expenses. The Plan pays benefits for medically necessary medical (including over the counter drugs and medicines), dental and vision expenses that would be considered “medical care” as defined under Internal Revenue Code section 213(d).

The Lifetime Maximum Benefit per covered person under the Plan is \$2,000,000. If, as of the end of a calendar year during which a Participant has been covered by this Plan the Participant has used some but not all of his Lifetime Maximum Benefit, then at the beginning of the following calendar year any previously used portion of a Participant’s Lifetime Maximum Benefit will be automatically reinstated for future charges to the extent of the lesser of (1) \$10,000 or (2) the amount needed to reinstate his entire Lifetime Maximum Benefit. No portion of the Participant’s Lifetime Maximum Benefit will be reinstated under this paragraph in the following calendar year if, as of the end of a calendar year, the Participant has used his entire Lifetime Maximum Benefit.

The Insurance Company is independent of the Company, and the Company does not guarantee nor shall it be responsible for the financial soundness of the Insurance Company or the quality of care provided by the Insurance Company. The Company cannot assist Executives or their Dependents in recovering from the Insurance Company any benefits due to the Executive or Dependent or protect the Executive or Dependent from any liability due to the Insurance Company’s failure to fulfill its obligations. Although the terms of coverage under the group insurance contract or contracts may differ from the terms of the Plan and may state different age requirements for dependents, an individual must be eligible to participate under the terms of this Plan in order to obtain benefits under the insurance contract or contracts.

H. GENERAL PLAN EXCLUSIONS

Coverage under the Plan is not provided for any of the following charges:

1. Those for care, treatment, services, or supplies that are not prescribed, recommended, or approved by the person’s attending physician or dentist.

2. Those for or in connection with services or supplies that are, as determined by the Insurance Company in its sole discretion, to be experimental or investigational. A drug, a device, a procedure, or treatment will be determined to be experimental or investigational if:

a. There are insufficient outcomes data available from controlled clinical trials published in the peer reviewed literature to substantiate its safety and effectiveness for the disease or injury involved; or

b. If required by the FDA, approval has not been granted for marketing; or

c. A recognized national medical or dental society or regulatory agency has determined, in writing, that it is experimental, investigational, or for research purposes ; or

d. The written protocol or protocols used by the treating facility, or the protocol or protocols of any other facility studying substantially the same drug, device, procedure, or treatment, or the written informed consent used by the treating facility or by another facility studying the same drug, device, procedure, or treatment states that it is experimental, investigational, or for research purposes.

However, this exclusion will not apply with respect to services or supplies (other than drugs) received in connection with a disease; if the Insurance Company determines that:

i. the disease can be expected to cause death within one year, in the absence of effective treatment; and

ii. the care or treatment is effective for that disease or shows promise of being effective for that disease as demonstrated by scientific data. In making this determination the Insurance Company will take into account the results of a review by a panel of independent medical professionals. They will be selected by the Insurance Company. This panel will include professionals who treat the type of disease involved.

Also, this exclusion will not apply with respect to drugs that:

iii. have been granted treatment investigational new drug (IND) or Group c/treatment IND status; or

iv. are being studied at the Phase III level in a national clinical trial sponsored by the National Cancer Institute;

if the Insurance Company determines that available scientific evidence demonstrates that the drug is effective or shows promise of being effective for the disease.

3. Those for or related to services, treatment, education testing, or training related to learning disabilities or developmental delays.

4. Those for care furnished mainly to provide a surrounding free from exposure that can worsen the person's disease or injury.

5. Those for or related to the following types of treatment: primal therapy; rolfing; psychodrama; megavitamin therapy; bioenergetic therapy; vision perception training; or carbon dioxide therapy.
6. Those for treatment of covered health care providers who specialize in the mental health care field and who receive treatment as a part of their training in that field.
7. Those for services of a resident physician or intern rendered in that capacity.
8. Those that are made only because there is health coverage.
9. Those that a covered person is not legally obliged to pay.
10. Those, as determined by the Insurance Company, to be for custodial care.
11. To the extent allowed by the law of the jurisdiction where the group contract is delivered, those for services and supplies:
 - a. Furnished, paid for, or for which benefits are provided or required by reason of the past or present service of any person in the armed forces of a government.
 - b. Furnished, paid for, or for which benefits are provided or required under any law of a government. (This exclusion will not apply to “no fault” auto insurance if it: is required by law; is provided on other than a group basis; and is included in the definition of “other plan” in Section K.1. In addition, this exclusion will not apply to: a plan established by government for its own employees or their dependents; or Medicaid.)
12. Those for education, special education, or job training whether or not given in a facility that also provides medical or psychiatric treatment.
13. Those for therapy, supplies, or counseling for sexual dysfunctions or inadequacies that do not have a physiological or organic basis.
14. Those for or related to sex change surgery or to any treatment of gender identity disorders.
15. Those for or in connection with career, social adjustment, pastoral, or financial counseling.
16. Those for or in connection with speech therapy. This exclusion does not apply to charges for speech therapy that is expected to restore speech to a person who has lost existing speech function (the ability to express thoughts, speak words, and form sentences) as the result of a disease or injury.
17. Those to the extent they are not reasonable charges.
18. Those for more than a 90 day supply per prescription or refill.

19. Those for the administration or injection of any drug.
20. Those for the following injectable drugs:
 - a. Allergy sera or extracts; and
 - b. Imitrex, if it is more than the 48th such kit or 96th such vial dispensed to the person in any year
21. Those for any refill of a drug if it is more than the number of refills specified by the prescriber. Before recognizing charges, the Insurance Company may require a new prescription or evidence as to need;
22. If the prescriber has not specified the number of refills; or
23. If the frequency or number of prescriptions or refills appears excessive under accepted medical practice standards.
24. Those for any refill of a drug dispensed more than one year after the latest prescription for it or as permitted by the law of the jurisdiction in which the drug is dispensed.
25. Those for any drug provided by or while the person is an inpatient in any health care facility; or for any drug provided on an outpatient basis in any health care facility to the extent benefits are paid for it under any other part of this Plan or under any other medical or prescription drug expense benefit plan carried or sponsored by the Company.
26. Those for immunization agents.
27. Those for any contraceptive drugs, except oral contraceptives.
28. Those for more than four unit doses per 30 day supply for the following treatment of erectile dysfunction, impotence, or sexual dysfunction or inadequacy:
 - a. Sildenafil citrate;
 - b. Phentolamine;
 - c. Apomorphine;
 - d. Alprostadil;
29. Any other prescription drug that is in a similar or identical class and has a similar or identical mode of action or exhibits similar or identical outcomes.
30. This limitation applies whether or not the prescription drug is delivered in oral, injectable, or topical (including, but not limited to, gels, creams, ointments, and patches) forms. If the drug is not taken orally, the dosage covered will be determined by the Insurance Company based on the comparable cost for a 30 day supply of pills.

31. Those for a prescription drug dispensed by a mail order pharmacy.
32. Any other item excluded in the Certificate of Coverage provided by the Insurance Company.
33. Any exclusion above will not apply to the extent that coverage of the charges is required under any law that applies to the coverage.
34. The law of the jurisdiction where a person lives when a claim occurs may prohibit some benefits. If so, they will not be paid.

I. COBRA CONTINUATION COVERAGE

The COBRA Continuation Coverage described in this Section I. shall apply in regard to an Executive's or Dependent's right to continuation coverage under federal law. The Certificate of Coverage issued by the Insurance Company may provide for additional rights to continuation coverage under state law.

1. Eligibility for COBRA Continuation Coverage. If an Executive's or a Dependent's coverage under the Plan terminates under Section F. due to a Qualifying Event, such Executive or Dependent shall be eligible for COBRA Continuation Coverage under the Plan pursuant to the provisions of this Section I. For the purposes of this Section I. "Dependent" includes a child born to, adopted or placed for adoption with a covered Executive during a period of COBRA Continuation Coverage; thus such a child has equivalent COBRA rights as other Dependents whose coverage under the Plan was terminated due to a Qualifying Event. An Executive's "Qualifying Event" is the event which causes the Executive's loss of status as an Executive due to termination of employment, retirement or reduction of hours. For purposes of this Section I., the "Qualifying Event" for an Executive on an unpaid leave covered by the federal Family and Medical Leave Act shall be deemed to occur at the end of such leave or, if earlier, on the date the Executive notifies the Company that he will not return to employment following such leave. A "Qualifying Event" of a covered Dependent of an Executive is one of the following events:

- a. The Qualifying Event of the Executive; or
- b. The death of the Executive; or
- c. The divorce or legal separation of the Executive from the Executive's Spouse, or termination of Domestic Partnership; or
- d. The loss of status as a Dependent for any reason, including age, marriage, cessation of disability, or cessation of financial dependence on the Executive.

COBRA Continuation Coverage is not available to any individual who was not a Executive or covered Dependent immediately before the Qualifying Event, except as provided in Section I.2.b. below.

2. Benefits Available During COBRA Continuation Coverage.

An individual who elects COBRA Continuation Coverage under this Section I. shall continue his or her status as an Executive or a Dependent under the Plan, except that a Dependent who individually elects COBRA Continuation Coverage under Section I.4. shall be treated as an Executive. Such individuals are entitled to the same rights and benefits available to individuals who became Executives or Dependents pursuant to Sections C or D, except to the extent otherwise provided in this Section I.

a. Medical Benefits. An Executive or an individual who is treated as an Executive may elect COBRA Continuation Coverage for medical and prescription drug coverage.

b. Added Dependents. An Executive or an individual who is treated as an Executive may add an individual as a Dependent during a period of COBRA Continuation Coverage pursuant to the provisions of Sections E.2. and E.3. Any individual so added is entitled to benefits under the Plan until the earlier of the date the Executive's COBRA Continuation Coverage ends or the date the individual ceases to be a Dependent.

c. Maximum Benefits.

i. Lifetime Maximum Benefit. Any amounts paid under the Plan that counted towards an individual's Lifetime Maximum Benefit under Section G. before a Qualifying Event, shall apply against such individual's Lifetime Maximum Benefit after the Qualifying Event.

ii. Annual Maximums. Any amounts paid under the Plan that counted towards any annual maximum payable under the Plan under Section G. before a Qualifying Event are counted toward the individual's annual maximum after the Qualifying Event.

d. Annual Enrollment Periods. Any individual who elects COBRA Continuation Coverage under Section I.4.a. is entitled to change coverage during the annual enrollment period to any option that would be available to such individual immediately before COBRA Continuation Coverage became effective for such individual. Each individual who is an Executive or covered Dependent pursuant to this Section I. (other than an individual who was added as a Dependent under Section I.2.b. above) may make such election on an individual basis.

e. Certificate of Group Health Plan Coverage. An individual covered under Section I.3. will receive a Certificate of Group Health Plan Coverage upon losing COBRA Continuation Coverage for any reason. This Certificate offers proof that the individual had been covered under the McKesson Corporation Executive Medical Plan, and it may allow the individual to receive credit toward a new health plan's waiting period for preexisting conditions.

3. Period of COBRA Continuation Coverage.

a. In General. Each Executive or Dependent's period of COBRA Continuation Coverage shall begin on the date coverage is lost as a result of the Qualifying Event which made the Executive or Dependent eligible for COBRA Continuation Coverage and shall end on the earliest of the following dates:

i. The date for which COBRA Contributions were not timely made for the individual, pursuant to Section I.5.; or

ii. The date after the election of COBRA Continuation Coverage when the individual first becomes covered under another group health plan, as an employee or otherwise, unless the other group health plan contains an exclusion or limitation for any preexisting condition of that individual; or

iii. The date after the election of COBRA Continuation Coverage when the individual first becomes covered by and entitled to Medicare; or

iv. The date when the employer ceases to provide any group health plan to any employee; or

v. The date specified in (b), (c), (d), (e), or (f) below, whichever is applicable to the Qualifying Event; or

vi. The last day of the month for which contributions were made when the Executive or Dependent elects to terminate COBRA Continuation Coverage.

b. Special Rule for Periods of COBRA Continuation Coverage Subject to the Uniformed Services Employment and Reemployment Rights Act of 1994. Notwithstanding the foregoing, an Executive or Dependent's period of COBRA Continuation Coverage that is subject to the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA") shall begin on the date of the Qualifying Event which results in the Executive or Dependent becoming eligible for COBRA Continuation Coverage and shall end on the earliest of the following dates:

i. The 18-month period beginning on the date on which the Executive's absence begins; or

ii. The period ending on the day after the date on which the Executive fails to apply for or return to a position of employment with the Company, as determined under § 4312(e) of USERRA.

c. Termination of Employee Status. If the first Qualifying Event of an Executive or a Dependent is the event which causes the Executive's loss of status as an Executive as a result of a termination of employment, each individual's period of COBRA Continuation Coverage will end 18 months after the date that coverage is lost due to the Qualifying Event (unless an earlier date is required by Section I.3.a.). Notwithstanding the above

ending date, if a Covered Executive or Dependent is determined by the Social Security Administration to be disabled under Title II or XVI of the Social Security Act at any time during the first 60 days of COBRA Continuation Coverage and notifies the Company of such determination within 18 months following the loss of coverage due to the Qualifying Event then the disabled Executive or Dependent (and such person's family members who also have COBRA Continuation Coverage) is entitled to continue their COBRA Continuation Coverage for up to 29 months from the date of the Qualifying Event; provided, however, that if following the end of the initial 18 months of COBRA Continuation Coverage, the disabled individual is determined by the Social Security Administration to no longer be disabled, COBRA Continuation Coverage shall end on the first day of the month that is at least 30 days after the date of the final Social Security determination that the individual is no longer disabled. Notwithstanding both of the above ending dates, if an individual incurs a subsequent Qualifying Event before end of the initial 18-month period of COBRA Continuation Coverage and elects COBRA Continuation Coverage for that Qualifying Event, COBRA Continuation Coverage for the prior Qualifying Event shall terminate immediately and coverage shall continue in accordance with Section I.3.f. below.

d. Death of the Executive. If a Dependent's first Qualifying Event is the death of the Executive, then the Dependent's period of COBRA Continuation Coverage shall end 36 months after the date coverage is lost due to the Executive's death unless an earlier ending date is required by Section I.3.a.

e. Loss of Status as a Dependent. If a Dependent's first Qualifying Event is his or her loss of status as a Dependent for any reason, including age, marriage, cessation of disability, cessation of financial dependence or divorce from the Executive, then the Dependent's period of COBRA Continuation Coverage will end 36 months after coverage is lost due to such loss of status, unless an earlier ending date is required by Section I.3.a.

f. Special Rule for Multiple Qualifying Events. If COBRA Continuation Coverage of an Executive or a Dependent ceases under Section I.3.a. due to a subsequent Qualifying Event which occurs coincident with or prior to the close of the 18-month period of COBRA Continuation Coverage, such Executive or Dependent will be entitled to COBRA Continuation Coverage for the subsequent Qualifying Event; provided, however, that the total period of COBRA Continuation Coverage for all Qualifying Events with respect to any individual shall not exceed 36 months from the date coverage is lost due to the first Qualifying Event.

g. Executive's Entitlement to Medicare. If an Executive becomes entitled to Medicare following the Executive's termination of employment, retirement or reduction in hours of employment, the Dependent's period of COBRA Continuation Coverage for this event will not be extended.

4. Election of COBRA Continuation Coverage; Notice Requirements.

a. Method of Election. An individual who is or will become eligible for COBRA Continuation Coverage under this Section I. may elect such coverage by filing the

prescribed form with the Company at any time during the Election Period. The "Election Period" begins on or before the date of the Qualifying Event applicable to the individual and ends 60 days following the later of the date of such Qualifying Event or the date notice of availability of COBRA Continuation Coverage is sent to the individual pursuant to (b) below. Any election of COBRA Continuation Coverage which is not made during the Election Period shall be void. An election by the Executive or by the surviving Spouse or such Executive's Domestic Partner, or former Spouse of an Executive will be deemed an election of COBRA Continuation Coverage on behalf of any Dependent who would lose coverage by reason of the same Qualifying Event; provided, however, that a Dependent (other than a minor child) may elect COBRA Continuation Coverage for himself if the Executive or the Spouse or such Executive's Domestic Partner or former Spouse of the Executive does not elect COBRA Continuation Coverage for the Dependent. The election shall be effective as of the first day that the individual otherwise would lose coverage under the Plan. The former Spouse, surviving Spouse or surviving Domestic Partner or child of an Executive who individually elects COBRA Continuation Coverage pursuant to this Section I.4. a shall be treated as an Executive for all Plan purposes, including the required contributions under Section I.5.

b. Notice by Employer. Within 44 days following the date that the Executive ceases to be an Executive as a result of a termination of employment, the Company or employing subsidiary shall notify the Executive and each Dependent of the Executive of the right to elect COBRA Continuation Coverage under this Section I. Within 44 days following an Executive's death, the Company shall notify each Dependent of the Executive of the right to elect COBRA Continuation Coverage under this Section I. Within 14 days following receipt of a timely notice described in Section I.4.c. below, the Company shall notify each Dependent of the right to elect COBRA Continuation Coverage. Notification to the Spouse or Domestic Partner of the Executive will be deemed notification to all other Dependents of the Executive.

c. Notice by Executive or Dependent. Each Executive or Dependent is responsible for notifying the Company or employing subsidiary of the divorce of the Executive and the Executive's Spouse or the termination of a Domestic Partnership or the loss of status as a Dependent child. Such notification must be made within 60 days following such divorce, termination of a Domestic Partnership or loss of Dependent status. Each Executive or Dependent is responsible for notifying the Company or employing subsidiary within 30 days of a determination by the Social Security Administration that such Executive or Dependent is disabled within 18 months following the loss of coverage due to the Qualifying Event. Each Executive or Dependent is also responsible for notifying the Company or employing subsidiary of a later final determination by the Social Security Administration that such individual is no longer disabled within 30 days following such determination.

d. Notice to the Insurance Company. As often as the Company or a party to whom such responsibility is properly delegated by the Company deems appropriate, the Company will notify the Insurance Company of an individual's status as an Executive or Dependent under this Section I.

5. COBRA Contributions.

a. Amount of COBRA Contributions. "COBRA Contributions" are required to be paid by the Participant for each period of the Participant's COBRA Continuation Coverage. The COBRA Contributions for continued coverage cannot exceed 102% of the estimated cost of providing such benefits under the Plan for the current year for similarly situated beneficiaries with respect to whom a Qualifying Event has not occurred. Notwithstanding the foregoing, the COBRA Contributions during the 19th through 29th month of COBRA Continuation Coverage, for Executives and Dependents who are determined by the Social Security Administration to be disabled under Title II or XVI of the Social Security Act at any time during the first 60 days of COBRA Continuation Coverage, shall be an amount determined by the Company, in its sole discretion; provided, however that such amount will not exceed 150% of such estimated cost. Such estimated cost will be determined by the Company based on (i) the projected costs for such year determined on the basis of actuarial factors prescribed by regulations under section 4980B(f) of the Code, or (ii) the actual cost to the Plan for the preceding year for such similarly situated beneficiaries, adjusted by the percentage increase or decrease in the implicit price deflator of the gross national product (calculated by the Department of Commerce and published in the Survey of Current Business) for the 12-month period ending on the last day of the sixth month of such preceding year. However, (ii) above will not apply in any year in which there is a significant difference in Plan benefits or in the number of Executives covered by the Plan since the preceding year.

Notwithstanding the foregoing, the COBRA Contributions for continued medical, dental or vision coverage, or any combination thereof, as applicable, for Executive who perform service in the Uniformed Services of the United States for less than 31 days as provided under USERRA, cannot exceed the Executive share, if any, with respect to an Executive for whom a Qualifying Event has not occurred.

b. Due Dates of COBRA Contributions. An Executive's COBRA contributions for each month of COBRA Continuation Coverage are due prior to the first day of that month. However, any payment made within 30 days after the due date will be considered timely made. COBRA Contributions for any retroactive election of COBRA Continuation Coverage made pursuant to Section I.5. are due and payable within 45 days after the date of election.

c. COBRA Contribution Shortfalls. If an Executive or an individual who is treated as an Executive remits a timely monthly contribution to the Plan or Insurance Company that is significantly less than the actual COBRA Contribution due for the month, the period of COBRA Continuation Coverage of the Executive or the individual who is treated as an Executive will be terminated immediately. If an Executive or an individual who is treated as an Executive remits a timely monthly payment that is not significantly less than the actual COBRA Contribution due for the month, the payment will be deemed to satisfy the Plan's requirement for the amount that must be paid, unless the Plan notifies the Executive or the individual who is treated as an Executive of the amount of the deficiency and permits the Executive or the individual who is treated as an Executive to pay the deficiency within 30 days of the date of the notice of deficiency. Executives and individuals who are treated as Executives are responsible for paying all deficiencies. A monthly contribution of an Executive or an individual who is treated as an Executive will not be considered significantly less than the actual COBRA

Contribution due if the amount paid is less than or equal to the lesser of \$50 (or such other amount as the Commissioner may provide in an IRS revenue ruling, notice, or other guidance published in the Internal Revenue Bulletin) or 10% of the actual COBRA Contribution due.

J. CLAIMS AND APPEALS

The claims procedures described in this Section J shall apply except to the extent that there are alternate claims procedures described in the Certificate of Coverage issued by the Insurance Company.

1. Claims Procedure.

a. Application for Benefits. To entitle himself to the payment of any benefits for which he is eligible under the Plan, the Participant shall comply with such rules and procedures as the Company and the Insurance Company may prescribe with reference to the completion and filing of a claim form or forms and the furnishing of such pertinent information as the Insurance Company may request, together with documentary evidence in support of his claim to the Insurance Company. The Insurance Company may require that itemized bills, receipts and other proof of the loss be submitted in addition to the claim form. The Insurance Company may request that the Participant give the Insurance Company written authorization to obtain information from the Participant's Physician pertaining to the diagnosis and related matters. Except as otherwise stated below, claims for benefits under this Plan must be submitted to the Insurance Company within 20 days after the date of the loss causing the claim or as soon as reasonably possible. The Insurance Company will furnish the Participant with a claim form within 15 days of the notice of the claim

All claims must be filed no later than 90 days after the date of the loss causing the claim. If a Participant is not able to meet this deadline for filing a claim, a claim will still be accepted if the Participant's delay was not caused by the Participant's own fault and the Participant files the claim as soon as possible. If a Participant is legally incapacitated, a late claim will still be accepted if it is filed no more than two years after the deadline.

b. Health Care Examinations. While a certification or claim is pending, the claimant must undergo a health care examination whenever reasonably required by the Insurance Company. No benefits will be paid if a claimant refuses to undergo such health care examination. The Insurance Company will have the right to have a physician or dentist of its choice conduct the examination. Such examinations shall be at the Insurance Company's expense.

c. Timing of Claims Decision. The Insurance Company shall adhere to certain time limits when processing a claim for a Plan benefit. If a claimant does not follow the proper procedures for submitting a claim, the Insurance Company shall notify the claimant of the proper procedures within the time frames shown in the chart below. If additional information is needed to process a claimant's claim, the Insurance Company shall notify the claimant within the time frames shown in the chart below, and the claimant shall be provided additional time within which to provide the requested information.

The Insurance Company will make a determination on a claim for a Plan benefit within the time frames indicated below based upon the type of claim: Urgent Care Claim, Pre-Service Claim, Post-Service Claim or Concurrent Care Claim.

Type of Notice or Claim Event	Urgent Care Claim	Pre-Service Care Claim	Post-Service Care Claim
Notice of Failure to Follow the Proper Procedure to File a Claim	Not later than 24 hours after receiving the improper claim.	Not later than 5 days after receiving the improper claim.	Not later than 30 days after receiving the improper claim
Notice of Initial Claim Decision	<p>If the claim when initially filed is proper and complete, a decision will be made as soon as possible, taking into account the medical exigencies, but not later than 72 hours after receiving the initial claim.</p> <p>If the claim is not complete, the Insurance Company shall notify the claimant as soon as possible, but not later than 24 hours after receipt of the claim. The claimant shall have 48 hours to provide the information necessary to complete the claim. A decision will be made not later than 48 hours after receiving the requested information or, within 48-hours after the expiration of the 48-hour claimant deadline, whichever is earlier.</p>	<p>If the claim when initially filed is proper and complete, a decision will be made within a reasonable period of time appropriate to the medical circumstances, but not later than 15 days after receiving the initial claim, unless an extension, of up to 15 days, is necessary due to matters beyond the control of the Plan. The claimant shall be notified within the initial 15 days if an extension will be needed by the Plan. The notice shall state the reason for the extension.</p> <p>A decision will be made not later than 15 days after receiving the initial claim, unless additional information is required from the claimant. The claimant will be notified during the initial 15 day period, and shall have 45 days to provide the additional information requested by the Plan. A decision will be made within 15 days after receiving the additional information or, within 15 days after the expiration of the 45-day claimant deadline, whichever is earlier.</p>	<p>If the claim when initially filed is proper and complete, a decision will be made within a reasonable period of time, but not later than 30 days after receiving the initial claim, unless an extension, of up to 15 days, is necessary due to matters beyond the control of the Plan. The claimant shall be notified within the initial 30 days if an extension will be needed by the Plan. The notice shall state the reason for the extension.</p> <p>A decision will be made not later than 30 days after receiving the initial claim, unless additional information is required from the claimant. The claimant will be notified during the initial 30 day period, and shall have 45 days to provide the additional information requested by the Plan. A decision will be made within 15 days after receiving the additional information or, within 15 days after the expiration of the 45-day claimant deadline, whichever is earlier.</p>

If the claimant's Concurrent Care Claim is also an Urgent Care Claim to extend a previously approved on-going course of treatment provided over a period of time or number of treatments, the Insurance Company will make a determination as soon as possible, taking into account the medical exigencies, and notify the claimant of the determination within 24 hours

after receipt of the claim, provided that the claim was made to the Insurance Company at least 24 hours prior to the expiration of the prescribed period of time or number of treatments previously approved. If the claimant's request for extended treatment is not made at least 24 hours prior to the end of the prescribed period of time or number of treatments, the request will be treated as an Urgent Care Claim and decided according to the timeframes described in the chart above.

If an ongoing course of treatment was previously approved for a specific period of time or number of treatments, and the claimant requests to extend treatment in a non-urgent circumstance, the claimant's request will be considered a new claim and decided according to the Post-Service Claim or Pre-Service Claim time limits, whichever applies.

If the claimant's Concurrent Care Claim is not an Urgent Care Claim, and there is a reduction or termination of the previously approved ongoing course of treatment provided over a period of time or number of treatments (other than by Plan amendment or termination) before the end of the period of time or number of treatments, the claimant will be notified by the Insurance Company sufficiently in advance of the reduction or termination to allow the claimant to appeal the denial and receive a determination on appeal before the reduction or termination of the benefit. To appeal a denial of a Concurrent Care Claim, the claimant must follow the appeal procedures described in Section J.2.

d. Denial of Claims. In the event any claim for benefits is denied, in whole or in part, the Insurance Company shall notify the claimant of such denial in writing within the time frames set forth in Section J.1.c.; provided, however, that the notice of denial for an Urgent Care Claim may be provided orally and a written or electronic confirmation shall follow within three (3) days. Such written notice shall set forth, in a manner calculated to be understood by the claimant, the following information:

i. The specific reason(s) for the denial; and

ii. Reference to the specific Plan provision(s) on which the denial is based; and

iii. A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

iv. A description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on second review; and

v. If an internal rule, guideline, protocol, or other similar criterion was relied upon in denying the claim, either the specific rule, guideline, protocol, or other similar criterion, or a statement that such rule, guideline, protocol or other similar criterion was relied upon in denying the claim, and that a copy of such rule, guideline, protocol, or other similar criterion will be provided to the claimant free of charge upon request; and

vi. If the denial is based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the claimant's medical circumstances, or a statement that such explanation will be provided to the claimant free of charge upon request.

2. Review of Denied Claims.

a. Named Fiduciary. The Insurance Company is the named fiduciary which has the discretionary authority to act with respect to any appeal from a denial of benefits. The Company is the named fiduciary which has the discretionary authority to determine eligibility for benefits and to construe the terms of the Plan.

b. Right to Appeal. The Insurance Company provides for a two-level appeal process. Any person whose claim for benefits is denied, in whole or in part, or such person's authorized representative, may appeal the denial by submitting a written request for a review of the claim to the Insurance Company within one hundred eighty (180) days after receiving written notice of the denial from the Insurance Company. A request for review shall set forth all of the grounds upon which it is based, all facts in support thereof, and any other matters which the claimant deems pertinent. The claimant shall be solely responsible for submitting a written request for review of the claim and any other information or evidence which the claimant intends the Insurance Company to consider in order to render a decision on review. A claimant requesting an appeal of a denied Urgent Care Claim may initiate an expedited appeal by calling the Insurance Company at the toll-free number on the ID card issued by the Insurance Company. The Insurance Company may require the claimant to submit such additional facts, documents or other material as it may deem necessary or appropriate in making its review.

c. Procedures on Review. If the claimant (or the claimant's authorized representative) requests a review of a denied claim, the following procedures shall apply:

i. The claimant (or the claimant's authorized representative) shall have the opportunity to submit written comments, documents, records, and other information relating to the claim; and

ii. The claimant (or the claimant's authorized representative) shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information Relevant to the claimant's claim for benefits (other than legally or medically privileged documents); and

iii. The review shall take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such comments, documents, records, and other information were submitted or considered in the initial benefit determination; and

iv. The review shall not afford deference to the initial claim denial and shall be conducted by an appropriate named fiduciary of the Plan who is neither the individual

who made the adverse benefit determination that is the subject of the appeal, nor the subordinate of that individual; and

v. In deciding an appeal that is based in whole or in part on a medical judgment, including determinations with regard to whether a particular treatment, drug or other item is experimental, investigational, or not medically necessary or appropriate, the appropriate named fiduciary shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment, and such health care professional shall not be the individual who was consulted in connection with the adverse benefit determination that is the subject of the appeal (nor the subordinate of such individual); and

vi. The Insurance Company shall, upon request, provide for the identification of any medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the benefit determination.

d. Decision on First Review. The Insurance Company shall act upon each request for a first review within the time frames indicated in the chart below.

Urgent Care Claim	Pre-Service Claim	Post-Service Claim
Not later than 36 hours after receiving the appeal	Not later than 15 days after receiving the appeal	Not later than 30 days after receiving the appeal.

In the event that the Insurance Company determines on first review that benefits are payable under the Plan, the Insurance Company will process payment of the claim in accordance with the provisions of Section L.1. In the event that the Insurance Company confirms the denial of the claim, in whole or in part, the Insurance Company shall notify the claimant of such denial in writing. Such written notice shall set forth, in a manner calculated to be understood by the claimant, the following information:

i. The specific reason(s) for the denial; and

ii. Reference to the specific Plan provision(s) on which the denial is based; and

iii. A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information Relevant to the claimant's claim for benefits; and

iv. A statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain the information about such procedures, and a statement of the claimant's right to bring an action under Section 502(a) of ERISA following the completion of all levels of appeal required by the Plan; and

v. If an internal rule, guideline, protocol, or other similar criterion was relied upon in denying the claim, either the specific rule, guideline, protocol, or other similar criterion, or a statement that such rule, guideline, protocol or other similar criterion was relied upon in denying the claim, and that a copy of such rule, guideline, protocol, or other similar criterion will be provided to the claimant free of charge upon request; and

vi. If the denial is based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the claimant's medical circumstances, or a statement that such explanation will be provided to the claimant free of charge upon request.

e. Right to Second Appeal. If on first review, the Insurance Company upholds the denial of a claimant's claim for benefits, the claimant (or the claimant's authorized representative) may again appeal the denial by submitting a written request for a second review of the claim to the Insurance Company within 60 days after receiving the written notice described in Section J.2.d.

A request for a second review shall set forth all of the grounds upon which it is based, all facts in support thereof, and any other matters that the claimant deems pertinent. The procedures set forth in Section J.2.c. shall apply to the second review.

f. Decision on Second Review. The Insurance Company shall act upon each request for a second review within the time frames indicated below.

i. For Urgent Care Claims, not later than 36 hours after receiving the second appeal.

ii. For Pre-Service Claims, not later than 15 days after receiving the second appeal.

iii. For Post-Service Claims, not later than 30 days after receiving the second appeal.

In the event that the Insurance Company determines on second review that benefits are payable under the Plan, the Insurance Company will process payment of the claim in accordance with the provisions of Section L.1. In the event that the Insurance Company confirms the denial of the claim, in whole or in part, the Insurance Company shall notify the claimant of such denial in writing. Such written notice shall set forth, in a manner calculated to be understood by the claimant, the information specified in Section J.2.d.

3. Voluntary Appeal.

The Insurance Company provides for a voluntary level of appeal if a claimant's claim for benefits has been denied following the required second level of review. The procedure for the voluntary level of appeal is described in the Certificate of Coverage or Summary of Coverage provided by the Insurance Company.

4. Exhaustion of Remedies.

No action at law or in equity shall be brought to recover benefits under the Plan unless the action is commenced within three years after the occurrence of the loss for which a claim is made. No action at law or in equity shall be brought to recover a benefit unless and until the claimant has:

- a. Submitted a written claim for benefits; and
- b. Been notified by the Insurance Company that the claim is denied; and
- c. Timely filed a written request for a first review of the claim with the Insurance Company; and
- d. Been notified in writing that the denial of the claim has been affirmed on first review; and
- e. Timely filed a written request for a second review of the claim with the Insurance Company, if applicable; and
- f. Been notified in writing that the denial of the claim has been affirmed on second review, if applicable.

5. Right to Receive and Release Necessary Information.

For the purposes of determining the applicability of and implementing the terms of the provisions of the Plan or any provision of similar purpose of any other plan, the Insurance Company may, without the consent of or notice to any individual, release to or obtain from any insurance company or other organization or individual any information with respect to any individual which the Insurance Company deems to be necessary for such purposes.

Any individual claiming benefits under this Plan shall furnish to the Insurance Company such information as may be necessary to implement this provision.

Notwithstanding the above, no release of individual identifiable medical information will be made without the written authorization of that individual or his parent, conservator or guardian, if appropriate.

K. COORDINATION OF BENEFITS

1. Provision for Coordination of Benefits.

a. Coordination of Benefits.

In coordinating benefits, one of the two or more plans involved shall be designated the primary plan and the others shall be designated secondary plans. The primary plan shall pay without regard to the other plans. If the Plan is secondary, the Insurance Company

on behalf of the Plan shall coordinate its payments with those of the other plan(s) in accordance this Section K.

b. Active Executives.

With respect to active Executives and Dependents covered under the Plan, the benefits for each claim for benefits that would otherwise be payable during a calendar year under this Plan in the absence of this provision shall be reduced by the benefits payable for such claim under the other plans listed in Section K.1.d. below, for the expenses covered in whole or in part under this Plan. The rules in this paragraph apply whether or not a claim is made under one of the other plans listed in Section K.1.d. below. When another plan provides benefits in the form of services, the reasonable cash value of each service rendered, as determined within the sole discretion of the Insurance Company will be considered both an expense incurred and a benefit payable.

c. Allowable Expense.

“Allowable Expense” for purposes of this Section K. means any health expense, part or all of which is covered under any of the plans covering the person for whom a claim is made. The difference between the cost of a private hospital room and the semiprivate rate is not considered an Allowable Expense unless the patient’s stay in a private hospital room is medically necessary, either in terms of generally accepted medical practice or as specifically defined in the Plan and the Insurance Contract.

d. Other Plans.

As used in this Section K., the term “other plans” means any other plan of health expense coverage under group insurance or any other type of coverage for persons in a group. This includes plans that are insured and those that are not.

e. Determination of Primary Plan.

Except with respect to an involved plan which is the Medicare program, the primary plan shall be determined as follows:

- i. A plan with no rules for coordination with other benefits will be deemed to pay its benefits before a plan which contains such rules.
- ii. A plan which covers a person other than as a dependent will be deemed to pay its benefits before a plan which covers the person as a dependent.
- iii. Except in the case of a dependent child whose parents are divorced or separated, the plan which covers the person as a dependent of a person whose birthday comes first in a calendar year will be primary to the plan which covers the person as a dependent of a person whose birthday comes later in that calendar year. If both parents have the same birthday, the benefits of a plan which covered one parent longer are determined before those of a plan which covered the other parent for a shorter period of time.

If the other plan does not have the rule described in Section K.1.e.iii. but instead has a rule based on the gender of the parent and if, as a result, the plans do not agree on the order of benefits, the rule in the other plan will determine the order of benefits.

iv. In the case of a dependent child whose parents are divorced or separated:

(i) If there is a court decree which states that the parents shall share joint custody of a dependent child, without stating that one of the parents is responsible for the health care expenses of the child, the order of benefit determination rules specified in K.1.e.iii. will apply.

(ii) If there is a court decree which makes one parent financially responsible for the medical, dental or other health care expenses of such child, the benefits of a plan which covers the child as a dependent of such parent will be determined before the benefits of any other plan which covers the child as a dependent child.

(iii) If there is no such court decree:

(1) If the parent with custody has not remarried, the benefits of a plan which covers the child as a dependent of the parent with custody of the child will be determined before the benefits of a plan which covers the child as a dependent of the parent without custody.

(2) If the parent with custody of the child has remarried, the benefits of a plan which covers the child as a dependent of the parent with custody shall be determined before the benefits of a plan which covers that child as a dependent of the stepparent. The benefits of a plan which covers that child as a dependent of the stepparent will be determined before the benefits of a plan which covers that child as a dependent of the parent without custody.

v. If the rules specified in Sections K.1.e.i, K.1.e.ii, K.1.e.iii. or K.1.e.iv do not establish an order of payment, the plan under which the person has been covered for the longest will be deemed to pay its benefits first; except that the benefits of a plan which covers the person on whose expenses a claim is based as a laid off or retired employee or the dependent of such person shall be determined after the benefits of any other plan which covers such person as an employee who is not laid-off or retired or a dependent of such person.

If the other plan does not have provision regarding laid-off or retired employees and, as a result, each plan determines its benefits after the other, then the above paragraph will not apply.

vi. The benefits of a plan which covers the person on whose expenses a claim is based under a right of continuation pursuant to federal or state law shall be determined after the benefits of any other plan which covers the person other than under such right of continuation.

If the other plan does not have a provision regarding the right of continuation coverage pursuant to federal or state law and, as a result, each plan determines its benefits after the other, then the above paragraph will not apply.

2. Effect of Medicare.

a. If an involved plan is Medicare, Medicare shall be the primary plan and this Plan shall be the secondary plan except as provided below. This Plan shall be the primary plan with respect to Medicare for the following expenses:

i. For expenses incurred by a Participant who is either an Executive or a Dependent who is the Spouse of an Executive, all Covered Expenses incurred during the period:

(i) Beginning on the first day of the first month in which the Participant became eligible for benefits under 42 U.S.C. § 426(a) (relating to attainment of age 65); and

(ii) Ending on the day on which the Participant ceases to be an Executive or a Dependent of an Executive;

Provided, however, that this period shall not include any month in which the Participant would, upon application, be entitled to end-stage renal disease benefits under 42 U.S.C. § 426-1.

ii. For expenses incurred by a Participant who is either an Executive or a Dependent of an Executive, all Covered Expenses incurred during the period when:

(i) The Participant is eligible for or receives benefits under 42 U.S.C. § 426(b) (relating to certain disabled individuals); or

(ii) The Participant is not or would not be, upon application, entitled to end-stage renal benefits under 42 U.S.C. § 426-1; and

(iii) The Participant is covered by the Plan by virtue of the Member's status as an Executive under the Plan.

b. Any covered person who eligible for Medicare will be subject to the following requirements:

i. All health expenses covered under the Plan will be reduced by any Medicare benefits available for those expenses. This reduction will be done before the health benefits of the Plan are figured.

ii. Charges used to satisfy a persons Medicare Part B deductible will be applied under the Plan in the order received by the Insurance Company. Two or more charges received at the same time will be applied starting with the largest first.

iii. Medicare benefits will be taken into account for any person while he or she is eligible for Medicare, regardless of whether the person is entitled to Medicare benefits.

iv. Any rule for coordinating “other plan” benefits with those under the Plan will be applied after the Plan’s benefits have been figured under the rules of this Section K.2. Allowable Expenses will be reduced by any Medicare benefits available for those expenses.

A person is “eligible for Medicare” if the person is covered under Medicare or is eligible for Medicare but has refused Medicare coverage, dropped Medicare coverage or failed to make a proper requires for Medicare coverage.

Coverage will not be changed at any time when the Company’s compliance with federal law requires this Plan’s benefits for a person to be figured before benefits are figured under Medicare.

3. Effect on Benefits.

When the provisions of Section K. operate to reduce the total amount of benefits otherwise payable to a person covered under this Plan during a calendar year, each benefit that would be payable in the absence of this provision will be reduced proportionately, and such reduced amount will be charged against any applicable benefit limit of this Plan.

4. Right to Information and Recovery.

a. Whenever payments which should have been made under this Plan in accordance with Section K. have been made under any other plans, the Insurance Company has the right to transfer to any organizations making these payments any amounts the Insurance Company determines to be warranted in order to satisfy the intent of the above provisions, and amounts paid in this manner will be considered to be benefits paid under this Plan and, to the extent of these payments, the Insurance Company will be fully discharged from liability under this Plan.

b. Whenever payments have been made by the Insurance Company, at any time, for Allowable Expenses in a total amount at any time in excess of the maximum amount of payment necessary at that time to satisfy the intent of the above provisions, the Insurance Company will have the right to recover these payments to the extent of such excess, from among one or more of the following as the Insurance Company shall determine: any individuals to or for or with respect to whom these payments were made, any insurance companies, health care service plans or any organizations.

L. PAYMENT OF BENEFITS

1. Payment of Claims. The Insurance Company will process a claim in accordance with this Section L promptly after it receives complete proof of the claim. If the Insurance Company finds that the claim is payable under the Plan, it will send payment to the Executive. The Insurance Company has the right to pay any benefits directly to the provider of services or

supplies, unless the Executive has informed the Insurance Company otherwise at the time the claim is filed. Notwithstanding the foregoing, if the Plan has received a Qualified Medical Child Support Order, payment will be made to the Alternate Recipient's custodial parent or legal guardian, unless payment directly to the provider of services or supplies has been authorized. In the event the Insurance Company pays any person less than the amount to which he or she is entitled under the Plan, the Insurance Company will promptly adjust the underpayment to the correct amount.

2. Assignment. A Executive may assign his interest and property rights in the Plan only with the consent of the Insurance Company as provided in the Insurance Contract.

3. Payment to Representative. In the event that a guardian, conservator, committee or other legal representative has been duly appointed for an Executive entitled to any payment under the Plan, any such payment due may be made to the legal representative making a claim therefore, and such payment so made shall be in complete discharge of the liabilities of the Plan therefore and the obligations of the Insurance Company and the Company.

4. Recovery of Overpayments. If the Insurance Company makes a benefit payment to or on behalf of any person which exceeds the amount to which such person is entitled to receive under the Plan and Insurance Contract, the Insurance Company is entitled to require the return of the overpayment on request or to reduce any future benefit payment to such person or another person in such person's family by the amount of the overpayment. This Section L.4 shall not affect any other right of recovery the Insurance Company may have with respect to such overpayment.

5. Recovery for Third Party Expenses.

a. Expenses Resulting From Acts of Third Person.

When charges are incurred by a Participant for services relating to an accident, injury, or sickness for which any benefits are payable under the Plan., and the accident, injury or sickness arises under circumstances that may create a legal liability in another individual or organization, and whenever the Plan pays any amount to or on behalf of a Participant (a "Third Party Expense"), the Participant's right of recovery (if any) from a third party shall be subrogated to the Plan to the extent of the Third Party Expense.

b. Duty of Notification of Third Party Expenses.

Any Participant claiming benefits under this Plan with respect to Third Party Expenses shall notify the Claims Administrator of expenses which are Third Party Expenses, in such manner as the Committee shall require, at the time a claim for benefits is submitted under this Plan.

The Participant shall submit all information, documents and any other evidence which the Claims Administrator shall request in order to assist it in determining whether the Participant has or will be reimbursed by any person for the Third Party Expense.

6. Participant's Obligations.

If any Participant is injured through the act or omission of any third person, or if expenses relating to an injury are reimbursable under a contract of no fault automobile insurance, the Participant shall receive benefits under the Plan only on the condition that the Participant agrees in writing to the following:

a. To reimburse the Plan for the full amount of the Third Party Expense, not to exceed the amount of recovery received from the third party or no fault automobile insurance. The Company has the discretion to agree to a lesser amount of reimbursement, if determined to be in the best interest of the Plan. Such amounts shall be payable immediately upon the receipt of any damages collected against a third party or under no fault automobile insurance, whether in a legal judgment, settlement or otherwise; provided, however, that such reimbursement shall not include reasonable expenses in collecting such amount, including reasonable attorneys' fees; and

b. To execute and deliver, at the request of the Claims Administrator, such instruments, including an assignment to the Claims Administrator of any and all claims to recover amounts from any person for a Third Party Expense up to the amount of any benefits that would be paid under the Plan for such Third Party Expense, and do whatever else is reasonably necessary to secure the Plan's rights to reimbursement out of such proceeds and

c. To provide the Plan with a lien and order directing reimbursement of medical payments against any damages collected against a third party or under no fault automobile insurance, whether in a legal judgment, settlement or otherwise provided, however, that such reimbursement shall not include reasonable expenses in collecting such amount, including reasonable attorneys' fees. Said lien and order shall be equal to the total amount of all benefits paid under the Plan; and

d. To agree to a credit against payments to be made under the Plan in the future equal to the amount of any damages collected against a third party or under no fault automobile insurance, whether by legal judgment, settlement or otherwise, less any amount paid to the Plan pursuant to (1) above.

In the event that the Participant fails to comply with the requirements of this Section, such Participant shall not be eligible to receive any further benefits under the Plan until such Participant has so complied.

The Plan shall have the right to intervene in any suit or other proceeding to protect the reimbursement rights hereunder. The Participant shall be responsible for all fees of the attorney handling the claim against the third party.

M. SOURCE OF CONTRIBUTIONS

1. **Insurance Contract.** Benefits under the Plan are provided pursuant to an insurance contract or contracts. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Executive or Beneficiary, or create any fiduciary relationship between the Company and any Executive or Beneficiary with respect to any assets of the Company.

2. COBRA Contributions. Individuals who have COBRA Continuation Coverage under Section H, shall be required to make COBRA Contributions as provided therein. The amount of COBRA Contributions shall be determined by the Company, in the manner provided by Section I.5.A, and the Company shall communicate any change in these amounts to individuals who are required to contribute.

3. Required Contributions. Each Executive who is receiving compensation from the Company or a subsidiary or affiliate under the regular Payroll shall make any required contributions to the Plan by Payroll deductions. Each other Executive shall make any required contributions to the Plan on a monthly or quarterly basis or in such other manner as determined by the Company. The Company will remit such contributions to the Insurance Company as necessary to pay required premiums under the Insurance Contract. The amount of an Executive's required contributions shall be determined by the Company on the basis of premiums due under the Insurance Contract. The Company shall communicate any change in the amount of an Executive's required contributions to such individuals from time to time.

4. Company Contributions. The Company shall contribute to the Plan such amounts as are necessary to pay required premiums under the Insurance Contract or any reasonable administrative expenses of the Plan not paid by the Insurance Company. Except to the extent used to pay the reasonable administrative expenses of the Plan, all Company Contributions shall be remitted to the Insurance Company in accordance with the terms of the Insurance Contract.

5. Payment of Expenses. The Company shall pay all expenses of the Plan except for such expenses as are paid by the Insurance Company pursuant to the terms of the Insurance Contract or any other agreement between the Insurance Company and the Company. The Company, or its delegate, shall have sole discretion to determine whether an expense of the Plan shall be paid by the Company or the Insurance Company, subject to the terms of the Insurance Contract or any other agreement between the Insurance Contract and the Company.

6. Limitation of Liability. No liability for the payment of benefits under the Plan shall be imposed upon the Compensation Committee, the Company or its Officers, members of its Board of Directors or shareholders.

N. ADMINISTRATION OF THE PLAN

1. In General. The Plan shall be administered by the Senior Vice President, Human Resources of McKesson. If the Senior Vice President, Human Resources is an Executive participating in the Plan, then any discretionary action he or she takes as Administrator which directly affects him or her as an Executive shall be specifically approved by the Compensation Committee. The Administrator shall have the ultimate responsibility to interpret the Plan and shall adopt such rules and regulations for carrying out the Plan as it may deem necessary or appropriate. Decisions of the Administrator shall be final and binding on all parties who have an interest in the Plan.

2. Elections and Notices. All elections and notices made by an Executive under this Plan shall be in writing and filed with the Administrator.

3. Action By Board and Compensation Committee. The Board and Compensation Committee may act under this Plan in accordance with their normal procedures and practice, including but not limited to delegation of their authority to act under this Plan.

4. Applicable Law and Severability. The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and the laws of the State of California to the extent that the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective.

O. DURATION AND AMENDMENT OF THE PLAN

1. Permanence of the Plan.

The Plan shall continue in full force and effect unless terminated, modified, altered or amended by the Company as provided in this Section O.

Although the Company has established the Plan with the bona fide intention and expectation that it will be able to make contributions indefinitely, nevertheless the Company is not and shall not be under any obligation or liability whatsoever to continue its contributions or to maintain the Plan for any given length of time. The Company, through action of its Board of Directors, may, in its sole and absolute discretion, discontinue such contributions or terminate the Plan in accordance with its provisions at any time without any liability whatsoever for such discontinuance or termination.

2. Right to Amend.

The Company shall have the power to modify, alter, amend or terminate the Plan at any time. The Company, acting through the Board of Directors, may delegate the power and authority to amend the Plan to other designated Company employees. The Company has delegated the power and authority to amend the Plan to the Vice President of Human Resources and Administration as discussed in this Section O.2. The Vice President of Human Resources and Administration shall have the power and authority to amend the Plan in order to comply with new or changed legal requirements if such amendments do not materially increase the cost of the Plan. The Company shall have the power and authority to amend the Plan in all other instances. The Company shall also have the power to amend or terminate any agreement with an Insurance Company in connection with the Plan at any time; provided, however, that any amendment to any such agreement may be made only in accordance with the provisions of such agreement. The Company shall have the power to increase the COBRA Contributions or required contributions under the Plan of Members and their Dependents. Anything in Section O to the contrary notwithstanding, no such amendment, termination, or substitution shall operate to reduce the amount of any benefit payment otherwise payable under the Plan for charges incurred prior to the effective date of such amendment or termination.

P. DEFINITIONS

For the purposes of the Plan, the following terms shall have the meanings indicated (other

relevant terms are described in the Certificate of Coverage provided by the Insurance Company):

1. "Active Service" means service with the Company by an Executive on a day which is one of the Company's scheduled work days if he is performing in the customary manner the regular duties of his employment with the Company on that day either at one of the Company's business establishments or at some location to which the Company's business requires him to travel. An Executive will be considered in Active Service on a day which is not one of the Company's scheduled work days only if he was performing in the customary manner the regular duties of his employment on the next or preceding scheduled work day or is on a Company approved vacation. Notwithstanding the foregoing, provided that an Executive has actually begun employment (i.e., shown for work) with the Company, for purposes of the Plan, such Executive shall also be considered to be in Active Service on a day which is one of the Company's scheduled work days if he is not performing in the customary manner the regular duties of his employment with the Company due to injury or illness.

2. "Administrator" shall mean the person specified in Section N.1.

3. "Approved Retirement" shall mean any termination of employment with the Company after attainment of age 65 or any retirement before age 65 (other than a termination prior to the date the Executive has both attained age 55 and completed five "Years of Service" as defined in the [McKesson Corporation Retirement Plan] with the approval of the Compensation Committee).

4. "Board" shall mean the Board of Directors of McKesson.

5. "Company" shall mean McKesson Corporation and any member of its controlled group as defined by Sections 414(b) and 414(c) of the Internal Revenue Code of 1986, as amended.

6. "Compensation Committee" shall mean the Compensation Committee of the Board.

7. "Dependent" shall mean an Executive's:

a. Legally married Spouse unless legally separated;

b. Domestic Partner;

c. Unmarried children under 19 years of age from birth. Such children include the Executive's or Executive's Domestic Partner's (1) biological children, (2) legally adopted children, (3) stepchildren, and (4) any other children with whom the Executive lives in a parent-child relationship or whose parent is the Executive's child and is covered as a Dependent under the Plan.;

d. Unmarried children after attainment of age 19 but under age 25 who are wholly dependent on the Executive for maintenance and support and are regular, full-time students at an accredited secondary school, college, university, vocational or technical school for

training of nurses. Such children must otherwise meet the definition of Dependent children as provided in Section P.7.c above.

e. Unmarried children after attainment of age 19 who are fully handicapped and who have not been issued a personal medical conversion policy. A child is fully handicapped if the child is not able to earn his or her own living because of mental retardation or a physical handicap which commenced prior to the child's attainment of age 19 and is chiefly dependent on the Executive for maintenance and support. Such children must otherwise meet the definition of Dependent children as contained in Section P.7.c above. An Executive must provide proof that a child is fully handicapped to the Insurance Company and Plan Administrator no later than 31 days after the date the child reaches age 19. The Insurance Company has the right to examine such a child as often as needed while the handicap continues at the Insurance Company's expense. The Insurance Company will not require an exam more often than once each year after two years from the date the child reached age 19.

No one may be a Dependent of more than one Executive and no one may be covered under this Plan as both an Executive and a Dependent. Any Dependent who is also an Executive of the Company may elect not to be covered as an Executive under the Plan.

8. "Domestic Partner" shall mean a person who meets and continues to meet all of the criteria detailed in McKesson Corporation's Affidavit Declaring Domestic Partners, provided that the Executive has confirmed that his or her Domestic Partnership meets the requirements of the McKesson Corporation Affidavit Declaring Domestic Partners in any manner authorized by the Company and received a confirmation statement from the Company.

9. "Domestic Partnership" shall mean a relationship between an Executive and a Domestic Partner.

10. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

11. "Executive" shall mean an employee of the Company selected by the Compensation Committee to participate in this Plan pursuant to Section C.

12. "Insurance Company" shall mean Aetna Life Insurance Company and any successor insurance companies that may be appointed by the Company to provide benefits under the Plan.

13. "Insurance Contract" shall mean the group health insurance contract or contracts issued to the Company by the Insurance Company pursuant to the Plan.

14. "McKesson" shall mean McKesson Corporation, a Delaware corporation.

15. "Medical Child Support Order" shall mean any judgment, decree, or order (including approval of a settlement agreement) issued by a court of competent jurisdiction which either (1) provides for child support with respect to a child of an Executive or provides for health benefit coverage to such a child, is made pursuant to a State domestic relations law (including a

community property law), and which relates to benefits under the Plan or (2) enforces a law relating to medical child support described in Section 1908 of the Social Security Act, as added by Section 13623 of the Omnibus Budget Reconciliation Act of 1993, with respect to the Plan.

16. "Member" shall mean each Executive of the Company and Retiree and who elects to participate in the Plan in accordance with applicable eligibility and enrollment procedures.

17. "National Medical Support Notice" shall mean any notice issued by a State IV-D agency pursuant to Section 466(a)(19) of the Social Security Act and Section 609(a)(5)(C) of ERISA, to the Company pursuant to an order that obligates a Member to provide health benefit coverage for the Member's child or children. If properly completed, a National Medical Support Notice will be deemed to be a Qualified Medical Child Support Order.

18. "Participant" shall mean any individual who is covered under the Plan.

19. "Plan" shall mean this McKesson Corporation Management Survivor Benefits Plan.

20. "Qualified Medical Child Support Order" means a Medical Child Support Order which creates or recognizes the existence of an Alternate Recipient's right to, or assigns to an Alternate Recipient the right to, receive benefits for which a Member or beneficiary is eligible under the Plan, and satisfies the requirements stated in a. and b. below:

a. A Qualified Medical Child Support Order must clearly specify:

i. The name and last known mailing address of the Member and of each Alternate Recipient (or the applicable State official if the name and address of a State official has been substituted for the mailing address of an Alternate Recipient); and

ii. A reasonable description of the type of coverage to be provided by the Plan to the Alternate Recipient, or the manner in which such type of coverage is to be determined; and

iii. The period to which such order applies.

b. A Qualified Medical Child Support Order may not require the Plan to provide any type or form of benefit, or any option, not otherwise provided under the Plan, except to the extent necessary to meet the requirements of a law relating to medical child support described in Section 1396(g) of the Social Security Act (title 42).

A Qualified Medical Child Support Order shall also include a properly completed National Medical Support Notice.

c. "Retiree" shall mean a former Executive who had been selected to participate in the Plan and who is eligible to continue coverage following his Approved Retirement.

d. "Spouse" shall mean the person to whom the Executive is legally married.

e. "Uniformed Services" means the uniformed services specified in 38 U.S.C. § 4303(16).

f. "USERRA" means the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended from time to time.

Q. SUCCESSORS

This Plan shall be binding on the Company and any successors or assigns thereto.

R. EXECUTION

This Plan Document has been restated and adopted by McKesson Corporation and such adoption is certified to by the undersigned Officer of the Company to be effective January 1, 2004, except as otherwise stated herein.

McKesson Corporation

By _____

Paul E. Kirinic
Senior Vice President, Human Resources

AMENDED AND RESTATED RECEIVABLES PURCHASE AGREEMENT

dated as of June 11, 2004

among

CGSF FUNDING CORPORATION,
as Seller,

McKESSON CORPORATION,
as Servicer,

THE CONDUIT PURCHASERS FROM TIME TO TIME PARTY HERETO,

THE COMMITTED PURCHASERS FROM TIME TO TIME PARTY HERETO,

THE MANAGING AGENTS FROM TIME TO TIME PARTY HERETO

and

BANK ONE, NA (MAIN OFFICE CHICAGO),
as Collateral Agent

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CGSF FUNDING CORPORATION

AMENDED AND RESTATED RECEIVABLES PURCHASE AGREEMENT

This Amended and Restated Receivables Purchase Agreement dated as of June 11, 2004 (as amended, restated, supplemented or otherwise modified and in effect from time to time, this "Agreement") is among CGSF Funding Corporation, a Delaware corporation ("Seller"), McKesson Corporation, a Delaware corporation ("McKesson"), as initial Servicer (McKesson, together with the Seller, the "Seller Parties" and each a "Seller Party"), the entities from time to time party hereto as Conduit Purchasers (together with their respective successors and assigns hereunder, the "Conduit Purchasers"), the entities from time to time party hereto as Committed Purchasers (together with their respective successors and assigns hereunder, the "Committed Purchasers"), the entities from time to time party hereto as Managing Agents (together with their respective successors and assigns hereunder, the "Managing Agents"), and Bank One, NA (Main Office Chicago) ("Bank One"), as collateral agent for the Purchasers hereunder or any successor collateral agent hereunder (together with its successors and assigns hereunder, the "Collateral Agent"). Unless defined elsewhere herein, capitalized terms used in this Agreement shall have the meanings assigned to such terms in Exhibit I.

PRELIMINARY STATEMENTS

WHEREAS, Seller, McKesson, PREFCO, Falcon, Blue Ridge, Liberty Street, Wachovia, Scotia and Bank One are parties to that certain Receivables Purchase Agreement dated as of June 25, 1999 (as heretofore amended, restated, supplemented or otherwise modified from time to time, the "Original RPA");

WHEREAS, subject to the terms and conditions set forth herein, the parties hereto have agreed to amend and restate the Original RPA in its entirety;

WHEREAS, Seller desires to transfer and assign Purchaser Interests to the Purchasers from time to time;

WHEREAS, the Conduit Purchasers may, in their absolute and sole discretion, purchase Purchaser Interests from Seller from time to time;

WHEREAS, in the event that (i) a Conduit Purchaser declines to make any purchase or (ii) a Purchaser Group does not have a Conduit Purchaser member, the Committed Purchasers that are part of the applicable Purchaser Group shall purchase Purchaser Interests from time to time;

WHEREAS, Bank One has been requested and is willing to act as Collateral Agent on behalf of the Conduit Purchasers, the Committed Purchasers and the Managing Agents in accordance with the terms hereof;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
PURCHASE ARRANGEMENTS

Section 1.1 Purchase Facility.

(a) Upon the terms and subject to the conditions hereof, Seller hereby sells and assigns Purchaser Interests to the Collateral Agent for the benefit of one or more of the Purchasers in all of its Receivables, whether now owned or hereafter arising. In accordance with the terms and conditions set forth herein, each Conduit Purchaser may, at its option, instruct the related Managing Agent (which will instruct the Collateral Agent) to purchase on its behalf through the Collateral Agent, or if (i) such Conduit Purchaser shall decline to purchase or (ii) a Purchaser Group does not have a Conduit Purchaser member, the Collateral Agent shall purchase, on behalf of the applicable Committed Purchasers, Purchaser Interests from time to time in an aggregate amount not to exceed the Purchase Limit, and for each Purchaser Group in an aggregate amount not to exceed the Purchaser Group Limit for such Purchaser Group, during the period from the date hereof to but not including the Facility Termination Date.

(b) Seller may, upon at least 10 Business Days' prior written notice to the Collateral Agent and each Managing Agent, terminate in whole or reduce in part, ratably among the Purchaser Groups, the unused portion of the Purchase Limit and the Purchaser Group Limits; provided, that each partial reduction of the Purchase Limit shall be in an amount equal to \$5,000,000 or an integral multiple thereof.

Section 1.2 Increases.

(a) Seller shall provide each Managing Agent with at least two (2) Business Days' prior notice in a form set forth as Exhibit II hereto of each Incremental Purchase (a "Purchase Notice"), provided that only one Business Day's notice period shall be required in connection with the initial purchase hereunder. Each Purchase Notice shall be subject to Section 5.2 hereof and, except as set forth below, shall be irrevocable and shall specify the requested Purchase Price (which shall not be less than \$15,000,000 in the aggregate for all Purchasers), date of purchase, the type of Discount Rate (determined in accordance with, and subject to the limitations set forth in, Article III hereof) and Tranche Period; provided, that the Seller may not send more than one (1) Purchase Notice in any one-week period.

(b) Following receipt of a Purchase Notice, (i) for each Purchaser Group which has a Conduit Purchaser member, the related Managing Agent shall notify such Conduit Purchaser of its receipt of same and determine whether such Conduit Purchaser agrees to make the purchase, and if the applicable Conduit Purchaser declines to make such purchase, the Managing Agent shall notify the Committed Purchasers in such Purchaser Group of its receipt of such Purchase Notice and of the Conduit Purchaser declining to make such purchase and the Incremental Purchase of the Purchaser Interest will be made by such Committed Purchasers and (ii) for each Purchaser Group which does not have a Conduit Purchaser member, the related Managing Agent shall notify the Committed Purchasers in such Purchaser Group of its receipt of such Purchase Notice and the Incremental Purchase of the Purchaser Interest will be made by such Committed Purchasers.

(c) Each Incremental Purchase to be made hereunder shall be made ratably among the Purchaser Groups in accordance with their respective Purchaser Group Limits.

(d) On the date of each Incremental Purchase, upon satisfaction of the applicable conditions precedent set forth in Article V, each applicable Purchaser shall make available to its related Managing Agent at its address listed beneath its signature on its signature page to this Agreement, for deposit to such account as the Seller designates from time to time, in immediately available funds, no later than 12:00 noon (Chicago time), an amount equal to such Purchaser's Pro Rata Share of the Purchaser Interests then being purchased.

Section 1.3 Decreases. Seller shall provide each Managing Agent with prior written notice in the form set forth as Exhibit II-A hereto (a "Reduction Notice") of any reduction of Aggregate Capital in conformity with the Required Notice Period. Such Reduction Notice shall designate (i) the date (the "Proposed Reduction Date") upon which any such reduction of Aggregate Capital shall occur (which date shall give effect to the applicable Required Notice Period), and (ii) the amount of Aggregate Capital to be reduced (the "Aggregate Reduction") which shall be applied ratably to reduce the Capital of each Purchaser Group and further applied by each Managing Agent to the Purchaser Interests of the Conduit Purchasers and the Committed Purchasers in the related Purchaser Group in such proportions as may be agreed by such Managing Agent and such Purchasers. Only one (1) Reduction Notice shall be outstanding at any time.

Section 1.4 Payment Requirements. All amounts to be paid or deposited by any Seller Party pursuant to any provision of this Agreement shall be paid or deposited in accordance with the terms hereof no later than 12:00 noon (Chicago time) on the day when due in immediately available funds, and if not received before 12:00 noon (Chicago time) shall be deemed to be received on the next succeeding Business Day. If such amounts are payable to a Purchaser they shall be paid to the related Managing Agent, for the account of such Purchaser, at its address listed beneath its signature on its signature page to this Agreement until otherwise notified by such Managing Agent. All computations of Yield (other than Yield calculated using the Base Rate) and per annum fees hereunder and under the Fee Letter shall be made on the basis of a year of 360 days for the actual number of days elapsed. All computations of Yield calculated using the Base Rate shall be made on the basis of a year of 365 or 366 days, as applicable, for the actual number of days elapsed. If any amount hereunder shall be payable on a day which is not a Business Day, such amount shall be payable on the next succeeding Business Day.

ARTICLE II PAYMENTS AND COLLECTIONS

Section 2.1 Payments. Notwithstanding any limitation on recourse contained in this Agreement, Seller shall immediately pay to each Managing Agent when due, for the account of the related Purchaser or Purchasers (i) such fees as set forth in the Fee Letter, (ii) all amounts payable as Yield, (iii) all amounts payable as Deemed Collections (which, subject to the servicing procedures set forth in Article VII, shall be applied to reduce Aggregate Capital hereunder in accordance with Sections 2.2 and 2.3 hereof), (iv) all amounts payable to reduce the Seller Interest, if required, pursuant to Section 2.6, (v) all amounts payable pursuant to Article

IX, if any, (vi) all Servicer costs and expenses in connection with servicing, administering and collecting the Receivables, including, without limitation, the Servicing Fee, (vii) all Broken Funding Costs and (viii) all Default Fees (collectively, the “Obligations”). If any Person fails to pay any of the Obligations when due, such Person agrees to pay, on demand, the Default Fee in respect thereof until paid. Notwithstanding the foregoing, no provision of this Agreement or the Fee Letter shall require the payment or permit the collection of any amounts hereunder in excess of the maximum permitted by applicable law. If at any time Seller receives any Collections or is deemed to receive any Collections, Seller shall immediately pay such Collections or Deemed Collections to the Servicer and, at all times prior to such payment, such Collections shall be held in trust by Seller for the exclusive benefit of the Purchasers, the Managing Agents and the Collateral Agent.

Section 2.2 Collections Prior to Amortization.

(a) Prior to the Amortization Date, any Collections and/or Deemed Collections received by the Servicer shall be held in trust by the Servicer for the payment of any accrued and unpaid Aggregate Unpaid or for a Reinvestment as provided in this Section 2.2. If at any time any Collections are received by the Servicer prior to the Amortization Date, (i) the Servicer shall set aside the Termination Percentage of Collections evidenced by the Purchaser Interests of each Terminating Committed Purchaser and (ii) Seller hereby requests and the Purchasers (other than any Terminating Committed Purchasers) hereby agree to make, simultaneously with such receipt, a reinvestment (each a “Reinvestment”) with that portion of the balance of each and every Collection received by the Servicer that is part of any Purchaser Interest (other than any Purchaser Interests of Terminating Committed Purchasers), such that after giving effect to such Reinvestment, the amount of Capital of such Purchaser Interest immediately after such receipt and corresponding Reinvestment shall be equal to the amount of Capital immediately prior to such receipt.

(b) On each Settlement Date prior to the occurrence of the Amortization Date, the Servicer shall remit to the Managing Agents’ respective accounts the amounts set aside since the immediately preceding Settlement Date that have not been applied to pay Yield or subject to a Reinvestment and apply such amounts (if not previously paid in accordance with Section 2.1) first, to reduce due but unpaid Obligations in the order specified in Section 2.4 and second, to reduce the Capital of all Purchaser Interests of Terminating Committed Purchasers, applied ratably to each Terminating Committed Purchaser according to the respective Capital of such Terminating Committed Purchasers. If such Capital and other Obligations shall be reduced to zero, any additional Collections received by the Servicer (i) if applicable, shall be remitted to the Managing Agents’ respective accounts no later than 12:00 noon (Chicago time) to the extent required to fund any Aggregate Reduction on such Settlement Date, applied ratably in accordance with the Pro Rata Share of each such Managing Agent’s Purchaser Group and (ii) any balance remaining thereafter shall be remitted from the Servicer to Seller on such Settlement Date.

Section 2.3 Collections Following Amortization. On the Amortization Date and on each day thereafter, the Servicer shall set aside and hold in trust, for the holder of each Purchaser Interest, all Collections and Deemed Collections received on such day. On the Amortization Date and each date thereafter, (i) the Servicer shall remit to the Managing Agents’

respective accounts, in accordance with the applicable Pro Rata Shares, the amounts set aside pursuant to the preceding sentence, and (ii) each Managing Agent shall apply such amounts to reduce the Aggregate Capital and any other Aggregate Unpaid due and payable to the related Purchaser Group.

Section 2.4 Application of Collections. If there shall be insufficient funds on deposit for the Servicer to distribute funds in payment in full of the aforementioned amounts pursuant to Section 2.2 or 2.3 (as applicable), the Servicer shall distribute funds:

first, ratably to the payment of all accrued and unpaid fees under the Fee Letter and all accrued and unpaid Yield;

second, to the payment of the Servicer's reasonable out-of-pocket costs and expenses in connection with servicing, administering and collecting the Receivables, including the Servicing Fee, if Seller or one of its Affiliates is not then acting as the Servicer,

third, to the reimbursement of the Collateral Agent's and each Managing Agent's costs of collection and enforcement of this Agreement,

fourth, (to the extent applicable) to the ratable reduction of the Aggregate Capital (without regard to any Termination Percentage),

fifth, for the ratable payment of all other unpaid Obligations, provided that to the extent such Obligations relate to the payment of Servicer costs and expenses, including the Servicing Fee, when the Seller or one of its Affiliates is acting as the Servicer, such costs and expenses, including the Servicing Fee, will not be paid until after the payment in full of all other Obligations, and

sixth, after the Aggregate Unpaid have been indefeasibly reduced to zero, to the Seller.

Collections applied to the payment of Aggregate Unpaid shall be distributed in accordance with the aforementioned provisions, and, giving effect to each of the priorities set forth in Section 2.4 above, shall be shared ratably (within each priority) among the Collateral Agent, the Managing Agents and the Purchasers in accordance with the amount of such Aggregate Unpaid owing to each of them in respect of each such priority.

Section 2.5 Payment Rescission. No payment of any of the Aggregate Unpaid shall be considered paid or applied hereunder to the extent that, at any time, all or any portion of such payment or application is rescinded by application of law or judicial authority, or must otherwise be returned or refunded for any reason. Seller shall remain obligated for the amount of any payment or application so rescinded, returned or refunded, and shall promptly pay to the Collateral Agent (for application to the Person or Persons who suffered such rescission, return or refund) the full amount thereof, plus the Default Fee from the date of any such rescission, return or refunding.

Section 2.6 Seller Interest. Seller shall ensure that the Purchaser Interests of the Purchasers shall at no time exceed in the aggregate 100%. If the aggregate of the Purchaser Interests of the Purchasers exceeds 100%, Seller shall immediately pay to the Managing Agents an amount to be applied to reduce the Aggregate Capital, such that after giving effect to such payment the aggregate of the Purchaser Interests equals or is less than 100%.

Section 2.7 Clean Up Call. In addition to Seller's rights pursuant to Section 1.3, Seller shall have the right (after providing written notice to the Managing Agents in accordance with the Required Notice Period), at any time following the reduction of the Capital to a level that is less than 10.0% of the original Purchase Limit, to repurchase from the Purchasers all, but not less than all, of the then outstanding Purchaser Interests. The purchase price in respect thereof shall be an amount equal to the Aggregate Unpaid through the date of such repurchase, payable in immediately available funds. Such repurchase shall be without representation, warranty or recourse of any kind by, on the part of, or against any Purchaser, any Managing Agent or the Collateral Agent.

ARTICLE III FUNDING

Section 3.1 General Funding Provisions. Each Purchaser Interest of the Committed Purchasers shall accrue Yield for each day during its Tranche Period at either the LIBO Rate or the Base Rate in accordance with the terms and conditions hereof, and each Purchaser Interest of the Conduit Purchasers shall accrue Yield for each day during its Tranche Period at the CP Rate in accordance with the terms and conditions hereof; provided, however, that each Purchaser Interest of a Conduit Purchaser which is funded through Pooled Commercial Paper shall accrue Yield at the applicable CP Rate for each day during each Accrual Period that any Capital in respect of such Purchaser Interest is outstanding. Until Seller gives notice to the Managing Agents of another Discount Rate in accordance with Section 3.4, the initial Discount Rate for any Purchaser Interest transferred to the Committed Purchasers pursuant to the terms and conditions hereof shall be the Base Rate. If any Committed Purchaser acquires by assignment from any Conduit Purchaser any Purchaser Interest pursuant to such Conduit Purchaser's respective Liquidity Agreement, each Purchaser Interest so assigned shall each be deemed to have a new Tranche Period commencing on the date of any such assignment.

Section 3.2 Yield Payments. On the Settlement Date for each Purchaser Interest, Seller shall pay to each Managing Agent (for the benefit of the applicable Purchasers) an aggregate amount equal to the accrued and unpaid Yield for the entire Tranche Period of each such Purchaser Interest in accordance with Article II.

Section 3.3 Selection and Continuation of Tranche Periods.

(a) With consultation from each related Managing Agent, Seller shall from time to time request Tranche Periods for the Purchaser Interests (other than Purchaser Interests which are funded through Pooled Commercial Paper, the Tranche Periods for which shall be the same as the Accrual Period); provided, however, that no more than fifteen (15) Tranche Periods shall be outstanding at any one time.

(b) Seller may, effective on the last day of a Tranche Period (the “Terminating Tranche”) for any Purchaser Interest, divide any such Purchaser Interest into multiple Purchaser Interests or combine any such Purchaser Interest with one or more other Purchaser Interests which either have a Terminating Tranche ending on such day or are newly created on such day (subject to the Conduit Purchasers’ ability to accommodate such division or combination), provided, in no event may a Purchaser Interest of the Conduit Purchasers be combined with a Purchaser Interest of the Committed Purchasers.

Section 3.4 Committed Purchaser Discount Rates. Seller may select the LIBO Rate or the Base Rate for each Purchaser Interest of the Committed Purchasers. Seller shall by 12:00 noon (Chicago time): (i) at least three (3) Business Days prior to the expiration of any Terminating Tranche with respect to which the LIBO Rate is being requested as a new Discount Rate and (ii) at least one (1) Business Day prior to the expiration of any Terminating Tranche with respect to which the Base Rate is being requested as a new Discount Rate, give each related Managing Agent irrevocable notice of the new Discount Rate for the Purchaser Interest associated with such Terminating Tranche.

Section 3.5 Suspension of the LIBO Rate.

(a) If any Committed Purchaser notifies its related Managing Agent that it has determined that funding its Pro Rata Share of the Purchaser Interests at a LIBO Rate would violate any applicable law, rule, regulation, or directive of any governmental or regulatory authority, whether or not having the force of law, or that (i) deposits of a type and maturity appropriate to match fund its Purchaser Interests at such LIBO Rate are not available or (ii) such LIBO Rate does not accurately reflect the cost of acquiring or maintaining a Purchaser Interest at such LIBO Rate, then such Managing Agent shall notify the Collateral Agent and shall suspend the availability of such LIBO Rate and require Seller to select the Base Rate for any Purchaser Interest accruing Yield at such LIBO Rate.

(b) If less than all of the Committed Purchasers give a notice to the Managing Agents pursuant to Section 3.5(a), each Committed Purchaser which gave such a notice shall be obligated, at the request of Seller or such Committed Purchaser’s Managing Agent (on behalf of the related Conduit Purchaser or Conduit Purchasers), to assign all of its rights and obligations hereunder to (i) another Committed Purchaser that is acceptable to such related Conduit Purchaser or Conduit Purchasers or (ii) another funding entity nominated by Seller that is acceptable to such Conduit Purchaser or Conduit Purchasers and willing to participate in this Agreement through the Liquidity Termination Date in the place of such notifying Committed Purchaser; provided that (i) the notifying Committed Purchaser receives payment in full, pursuant to an Assignment Agreement, of an amount equal to such notifying Committed Purchaser’s Pro Rata Share of the Capital and Yield owing to all of the Committed Purchasers and all accrued but unpaid fees and other costs and expenses payable in respect of its Pro Rata Share of the Purchaser Interests of the Committed Purchasers, and (ii) the replacement Committed Purchaser otherwise satisfies the requirements of Section 11.1(b).

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.1 Representations and Warranties of Seller Parties. Each Seller Party hereby represents and warrants to the Collateral Agent, the Managing Agents and the Purchasers, as to itself, that:

(a) Corporate Existence and Power. Such Seller Party is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation, and is duly qualified to do business and is in good standing as a foreign corporation, and has and holds all corporate power and all governmental licenses, authorizations, consents and approvals required to carry on its business in each jurisdiction in which its business is conducted except where the failure to so qualify or so hold could not reasonably be expected to have a Material Adverse Effect.

(b) Power and Authority; Due Authorization Execution and Delivery. The execution and delivery by such Seller Party of this Agreement and each other Transaction Document to which it is a party, and the performance of its obligations hereunder and thereunder and, in the case of Seller, Seller's use of the proceeds of purchases made hereunder, are within its corporate powers and authority and have been duly authorized by all necessary corporate action on its part. This Agreement and each other Transaction Document to which such Seller Party is a party has been duly executed and delivered by such Seller Party.

(c) No Conflict. The execution and delivery by such Seller Party of this Agreement and each other Transaction Document to which it is a party, and the performance of its obligations hereunder and thereunder do not contravene or violate (i) its certificate or articles of incorporation or by-laws, (ii) any law, rule or regulation applicable to it, (iii) any restrictions under any agreement, contract or instrument to which it is a party or by which it or any of its property is bound, or (iv) any order, writ, judgment, award, injunction or decree binding on or affecting it or its property, and do not result in the creation or imposition of any Adverse Claim on assets of such Seller Party or its Material Subsidiaries (except as created hereunder) except, in any case, where such contravention or violation could not reasonably be expected to have a Material Adverse Effect; and no transaction contemplated hereby requires compliance with any bulk sales act or similar law.

(d) Governmental Authorization. Other than the filing of the financing statements required hereunder, no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution and delivery by such Seller Party of this Agreement and each other Transaction Document to which it is a party and the performance of its obligations hereunder and thereunder.

(e) Actions, Suits. Except for the Disclosed Matters, there are no actions, suits or proceedings pending, or to the best of such Seller Party's knowledge, threatened, against or affecting such Seller Party, or any of its properties, in or before any court, arbitrator or other body, that could reasonably be expected to have a Material Adverse Effect. Such Seller Party is not in default with respect to any order of any court, arbitrator or governmental body.

(f) Binding Effect. This Agreement and each other Transaction Document to which such Seller Party is a party constitute the legal, valid and binding obligations of such Seller Party enforceable against such Seller Party in accordance with their respective terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws relating to or limiting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(g) Accuracy of Information. All information heretofore furnished by such Seller Party or any of its Affiliates to the Collateral Agent, the Managing Agents or the Purchasers for purposes of or in connection with this Agreement, any Monthly Report, any of the other Transaction Documents or any transaction contemplated hereby or thereby is, and all such information hereafter furnished by such Seller Party or any of its Affiliates to the Collateral Agent, the Managing Agents or the Purchasers will be, true and accurate in every material respect on the date such information is stated or certified (or, if such information specifies another date, such other date) and does not and will not contain any material misstatement of fact or omit to state a material fact or any fact necessary to make the statements contained therein not misleading.

(h) Use of Proceeds. No proceeds of any purchase hereunder will be used (i) for a purpose that violates, or would be inconsistent with, Regulation T, U or X promulgated by the Board of Governors of the Federal Reserve System from time to time or (ii) to acquire any "margin stock," as such term is defined in Regulation U promulgated by the Board of Governors of the Federal Reserve System from time to time.

(i) Good Title. Immediately prior to each purchase hereunder, Seller shall be the legal and beneficial owner of the Receivables and Related Security with respect thereto, free and clear of any Adverse Claim, except as created by the Transaction Documents. There have been duly filed all financing statements or other similar instruments or documents necessary under the UCC (or any comparable law) of all appropriate jurisdictions to perfect Seller's ownership interest in each Receivable, its Collections and the Related Security.

(j) Perfection. This Agreement, together with the filing of the financing statements contemplated hereby, is effective to transfer to the Collateral Agent for the benefit of the relevant Purchaser or Purchasers (and the Collateral Agent for the benefit of such Purchaser or Purchasers shall acquire from Seller) a valid and perfected first priority undivided percentage ownership interest in each Receivable existing or hereafter arising and in the Related Security and Collections with respect thereto, free and clear of any Adverse Claim, except as created by the Transactions Documents. There have been duly filed all financing statements or other similar instruments or documents necessary under the UCC (or any comparable law) of all appropriate jurisdictions to perfect the Collateral Agent's (on behalf of the Purchasers) ownership interest in the Receivables, the Related Security and the Collections.

(k) Places of Business. The principal places of business and chief executive office of such Seller Party and the offices where it keeps all of its Records are located at the addresses listed on Exhibit III or such other locations of which the Collateral Agent has been notified in accordance with Section 6.2(a) in jurisdictions where all action required by Section 12.4(a) has been taken and completed. Each Seller Party's Federal Employer Identification

Number is correctly set forth on Exhibit III. Each Seller Party is organized solely under the laws of the State of Delaware.

(l) Collections. The conditions and requirements set forth in Section 6.1(j) and Section 7.2 have at all times been satisfied and duly performed. The names and addresses of all Collection Banks, together with the account numbers of the Collection Accounts of Seller at each Collection Bank and the post office box number of each Lock-Box, are listed on Exhibit IV.

(m) Material Adverse Effect. (i) The initial Servicer represents and warrants that, since December 31, 2003, no event has occurred with respect to the initial Servicer that would have a material adverse effect on its financial condition or operations or its ability to perform its obligations under this Agreement and (ii) Seller represents and warrants that since December 31, 2003, no event has occurred that would have a material adverse effect on (A) the financial condition or operations of Seller, (B) the ability of Seller to perform its obligations under this Agreement or (C) the collectibility of the Receivables generally or any material portion of the Receivables; provided, that with respect to each of clause (i) and clause (ii), the insolvency of, or any other event with respect to, any Obligor or Obligors which results in the Eligible Receivables from such Obligor or Obligors ceasing to be Eligible Receivables shall not be deemed to have a Material Adverse Effect so long as (x) immediately after giving effect to such insolvency or event, as applicable, the Net Receivables Balance less the Aggregate Reserves equals or exceeds the Aggregate Capital, and (y) such insolvency or event, as applicable, does not materially adversely affect the ability of the initial Servicer to perform its obligations and duties under this Agreement.

(n) Names. In the past five (5) years, Seller has not used any corporate names, trade names or assumed names other than the name in which it has executed this Agreement.

(o) Ownership of Seller. CGSF owns, directly or indirectly, 100% of the issued and outstanding capital stock of Seller, free and clear of any Adverse Claim. Such capital stock is validly issued, fully paid and nonassessable, and there are no options, warrants or other rights to acquire securities of Seller.

(p) Not a Holding Company or an Investment Company. Such Seller Party is not a “holding company” or a “subsidiary holding company” of a “holding company” within the meaning of the Public Utility Holding Company Act of 1935, as amended, or any successor statute. Such Seller Party is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended, or any successor statute.

(q) Compliance with Law. Such Seller Party has complied in all respects with all applicable laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Each Receivable, together with the Contract related thereto, does not contravene any laws, rules or regulations applicable thereto (including, without limitation, laws, rules and regulations relating to truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy), and no part of

such Contract is in violation of any such law, rule or regulation, except where such contravention or violation could not reasonably be expected to have a Material Adverse Effect.

(r) Compliance with Credit and Collection Policy. Such Seller Party has complied in all material respects with the Credit and Collection Policy with regard to each Receivable and the related Contract, and has not made any material change to such Credit and Collection Policy, except such material change as to which the Collateral Agent has been notified in accordance with Section 6.1(a)(vii).

(s) Payments to CGSF and Originator. With respect to each Receivable transferred to CGSF under the Tier One Receivables Sale Agreement, CGSF has given reasonably equivalent value to the Originator in consideration therefor and with respect to each Receivable transferred to Seller under the Tier Two Receivables Sale Agreement, Seller has given reasonably equivalent value to CGSF in consideration therefor, and no such transfer has been made for or on account of an antecedent debt.

(t) Enforceability of Contracts. Each Contract with respect to each Receivable is effective to create, and has created, a legal, valid and binding obligation of the related Obligor to pay the Outstanding Balance of the Receivable created thereunder and any accrued interest thereon, enforceable against the Obligor in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws relating to or limiting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(u) Eligible Receivables. Each Receivable included in the Net Receivables Balance as an Eligible Receivable on the date of its purchase under each Receivables Sale Agreement was an Eligible Receivable on such purchase date.

(v) Net Receivables Balance. Each Seller Party has determined that, immediately after giving effect to each purchase hereunder, the Net Receivables Balance is at least equal to the sum of (i) the Aggregate Capital, plus (ii) the Aggregate Reserves.

(w) Accounting. Each Seller Party accounts for the transactions contemplated by this Agreement and the Receivables Sale Agreements on its books and records and, for purposes of generally accepted accounting principles, as sales.

(x) Compliance with Representations. On and as of the date of each purchase of a Purchaser Interest hereunder and the date of each Reinvestment hereunder, each Seller Party hereby represents and warrants that all of the other representations and warranties made by it set forth in this Section 4.1 are true and correct on and as of the date of such purchase or Reinvestment (and after giving effect to such purchase or Reinvestment) as though made on and as of each such date (except where such representation or warranty relates to an earlier date, in which case as of such earlier date).

Section 4.2 Committed Purchaser Representations and Warranties. Each Committed Purchaser hereby represents and warrants to the Collateral Agent, the Managing Agents and the Conduit Purchasers that:

(a) Existence and Power. Such Committed Purchaser is a corporation, limited liability company or a banking association duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, and has all company power to perform its obligations hereunder.

(b) No Conflict. The execution and delivery by such Committed Purchaser of this Agreement and the performance of its obligations hereunder are within its company powers, have been duly authorized by all necessary company action, do not contravene or violate (i) its certificate or articles of incorporation, formation or association or by-laws or limited liability company agreement, (ii) any law, rule or regulation applicable to it, (iii) any restrictions under any agreement, contract or instrument to which it is a party or any of its property is bound, or (iv) any order, writ, judgment, award, injunction or decree binding on or affecting it or its property, and do not result in the creation or imposition of any Adverse Claim on its assets. This Agreement has been duly authorized, executed and delivered by such Committed Purchaser.

(c) Governmental Authorization. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution and delivery by such Committed Purchaser of this Agreement and the performance of its obligations hereunder.

(d) Binding Effect. This Agreement constitutes the legal, valid and binding obligation of such Committed Purchaser enforceable against such Committed Purchaser in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws relating to or limiting creditors' rights generally and by general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law).

ARTICLE V CONDITIONS OF PURCHASES

Section 5.1 Conditions Precedent to the Effectiveness of this Agreement. This Agreement shall become effective as of the date hereof upon satisfaction of each of the following conditions precedent on or prior to the Effective Date:

(a) The Collateral Agent shall have received fully executed copies of each of the documents listed on Schedule B in form and substance acceptable to the Collateral Agent and each Managing Agent;

(b) Each of the representations and warranties set forth in Section 4.1 shall be true and correct on and as of the Effective Date as though made on and as of such date (except where such representation or warranty relates to an earlier date, in which case as of such earlier date);

(c) Each of the representations and warranties set forth in the Tier-One Receivables Sale Agreement and Tier-Two Receivables Sale Agreement shall be true and correct on and as of the Effective Date as though made on and as of such date (except where such representation or warranty relates to an earlier date, in which case as of such earlier date);

(d) No Amortization Event or Potential Amortization Event shall have occurred and be continuing and the Amortization Date shall not have occurred;

(e) The Collateral Agent and each Managing Agent shall have received all fees and expenses required to be paid on the Effective Date pursuant to the terms of this Agreement and the Fee Letter and each of STCM, BTM and Rabobank shall have received the upfront fees required to be paid on the Effective Date pursuant to the terms of that certain letter agreement of even date herewith among the Seller, McKesson, STCM, BTM and Rabobank; and

(f) Each of the Collateral Agent and each Managing Agent and each Purchaser shall have received such other approvals and documents as it has reasonably requested from the Seller or McKesson.

Section 5.2 Conditions Precedent to All Purchases and Reinvestment. Each purchase of a Purchaser Interest and each Reinvestment shall be subject to the conditions precedent that (a) in the case of each such purchase or Reinvestment, the Servicer shall have delivered to the Managing Agents on or prior to the date of such purchase, in form and substance satisfactory to the Managing Agents, all Monthly Reports as and when due under Section 7.5 and (ii) upon the Collateral Agent's or any Managing Agent's request, the Servicer shall have delivered to the Managing Agents at least three (3) days prior to such purchase or Reinvestment an interim Monthly Report showing the amount of Eligible Receivables or such other form of report in form and substance reasonably satisfactory to the Managing Agents showing adequate information relating to the amount of Eligible Receivables; (b) the Facility Termination Date shall not have occurred; (c) no Amortization Event or, with respect to any Incremental Purchase, no Potential Amortization Event shall have occurred; (d) the Originator and CGSF shall have marked their respective records evidencing the Receivables in a manner satisfactory to the Collateral Agent, and (e) the Collateral Agent shall have received such other approvals, opinions or documents as it may reasonably request. With respect to each Incremental Purchase and Reinvestment, as a condition to such Incremental Purchase or Reinvestment, on the date of such purchase the Seller represents and warrants that the representations and warranties set forth in Section 4.1 are true and correct on and as of the date of such Incremental Purchase or Reinvestment (and after giving effect thereto) as though made on and as of such date (except where such representation or warranty relates to an earlier date, in which case as of such earlier date).

ARTICLE VI COVENANTS

Section 6.1 Affirmative Covenants of the Seller Parties. Until the date on which the Aggregate Unpaid have been indefeasibly paid in full and this Agreement terminates in accordance with its terms, each Seller Party hereby covenants, as to itself, as set forth below:

(a) Financial Reporting. Such Seller Party will maintain, for itself and each of its Material Subsidiaries, a system of accounting established and administered in accordance with generally accepted accounting principles, and furnish to the Collateral Agent and the Managing Agents:

(i) Annual Reporting. Within ninety (90) days after the close of each of its respective fiscal years, audited, unqualified financial statements (which shall include balance sheets, statements of income and retained earnings and a statement of cash flows) for the Seller Parties on a consolidated basis for such fiscal year certified in a manner acceptable to the Collateral Agent and the Managing Agents by independent public accountants acceptable to the Collateral Agent and the Managing Agents together with unaudited consolidating financial statements for the Seller and CGSF; provided, that the Seller shall only to be required to deliver financial statements for the Seller and CGSF to the extent such statements are prepared.

(ii) Quarterly Reporting. Within sixty (60) days after the close of the first three (3) quarterly periods of each of its respective fiscal years, balance sheets of each of the Originator and the Servicer (if different from the Originator, and, to the extent such financial statements are prepared, for CGSF and the Seller), in each such case as at the close of each such period, together with statements of income and retained earnings and a statement of cash flows for each such Person for the period from the beginning of such fiscal year to the end of such quarter, all certified by its respective chief financial officer.

(iii) Compliance Certificate. Together with the financial statements required hereunder, a compliance certificate in substantially the form of Exhibit V signed by such Seller Party's Authorized Officer and dated the date of such annual financial statement or such quarterly financial statement, as the case may be.

(iv) Shareholders Statements and Reports. Promptly upon the furnishing thereof to the shareholders of such Seller Party copies of all financial statements, reports and proxy statements so furnished.

(v) Securities Exchange Commission Filings. Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which such Seller Party or any of its Subsidiaries files with the Securities and Exchange Commission.

(vi) Copies of Notices. Promptly upon its receipt of any notice, request for consent, financial statements, certification, report or other communication under or in connection with any Transaction Document from any Person other than the Collateral Agent, any Managing Agent or any Conduit, copies of the same.

(vii) Change in Credit and Collection Policy. At least thirty (30) days prior to the effectiveness of any material change in or amendment to the Credit and Collection Policy, a copy of the Credit and Collection Policy then in effect and a notice indicating such change or amendment.

(viii) Other Information. Promptly, from time to time, such other information, documents, records or reports relating to the Receivables or the condition or operations, financial or otherwise, of such Seller Party as the Collateral Agent or any Managing Agent may from time to time reasonably request in order to protect the interests of the

Collateral Agent, the Managing Agents, and the Purchasers under or as contemplated by this Agreement.

Any report, statement or other material required to be delivered pursuant to this clause (a) shall be deemed to have been furnished to the Collateral Agent and the Managing Agents on the date that such report, statement or other material is posted on the EDGAR system of the Securities and Exchange Commission or the website of the Originator at www.mckesson.com.

(b) Notices. Such Seller Party will notify the Collateral Agent and each Managing Agent in writing of any of the following promptly upon learning of the occurrence thereof, describing the same and, if applicable, the steps being taken with respect thereto:

(i) Amortization Events or Potential Amortization Events. The occurrence of each Amortization Event and each Potential Amortization Event, by a statement of an Authorized Officer of such Seller Party.

(ii) Judgment and Proceedings. (A) The entry of any judgment or decree against (1) the Servicer or any of its respective Material Subsidiaries if the amount of any such judgment or decree against the Servicer or one of its Material Subsidiaries exceeds \$25,000,000 after deducting (a) the amount with respect to which the Servicer or any such Material Subsidiary is insured and with respect to which the insurer has assumed responsibility in writing, and (b) the amount for which the Servicer or any such Material Subsidiary is otherwise indemnified if the terms of such indemnification are satisfactory to the Collateral Agent and the Managing Agents, or (2) Seller; or (B) The institution of any litigation, arbitration proceeding or governmental proceeding against CGSF and the Seller.

(iii) Material Adverse Effect. The occurrence of any event or condition that has, or could reasonably be expected to have, a Material Adverse Effect.

(iv) Receivables Sale Agreement Amortization Date. The occurrence of the "Amortization Date" under either Receivables Sale Agreement.

(v) Defaults Under Other Agreements. The occurrence of a default or an event of default under any other financing arrangement pursuant to which such Seller Party is a debtor or an obligor that is reasonably likely to result in a Material Adverse Effect.

(vi) Downgrade of the Originator. Any downgrade in the rating of any Indebtedness of the Originator by S&P, Fitch or Moody's, setting forth the Indebtedness affected and the nature of such change.

(c) Compliance with Laws and Preservation of Corporate Existence. Such Seller Party will comply in all respects with all applicable laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Such Seller Party will preserve and maintain its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation, and qualify and remain qualified in good standing as a foreign

corporation in each jurisdiction where its business is conducted, except where the failure to so preserve and maintain or qualify could not reasonably be expected to have a Material Adverse Effect.

(d) Audits. Such Seller Party will furnish to the Collateral Agent and each Managing Agent from time to time such information with respect to it and the Receivables as the Collateral Agent or such Managing Agent may reasonably request. Such Seller Party will, from time to time during regular business hours as requested by the Collateral Agent or such Managing Agent upon reasonable notice and at the sole cost of such Seller Party, permit the Collateral Agent or such Managing Agent, or its agents or representatives, (i) to examine and make copies of and abstracts from all Records in the possession or under the control of such Person relating to the Receivables and the Related Security, including, without limitation, the related Contracts, and (ii) to visit the offices and properties of such Person for the purpose of examining such materials described in clause (i) above, and to discuss matters relating to such Person's financial condition or the Receivables and the Related Security or any Person's performance under any of the Transaction Documents or any Person's performance under the Contracts (subject to confidentiality restrictions in the relevant Contracts) and, in each case, with any of the officers or employees of Seller or the Servicer having knowledge of such matters; provided, however, that prior to the Amortization Date, so long as no Amortization Event has occurred and is continuing, the Collateral Agent, the Managing Agents and their respective agents or representatives shall not, on a collective basis, conduct the activities described in clauses (i) and (ii) above more frequently than one time per year.

(e) Keeping and Marking of Records and Books.

(i) The Servicer will maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate records evidencing Receivables in the event of the destruction of the originals thereof), and keep and maintain all documents, books, records and other information reasonably necessary or advisable for the collection of all Receivables (including, without limitation, records adequate to permit the identification of each new Receivable and all Collections of and adjustments to each existing Receivable).

(ii) Such Seller Party will on or prior to the date hereof, mark its records and other books and records relating to the Purchaser Interests with a legend, acceptable to the Collateral Agent, describing the Purchaser Interests.

(f) Compliance with Contracts and Credit and Collection Policy. Such Seller Party will timely and fully (i) perform and comply with all provisions, covenants and other promises required to be observed by it under the Contracts related to the Receivables, and (ii) comply in all respects with the Credit and Collection Policy in regard to each Receivable and the related Contract, except, in each case, where the failure to so comply would not result in a Material Adverse Effect. Seller will pay when due any taxes payable in connection with the Receivables, exclusive of taxes on or measured by income or gross receipts of the Purchasers, the Collateral Agent, or the Managing Agents.

(g) Performance and Enforcement of Receivables Sale Agreements. Seller shall, and shall require the Originator and CGSF to, perform each of their respective obligations and undertakings under and pursuant to each Receivables Sale Agreement, as applicable, shall purchase Receivables thereunder in strict compliance with the terms thereof and shall take all action necessary or reasonably appropriate to enforce the rights and remedies accorded to Seller under the Receivables Sale Agreements. Seller shall take all actions reasonably necessary to perfect and enforce its rights and interests (and the rights and interests of the Collateral Agent and the Purchasers as assignees of Seller) under the Tier Two Receivables Sale Agreement (including its rights and interests under the Tier One Receivables Sale Agreement, as assignee of CGSF) as the Collateral Agent may from time to time reasonably request, including, without limitation, making claims to which it may be entitled under any indemnity, reimbursement or similar provision contained in the Tier Two Receivables Sale Agreement.

(h) Ownership. Seller shall take all necessary action to (i) vest legal and equitable title to the Receivables, the Related Security and the Collections purchased under the Tier Two Receivables Sale Agreement irrevocably in Seller, free and clear of any Adverse Claims other than Adverse Claims in favor of the Collateral Agent and the Purchasers (including, without limitation, the filing of all financing statements or other similar instruments or documents necessary under the UCC (or any comparable law) of all appropriate jurisdictions to perfect Seller's interest in such Receivables, Related Security and Collections and such other action to perfect, protect or more fully evidence the interest of Seller therein as the Collateral Agent may reasonably request), and (ii) establish and maintain, in favor of the Collateral Agent, for the benefit of the Purchasers, a valid and perfected first priority undivided percentage ownership interest (and/or a valid and perfected first priority security interest) in all Receivables, Related Security and Collections to the full extent contemplated herein, free and clear of any Adverse Claims other than Adverse Claims in favor of the Collateral Agent for the benefit of the Purchasers (including, without limitation, the filing of all financing statements or other similar instruments or documents necessary under the UCC (or any comparable law) of all appropriate jurisdictions to perfect the Collateral Agent's (for the benefit of the Purchasers) interest in such Receivables, Related Security and Collections and such other action to perfect, protect or more fully evidence the interest of the Collateral Agent for the benefit of the Purchasers as the Collateral Agent may reasonably request).

(i) Purchasers' Reliance. Seller acknowledges that the Purchasers are entering into the transactions contemplated by this Agreement in reliance upon Seller's identity as a legal entity that is separate from the Originator and CGSF. Therefore, from and after the date of execution and delivery of this Agreement, Seller shall take all reasonable steps, including, without limitation, all steps that the Collateral Agent, any Managing Agent or any Purchaser may from time to time reasonably request, to maintain Seller's identity as a separate legal entity and to make it manifest to third parties that Seller is an entity with assets and liabilities distinct from those of the Originator, CGSF and any Affiliates thereof and not just a division of the Originator or CGSF. Without limiting the generality of the foregoing and in addition to the other covenants set forth herein, Seller shall:

(A) conduct its own business in its own name and require that all full-time employees of Seller, if any, identify themselves as such and not as employees of the Originator or CGSF;

(B) if applicable, compensate all employees, consultants and agents directly, from Seller's bank accounts, for services provided to Seller by such employees, consultants and agents and, to the extent any employee, consultant or agent of Seller is also an employee, consultant or agent of the Originator or CGSF, allocate the compensation of such employee, consultant or agent between Seller and the Originator or CGSF, as applicable, on a basis that reflects the services rendered to Seller and the Originator or CGSF, as applicable;

(C) clearly identify its offices (by signage or otherwise) as its offices, if any, and, if any such office is located in the offices of the Originator or CGSF, Seller shall lease such office at a fair market rent;

(D) if applicable, have separate stationery, invoices and checks in its own name;

(E) conduct all transactions with the Originator, CGSF and the Servicer (including, without limitation, any delegation of its obligations hereunder as Servicer) strictly on an arm's-length basis, allocate all overhead expenses (including, without limitation, telephone and other utility charges), if any, for items shared between Seller and the Originator or CGSF on the basis of actual use to the extent practicable, if any, and, to the extent such allocation is not practicable, on a basis reasonably related to actual use;

(F) at all times have a Board of Directors consisting of at least three members, at least one member of which is an Independent Director;

(G) observe all corporate formalities as a distinct entity, and ensure that all corporate actions relating to (A) the selection, maintenance or replacement of the Independent Director, (B) the dissolution or liquidation of Seller or (C) the initiation of, participation in, acquiescence in or consent to any bankruptcy, insolvency, reorganization or similar proceeding involving Seller, are duly authorized by unanimous vote of its Board of Directors (including the Independent Director);

(H) maintain Seller's books and records separate from those of the Originator and CGSF and otherwise readily identifiable as its own assets rather than assets of the Originator or CGSF;

(I) prepare its financial statements, if any, separately from those of the Originator and CGSF and ensure that any consolidated financial statements of the Originator, CGSF or any Affiliate thereof that include Seller and that are filed with the Securities and Exchange Commission or any other governmental agency have notes stating to the effect that Seller is a separate corporate entity and that its assets will be available to satisfy the claims of the creditors of Seller and of no other Person;

(J) except as herein specifically otherwise provided, maintain the funds or other assets of Seller separate from, and not commingled with, those of

the Originator or CGSF and only maintain bank accounts or other depository accounts to which the Seller alone is the account party, into which the Seller alone makes deposits and from which the Seller alone (or the Collateral Agent or Managing Agents hereunder) has the power to make withdrawals;

(K) pay all of Seller's operating expenses, if any, from the Seller's own assets (except for certain payments by the Originator, CGSF or other Persons pursuant to allocation arrangements that comply with the requirements of this Section 6.1(i));

(L) operate its business and activities such that: it does not engage in any business or activity of any kind, or enter into any transaction or indenture, mortgage, instrument, agreement, contract, lease or other undertaking, other than the transactions contemplated and authorized by this Agreement and the Receivables Sale Agreements; and does not create, incur, guarantee, assume or suffer to exist any indebtedness or other liabilities, whether direct or contingent, other than (1) as a result of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, (2) the incurrence of obligations under this Agreement, (3) the incurrence of obligations, as expressly contemplated in the Receivables Sale Agreements, to make payment to CGSF for the purchase of Receivables from CGSF under the Tier Two Receivables Sale Agreement, and (4) the incurrence of operating expenses in the ordinary course of business of the type otherwise contemplated by this Agreement;

(M) maintain its corporate charter in conformity with this Agreement, such that it does not amend, restate, supplement or otherwise modify its Certificate of Incorporation or By-Laws in any respect that would impair its ability to comply with the terms or provisions of any of the Transaction Documents, including, without limitation, Section 6.1(i) of this Agreement;

(N) maintain the effectiveness of, and continue to perform under the Receivables Sale Agreements, such that it does not amend, restate, supplement, cancel, terminate or otherwise modify either Receivables Sale Agreement, or give any consent, waiver, directive or approval thereunder or waive any default, action, omission or breach under either Receivables Sale Agreement or otherwise grant any indulgence thereunder, without (in each case) the prior written consent of the Collateral Agent and each Managing Agent;

(O) maintain its corporate separateness such that it does not merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions, and except as otherwise contemplated herein) all or substantially all of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets of, any Person, nor at any time create, have, acquire, maintain or hold any interest in any Subsidiary;

(P) maintain at all times the Required Capital Amount and refrain from making any dividend, distribution, redemption of capital stock or payment of any subordinated indebtedness which would cause the Required Capital Amount to cease to be so maintained; and

(Q) take such other actions as are necessary on its part to ensure that the facts and assumptions set forth in the opinion issued on the Effective Date by Bingham McCutchen LLP as counsel for Seller and the Originator relating to substantive consolidation issues, and in the certificates accompanying such opinion, remain true and correct in all material respects at all times.

(j) Collections. Such Seller Party shall cause (1) all proceeds from all Lock-Boxes to be directly deposited by a Collection Bank into a Collection Account and (2) each Lock-Box and Collection Account to be, at all times, subject to a Collection Account Agreement that is in full force and effect. In the event any payments relating to Receivables are remitted directly to Seller or any Affiliate of Seller, Seller shall remit (or shall cause all such payments to be remitted) directly to a Collection Bank and deposited into a Collection Account within two (2) Business Days following receipt thereof and, at all times prior to such remittance, Seller shall itself hold or, if applicable, shall cause such payments to be held in trust for the exclusive benefit of the Collateral Agent, the Managing Agents and the Purchasers. Seller shall maintain exclusive ownership, dominion and control (subject to the terms of this Agreement) of each Lock-Box and Collection Account and shall not grant the right to take dominion and control of any Lock-Box or Collection Account at a future time or upon the occurrence of a future event to any Person, except to the Collateral Agent as contemplated by this Agreement.

(k) Taxes. Such Seller Party shall file all tax returns and reports required by law to be filed by it and shall promptly pay all taxes and governmental charges at any time owing, except any such taxes which are not yet delinquent or are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with generally accepted accounting principles shall have been set aside on its books.

(l) Corporate Ownership. The Seller shall remain a wholly-owned, direct or indirect Subsidiary of McKesson and CGSF.

Section 6.2 Negative Covenants of the Seller Parties. Until the date on which the Aggregate Unpaid have been indefeasibly paid in full and this Agreement terminates in accordance with its terms, each Seller Party hereby covenants, as to itself, that:

(a) Name Change, Offices and Records. Such Seller Party will not make any change to its name (within the meaning of Section 9-507(c) of any applicable enactment of the UCC), type or jurisdiction of organization or location of books and records unless, at least thirty (30) days prior to the effective date of any such name change, change in type or jurisdiction of organization, or change in location of its books and records such Seller Party notifies the Collateral Agent and each Managing Agent thereof and (except with respect to a change of location of books and records) delivers to the Collateral Agent (i) such financing statements (Forms UCC-1 and UCC-3) as the Collateral Agent or any Managing Agent may reasonably request to reflect such name change, change in type or jurisdiction of organization, (ii) if the

Collateral Agent, any Managing Agent or any Purchaser shall so request, an opinion of counsel, in form and substance reasonably satisfactory to such Person, as to such Seller Party's valid existence and good standing and the perfection and priority of the Collateral Agent's ownership or security interest in the Receivables, the Related Security and Collections and (iii) such other documents and instruments as the Collateral Agent or any Managing Agent may reasonably request in connection therewith and has taken all other steps to ensure that the Collateral Agent, for the benefit of itself and the Purchasers, continues to have a first priority, perfected ownership or security interest in the Receivables, the Related Security related thereto and any Collections thereon.

(b) Change in Payment Instructions to Obligors. Such Seller Party will not add or terminate any bank as a Collection Bank, or make any change in the instructions to Obligors regarding payments to be made to any Lock-Box or Collection Account, unless the Collateral Agent shall have received (i) at least ten (10) days before the proposed effective date therefor, written notice of such addition, termination or change; provided, however, that the Servicer may make changes in instructions to Obligors regarding payments if such new instructions require such Obligor to make payments to another existing Collection Account, and (ii) at least ten (10) days before the proposed effective date therefor (or such shorter prior period as may be agreed to by the Collateral Agent in its sole discretion), with respect to the addition of a Collection Bank or a Collection Account or Lock-Box, an executed Collection Account Agreement with respect to the new Collection Account or Lock-Box.

(c) Modifications to Contracts and Credit and Collection Policy. Such Seller Party will not make any change to the Credit and Collection Policy that could adversely affect the collectibility of the Receivables or decrease the credit quality of any newly created Receivables. Except as provided in Section 7.2(d), the Servicer will not, and will not extend, amend or otherwise modify the terms of any Receivable or any Contract related thereto other than in accordance with the Credit and Collection Policy.

(d) Sales, Liens. Seller shall not sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, or create or suffer to exist any Adverse Claim upon (including, without limitation, the filing of any financing statement) or with respect to, any Receivable, Related Security or Collections, or upon or with respect to any Contract under which any Receivable arises, or any Lock-Box or Collection Account, or assign any right to receive income with respect thereto (other than, in each case, the creation of the interests therein in favor of the Collateral Agent and the Purchasers provided for herein), and Seller shall defend the right, title and interest of the Collateral Agent and the Purchasers in, to and under any of the foregoing property, against all claims of third parties claiming through or under Seller, CGSF or the Originator. Seller shall not create or suffer to exist any mortgage, pledge, security interest, encumbrance, lien, charge or other similar arrangement on any inventory the sale of which would give rise to a Receivable.

(e) Net Receivables Balance. At no time prior to the Amortization Date shall Seller permit the Net Receivables Balance to be less than an amount equal to the sum of (i) the Aggregate Capital plus (ii) the Aggregate Reserves for any period of time greater than one (1) Business Day.

(f) Amortization Date Determination. Seller shall not designate an Amortization Date (as defined in either Receivables Sale Agreement), or send any written notice to Originator or CGSF in respect thereof, without the prior written consent of the Collateral Agent, except with respect to the occurrence of such Amortization Date arising pursuant to Section 5.1(d) of either Receivables Sale Agreement.

ARTICLE VII
ADMINISTRATION AND COLLECTION

Section 7.1 Designation of Servicer.

(a) The servicing, administration and collection of the Receivables shall be conducted by such Person (the “Servicer”) so designated from time to time in accordance with this Section 7.1. McKesson is hereby designated as, and hereby agrees to perform the duties and obligations of, the Servicer pursuant to the terms of this Agreement. After the occurrence and during the continuance of an Amortization Event, the Collateral Agent may at any time designate as Servicer any Person to succeed McKesson or any successor Servicer.

(b) Without the prior written consent of the Collateral Agent and the Required Committed Purchasers, McKesson shall not be permitted to delegate any of its duties or responsibilities as Servicer to any Person other than (i) Seller or another Affiliate of McKesson and (ii) with respect to certain Defaulted Receivables, outside collection agencies in accordance with its customary practices. Seller shall not be permitted to further delegate to any other Person any of the duties or responsibilities of the Servicer delegated to it by McKesson. If at any time after the occurrence of an Amortization Event, the Collateral Agent shall designate as Servicer any Person other than McKesson or an Affiliate of McKesson, all duties and responsibilities theretofore delegated by McKesson or another Affiliate of McKesson to Seller may, at the discretion of the Collateral Agent, be terminated forthwith on notice given by the Collateral Agent to McKesson and to Seller.

(c) So long as the Servicer is McKesson or an Affiliate of McKesson, (i) McKesson shall be and remain primarily liable to the Collateral Agent and the Purchasers for the full and prompt performance of all duties and responsibilities of the Servicer hereunder; (ii) the Collateral Agent and the Purchasers shall be entitled to deal exclusively with McKesson in matters relating to the discharge by the Servicer of its duties and responsibilities hereunder; and (iii) the Collateral Agent and the Purchasers shall not be required to give notice, demand or other communication to any Person other than McKesson in order for communication to the Servicer and its sub-servicer or other delegate with respect thereto to be accomplished. McKesson, at all times that it is the Servicer, shall be responsible for providing any sub-servicer or other delegate of the Servicer with any notice given to the Servicer under this Agreement.

Section 7.2 Duties of Servicer.

(a) The Servicer shall take or cause to be taken all such actions as may be necessary or advisable to collect each Receivable from time to time, all in accordance with applicable laws, rules and regulations, with reasonable care and diligence, and in accordance with the Credit and Collection Policy.

(b) The Servicer will instruct all Obligor to pay all Collections directly to a Lock-Box or Collection Account. The Servicer shall cause a Collection Account Agreement to be in effect at all times with respect to each Collection Account. In the case of any remittances received in any Lock-Box or Collection Account that shall have been identified, to the satisfaction of the Servicer, to not constitute Collections or other proceeds of the Receivables or the Related Security, the Servicer shall promptly remit such items to the Person identified to it as being the owner of such remittances. From and after the date the Collateral Agent delivers to any Collection Bank a Collection Notice pursuant to Section 7.3, the Collateral Agent may request that the Servicer, and the Servicer thereupon promptly shall instruct all Obligor with respect to the Receivables, to remit all payments thereon to a new depository account specified by the Collateral Agent and, at all times thereafter, Seller and the Servicer shall not deposit or otherwise credit, and shall not permit any other Person to deposit or otherwise credit to such new depository account any cash or payment item other than Collections.

(c) The Servicer shall administer the Collections in accordance with the procedures described herein and in Article II. The Servicer shall set aside and hold in trust for the account of Seller and the Purchasers their respective shares of the Collections of Receivables in accordance with Article II; provided, that nothing in this sentence shall require the Servicer to segregate Collections on a daily basis from its other funds. The Servicer shall, upon the request of the Collateral Agent after the occurrence and during the continuance of an Amortization Event, segregate, in a manner acceptable to the Collateral Agent, all cash, checks and other instruments received by it from time to time constituting Collections from the general funds of the Servicer or Seller prior to the remittance thereof in accordance with Article II. If the Servicer shall be required to segregate Collections pursuant to the preceding sentence, the Servicer shall segregate and deposit with a bank designated by the Collateral Agent such allocable share of Collections of Receivables set aside for the Purchasers on the first Business Day following receipt by the Servicer of such Collections, duly endorsed or with duly executed instruments of transfer.

(d) The Servicer may, in accordance with the Credit and Collection Policy, extend the maturity of any Receivable or adjust the Outstanding Balance of any Receivable as the Servicer determines to be appropriate to maximize Collections thereof; provided, however, that such extension or adjustment shall not alter the status of such Receivable as a Delinquent Receivable or Defaulted Receivable or limit the rights of the Collateral Agent or the Purchasers under this Agreement. Notwithstanding anything to the contrary contained herein, the Collateral Agent shall have the absolute and unlimited right to direct the Servicer to commence or settle any legal action with respect to any Receivable or to foreclose upon or repossess any Related Security.

(e) The Servicer shall hold in trust for Seller and the Purchasers all Records that (i) evidence or relate to the Receivables, the related Contracts and Related Security or (ii) are otherwise necessary or desirable to collect the Receivables and shall, as soon as practicable upon demand of the Collateral Agent after the occurrence and during the continuance of an Amortization Event deliver or make available to the Collateral Agent all such Records, at a place selected by the Collateral Agent. The Servicer shall, as soon as practicable following receipt thereof turn over to Seller any cash collections or other cash proceeds received with respect to Indebtedness not constituting Receivables. After the occurrence and during the continuance of

an Amortization Event, the Servicer shall, from time to time at the request of any Purchaser, furnish to the Purchasers (promptly after any such request) a calculation of the amounts set aside for the Purchasers pursuant to Article II.

(f) Any payment by an Obligor in respect of any indebtedness owed by it to the Originator, CGSF or Seller shall, except as reasonably identified by the Servicer as not constituting a Collection, as otherwise specified by such Obligor, as otherwise required by contract or law or unless otherwise instructed by the Collateral Agent, be applied as a Collection of any Receivable of such Obligor (starting with the oldest such Receivable) to the extent of any amounts then due and payable thereunder before being applied to any other receivable or other obligation of such Obligor.

Section 7.3 Collection Notices. The Collateral Agent is authorized at any time after the occurrence of an Amortization Event to date and to deliver to the Collection Banks the Collection Notices. Seller hereby transfers to the Collateral Agent for the benefit of the Purchasers, effective when the Collateral Agent delivers such notice, the exclusive ownership and control of each Lock-Box and the Collection Accounts. In case any authorized signatory of Seller whose signature appears on a Collection Account Agreement shall cease to have such authority before the delivery of such notice, such Collection Notice shall nevertheless be valid as if such authority had remained in force. After the occurrence and during the continuance of an Amortization Event, Seller hereby authorizes the Collateral Agent, and agrees that the Collateral Agent shall be entitled, to (i) endorse Seller's name on checks and other instruments representing Collections and (ii) take such action as shall be necessary or desirable to cause all cash, checks and other instruments constituting Collections of Receivables to come into the possession of the Collateral Agent rather than Seller. Following the Amortization Date, Seller hereby authorizes the Collateral Agent, and agrees that the Collateral Agent shall be entitled, to enforce the Receivables, the related Contracts and the Related Security.

Section 7.4 Responsibilities of Seller. Anything herein to the contrary notwithstanding, the exercise by the Collateral Agent and the Purchasers of their rights hereunder shall not release the Servicer, the Originator, CGSF or Seller from any of their duties or obligations with respect to any Receivables or under the related Contracts. The Purchasers shall have no obligation or liability with respect to any Receivables or related Contracts, nor shall any of them be obligated to perform the obligations of Seller.

Section 7.5 Reports. The Servicer shall prepare and forward to each Managing Agent (i) on the fifteenth (15th) day of each month, or if such day is not a Business Day, the next Business Day, and at such more frequent times as each Managing Agent shall request if an Amortization Event has occurred and is continuing, a Monthly Report accompanied by, if the Collateral Agent or any Managing Agent shall request, a listing by Obligor of all Receivables together with an aging of such Receivables.

Section 7.6 Servicing Fees. In consideration of McKesson's agreement to act as Servicer hereunder, the Purchasers hereby agree that, so long as McKesson shall continue to perform as Servicer hereunder, the Seller shall pay over to McKesson on each Monthly Settlement Date, in accordance with the priority of payments set forth in Article II, a fee (the "Servicing Fee") equal to (i) one percent (1%) of the average daily Net Receivables Balance

during the preceding Collection Period, times (ii) 1/12, as compensation for its servicing activities.

Section 7.7 Financial Covenant. McKesson agrees that it will, as of the end of each calendar month, maintain a ratio of Total Debt to Total Capitalization of not greater than 0.565 to 1.00.

ARTICLE VIII AMORTIZATION EVENTS

Section 8.1 Amortization Events. The occurrence of any one or more of the following events shall constitute an Amortization Event:

(a) Any Seller Party shall fail (i) to make any payment or deposit required hereunder when due and, for any such payment or deposit which is not in respect of Capital, such failure continues for one (1) day, or (ii) to perform or observe any term, covenant or agreement hereunder (other than as referred to in clause (i) of this paragraph (a)) and such failure shall continue for five (5) consecutive Business Days after the earlier of written notice from the Collateral Agent or any Managing Agent or Purchaser or actual knowledge on the part of such Seller Party of such failure.

(b) Any representation or warranty made by any Seller Party in this Agreement, any other Transaction Document or in any other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made.

(c) (i) Failure of Seller to pay any Indebtedness when due; (ii) failure of any other Seller Party to pay Indebtedness when due in excess of \$25,000,000; or (iii) the default by any Seller Party in the performance of any term, provision or condition contained in any agreement under which any such Indebtedness was created or is governed, the effect of which is to cause, or to permit the holder or holders of such Indebtedness to cause, such Indebtedness to become due prior to its stated maturity; or any such Indebtedness of any Seller Party shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the date of maturity thereof.

(d) (i) Any Seller Party or any of its Material Subsidiaries shall generally not pay its debts as such debts become due or shall admit in writing its inability to pay its debts generally or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any Seller Party or any of its Material Subsidiaries seeking to adjudicate it bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or any substantial part of its property, and, with respect to a Seller Party or any of its Material Subsidiaries other than the Seller, such proceeding instituted against any Seller Party or any of its Material Subsidiaries shall not be stayed, released, vacated or fully bonded within sixty (60) days after commencement, filing or levy or (ii) any Seller Party or any of its Subsidiaries shall take

any corporate action to authorize any of the actions set forth in clause (i) above in this subsection (d).

(e) The aggregate Purchaser Interests shall exceed 100% and shall continue as such until the earlier of (i) one Business Day following the date any Seller Party has actual knowledge thereof and (ii) the next Settlement Date.

(f) As at the end of any calendar month, the Delinquency Ratio shall exceed 4.5%, or the Loss-to-Balance Ratio shall exceed 4.0%, or the Receivables Dilution Ratio shall exceed 9.25%.

(g) A Change of Control shall occur with respect to any Seller Party.

(h) One or more final judgments for the payment of money shall be entered against Seller or one or more final judgments for the payment of money in excess of \$25,000,000 shall be entered against any other Seller Party on claims not covered by insurance or as to which the insurance carrier has denied its responsibility, and such judgment shall continue unsatisfied and in effect for fifteen (15) consecutive days without a stay of execution.

(i) (i) Any "Amortization Event" or the "Amortization Date" shall occur under either Receivables Sale Agreement, (ii) the Originator shall for any reason cease to transfer, or cease to have the legal capacity to transfer, or otherwise be incapable of transferring Receivables to CGSF under the Tier One Receivables Sale Agreement, or (iii) CGSF shall for any reason cease to transfer, or cease to have legal capacity to transfer, or otherwise be incapable of transferring Receivables to Seller under the Tier Two Receivables Sale Agreement.

(j) This Agreement shall terminate in whole or in part (except in accordance with its terms), or shall cease to be effective or to be the legally valid, binding and enforceable obligation of Seller, or any Obligor on Receivables constituting a material portion of the Receivables shall directly or indirectly contest in any manner such effectiveness, validity, binding nature or enforceability, or the Collateral Agent for the benefit of the Purchasers shall cease to have a valid and perfected first priority security interest in the Receivables, the Related Security and the Collections with respect thereto and the Collection Accounts.

Section 8.2 Remedies.

(a) Upon the occurrence and during the continuation of an Amortization Event, the Collateral Agent may with the consent of, and shall, upon the direction of, any Managing Agent, take any of the following actions (with written notice to the Seller): (i) declare the Amortization Date to have occurred, whereupon the Amortization Date shall forthwith occur, without demand, protest or further notice of any kind, all of which are hereby expressly waived by each Seller Party; provided, however, that upon the occurrence of an Amortization Event described in Section 8.1(d), or of an actual or deemed entry of an order for relief with respect to any Seller Party under the Federal Bankruptcy Code, the Amortization Date shall automatically occur, without demand, protest or any notice of any kind, all of which are hereby expressly waived by each Seller Party, (ii) to the fullest extent permitted by applicable law, declare that the Default Fee shall accrue with respect to any of the Aggregate Unpays outstanding at such time,

(iii) replace the Person then acting as Servicer and (iv) deliver the Collection Notices to the Collection Banks.

(b) Upon the occurrence of the Amortization Date, the Collateral Agent may with the consent of, and shall, upon the direction of, any Managing Agent (with written notice to the Seller) notify Obligors of the Purchasers' interest in the Receivables.

The aforementioned rights and remedies shall be in addition to all other rights and remedies of the Collateral Agent and the Purchasers available under this Agreement, by operation of law, at equity or otherwise, all of which are hereby expressly preserved, including, without limitation, all rights and remedies provided under the UCC, all of which rights shall be cumulative.

ARTICLE IX INDEMNIFICATION

Section 9.1 Indemnities by the Seller Parties.

(a) Without limiting any other rights that the Collateral Agent, any Managing Agent or any Purchaser may have hereunder or under applicable law, (A) Seller hereby agrees to indemnify the Collateral Agent, the Managing Agents and each Purchaser and their respective assigns, officers, directors, agents and employees (each an "Indemnified Party") from and against any and all damages, losses, claims, taxes, liabilities, costs, expenses and for all other amounts payable, including reasonable attorneys' fees (which attorneys may be employees of the Collateral Agent, the Managing Agents or such Purchaser) and disbursements (all of the foregoing being collectively referred to as "Indemnified Amounts") awarded against or incurred by any of them arising out of or as a result of this Agreement or the acquisition, either directly or indirectly, by a Purchaser of an interest in the Receivables, and (B) the Servicer hereby agrees to indemnify each Indemnified Party for Indemnified Amounts awarded against or incurred by any of them arising out of any breach by the Servicer (whether in its capacity as Servicer or in its capacity as Originator) of a representation, warranty, covenant or obligation made by the Servicer hereunder or under any other Transaction Document excluding, however, in all of the foregoing instances under the preceding clauses (A) and (B):

(i) Indemnified Amounts to the extent a final judgment of a court of competent jurisdiction holds that such Indemnified Amounts resulted from gross negligence or willful misconduct on the part of the Indemnified Party seeking indemnification;

(ii) Indemnified Amounts to the extent the same includes losses in respect of Receivables that are uncollectible on account of the insolvency, bankruptcy or financial inability to pay of the related Obligor; or

(iii) taxes imposed by the jurisdiction in which such Indemnified Party's principal executive office is located, on or measured by the overall net income of such Indemnified Party to the extent that the computation of such taxes is consistent with the characterization for income tax purposes of the acquisition by the Purchasers of

Purchaser Interests as a loan or loans by the Purchasers to Seller secured by the Receivables, the Related Security, the Collection Accounts and the Collections;

provided, however, that nothing contained in this sentence shall limit the liability of any Seller Party or limit the recourse of the Purchasers to any Seller Party for amounts otherwise specifically provided to be paid by such Seller Party under the terms of this Agreement.

Without limiting the generality of the foregoing indemnification, Seller shall indemnify the Collateral Agent, the Managing Agent and the Purchasers for Indemnified Amounts (including, without limitation, losses in respect of uncollectible receivables, subject to clause (ii) in the preceding paragraph, but otherwise regardless of whether reimbursement therefor would constitute recourse to Seller or the Servicer) relating to or resulting from:

(i) any representation or warranty made by any Seller Party, CGSF or the Originator (or any officers of any such Person) under or in connection with this Agreement, any other Transaction Document or any other information or report delivered by any such Person pursuant hereto or thereto, which shall have been false or incorrect when made or deemed made;

(ii) the failure by any Seller, the Servicer, CGSF or the Originator to comply with any applicable law, rule or regulation with respect to any Receivable or Contract related thereto, or the nonconformity of any Receivable or Contract included therein with any such applicable law, rule or regulation or any failure of the Originator to keep or perform any of its obligations, express or implied, with respect to any Contract;

(iii) any failure of Seller, the Servicer, CGSF or the Originator to perform its duties, covenants or other obligations in accordance with the provisions of this Agreement or any other Transaction Document;

(iv) any products liability, personal injury, damage or similar claim arising out of or in connection with merchandise, insurance or services that are the subject of any Contract;

(v) any dispute, claim, offset or defense (other than discharge in bankruptcy of the Obligor) of the Obligor to the payment of any Receivable (including, without limitation, a defense based on such Receivable or the related Contract not being a legal, valid and binding obligation of such Obligor enforceable against it in accordance with its terms), or any other claim resulting from the sale of the merchandise or service related to such Receivable or the furnishing or failure to furnish such merchandise or services;

(vi) the commingling of Collections of Receivables at any time with other funds;

(vii) any investigation, litigation or proceeding related to or arising from this Agreement or any other Transaction Document, the transactions contemplated hereby, the use of the proceeds of a purchase, the ownership of the Purchaser Interests or any other investigation, litigation or proceeding relating to Seller, the Servicer, CGSF or the

Originator in which any Indemnified Party becomes involved as a result of any of the transactions contemplated hereby;

(viii) any inability to litigate any claim against any Obligor in respect of any Receivable as a result of such Obligor being immune from civil and commercial law and suit on the grounds of sovereignty or otherwise from any legal action, suit or proceeding;

(ix) any Amortization Event described in Section 8.1(d);

(x) any failure of Seller to acquire and maintain legal and equitable title to, and ownership of any Receivable and the Related Security and Collections with respect thereto from CGSF and the Originator, free and clear of any Adverse Claim (other than as created hereunder); or any failure of Seller to give reasonably equivalent value to CGSF under the Tier Two Receivables Sale Agreement or any failure of CGSF to give reasonably equivalent value to the Originator under the Tier One Receivables Sale Agreement in consideration of the transfer by CGSF or the Originator, respectively, of any Receivable, or any attempt by any Person to void such transfer under statutory provisions or common law or equitable action;

(xi) any failure to vest and maintain vested in the Collateral Agent and the Purchasers, or to transfer to the Collateral Agent and the Purchasers, legal and equitable title to, and ownership of, a first priority undivided percentage ownership (to the extent of the Purchaser Interests contemplated hereunder) in the Receivables, the Related Security and the Collections, free and clear of any Adverse Claim;

(xii) the failure to have filed, or any delay in filing, financing statements or other similar instruments or documents under the UCC of any applicable jurisdiction or other applicable laws with respect to any Receivable, the Related Security and Collections with respect thereto, and the proceeds of any thereof, whether at the time of any Incremental Purchase or Reinvestment or at any subsequent time;

(xiii) any action or omission by any Seller Party which reduces or impairs the rights of the Collateral Agent or the Purchasers with respect to any Receivable or the value of any such Receivable; and

(xiv) any attempt by any Person to void any Incremental Purchase or Reinvestment hereunder under statutory provisions or common law or equitable action.

(b) Notwithstanding anything to the contrary in this Agreement, solely for the purposes of determining Indemnified Amounts owing under this Section 9.1, any representation, warranty or covenant qualified by materiality or the occurrence of a Material Adverse Effect shall not be so qualified.

Section 9.2 Increased Cost and Reduced Return. If after the date hereof, any Funding Source shall be charged any fee, expense or increased cost on account of the adoption of any applicable law, rule or regulation (including any applicable law, rule or regulation regarding capital adequacy) or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the

interpretation or administration thereof, or compliance with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency: (i) that subjects any Funding Source to any charge or withholding on or with respect to any Funding Agreement or a Funding Source's obligations under a Funding Agreement, or on or with respect to the Receivables, or changes the basis of taxation of payments to any Funding Source of any amounts payable under any Funding Agreement (except for changes in the rate of tax on the overall net income of a Funding Source) or (ii) that imposes, modifies or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of a Funding Source, or credit extended by a Funding Source pursuant to a Funding Agreement or (iii) that imposes any other condition the result of which is to increase the cost to a Funding Source of performing its obligations under a Funding Agreement, or to reduce the rate of return on a Funding Source's capital as a consequence of its obligations under a Funding Agreement, or to reduce the amount of any sum received or receivable by a Funding Source under a Funding Agreement or to require any payment calculated by reference to the amount of interests or loans held or interest received by it, then, within ten (10) days following demand therefor by the Collateral Agent or the relevant Managing Agent, Seller shall pay to the applicable Managing Agent, for the benefit of the relevant Funding Source, such amounts charged to such Funding Source or compensate such Funding Source for such reduction.

Section 9.3 Other Costs and Expenses. Seller shall pay to the Collateral Agent, the Managing Agents and the Conduits on demand all costs and out-of-pocket expenses in connection with the preparation, execution, delivery and administration of this Agreement, the transactions contemplated hereby and the other documents to be delivered hereunder, including without limitation, the cost of the Conduits' auditors auditing the books, records and procedures of Seller, reasonable fees and out-of-pocket expenses of legal counsel for the Conduits, the Managing Agents and the Collateral Agent (which such counsel may be employees of the Conduits, the Managing Agents or the Collateral Agent) with respect thereto and with respect to advising the Conduits, the Managing Agents and the Collateral Agent as to their respective rights and remedies under this Agreement. Seller shall pay to the Collateral Agent or the relevant Managing Agent, within ten (10) days following demand therefor, any and all costs and expenses of the Collateral Agent, the Managing Agents and the Purchasers, if any, including reasonable counsel fees and expenses in connection with the enforcement of this Agreement and the other documents delivered hereunder and in connection with any restructuring or workout of this Agreement or such documents, or the administration of this Agreement following an Amortization Event.

Section 9.4 Withholding Tax Exemption.

(a) At least five (5) Business Days prior to the first date on which any amount is payable hereunder for the account of any Purchaser, each Purchaser that is not a "United States person" for United States federal income tax purposes agrees that it will deliver to each of Seller and the related Purchaser Group Managing Agent two duly completed and originally executed copies of United States Internal Revenue Service Form W-8BEN, W-8ECI or W-8IMY with all necessary attachments or applicable successor forms, certifying in each case that such Purchaser is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. Each such Purchaser further undertakes to deliver to each of

Seller and the related Managing Agent two additional copies of such form (or a successor form) on or before the date that such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent forms so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by Seller or the related Managing Agent, in each case certifying that such Purchaser is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless any change in any treaty, law or regulation has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which prevents such Purchaser from duly completing and delivering any such form with respect to it and such Purchaser advises Seller and the related Managing Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

(b) Each Purchaser that is not a “United States person” for U.S. federal income tax purposes agrees to indemnify and hold Seller, the Managing Agents and the Collateral Agent harmless in respect of any loss, cost or expense incurred by Seller, any Managing Agent or the Collateral Agent as a result of, and agrees that, notwithstanding any other provision hereof, payments hereunder to such Purchaser may be subject to deduction or withholding without indemnification by Seller for any United States federal income taxes, penalties, interest and other costs and losses incurred or payable by Seller, any Managing Agent or the Collateral Agent as a result of, (i) such Purchaser’s failure to submit any form that is required pursuant to this Section 9.4 or (ii) Seller’s, any Managing Agent’s or the Collateral Agent’s reliance on any form that such Purchaser has provided pursuant to this Section 9.4 that is determined to be inaccurate in any material respect.

ARTICLE X THE AGENTS

Section 10.1 Authorization and Action. Each Purchaser hereby designates and appoints Bank One to act as its agent hereunder and under each other Transaction Document, and authorizes the Collateral Agent and its related Managing Agent to take such actions as agent on its behalf and to exercise such powers as are delegated to the Collateral Agent or such Managing Agent by the terms of this Agreement and the other Transaction Documents together with such powers as are reasonably incidental thereto. Neither the Collateral Agent nor any Managing Agent shall have any duties or responsibilities, except those expressly set forth herein or in any other Transaction Document, or any fiduciary relationship with any Purchaser, and no implied covenants, functions, responsibilities, duties, obligations or liabilities on the part of the Collateral Agent or the Managing Agents shall be read into this Agreement or any other Transaction Document or otherwise exist for the Collateral Agent or the Managing Agents. In performing their respective functions and duties hereunder and under the other Transaction Documents, (i) the Collateral Agent shall act solely as agent for the Purchasers, (ii) each Managing Agent shall act solely as agent for the Conduit Purchasers and Committed Purchasers in the related Purchaser Group and (iii) neither the Collateral Agent nor any Managing Agent shall be deemed to have assumed any obligation or relationship of trust or agency with or for any Seller Party or any of such Seller Party’s successors or assigns. Neither the Collateral Agent nor any Managing Agent shall be required to take any action that exposes the Collateral Agent or the Managing Agents to personal liability or that is contrary to this Agreement, any other Transaction Document or

applicable law. The appointment and authority of the Collateral Agent and the Managing Agents hereunder shall terminate upon the indefeasible payment in full of all Aggregate Unpaid. Each Purchaser hereby authorizes the Collateral Agent and each Managing Agent, as applicable, to execute each of the Uniform Commercial Code financing statements, this Agreement and such other Transaction Documents as may require the Collateral Agent's or a Managing Agent's signature on behalf of such Purchaser (the terms of which shall be binding on such Purchaser).

Section 10.2 Delegation of Duties. The Collateral Agent and the Managing Agents may execute any of their respective duties under this Agreement and each other Transaction Document by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. Neither the Collateral Agent nor any Managing Agent shall be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

Section 10.3 Exculpatory Provisions. None of the Collateral Agent, the Managing Agents or any of their respective directors, officers, agents or employees shall be (i) liable for any action lawfully taken or omitted to be taken by it or them under or in connection with this Agreement or any other Transaction Document (except for its, their or such Person's own gross negligence or willful misconduct), or (ii) responsible in any manner to any of the Purchasers for any recitals, statements, representations or warranties made by any Seller Party contained in this Agreement, any other Transaction Document or any certificate, report, statement or other document referred to or provided for in, or received under or in connection with, this Agreement, or any other Transaction Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, or any other Transaction Document or any other document furnished in connection herewith or therewith, or for any failure of any Seller Party to perform its obligations hereunder or thereunder, or for the satisfaction of any condition specified in Article V, or for the perfection, priority, condition, value or sufficiency of any collateral pledged in connection herewith. Neither the Collateral Agent nor any Managing Agent shall be under any obligation to any Purchaser to ascertain or to inquire as to the observance or performance of any of the agreements or covenants contained in, or conditions of, this Agreement or any other Transaction Document, or to inspect the properties, books or records of the Seller Parties. Neither the Collateral Agent nor any Managing Agent shall be deemed to have knowledge of any Amortization Event or Potential Amortization Event unless the Collateral Agent or such Managing Agent, as applicable, has received notice from Seller or a Purchaser.

Section 10.4 Reliance by Agents. The Collateral Agent and the Managing Agents shall in all cases be entitled to rely, and shall be fully protected in relying, upon any document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to Seller), independent accountants and other experts selected by the Collateral Agent or any Managing Agent. The Collateral Agent and the Managing Agents shall in all cases be fully justified in failing or refusing to take any action under this Agreement or any other Transaction Document unless it shall first receive such advice or concurrence of the Conduit Purchasers or the Required Committed Purchasers or all of the Purchasers, as applicable, as they deem appropriate and they shall first be indemnified to their satisfaction by the Purchasers, provided that unless and until the Collateral Agent or any

Managing Agent shall have received such advice, the Collateral Agent or such Managing Agent may take or refrain from taking any action, as the Collateral Agent or such Managing Agent shall deem advisable and in the best interests of the Purchasers. The Collateral Agent and the Managing Agents shall in all cases be fully protected in acting, or in refraining from acting, in accordance with a request of the related Conduit Purchasers or the Required Committed Purchasers or all of the Purchasers, as applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Purchasers.

Section 10.5 Non-Reliance on Agents and Other Purchasers. Each Purchaser expressly acknowledges that none of the Collateral Agent, the Managing Agents or any of their respective officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representations or warranties to it and that no act by the Collateral Agent or any Managing Agent hereafter taken, including, without limitation, any review of the affairs of any Seller Party, shall be deemed to constitute any representation or warranty by the Collateral Agent or such Managing Agent. Each Purchaser represents and warrants to the Collateral Agent and the Managing Agents that it has and will, independently and without reliance upon the Collateral Agent, any Managing Agent or any other Purchaser and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, prospects, financial and other conditions and creditworthiness of Seller and made its own decision to enter into this Agreement, the other Transaction Documents and all other documents related hereto or thereto.

Section 10.6 Reimbursement and Indemnification. The Committed Purchasers agree to reimburse and indemnify the Collateral Agent and its respective officers, directors, employees, representatives and agents ratably according to their Pro Rata Shares, to the extent not paid or reimbursed by the Seller Parties (i) for any amounts for which the Collateral Agent, acting in its capacity as Collateral Agent, is entitled to reimbursement by the Seller Parties hereunder and (ii) for any other expenses incurred by the Collateral Agent, in its capacity as Collateral Agent, in connection with the administration and enforcement of this Agreement and the other Transaction Documents. The Committed Purchasers in each Purchaser Group agree to reimburse and indemnify the related Managing Agent and its respective officers, directors, employees, representatives and agents ratably according to their Commitments, to the extent not paid or reimbursed by the Seller Parties (i) for any amounts for which such Managing Agent, acting in its capacity as Managing Agent, is entitled to reimbursement by the Seller Parties hereunder and (ii) for any other expenses incurred by such Managing Agent, in its capacity as Managing Agent, in connection with the administration and enforcement of this Agreement and the other Transaction Documents.

Section 10.7 Agents in their Individual Capacities. The Collateral Agent, each Managing Agent and each of its respective Affiliates may make loans to, accept deposits from and generally engage in any kind of business with Seller or any Affiliate of Seller as though it were not the Collateral Agent or a Managing Agent hereunder. With respect to the acquisition of Purchaser Interests pursuant to this Agreement, the Collateral Agent and each Managing Agent shall have the same rights and powers under this Agreement in its individual capacity as any Purchaser and may exercise the same as though it were not the Collateral Agent or a Managing Agent, and the terms “Committed Purchaser,” “Purchaser,” “Committed Purchasers” and

“Purchasers” shall include the Collateral Agent and each Managing Agent in its individual capacity.

Section 10.8 Successor Agent. The Collateral Agent and each Managing Agent may, upon five (5) days’ notice to Seller and the Purchasers, and the Collateral Agent or any Managing Agent will, upon the direction of all of the Purchasers (other than such Collateral Agent or Managing Agent, in its individual capacity, as applicable) resign as Collateral Agent or Managing Agent, as applicable. If the Collateral Agent or a Managing Agent shall resign, then the Required Committed Purchasers, in the case of the Collateral Agent, or the Committed Purchasers of the related Purchaser Group, in the case of a Managing Agent during such five-day period shall appoint from among the Committed Purchasers, in the case of the Collateral Agent, or the Committed Purchasers of the related Purchaser Group, in the case of a Managing Agent, a successor agent. If for any reason no successor agent is appointed by the Required Committed Purchasers, in the case of the Collateral Agent, or the Committed Purchasers of the related Purchaser Group, in the case of a Managing Agent, during such five-day period, then effective upon the termination of such five-day period, the Committed Purchasers, in the case of the Collateral Agent, and the Committed Purchasers of the related Purchaser Group, in the case of a Managing Agent, shall perform all of the duties of the Collateral Agent or the applicable Managing Agent hereunder and under the other Transaction Documents and Seller and the Servicer (as applicable) shall make all payments in respect of the Aggregate Unpaid directly to the applicable Purchasers and for all purposes shall deal directly with the Purchasers. After the effectiveness of any retiring Collateral Agent’s or Managing Agent’s resignation hereunder as Collateral Agent or Managing Agent, as applicable, the retiring Collateral Agent or Managing Agent shall be discharged from its duties and obligations hereunder and under the other Transaction Documents and the provisions of this Article X and Article IX shall continue in effect for its benefit with respect to any actions taken or omitted to be taken by it while it was Collateral Agent or Managing Agent under this Agreement and under the other Transaction Documents.

ARTICLE XI ASSIGNMENTS; PARTICIPATIONS

Section 11.1 Assignments.

(a) Seller and each Committed Purchaser hereby agree and consent to the complete or partial assignment by each Conduit Purchaser of all or any portion of its rights under, interest in, title to and obligations under this Agreement (i) to the related Committed Purchasers pursuant to this Agreement or pursuant to a Liquidity Agreement, (ii) to any other issuer of commercial paper notes sponsored or administered by the Managing Agent of such Conduit’s Purchaser Group and with a rating of at least A-1/P-1 or (iii) to any other Person; **provided that**, prior to the occurrence of an Amortization Event, such Conduit Purchaser may not make any such assignment pursuant to this clause (iii), except in the event that the circumstances described in Section 11.1(c) occur, without the consent of Seller (which consent shall not be unreasonably withheld or delayed), and upon such assignment, such Conduit Purchaser shall be released from its obligations so assigned. Further, Seller and each Committed Purchaser hereby agree that any assignee of any Conduit Purchaser of this Agreement or all or any of the Purchaser Interests of such Conduit Purchaser shall have all of the rights and benefits under this

Agreement as if the term “Conduit Purchaser” explicitly referred to such party, and no such assignment shall in any way impair the rights and benefits of such Conduit Purchaser hereunder. Neither Seller nor the Servicer shall have the right to assign its rights or obligations under this Agreement.

(b) Any Committed Purchaser may, at any time and from time to time, assign to one or more Persons (“Purchasing Committed Purchasers”) all or any part of its rights and obligations under this Agreement pursuant to an assignment agreement, substantially in the form set forth in Exhibit VII hereto (the “Assignment Agreement”) executed by such Purchasing Committed Purchaser and such selling Committed Purchaser. The consent of the Conduit Purchaser or Conduit Purchasers in such Committed Purchaser’s Purchaser Group, if any, shall be required prior to the effectiveness of any such assignment. The selling Committed Purchaser will consult with the Seller regarding the suitability of the Purchasing Committed Purchaser prior to the effectiveness of any assignment pursuant to this Section 11.1(b) and, so long as the Seller’s response is not unreasonably withheld or delayed, such Committed Purchaser will use commercially reasonable efforts to accommodate the Seller’s preferences and, if the Seller timely solicits a commitment from an eligible assignee on terms that are not disadvantageous to the assigning Committed Purchaser, such Committed Purchaser will accommodate the Seller’s request. Each assignee of a Committed Purchaser which is a member of a Purchaser Group which has a Conduit Purchaser as a member must have a short-term debt rating from S&P and Moody’s equal to or greater than the ratings required in order to maintain the rating of the commercial paper issued by the related Conduit Purchaser (the “Required Ratings”). Upon delivery of the executed Assignment Agreement to the Collateral Agent, such selling Committed Purchaser shall be released from its obligations hereunder to the extent of such assignment. Thereafter the Purchasing Committed Purchaser shall for all purposes be a Committed Purchaser party to this Agreement and shall have all the rights and obligations of a Committed Purchaser under this Agreement to the same extent as if it were an original party hereto and no further consent or action by Seller, the Purchasers or the Collateral Agent shall be required.

(c) Each of the Committed Purchasers that is (i) not a Conduit Purchaser and (ii) a member of a Purchaser Group that has a Conduit Purchaser as a member, agrees that in the event that it shall cease to have the Required Ratings (an “Affected Committed Purchaser”), such Affected Committed Purchaser shall be obliged, at the request of the Conduit Purchasers in such Committed Purchaser’s Purchaser Group or the applicable Managing Agent, to assign all of its rights and obligations hereunder to (x) another Committed Purchaser or (y) another funding entity nominated by such Managing Agent and acceptable to such affected Conduit Purchasers, and willing to participate in this Agreement through the Liquidity Termination Date in the place of such Affected Committed Purchaser; provided, that the Affected Committed Purchaser receives payment in full, pursuant to an Assignment Agreement, of an amount equal to such Committed Purchaser’s Pro Rata Share of the Aggregate Capital and Yield owing to the Committed Purchasers and all accrued but unpaid fees and other costs and expenses payable in respect of its Pro Rata Share of the Purchaser Interests of the Committed Purchasers.

Section 11.2 Participations. Any Committed Purchaser may, in the ordinary course of its business at any time sell to one or more Persons (each a “Participant”) participating interests in its Pro Rata Share of the Purchaser Interests of the Committed Purchasers or any other interest of such Committed Purchaser hereunder. The selling Committed Purchaser will

consult with the Seller regarding the suitability of each Participant prior to the effectiveness of any participation pursuant to this Section 11.2 and, so long as the Seller's response is not unreasonably withheld or delayed, such Committed Purchaser will use commercially reasonable efforts to accommodate the Seller's preferences, and, if the Seller timely solicits a commitment from an eligible Participant on terms that are not disadvantageous to the selling Committed Purchaser, such Committed Purchaser will accommodate the Seller's request. Notwithstanding any such sale by a Committed Purchaser of a participating interest to a Participant, such Committed Purchaser's rights and obligations under this Agreement shall remain unchanged, such Committed Purchaser shall remain solely responsible for the performance of its obligations hereunder, and Seller, the Servicer, the Conduit Purchasers, the Managing Agents and the Collateral Agent shall continue to deal solely and directly with such Committed Purchaser in connection with such Committed Purchaser's rights and obligations under this Agreement. No Participant shall have rights greater than those of the related Committed Purchaser. Each Committed Purchaser agrees that any agreement between such Committed Purchaser and any such Participant in respect of such participating interest shall not restrict such Committed Purchaser's right to agree to any amendment, supplement, waiver or modification to this Agreement, except for any amendment, supplement, waiver or modification described in Section 11.1(b)(i).

Section 11.3 Additional Purchaser Groups; Joinder by Conduit Purchaser.

(a) Upon the Seller's request, an additional Purchaser Group may be added to this Agreement at any time by the execution and delivery of a joinder agreement, substantially in the form set forth in Exhibit XI hereto (a "Joinder Agreement") by the members of such proposed additional Purchaser Group, the Seller, the Servicer and the Administrative Agent, which execution and delivery shall not be unreasonably refused by such parties. Upon the effective date of such Joinder Agreement, (i) each Person specified therein as a "New Conduit Purchaser" shall become a party hereto as a Conduit Purchaser, entitled to the rights and subject to the obligations of a Conduit Purchaser hereunder, (ii) each Person specified therein as a "New Committed Purchaser" shall become a party hereto as a Committed Purchaser, entitled to the rights and subject to the obligations of a Committed Purchaser hereunder, (iii) each Person specified therein as a "New Managing Agent" shall become a party hereto as a Managing Agent, entitled to the rights and subject to the obligations of a Managing Agent hereunder and (iv) the Purchase Limit shall be increased, if appropriate, by an amount which is equal to (x) the aggregate Commitments of the New Committed Purchasers party to such Joinder Agreement. On or prior to the effective date of such Joinder Agreement, the Seller, each new Purchaser and the new Managing Agent shall enter into a Fee Letter for purposes of setting forth the fees payable to the members of such Purchaser Group in connection with this Agreement.

(b) Any Purchaser Group may add a Conduit Purchaser member at any time by the execution and delivery of a Joinder Agreement by such proposed Conduit Purchaser, the other members of such Purchaser Group, the Seller, the Servicer and the Administrative Agent, which execution and delivery shall not be unreasonably refused by such parties. Upon the effective date of such Joinder Agreement, each Person specified therein as a "New Conduit Purchaser" shall become a party hereto as a Conduit Purchaser, entitled to the rights and subject to the obligations of a Conduit Purchaser hereunder.

Section 11.4 Extension of Liquidity Termination Date. The Seller may advise any Managing Agent in writing of its desire to extend the Liquidity Termination Date for an additional period not exceeding 364 days, provided such request is made not more than 90 days prior to, and not less than 60 days prior to, the then current Liquidity Termination Date. Each Managing Agent so advised by the Seller shall promptly notify each Committed Purchaser in its related Purchaser Group of any such request and each such Committed Purchaser shall notify its related Managing Agent, the Collateral Agent and the Seller of its decision to accept or decline the request for such extension no later than 30 days prior to the then current Liquidity Termination Date (it being understood that each Committed Purchaser may accept or decline such request in its sole discretion and on such terms as it may elect, and the failure to so notify its Managing Agent, the Collateral Agent and the Seller shall be deemed an election not to extend by such Committed Purchaser). In the event that at least one Committed Purchaser agrees to extend the Liquidity Termination Date, the Seller Parties, the Collateral Agent, the extending Committed Purchasers and the applicable Managing Agent or Managing Agents shall enter into such documents as such extending Committed Purchasers may deem necessary or appropriate to reflect such extension, and all reasonable costs and expenses incurred by such Committed Purchasers, the Managing Agents and the Collateral Agent (including reasonable attorneys' fees) shall be paid by the Seller. In the event that any Committed Purchaser (a) declines the request to extend the Liquidity Termination Date or (b) is in a Purchaser Group with respect to which the Seller did not seek an extension of the Liquidity Termination Date (each such Committed Purchaser being referred to herein as a "Non-Renewing Committed Purchaser"), and, in the case of a Non-Renewing Committed Purchaser described in clause (a), the Commitment of such Non-Renewing Committed Purchaser is not assigned to another Person in accordance with the terms of this Article XI prior to the then current Liquidity Termination Date, the Purchase Limit shall be reduced by an amount equal to each such Non-Renewing Committed Purchaser's Commitment on the then current Liquidity Termination Date.

Section 11.5 Terminating Committed Purchasers.

(a) Any Affected Committed Purchaser or Non-Renewing Committed Purchaser which has not assigned its rights and obligations hereunder if requested pursuant to this Article XI shall be a "Terminating Committed Purchaser" for purposes of this Agreement as of the then current Liquidity Termination Date (or, in the case of any Affected Committed Purchaser, such earlier date as declared by the Conduit Purchaser in such Affected Committed Purchaser's Purchaser Group). If an Amortization Event has occurred, and the Committed Purchasers in a Purchaser Group have voted or otherwise determined to declare an Amortization Date, but the Committed Purchasers in the other Purchaser Groups have voted or otherwise determined not to declare an Amortization Date, then the Committed Purchasers in such Purchaser Group (and each Conduit Purchaser in such Purchaser Group that has any Capital outstanding at such time) may, upon written notice to the Servicer, the Seller and the Collateral Agent, elect to become, and shall become, Terminating Committed Purchasers effective on the date specified in such notice, which shall be a date no less than three (3) Business Days after the date such notice is received by the Servicer, the Seller and the Collateral Agent.

(b) Each Terminating Committed Purchaser shall be allocated, in accordance with Section 2.2, a ratable portion of Collections according to its respective Termination Percentage from the date of its becoming a Terminating Committed Purchaser (the "Termination

Date”) until such Terminating Committed Purchaser’s Capital shall be paid in full. Each Terminating Committed Purchaser’s Termination Percentage shall remain constant prior to the Amortization Date. On and after the Amortization Date, each Termination Percentage shall be disregarded, and each Terminating Committed Purchaser’s Capital shall be reduced ratably with all Committed Purchasers in accordance with Section 2.3.

(c) On the date any Committed Purchaser becomes a Terminating Committed Purchaser, the Commitment of such Committed Purchaser shall terminate and the Purchase Limit shall be reduced by an amount equal to such Committed Purchaser’s Commitment. Upon reduction to zero of the Capital of all of the Purchaser Interests of a Terminating Committed Purchaser (after application of Collections thereto pursuant to Sections 2.2 and 2.4) all rights and obligations of such terminating Committed Purchaser hereunder shall be terminated and such terminating Committed Purchaser shall no longer be a “Committed Purchaser” hereunder; provided, however, that the provisions of Article IX shall continue in effect for its benefit with respect to Purchaser Interests or the Commitment held by such Terminating Committed Purchaser prior to its termination as a Committed Purchaser.

ARTICLE XII MISCELLANEOUS

Section 12.1 Waivers and Amendments.

(a) No failure or delay on the part of the Collateral Agent, the Managing Agents or any Purchaser in exercising any power, right or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or remedy preclude any other further exercise thereof or the exercise of any other power, right or remedy. The rights and remedies herein provided shall be cumulative and nonexclusive of any rights or remedies provided by law. Any waiver of this Agreement shall be effective only in the specific instance and for the specific purpose for which given.

(b) No provision of this Agreement may be amended, supplemented, modified or waived except in writing in accordance with the provisions of this Section 12.1(b). The Conduit Purchasers, Seller, the Servicer, the Managing Agents and the Collateral Agent, at the direction of the Required Committed Purchasers, may enter into written modifications or waivers of any provisions of this Agreement, provided, however, that no such modification or waiver shall:

(i) without the consent of each affected Purchaser, (A) extend the Liquidity Termination Date or the date of any payment or deposit of Collections by Seller or the Servicer, (B) reduce the rate or extend the time of payment of Yield (or any component thereof), (C) reduce any fee payable to the Collateral Agent or the Managing Agents for the benefit of the Purchasers, (D) except pursuant to Article XI hereof, change the amount of the Capital of any Purchaser, any Committed Purchaser’s Pro Rata Share (except as may be required pursuant to a Conduit Purchaser’s Liquidity Agreement) or any Committed Purchaser’s Commitment, (E) amend, modify or waive any provision of the definition of Required Committed Purchasers or this Section 12.1(b), (F) consent to or permit the assignment or transfer by Seller of any of its rights and obligations under

this Agreement, (G) change the definition of “Concentration Limit,” “Defaulted Receivables,” “Default Proxy Ratio,” “Delinquency Ratio,” “Delinquent Receivable,” “Discount and Servicing Fee Reserve,” “Dilution Horizon Ratio,” “Dilution Reserve,” “Dilution Reserve Ratio,” “Dilution Ratio,” “Eligible Receivable,” “Loss Horizon Ratio,” “Loss Reserve,” “Loss Reserve Ratio,” “Loss-to-Balance Ratio,” or “Receivables Dilution Ratio” or (H) amend or modify any defined term (or any defined term used directly or indirectly in such defined term) used in clauses (A) through (G) above in a manner that would circumvent the intention of the restrictions set forth in such clauses; or

(ii) without the written consent of any then Collateral Agent or Managing Agent, amend, modify or waive any provision of this Agreement if the effect thereof is to affect the rights or duties of such Collateral Agent or Managing Agent, as applicable.

Notwithstanding the foregoing, (i) without the consent of the Committed Purchasers, the Collateral Agent may, with the consent of Seller, amend this Agreement solely to add additional Persons as Committed Purchasers hereunder and (ii) the Collateral Agent, the Required Committed Purchasers and the Conduit Purchasers may enter into amendments to modify any of the terms or provisions of Article X, Article XI and Section 12.13 or any other provision of this Agreement without the consent of Seller, provided that such amendment has no negative impact upon Seller. Any modification or waiver made in accordance with this Section 12.1 shall apply to each of the Purchasers equally and shall be binding upon Seller, the Purchasers, the Managing Agents and the Collateral Agent.

Section 12.2 Notices. Except as provided below, all communications and notices provided for hereunder shall be in writing (including bank wire, telecopy or electronic facsimile transmission or similar writing) and shall be given to the other parties hereto at their respective addresses or telecopy numbers set forth on the signature pages hereof or at such other address or telecopy number as such Person may hereafter specify for the purpose of notice to each of the other parties hereto. Each such notice or other communication shall be effective (i) if given by telecopy, upon the receipt thereof, (ii) if given by mail, three (3) Business Days after the time such communication is deposited in the mail with first class postage prepaid or (iii) if given by any other means, when received at the address specified in this Section 12.2. Seller hereby authorizes the Collateral Agent to effect purchases and Tranche Period and Discount Rate selections based on telephonic notices made by any Person whom the Collateral Agent in good faith believes to be acting on behalf of Seller. Seller agrees to deliver promptly to the Collateral Agent a written confirmation of each telephonic notice signed by an authorized officer of Seller; however, the absence of such confirmation shall not affect the validity of such notice. If the written confirmation differs from the action taken by the Collateral Agent, the records of the Collateral Agent shall govern absent manifest error.

Section 12.3 Ratable Payments. If any Purchaser, whether by setoff or otherwise, has payment made to it with respect to any portion of the Aggregate Unpaid owing to such Purchaser (other than payments received pursuant to Section 9.2 or 9.3) in a greater proportion than that received by any other Purchaser entitled to receive a ratable share of such Aggregate Unpaid, such Purchaser agrees, promptly upon demand, to purchase for cash without recourse or warranty a portion of such Aggregate Unpaid held by the other Purchasers so that after such purchase each Purchaser will hold its ratable proportion of such Aggregate Unpaid;

provided that if all or any portion of such excess amount is thereafter recovered from such Purchaser, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest.

Section 12.4 Protection of Ownership Interests of the Purchasers.

(a) Seller agrees that from time to time, at its expense, it will promptly execute and deliver all instruments and documents, and take all actions, that may be necessary or desirable, or that the Collateral Agent may reasonably request, to perfect, protect or more fully evidence the Purchaser Interests, or to enable the Collateral Agent or the Purchasers to exercise and enforce their rights and remedies hereunder. At any time following the occurrence of the Amortization Date resulting from an Amortization Event, the Collateral Agent may, or the Collateral Agent may direct Seller or the Servicer to, notify the Obligors of Receivables, at Seller's expense, of the ownership interests of the Purchasers under this Agreement and after the occurrence and during the continuance of an Amortization Event, may also direct that payments of all amounts due or that become due under any or all Receivables be made directly to the Collateral Agent or its designee. Seller or the Servicer (as applicable) shall, at any Purchaser's request, withhold the identity of such Purchaser in any such notification.

(b) If any Seller Party fails to perform any of its obligations hereunder, the Collateral Agent or any Purchaser may (but shall not be required to) perform, or cause performance of, such obligation, and the Collateral Agent's or such Purchaser's costs and expenses incurred in connection therewith shall be payable by Seller as provided in Section 9.3. Each Seller Party irrevocably authorizes the Collateral Agent at any time and from time to time in the sole discretion of the Collateral Agent, and appoints the Collateral Agent as its attorney-in-fact, to act on behalf of such Seller Party (i) to execute on behalf of Seller as debtor and to file financing statements necessary or desirable in the Collateral Agent's sole discretion to perfect and to maintain the perfection and priority of the interest of the Purchasers in the Receivables and (ii) to file a carbon, photographic or other reproduction of this Agreement or any financing statement with respect to the Receivables as a financing statement in such offices as the Collateral Agent in its sole discretion deems necessary or desirable to perfect and to maintain the perfection and priority of the interests of the Purchasers in the Receivables. This appointment is coupled with an interest and is irrevocable.

Section 12.5 Confidentiality.

(a) Each Seller Party and each Purchaser shall maintain and shall cause each of its employees and officers to maintain the confidentiality of this Agreement and the other confidential proprietary information with respect to the Collateral Agent, the Managing Agent and the Conduit Purchasers and their respective businesses obtained by it or them in connection with the structuring, negotiating and execution of the transactions contemplated herein, except that such Seller Party and such Purchaser and its officers and employees may disclose such information to such Seller Party's and such Purchaser's external accountants and attorneys and as required pursuant to any law, rule, regulation, direction, request or order of any judicial, administrative or regulatory authority or proceedings (whether or not having the force or effect of law).

(b) Anything herein to the contrary notwithstanding, each Seller Party hereby consents to the disclosure of any nonpublic information with respect to it (i) to the Collateral Agent, the Managing Agents, the Committed Purchasers or the Conduit Purchasers by each other, (ii) by the Collateral Agent, the Managing Agents, or the Purchasers to any prospective or actual assignee or participant of any of them or (iii) by the Collateral Agent or the Managing Agents to any rating agency, Commercial Paper dealer or provider of a surety, guaranty or credit or liquidity enhancement to the Conduit Purchasers or any entity organized for the purpose of purchasing, or making loans secured by, financial assets for which Bank One, Wachovia, Scotia, STCM, BTM or Rabobank acts as the collateral agent and to any officers, directors, employees, outside accountants and attorneys of any of the foregoing, provided each such Person is informed of the confidential nature of such information and (with the exception of any rating agency described in clause (iii) above) has agreed to keep such information confidential. In addition, the Purchasers, and the Collateral Agent and the Managing Agents may disclose any such nonpublic information pursuant to any law, rule, regulation, direction, request or order of any judicial, administrative or regulatory authority or proceedings (whether or not having the force or effect of law).

Section 12.6 Bankruptcy Petition. Each of Seller, the Servicer, the Collateral Agent, the Managing Agents and each Committed Purchaser hereby covenants and agrees that, prior to the date that is one year and one day after the payment in full of all outstanding senior Indebtedness of a Conduit Purchaser, it will not institute against, or join any other Person in instituting against, such Conduit Purchaser, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or other similar proceeding under the laws of the United States or any state of the United States.

Section 12.7 Limitation of Liability; Limitation of Payment; No Recourse.

(a) Notwithstanding any provisions contained in this Agreement or any other Transaction Document to the contrary, no Conduit Purchaser shall be obligated to pay any amount pursuant to this Agreement or any other Transaction Document unless such Conduit Purchaser has excess cash flow from operations or has received funds which may be used to make such payment and which funds or excess cash flow are not required to repay any of such Conduit Purchaser's Commercial Paper when due. Any amount which any Conduit Purchaser does not pay pursuant to the operation of the preceding sentence shall not constitute a claim against such Conduit Purchaser for any such insufficiency. The agreements in this section shall survive the termination of this Agreement and the other Transaction Documents.

(b) Notwithstanding anything in this Agreement or any other Transaction Document to the contrary, the obligations of each Conduit Purchaser under the Transaction Documents are solely the corporate obligations of such Conduit Purchaser. No recourse shall be had for any obligation or claim arising out of or based upon any Transaction Document against any stockholder, employee, officer, director or incorporator of such Conduit Purchaser. The agreements in this section shall survive the termination of this Agreement and the other Transaction Documents.

(c) Except with respect to any claim arising out of the willful misconduct or gross negligence of the Conduit Purchasers, the Managing Agents, the Collateral Agent, or any

Committed Purchaser, no claim may be made by any Seller Party or any other Person against any Conduit Purchaser, the Collateral Agent or any Committed Purchaser or their respective Affiliates, directors, officers, employees, attorneys or agents for any special, indirect, consequential or punitive damages in respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by this Agreement, or any act, omission or event occurring in connection therewith; and each Seller Party hereby waives, releases, and agrees not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

Section 12.8 CHOICE OF LAW. THIS AGREEMENT SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF NEW YORK EXCEPT TO THE EXTENT THAT THE PERFECTION OF THE PURCHASERS' SECURITY INTEREST IN THE PURCHASER INTERESTS IS GOVERNED BY THE LAW OF ANOTHER STATE, AS REQUIRED BY THE LAWS OF THE STATE OF NEW YORK.

Section 12.9 CONSENT TO JURISDICTION. EACH SELLER PARTY HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR NEW YORK STATE COURT SITTING IN NEW YORK, NEW YORK IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY DOCUMENT EXECUTED BY SUCH PERSON PURSUANT TO THIS AGREEMENT AND EACH OF SELLER PARTY HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE COLLATERAL AGENT, THE MANAGING AGENTS OR ANY PURCHASER TO BRING PROCEEDINGS AGAINST ANY SELLER PARTY IN THE COURTS OF ANY OTHER JURISDICTION TO THE EXTENT NECESSARY TO REALIZE ON THE INTERESTS OF THE PURCHASERS AND THE COLLATERAL AGENT IN ANY RECEIVABLES, RELATED SECURITY OR PROCEEDS THEREOF. ANY JUDICIAL PROCEEDING BY ANY SELLER PARTY AGAINST THE COLLATERAL AGENT, ANY MANAGING AGENT OR ANY PURCHASER OR ANY AFFILIATE OF ANY SUCH PARTIES INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT OR ANY DOCUMENT EXECUTED BY SUCH SELLER PARTY PURSUANT TO THIS AGREEMENT SHALL BE BROUGHT ONLY IN A COURT IN NEW YORK, NEW YORK.

Section 12.10 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT, ANY DOCUMENT EXECUTED BY THE SELLER PURSUANT TO THIS AGREEMENT OR THE RELATIONSHIP ESTABLISHED HEREUNDER OR THEREUNDER.

Section 12.11 Integration; Binding Effect; Survival of Terms.

(a) This Agreement and each other Transaction Document contain the final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof and shall constitute the entire agreement among the parties hereto with respect to the subject matter hereof superseding all prior oral or written understandings.

(b) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns (including any trustee in bankruptcy). This Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms and shall remain in full force and effect until terminated in accordance with its terms; provided, however, that the rights and remedies with respect to (i) any breach of any representation and warranty made by any Seller Party pursuant to Article IV, (ii) the indemnification and payment provisions of Article IX, and Sections 12.5 and 12.6 shall be continuing and shall survive any termination of this Agreement.

Section 12.12 Counterparts; Severability; Section References. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same Agreement. Any provisions of this Agreement which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Unless otherwise expressly indicated, all references herein to “Article,” “Section,” “Schedule” or “Exhibit” shall mean articles and sections of, and schedules and exhibits to, this Agreement.

Section 12.13 Agent Roles.

(a) Bank One Roles. Each of the Committed Purchasers acknowledges that Bank One acts, or may in the future act, (i) as administrative agent for one or more of the Conduit Purchasers, (ii) as Managing Agent for one or more of the Conduit Purchasers, (iii) as issuing and paying agent for one or more Conduit Purchaser’s Commercial Paper, (iv) to provide credit or liquidity enhancement for the timely payment for one or more Conduit Purchaser’s Commercial Paper and (v) to provide other services from time to time for some or all of the Purchasers (collectively, the “Bank One Roles”). Without limiting the generality of this Section 12.13(a), each Committed Purchaser hereby acknowledges and consents to any and all Bank One Roles and agrees that in connection with any Bank One Role, Bank One may take, or refrain from taking, any action that it, in its discretion, deems appropriate, including, without limitation, in its role as administrative agent for the related Conduit Purchasers, and the giving of notice of a mandatory purchase pursuant its Liquidity Agreement.

(b) Managing Agent Institution Roles. Each of the Committed Purchasers acknowledges that each Committed Purchaser that serves as a Managing Agent hereunder (a “Managing Agent Institution”) acts, or may in the future act, (i) as Managing Agent for a Conduit Purchaser or Conduit Purchasers, (ii) as issuing and paying agent for such Conduit Purchaser’s Commercial Paper, (iii) to provide credit or liquidity enhancement for the timely

payment for such Conduit Purchaser's Commercial Paper and (iv) to provide other services from time to time for some or all of the Purchasers (collectively, the "Managing Agent Institution Roles"). Without limiting the generality of this Section 12.13(b), each Committed Purchaser hereby acknowledges and consents to any and all Managing Agent Institution Roles and agrees that in connection with any Managing Agent Institution Role, the applicable Managing Agent Institution may take, or refrain from taking, any action that it, in its discretion, deems appropriate, including, without limitation, in its role as administrative agent for the related Conduit Purchasers, if any, and the giving of notice to the Collateral Agent or any Managing Agent of a mandatory purchase pursuant to its Liquidity Agreement.

Section 12.14 Characterization.

(a) It is the intention of the parties hereto that each purchase hereunder shall constitute and be treated as an absolute and irrevocable sale, which purchase shall provide the applicable Purchaser with the full benefits of ownership of the applicable Purchaser Interest. Except as specifically provided in this Agreement, each sale of a Purchaser Interest hereunder is made without recourse to Seller; provided, however, that (i) Seller shall be liable to each Purchaser and the Collateral Agent for all representations, warranties and covenants made by Seller pursuant to the terms of this Agreement, and (ii) such sale does not constitute and is not intended to result in an assumption by any Purchaser or the Collateral Agent or any assignee thereof of any obligation of Seller, CGSF or the Originator or any other person arising in connection with the Receivables, the Related Security, or the related Contracts, or any other obligations of Seller, CGSF or the Originator.

(b) The Seller hereby grants to the Collateral Agent for the ratable benefit of the Purchasers a valid and perfected security interest in all of Seller's right, title and interest in, to and under all Receivables now existing or hereafter arising, the Collections, each Collection Account, all Related Security, all other rights and payments relating to such Receivables, all of Seller's rights under the Receivables Sale Agreements and all proceeds of any thereof to secure the prompt and complete payment of the Aggregate Unpaid. After an Amortization Event, the Collateral Agent and the Purchasers shall have, in addition to the rights and remedies that they may have under this Agreement, all other rights and remedies provided to a secured creditor after default under the UCC and other applicable law, which rights and remedies shall be cumulative.

Section 12.15 Amendment and Restatement. This Agreement amends, restates and supersedes in its entirety the Original RPA and shall not constitute a novation thereof. It is the intent of each of the parties hereto that all references to the Original RPA in any Transaction Document to which such party is a party and which becomes or remains effective on or after the date hereof shall be deemed to mean and be references to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their duly authorized officers as of the date hereof.

CGSF FUNDING CORPORATION, as the Seller

By: /s/ Lanette A. Frostestad

Name: Lanette A. Frostestad

Title: Vice President and Treasurer

Address:

One Post Street

San Francisco, California 94104

Fax: (415) 983-9369

McKESSON CORPORATION, as the Servicer

By: /s/ Nicholas A. Loiacono

Name: Nicholas A. Loiacono

Title: Vice President and Treasurer

Address:

One Post Street

San Francisco, California 94104

Fax: (415) 983-9369

*Signature Page to
Amended and Restated Receivables Purchase Agreement*

PREFERRED RECEIVABLES FUNDING
CORPORATION, as a Conduit Purchaser

By: /s/ George S. Wilkins

Authorized Signatory

Address:

c/o Bank One, NA (Main Office Chicago)
Asset Backed Finance
Suite 0079, 1-19
1 Bank One Plaza
Chicago, Illinois 60670-0019
Fax: (312) 732-1844

FALCON ASSET SECURITIZATION
CORPORATION, as a Conduit Purchaser

By: /s/ George S. Wilkins

Authorized Signatory

Address:

c/o Bank One, NA (Main Office Chicago)
Asset Backed Finance
Suite 0079, 1-19
1 Bank One Plaza
Chicago, Illinois 60670-0019
Fax: (312) 732-1844

BANK ONE, NA (MAIN OFFICE CHICAGO),
as a Committed Purchaser, a Managing Agent and as
Collateral Agent

By: /s/ George S. Wilkins

Name: George S. Wilkins

Title: Director, Capital Markets

Address:

Bank One, NA (Main Office Chicago)
Asset Backed Finance
Suite 0596, 1-21
1 Bank One Plaza
Chicago, Illinois 60670-0596
Fax: (312) 732-4487

*Signature Page to
Amended and Restated Receivables Purchase Agreement*

BLUE RIDGE ASSET FUNDING CORPORATION, as a
Conduit Purchaser

By: Wachovia Capital Markets, LLC, as Attorney-In-Fact

By: /s/ Douglas R. Wilson

Name: DOUGLAS R. WILSON, SR.

Title: VICE PRESIDENT

Address:

301 South College Street

Charlotte, NC 28288

Fax: (704) 383-9579

WACHOVIA BANK, NATIONAL ASSOCIATION., as a
Committed Purchaser and a Managing Agent

By: _____

Name: Gary G. Fleming Jr.

Title: Director

Address:

191 Peachtree Street, NE

Atlanta, Georgia 30303

Fax: (404) 332-5152

*Signature Page to
Amended and Restated Receivables Purchase Agreement*

BLUE RIDGE ASSET FUNDING CORPORATION, as a
Conduit Purchaser

By: Wachovia Capital Markets, LLC, as Attorney-In-Fact

By: _____

Name:

Title:

Address:

301 South College Street

Charlotte, NC 28288

Fax: (704) 383-9579

WACHOVIA BANK, NATIONAL ASSOCIATION., as a
Committee Purchaser and a Managing Agent

By: /s/ Gary G. Fleming _____

Name: Gary G. Fleming Jr.

Title: Director

Address:

191 Peachtree Street, NE

Atlanta, Georgia 30303

Fax: (404) 332-5152

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LIBERTY STREET FUNDING CORP, as a Conduit
Purchaser

By: /s/ Bernard J. Angelo

Name: Bernard J. Angelo

Title: Vice President

Address:

c/o Global Securitization Services, LLC

445 Broadhollow Road, Suite 239

Melville, New York 11747

Attention: Andrew L. Stidd

Fax: (212) 302-8767

THE BANK OF NOVA SCOTIA, as a Committed
Purchaser and as Managing Agent

By: _____

Name:

Title:

Address:

One Liberty Plaza

New York, New York 10006

Attention: Michael Eden

Fax: (212) 225-5090

*Signature Page to
Amended and Restated Receivables Purchase Agreement*

LIBERTY STREET FUNDING CORP, as a Conduit
Purchaser

By: _____
Name:
Title:

Address:
c/o Global Securitization Services, LLC
445 Broadhollow Road, Suite 239
Melville, New York 11747
Attention: Andrew L. Stidd
Fax: (212) 302-8767

THE BANK OF NOVA SCOTIA, as a Committed
Purchaser and as Managing Agent

By: /s/ Michael Eden _____
Name: MICHAEL EDEN
Title: DIRECTOR

Address:
One Liberty Plaza
New York, New York 10006
Attention: Michael Eden
Fax: (212) 225-5090

*Signature Page to
Amended and Restated Receivables Purchase Agreement*

THREE PILLARS FUNDING LLC, as a Conduit
Purchaser and as a Committed Purchaser

By: /s/ Evelyn Echevarria

Name: EVELYN ECHEVARRIA

Title: VICE PRESIDENT

Address:

c/o AMACAR Group, L.L.C.

6525 Morrison Boulevard

Suite 318

Charlotte, North Carolina 28211

Attention: Douglas K. Johnson

Fax: (704) 365-1362

SUNTRUST CAPITAL MARKETS, INC., as Managing
Agent

By: _____

Name:

Title:

Address:

303 Peachtree Street, NE

24th Floor, MC 3950

Atlanta, Georgia 30308

Attention: Securitization Asset Management Group

Fax: (404) 813-5000

*Signature Page to
Amended and Restated Receivables Purchase Agreement*

THREE PILLARS FUNDING LLC, as a Conduit
Purchaser and as a Committed Purchaser

By: _____
Name:
Title:

Address:
c/o AMACAR Group, L.L.C.
6525 Morrison Boulevard
Suite 318
Charlotte, North Carolina 28211
Attention: Douglas K. Johnson
Fax: (704) 365-1362

SUNTRUST CAPITAL MARKETS, INC., as Managing
Agent

By: /s/ James R. Bennison
Name : James R. Bennison
Title: Managing Director

Address:
303 Peachtree Street, NE
24th Floor, MC 3950
Atlanta, Georgia 30308
Attention: Securitization Asset Management Group
Fax: (404) 813-5000

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Amended and Restated Receivables Purchase Agreement*

GOTHAM FUNDING CORPORATION, as a Conduit
Purchaser

By: /s/ R. Douglas Donaldson

Name : R. Douglas Donaldson

Title: Treasurer

Address:

c/o J.H. Management Corporation

One International Plaza

Boston, MA 02110

Attention: Nancy D. Smith

Fax: (617) 951-7050

Tel: (617) 951-7690

THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK
BRANCH, as a Managing Agent and a Committed Purchaser

By: _____

Name:

Title:

Address:

1251 Avenue of the Americas

New York, New York 10020

Attention: Securitization Group

Fax: (212) 782-6998

*Signature Page to
Amended and Restated Receivables Purchase Agreement*

GOTHAM FUNDING CORPORATION, as a Conduit
Purchaser

By: _____

Name:

Title:

Address:

c/o J.H. Management Corporation

One International Plaza

Boston, MA 02110

Attention: Nancy D. Smith

Fax: (617) 951-7050

Tel: (617) 951-7690

THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK
BRANCH, as a Managing Agent and a Committed Purchaser

By: /s/ Koji Baba _____

Name: KOJI BABA

Title: SVP & Group Head

Address:

1251 Avenue of the Americas

New York, New York 10020

Attention: Securitization Group

Fax: (212) 782-6998

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NIEUW AMSTERDAM RECEIVABLES CORPORATION, as
a Conduit Purchaser

By: /s/ Tony Wong

Name: Tony Wong

Title : Vice President

Address:

c/o Global Securitization Services, LLC

445 Broadhollow Road, Suite 239

Melville, New York 11747

Attention: Tony Wong

Fax: (212) 302-8767

COOPERATIEVE CENTRALE RAIFFEISEN-
BOERENLEENBANK B.A., "RABOBANK
INTERNATIONAL", NEW YORK BRANCH, as a Committed
Purchaser and a Managing Agent

By: _____

Name:

Title:

By: _____

Name:

Title:

Address:

Rabobank International, New York Branch

245 Park Avenue

New York, New York 100167

Attention: Neetu Mohan

Fax: (212) 309-5120

*Signature Page to
Amended and Restated Receivables Purchase Agreement*

NIEUW AMSTERDAM RECEIVABLES CORPORATION , as
a Conduit Purchaser

By: _____
Name:
Title:

Address:
c/o Global Securitization Services, LLC
445 Broadhollow Road, Suite 239
Melville, New York 11747
Attention: Tony Wong
Fax: (212) 302-8767

COOPERATIEVE CENTRALE RAIFFEISEN-
BOERENLEENBANK B.A., "RABOBANK
INTERNATIONAL", NEW YORK BRANCH, as a Committed
Purchaser and a Managing Agent

By: /s/ James Han
Name: James Han
Title: Vice President

By: /s/ Brett Delfino
Name: Brett Delfino
Title: Executive Director

Address:
Rabobank International, New York Branch
245 Park Avenue
New York, New York 100167
Attention: Neetu Mohan
Fax: (212) 309-5120

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EXHIBIT I

DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

“Accrual Period” means each calendar month, provided that the initial Accrual Period hereunder means the period from (and including) the date of the initial purchase hereunder to (and including) the last day of the calendar month thereafter.

“Adverse Claim” means a lien, security interest, charge or encumbrance, or other right or claim in, of or on any Person’s assets or properties in favor of any other Person.

“Affected Committed Purchaser” has the meaning specified in Section 11.1(c).

“Affiliate” means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or any Subsidiary of such Person. A Person shall be deemed to control another Person if the controlling Person owns 10% or more of any class of voting securities of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

“Collateral Agent” has the meaning set forth in the preamble to this Agreement.

“Aggregate Capital” means, at any time, the sum of all Capital of all Purchaser Interests.

“Aggregate Reduction” has the meaning specified in Section 1.3.

“Aggregate Reserves” means, on any date of determination, the sum of the Loss Reserve, the Discount and Servicing Fee Reserve and the Dilution Reserve.

“Aggregate Unpaid” means, at any time, an amount equal to the sum of all Capital and all other unpaid Obligations (whether due or accrued) at such time.

“Agreement” means this Amended and Restated Receivables Purchase Agreement, as it may be amended or modified and in effect from time to time.

“Alternate Base Rate” means, for any day, the rate per annum equal to the higher as of such day of (i) the Prime Rate or (ii) one-half of one percent (0.50%) per annum above the Federal Funds Effective Rate. For purposes of determining the Alternate Base Rate for any day, changes in the Prime Rate or the Federal Funds Effective Rate shall be effective on the date of each such change. The Alternate Base Rate is not necessarily intended to be the lowest rate of interest determined by Wachovia in connection with extensions of credit.

“Amortization Date” means the earliest to occur of (i) the day on which any of the conditions precedent set forth in Section 5.2 are not satisfied, (ii) the Business Day immediately prior to the occurrence of an Amortization Event set forth in Section 8.1(d), (iii) the Business Day specified in a written notice from the Collateral Agent pursuant to Section 8.2 following the occurrence of any other Amortization Event, and (iv) the date which is sixty (60) Business Days after the Collateral Agent’s receipt of written notice from Seller that it wishes to terminate the facility evidenced by this Agreement.

“Amortization Event” has the meaning specified in Article VIII.

“Applicable Margin” means, on any date and with respect to each funding made at the LIBO Rate, the number of basis points per annum set forth under the heading “Eurodollar Rate +” which corresponds to the “Debt Rating” of McKesson on such date, under and as defined in the definition of “Applicable Rate” set forth in the Revolving Credit Agreement; provided, however, that if (i) the Revolving Credit Agreement terminates, by acceleration or otherwise, and is replaced by a successor or replacement facility of similar tenor, “Applicable Margin” shall mean, on any date and with respect to each funding made at the LIBO Rate, the number of basis points per annum in excess of the eurodollar rate or London-interbank offered rate (or similar rate howsoever denominated) set forth in the agreement evidencing such replacement or successor facility, applicable on such date to advances or loans funded by the lenders to McKesson thereunder which pursuant to the terms thereof accrue interest at such rate or (ii) the Revolving Credit Agreement terminates, by acceleration or otherwise, and is not replaced by a successor or replacement facility of similar tenor, “Applicable Margin” shall mean, on any date and with respect to each funding made at the LIBO Rate, the number of basis points per annum set forth under the heading “Eurodollar Rate +” which corresponds to the “Debt Rating” of McKesson under and as defined in the definition of “Applicable Rate” set forth in the Revolving Credit Agreement on the date of such termination.

“Assignment Agreement” has the meaning set forth in Section 11.1(b).

“Authorized Officer” shall mean, with respect to any Seller Party, its respective corporate controller, treasurer, assistant treasurer, vice president-finance or chief financial officer and, in addition, in the case of the Seller, its president so long as the president retains the duties of a financial officer of the Seller.

“Bank One” has the meaning set forth in the preamble to this Agreement.

“Bank One Group Reference Bank” means Bank One or such other bank as Bank One shall designate with the consent of Seller.

“Base Rate” means:

(a) with respect to PREFCO and its Committed Purchasers and Falcon and its Committed Purchasers, a rate per annum equal to the corporate base rate, prime rate or base rate of interest, as applicable, announced by the Bank One Group Reference Bank from time to time, changing when and as such rate changes;

(b) with respect to Blue Ridge and its Committed Purchasers, the Alternate Base Rate;

(c) with respect to Liberty Street and its Committed Purchasers, a rate per annum equal to the corporate base rate, prime rate or base rate of interest, as applicable, announced by the Scotia Group Reference Bank from time to time, changing when and as such rate changes;

(d) with respect to Three Pillars, on any date of determination, a fluctuating rate of interest per annum equal to the higher of (i) the rate of interest most recently announced by SunTrust as its “prime rate”, changing when and as such rate changes and (ii) the SunTrust Federal Funds Rate most recently determined by SunTrust plus 0.50% per annum (it being understood that the Base Rate is not necessarily intended to be the lowest rate of interest determined by SunTrust in connection with extensions of credit);

(e) with respect to Gotham and its Committed Purchasers, on any date, a fluctuating rate of interest per annum equal to the higher of (i) the rate of interest most recently announced by BTM Trust Company in New York, New York as its “prime rate” and (ii) the BTM Federal Funds Rate most recently determined by BTM plus 0.50% per annum (it being understood that the Base Rate is not necessarily intended to be the lowest rate of interest determined by BTM in connection with extensions of credit); and

(f) with respect to Nieuw Amsterdam and its Committed Purchasers, on any date, a fluctuating interest rate per annum equal to the higher of (i) the per annum rate of interest announced from time to time by Rabobank International, New York Branch as its “base rate” and (ii) 0.50% per annum above the Rabobank Federal Funds Rate.

“Blue Ridge” means Blue Ridge Funding Corporation, in its individual capacity, and its successors.

“Broken Funding Costs” means for any Purchaser Interest which: (i) has its Capital reduced without compliance by the Seller with the notice requirements hereunder or (ii) does not become subject to an Aggregate Reduction following the delivery of any Reduction Notice or (iii) is assigned under Article XI or terminated prior to the date on which it was originally scheduled to end; an amount equal to the excess, if any, of (A) Yield that would have accrued during the remainder of the Tranche Periods (or, in the case of Purchaser Interests funded through Pooled Commercial Paper, the tranche periods for such Pooled Commercial Paper) determined by the Collateral Agent or the applicable Managing Agent to relate to such Purchaser Interest (as applicable) subsequent to the date of such reduction or termination (or in respect of clause (ii) above, the date such Aggregate Reduction was designated to occur pursuant to the Reduction Notice) of the Capital of such Purchaser Interest if such reduction, assignment or termination had not occurred or such Reduction Notice had not been delivered, over (B) the sum of (x) to the extent all or a portion of such Capital is allocated to another Purchaser Interest, the amount of Yield actually accrued during the remainder of such period on such Capital for the new Purchaser Interest, and (y) to the extent such Capital is not allocated to another Purchaser Interest, the income, if any, actually received during the remainder of such period by the holder

of such Purchaser Interest from investing the portion of such Capital not so allocated. All Broken Funding Costs shall be due and payable hereunder upon demand.

“BTM” means The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, in its individual capacity and its successors.

“BTM Federal Funds Rate” means, for any period, a fluctuating interest rate per annum equal for each day during such period equal to (a) the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the preceding Business Day) by the Federal Reserve Bank of New York in the Composite Closing Quotations for U.S. Government Securities; or (b) if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by BTM from three federal funds brokers of recognized standing selected by it.

“BTM Group Reference Bank” means BTM or such other bank as BTM shall designate with the consent of Seller.

“Business Day” means any day on which banks are not authorized or required to close in New York, New York, Atlanta, Georgia, San Francisco, California or Chicago, Illinois and The Depository Trust Company of New York is open for business, and, if the applicable Business Day relates to any computation or payment to be made with respect to the LIBO Rate, any day on which dealings in dollar deposits are carried on in the London interbank market.

“Capital” of any Purchaser Interest means, at any time, (A) the Purchase Price of such Purchaser Interest, minus (B) the sum of the aggregate amount of Collections and other payments received by the Collateral Agent which in each case has been applied to reduce such Capital in accordance with the terms and conditions of this Agreement; provided, that such Capital shall be restored (in accordance with Section 2.5) in the amount of any Collections or other payments so received and applied if at any time the distribution of such Collections or payments are rescinded, returned or refunded for any reason.

“CGSF” means California Golden State Finance Company, a California corporation.

“Change of Control” means, (i) with respect to McKesson, the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 51% or more of the outstanding shares of voting stock of McKesson and (ii) with respect the Seller or CGSF, McKesson’s failure to own, directly or indirectly, 100% of the issued and outstanding capital stock of the applicable entity.

“Collateral Agent” has the meaning set forth in the preamble to this Agreement.

“Collection Account” means each concentration account, depository account, lock-box account or similar account in which any Collections are collected or deposited and which is listed on Exhibit IV.

“Collection Account Agreement” means an agreement substantially in the form of Exhibit VI, or such other agreement in form and substance acceptable to the Collateral Agent, among the Originator, Seller, the Collateral Agent and a Collection Bank.

“Collection Bank” means, at any time, any of the banks holding one or more Collection Accounts.

“Collection Notice” means a notice, in substantially the form of Annex A to Exhibit VI, from the Collateral Agent to a Collection Bank.

“Collection Period” means each calendar month.

“Collections” means, with respect to any Receivable, all cash collections and other cash proceeds in respect of such Receivable, including, without limitation, all yield, finance charges or other related amounts accruing in respect thereof and all cash proceeds of Related Security with respect to such Receivable.

“Commercial Paper” means promissory notes of any Conduit Purchaser issued by such Conduit Purchaser in the commercial paper market.

“Commitment” means, for each Committed Purchaser, the commitment of such Committed Purchaser to purchase its Pro Rata Share of Purchaser Interests from (i) Seller and (ii) the Conduit Purchasers, such Pro Rata Share not to exceed, in the aggregate, the amount set forth opposite such Committed Purchaser’s name on Schedule A to this Agreement, as such amount may be modified in accordance with the terms hereof.

“Committed Purchaser” has the meaning set forth in the preamble to this Agreement. As of the Effective Date, the Committed Purchasers are Bank One, Wachovia, Scotia, Three Pillars, BTM and Rabobank.

“Concentration Limit” means, at any time, for any Obligor, the maximum amount of Receivables owned by the Seller which may be owing from such Obligor, which at any time shall be equal to such Obligor’s Standard Concentration Limit or Special Concentration Limit, as applicable by definition from such Obligor; provided, that in the case of an Obligor and any Affiliate of such Obligor, the Concentration Limit shall be calculated as if such Obligor and such Affiliate are one Obligor.

“Conduit Purchaser” has the meaning set forth in the preamble to this Agreement. As of the Effective Date, the Conduit Purchasers are PREFCO, Falcon, Blue Ridge, Liberty Street, Three Pillars, Gotham and Nieuw Amsterdam.

“Contingent Obligation” of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement, take-or-pay contract or application for a letter of credit.

“Contract” means, with respect to any Receivable, any and all instruments, agreements, invoices or other writings pursuant to which such Receivable arises or which evidences such Receivable.

“CP Rate” means, with respect to any Conduit Purchaser for any CP Tranche Period, the rate equivalent to the rate (or if more than one rate, the weighted average of the rates) at which Commercial Paper issued by such Conduit Purchaser having a term equal to such CP Tranche Period are sold by plus any and all applicable issuing and paying agent fees and commissions of placement agents and commercial paper dealers in respect of such Commercial Paper and other costs associated with funding small or odd-lot amounts; provided, however, that if the rate (or rates) as agreed between any such agent or dealer and the applicable Conduit Purchaser is a discount rate (or rates), the “CP Rate” for such Conduit Purchaser for such CP Tranche Period shall be the rate (or if more than one rate, the weighted average of the rates) resulting from the relevant Managing Agent’s converting such discount rate (or rates) to an interest-bearing equivalent rate per annum.

Notwithstanding the foregoing, with respect to Purchaser Interests funded through Pooled Commercial Paper, the CP Rate for any CP Tranche Period means:

(i) in the case of Liberty Street, the per annum rate equivalent to the weighted average cost (as determined by its Managing Agent and which shall include commissions of placement agents and dealers, incremental carrying costs incurred with respect to Pooled Commercial Paper maturing on dates other than those on which corresponding funds are received by Liberty Street, other borrowings by Liberty Street (other than under any commercial paper program support agreement) and any other costs associated with the issuance of Pooled Commercial Paper) of or related to the issuance of Pooled Commercial Paper that are allocated, in whole or in part, by Liberty Street or its Managing Agent to fund or maintain its Purchaser Interests (and which may be also allocated in part to the funding of other assets of Liberty Street) during such CP Tranche Period; provided, however, that if any component of such rate is a discount rate, in calculating the “CP Rate” for Liberty Street for such Purchaser Interest for such CP Tranche Period, Liberty Street shall for such component use the rate resulting from converting such discount rate to an interest-bearing equivalent rate per annum; and

(ii) in the case of PREFCO and Falcon, for each day during the related CP Tranche Period, the sum of (a) discount accrued on Pooled Commercial Paper of such Conduit Purchaser on such day, plus (b) any and all accrued commissions in respect of placement agents and Commercial Paper dealers, and issuing and paying agent fees incurred, in respect of such Pooled Commercial Paper for such day, plus (iii) other costs associated with funding small or odd-lot amounts with respect to all receivable purchase facilities which are funded by Pooled Commercial Paper of such Conduit Purchaser for such day, minus (iv) any accrual of income net of expenses received on such day from investment of collections received under all receivable purchase facilities funded substantially with Pooled Commercial Paper, minus (v) any payment received on such day net of expenses in respect of Broken Funding Costs related to the prepayment of any receivables interest of such Conduit Purchaser pursuant to the terms

of any receivable purchase facilities funded substantially with Pooled Commercial Paper, as calculated by its Managing Agent on the tenth (10th) Business Day immediately preceding each Settlement Date based on the aggregate amount of such costs for the applicable CP Tranche Period and the number of days during which Capital was outstanding during such period and notified to the Seller for each of PREFCO and Falcon, without the need to express such CP Rate as a per annum rate. In addition to the foregoing costs, if Seller shall request any Incremental Purchase during any period of time determined by Bank One, in its capacity as the Managing Agent for PREFCO and Falcon in its sole discretion to result in incrementally higher costs of Pooled Commercial Paper applicable to such Incremental Purchase, the Capital of the Purchaser Interest associated with any such Incremental Purchase shall, during such period, be deemed to be funded by PREFCO and/or Falcon, as applicable, in a special pool (which may include capital associated with other receivable purchase facilities) for purposes of determining the CP Rate applicable only to such special pool and charged each day during such period against such Capital;

(iii) in the case of Nieuw Amsterdam, the per annum rate equal to the weighted average of the per annum rates paid or payable by Nieuw Amsterdam from time to time as interest on Pooled Commercial Paper (by means of interest rate hedges or otherwise and taking into consideration any incremental carrying costs associated with Pooled Commercial Paper Notes issued by Nieuw Amsterdam maturing on dates other than those certain dates on which it is to receive funds) in respect of Pooled Commercial Paper issued by it that is allocated, in whole or in part, to fund or maintain its Purchaser Interests during any applicable CP Tranche, which rates shall reflect and give effect to (A) the commissions of placement agents and dealers in respect of such Pooled Commercial Paper, to the extent such commissions are reasonably allocated, in whole or in part, to such Pooled Commercial Paper and (B) other borrowings by Nieuw Amsterdam, including, without limitation, borrowings to fund small or odd dollar amounts that are not easily accommodated in the commercial paper market; provided, that if any component of such rate is a discount rate, in calculating the “CP Rate”, there shall be used in lieu thereof the rate resulting from converting such discount rate to an interest bearing equivalent rate per annum; and

(iv) with respect to any other Conduit Purchaser which elects to fund Purchaser Interests through Pooled Commercial Paper, such rate as may be mutually agreed upon in writing by the Seller, such Conduit Purchaser and such Conduit Purchaser’s Managing Agent and notified in writing to the other parties hereto.

“CP Tranche Period” means a period of not less than one (1) nor more than ninety (90) days, commencing on a Business Day requested by the Seller and agreed to by the applicable Managing Agent pursuant to Section 1.2; provided, however, that the CP Tranche Period for any Purchaser Interest funded through Pooled Commercial Paper shall be (i) the date from which such Purchaser Interest ceases to be allocated to a CP Tranche Period pursuant to Section 1.2 until the last Business Day of the Accrual Period in which such CP Tranche Period ended and (ii) thereafter each Accrual Period.

“Credit and Collection Policy” means Seller’s credit and collection policies and practices relating to Contracts and Receivables existing on the date hereof and summarized in Exhibit VIII hereto, as modified from time to time in accordance with this Agreement.

“Deemed Collections” means the aggregate of all amounts Seller shall have been deemed to have received as a Collection of a Receivable. Seller shall be deemed to have received a Collection in full of a Receivable if at any time (i) the Outstanding Balance of any such Receivable is either (x) reduced as a result of any defective or rejected goods or services, any discount or any adjustment or otherwise by Seller (other than cash Collections on account of the Receivables) or (y) reduced or canceled as a result of a setoff in respect of any claim by any Person (whether such claim arises out of the same or a related transaction or an unrelated transaction) or (ii) any of the representations or warranties in Article IV are no longer true with respect to such Receivable.

“Defaulted Receivable” means a Receivable: (i) as to which the Obligor thereof has taken any action, or suffered any event to occur, of the type described in Section 8.1(d) (as if references to Seller Party therein refer to such Obligor); (ii) which, consistent with the Credit and Collection Policy, would be written off Seller’s books as uncollectible, (iii) which has been identified by Seller as uncollectible in accordance with the Credit and Collection Policy or (iv) as to which any payment, or part thereof, remains unpaid for ninety (90) days or more from the original due date for such payment.

“Default Fee” means with respect to any amount due and payable by Seller in respect of any Aggregate Unpaid, an amount equal to the greater of (i) \$1000 and (ii) interest on any such unpaid Aggregate Unpaid at a rate per annum equal to 2% above the Base Rate.

“Default Proxy Ratio” means, as of the last day of any Collection Period, a fraction (calculated as a percentage) equal to (i) the aggregate gross debit Outstanding Balance of all Receivables (without duplication) which remain unpaid for more than sixty (60) but less than ninety-one (91) or more days from the original due date at any time during the Collection Period then ending plus the aggregate Outstanding Balance of all Receivables (without duplication) which, consistent with the Credit and Collection Policy, were or should have been written off the Seller’s books as uncollectible and are less than ninety (90) days old during such period plus the aggregate Outstanding Balance of all Receivables (without duplication) with respect to which the related Obligors are subject to a proceeding of the type described in Section 8.1(d) but which have not yet been written off the Seller’s books as uncollectible, divided by (ii) the aggregate Outstanding Balance of all Receivables generated during the Collection Period which ended three (3) Collection Periods prior to such last day.

“Delinquency Ratio” means, as of the last day of any Collection Period, a fraction (calculated as a percentage) equal to (i) the aggregate Outstanding Balance of all Receivables that were Delinquent Receivables at such time and as of the last day of the two (2) preceding Collection Periods by (ii) the sum of the aggregate Outstanding Balance of all Receivables as of the last day of each of such three (3) Collection Periods.

“Delinquent Receivable” means a Receivable as to which any payment, or part thereof, remains unpaid for sixty (60) days or more from the original due date for such payment.

“Designated Obligor” means an Obligor indicated by the Collateral Agent to Seller in writing.

“Dilution Horizon Ratio” means, as of any date as set forth in the most recent Monthly Report, a ratio computed by dividing (i) the aggregate of all Receivables generated during the most recently ended Collection Period by (ii) the aggregate Outstanding Balance of total Eligible Receivables as at the last day of the most recently ended Collection Period.

“Dilution Ratio” means, for any Collection Period, the ratio (expressed as a percentage) computed as of the last day of such Collection Period by dividing (i) an amount equal to the aggregate reductions in the Outstanding Balance of any Receivable as a result of any Dilutions during such Collection Period by (ii) the aggregate Outstanding Balance of all Receivables generated during such Collection Period.

“Dilution Reserve” means, on any date, an amount equal to (x) the greater of (i) 3% and (ii) the Dilution Reserve Ratio then in effect times (y) the aggregate Outstanding Balance of Eligible Receivables (net of Earned Discounts and quarterly volume rebates) as of the close of business on the immediately preceding Business Day.

“Dilution Reserve Ratio” means, as of any date, an amount calculated as follows:

$$\text{DRR} = [(2.0 \times \text{ADR}) + [(\text{HDR} - \text{ADR}) \times (\text{HDR} / \text{ADR})]] \times \text{DHR}$$

where:

DRR = the Dilution Reserve Ratio;

ADR = the average of the Dilution Ratios for the past twelve Collection Periods;

HDR = the highest average of the Dilution Ratios for any three consecutive Collection Periods during the most recent twelve months; and

DHR = the Dilution Horizon Ratio.

The Dilution Reserve Ratio shall be calculated monthly in each Monthly Report and such Dilution Reserve Ratio shall, absent manifest error, be effective from the corresponding Monthly Settlement Date until the next succeeding Monthly Settlement Date.

“Dilutions” means, at any time, the aggregate amount of reductions or cancellations described in clause (i) of the definition of “Deemed Collections”, other than (a) the aggregate dollar amount of all reductions in the aggregate Outstanding Balance of all Receivables resulting from discounts earned by Obligors due to payments made by such Obligors on account of Receivables within their payment terms and (b) volume rebates.

“Disclosed Matters” means (i) those matters described in McKesson’s press release dated April 28, 1999 (the “Press Release”), (ii) litigation which (A) is related to the matters disclosed in the Press Release and (B) has been disclosed to the Collateral Agent, the

Managing Agents and the Purchasers prior to the Effective Date, and (iii) other matters related to the matters disclosed in the Press Release which have been publicly disclosed by McKesson in its filings with the Securities and Exchange Commission prior to the Effective Date.

“Discount and Servicing Fee Reserve” means, on any date, the sum of (i) one and one-half of one percent (1.5%) times the lower of the Net Receivables Balance and the Purchase Limit as of the close of business on the immediately preceding Business Day plus (ii) the average outstanding amount of accrued and unpaid Yield and fees during the preceding Collection Period, such component to be calculated in each Monthly Report which component shall, absent manifest error, become effective from the corresponding Monthly Settlement Date until the next succeeding Monthly Settlement Date. The Collateral Agent shall estimate the component of the Discount and Servicing Fee Reserve described in clause (ii) above for the period from the initial purchase hereunder until the first Monthly Settlement Date.

“Discount Rate” means the CP Rate, the LIBO Rate or the Base Rate, as applicable, with respect to each Purchaser Interest.

“Dollars”, “\$” or “U.S.\$” means United States dollars.

“Earned Discounts” means, as of any date of determination, the sum of (a) the aggregate dollar amount of all rebate accruals resulting from volume discounts earned by Obligor for reasons other than payments made by such Obligor on account of Receivables within their payment terms and (b) an amount equal to the product of (i) 2.0% and (ii) the aggregate Outstanding Balance of all Receivables (net of quarterly volume rebates).

“Effective Date” means June 11, 2004.

“Eligible Receivable” means, at any time, a Receivable:

(i) the Obligor of which (a) if a corporation or other business organization, including any sole proprietorship, is organized under the laws of the United States or any political subdivision thereof and has its chief executive office in the United States; provided, however, that nothing contained herein shall preclude any natural person from providing a personal guarantee in favor of a corporation or other business organization, including any sole proprietorship, with respect to any Receivable; (b) is not an Affiliate of any of the parties hereto; and (c) is not a Designated Obligor,

(ii) the Obligor of which is not an Obligor on Defaulted Receivables, the balance of which exceeds twenty-five percent (25%) or more of such Obligor’s Receivables,

(iii) which is not a Defaulted Receivable or a Delinquent Receivable,

(iv) which (i) by its terms is due and payable within thirty (30) days of the original billing date therefor and has not had its payment terms extended or (ii) is an Extended Term Receivable,

(v) which is an “account” within the meaning of Section 9-105 of the UCC of all applicable jurisdictions,

(vi) which is denominated and payable only in United States dollars in the United States,

(vii) which arises under a Contract in substantially the form of one of the form contracts set forth on Exhibit IX hereto or otherwise approved by the Collateral Agent in writing, which, together with such Receivable, is in full force and effect and constitutes the legal, valid and binding obligation of the related Obligor enforceable against such Obligor in accordance with its terms subject to no offset, rescission, counterclaim or other defense,

(viii) which arises under a Contract which (A) does not require the Obligor under such Contract to consent to the transfer, sale or assignment of the rights and duties of Seller under such Contract and (B) does not contain a confidentiality provision that purports to restrict the ability of any Purchaser to exercise its rights under this Agreement.

(ix) which arises under a Contract that contains an obligation to pay a specified sum of money, contingent only upon the sale of goods or the provision of services by the Originator, which goods shall have been sold and delivered and which services shall have been fully performed,

(x) which, together with the Contract related thereto, does not contravene any law, rule or regulation applicable thereto (including, without limitation, any law, rule and regulation relating to truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy) and with respect to which no part of the Contract related thereto is in violation of any such law, rule or regulation,

(xi) which satisfies in all material respects all applicable requirements of the Credit and Collection Policy,

(xii) which was generated in the ordinary course of Originator’s business pursuant to duly authorized Contracts,

(xiii) which arises solely from the sale of goods or the provision of services, within the meaning of Section 3(c)(5) of the Investment Company Act of 1940, to the related Obligor by Originator, and not by any other Person (in whole or in part),

(xiv) which has been validly transferred by (a) the Originator to CGSF under the Tier One Receivables Sale Agreement and (b) by CGSF to the Seller under the Tier Two Receivables Sale Agreement, and

(xv) in which the Collateral Agent has a valid and perfected security interest.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“Extended Term Receivable” means a Receivable which by its terms is due and payable more than thirty (30) but less than sixty-one (61) days after the original billing date therefor and has not had its payment terms extended.

“Extended Term Receivables Limit” means, at any time, with respect to all Extended Term Receivables, an amount equal to 5% of the aggregate Outstanding Balance of all Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time.

“Facility Termination Date” means the earlier of June 11, 2007 and the Liquidity Termination Date.

“Falcon” means Falcon Asset Securitization Corporation, in its individual capacity, and its successors.

“Federal Funds Effective Rate” means, for any period, a fluctuating interest rate per annum equal for each day during such period equal to (a) the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the preceding Business Day) by the Federal Reserve Bank of New York in the Composite Closing Quotations for U.S. Government Securities; or (b) if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:30 a.m. (Chicago time) for such day on such transactions received by Wachovia from three federal funds brokers of recognized standing selected by it.

“Fee Letter” means that certain Fourth Amended and Restated Fee Letter dated as of the Effective Date among the Seller, the Originator, the Managing Agents and the Collateral Agent, as it may be amended, restated, supplemented or otherwise modified and in effect from time to time.

“Finance Charges” means, with respect to a Contract, any finance, interest, late payment charges or similar charges owing by an Obligor pursuant to such Contract.

“Fitch” means Fitch, Inc. and any successor thereto.

“Funding Agreement” means this Agreement and any agreement or instrument executed by any Funding Source with or for the benefit of a Conduit Purchaser.

“Funding Source” means (i) any Committed Purchaser or (ii) any insurance company, bank or other funding entity providing liquidity, credit enhancement or back-up purchase support or facilities to a Conduit Purchaser.

“Gotham” means Gotham Funding Corporation, a Delaware corporation, in its individual capacity and its successors.

“Government Receivable” means a Receivable, the Obligor of which is a government or a governmental subdivision or agency.

“Government Receivables Limit” means, at any time, with respect to all Government Receivables, an amount equal to 3% of the aggregate Outstanding Balance of all Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time.

“Incremental Purchase” means a purchase of one or more Purchaser Interests which increases the total outstanding Capital hereunder.

“Indebtedness” of a Person means such Person’s (i) obligations for borrowed money, (ii) obligations representing the deferred purchase price of property or services (other than accounts payable arising in the ordinary course of such Person’s business payable on terms customary in the trade), (iii) obligations, whether or not assumed, secured by liens or payable out of the proceeds or production from property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances, or other instruments, (v) capitalized lease obligations, (vi) net liabilities under interest rate swap, exchange or cap agreements, (vii) Contingent Obligations and (viii) liabilities in respect of unfunded vested benefits under plans covered by Title IV of ERISA.

“Independent Director” shall mean a member of the Board of Directors of the Seller who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Seller or any Affiliate of the Seller and (iii) is not connected as an officer, employee, promoter, underwriter, trustee, partner, director of person performing similar functions within the Seller, any Affiliate of the Seller or any Person with a material direct or indirect financial interest in the Seller.

“Joinder Agreement” has the meaning set forth in Section 11.3.

“Liberty Street” means Liberty Street Funding Corp., in its individual capacity, and its successors.

“LIBO Business Day” means a day of the year on which dealings in U.S. Dollar deposits are carried on the London interbank market.

“LIBO Rate” means:

(a) with respect to PREFCO and its Committed Purchasers and Falcon and its Committed Purchasers, the rate per annum equal to the sum of (i) (x) the rate at which deposits in U.S. Dollars are offered by the Bank One Group Reference Bank to first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of the relevant Tranche Period, such deposits being in the approximate amount of the Capital of the Purchaser Interest to be funded or maintained, divided by (y) one minus the maximum aggregate reserve requirement (including all basic, supplemental, marginal or other reserves) which is imposed against the Bank One Group Reference Bank in respect of Eurocurrency liabilities, as defined in Regulation D of the Board of Governors of the Federal Reserve System as in effect from time to time (expressed as a decimal), applicable to such Tranche Period plus (ii) the Applicable Margin, rounded, if necessary, to the next higher 1/16 of 1%;

(b) with respect to Blue Ridge and its Committed Purchasers, the rate per annum equal to the sum of (i) (x) the rate per annum determined on the basis of the offered rate for deposits in U.S. Dollars of amounts equal or comparable to the approximate amount of the Capital of the Purchaser Interest to be funded or maintained offered for a term comparable to the relevant Tranche Period, which rates appear on a Bloomberg L.P. terminal, displayed under the address “US0001M <Index> Q <Go>,” effective as of 11:00 a.m. (London time) two (2) LIBO Business Days prior to the first day of the relevant Tranche Period, provided, that if no such offered rates appear on such page, the rate for such Tranche Period will be the arithmetic average (rounded upwards, if necessary, to the next higher 1/100th of 1% of rates quoted by not less than two major banks in New York City, selected by the Managing Agents, at approximately 10:00 a.m. (New York City time), two LIBO Business Days prior to the first day of such Tranche Period, for deposits in U.S. Dollars offered by leading European banks for a period comparable to such Tranche Period in an amount equal or comparable to the approximate amount of the Capital of the Purchaser Interest to be funded or maintained, divided by (y) one minus the maximum reserve percentage, if any, applicable to Wachovia under Regulation D during such Tranche Period (or if more than one percentage shall be applicable, the daily average of such percentages for those days in such Tranche Period during which any such percentage shall be applicable) for determining Wachovia’s reserve requirement (including any marginal, supplemental or emergency reserves) with respect to liabilities or assets having a term comparable to such Tranche Period consisting or included in the computation of “Eurocurrency Liabilities” pursuant to Regulation D, plus (ii) the Applicable Margin. Without limiting the effect of the foregoing clause (b), the maximum reserve percentage calculated pursuant to clause (b)(i)(y) above shall reflect any other reserves required to be maintained by Wachovia by reason of any regulatory change against (a) any category of liabilities which included deposits by reference to which the “London Interbank Offered Rate” is to be determined or (b) any category of extensions of credit or other assets which include London Interbank Offered Rate-based credits or assets;

(c) with respect to Liberty Street and its Committed Purchasers, the rate per annum equal to the sum of (i) (x) the rate at which deposits in U.S. Dollars are offered by the Scotia Group Reference Bank to first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of the relevant Tranche Period, such deposits being in the approximate amount of the Capital of the Purchaser Interest to be funded or maintained, divided by (y) one minus the maximum aggregate reserve requirement (including all basic, supplemental, marginal or other reserves) which is imposed against the Scotia Group Reference Bank in respect of Eurocurrency liabilities, as defined in Regulation D of the Board of Governors of the Federal Reserve System as in effect from time to time (expressed as a decimal), applicable to such Tranche Period plus (ii) the Applicable Margin, rounded, if necessary, to the next higher 1/16 of 1%;

(d) with respect to Three Pillars and its Committed Purchasers, for any Tranche Period, the rate per annum equal to the sum of (i) the rate per annum two Business Days prior to the first day of such Tranche Period shown on page 3750 of Telerate or any successor page as the composite offered rate for London interbank deposits for one month, as shown under the heading “USD” as of 11:00 a.m. (London time); provided, that in the event no such rate is shown, the “LIBO Rate” shall be the rate per annum (rounded upwards, if necessary, to the nearest 1/16th of one percent) based on the rates at which Dollar deposits for one month are

displayed on page “*LIBOR*” of the Reuters Screen as of 11:00 a.m. (London time) two Business Days prior to the first day of such Tranche Period (it being understood that if at least two (2) such rates appear on such page, the rate will be the arithmetic mean of such displayed rates); provided, further, that in the event fewer than two (2) such rates are displayed, or if no such rate is relevant, the “LIBO Rate” shall be the rate per annum equal to the average of the rates at which deposits in Dollars for one month are offered by SunTrust at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Tranche Period in the London interbank market plus (ii) the Applicable Margin;

(e) with respect to Gotham and its Committed Purchasers, for any Tranche Period, the sum of (i) either (x) the interest rate per annum designated as The Bank of Tokyo-Mitsubishi LIBO Rate for a period of time comparable to such Tranche Period that appears on the Reuters Screen LIBO Page as of 11:00 a.m. (London, England time) on the second Business Day preceding the first day of such Tranche Period or (y) if such rate cannot be determined under clause (x), an annual rate equal to the average (rounded upwards if necessary to the nearest 1/100th of 1%) of the rates per annum at which deposits in U.S. Dollars with a duration equal to such Tranche Period in a principal amount substantially equal to the applicable amount of the Capital to be funded or maintained are offered to the principal London office of the BTM Group Reference Bank by three London banks, selected by the related Managing Agent in good faith at about 11:00 a.m. (London, England time) on the second Business Day preceding the first day of such Tranche Period plus (ii) the Applicable Margin; and

(f) with respect to Nieuw Amsterdam and its Committed Purchasers, for any Tranche Period, the sum of (i) (x) the rate of interest mentioned at the display of the London Interbank Offered Rates of major banks for Eurodollar Deposits designated as page “*LIBO*” on the Reuters Monitor Money Rates Services (or such other page as may replace the LIBO page for the purpose of displaying such London Interbank Offered Rates for Eurodollar Deposits) at or about 11:00 a.m. (London time) two Business Days prior to the first day of such Tranche Period for deposits in Dollars in an amount comparable to the amount of the applicable Tranche and for a period comparable in duration to such Tranche Period divided by (y) one minus the maximum aggregate reserve requirement (including all basic, supplemental, marginal or other reserves) which is imposed against the Rabobank Group Reference Bank in respect of Eurocurrency Liabilities, as defined in Regulation D of the Board of Governors of the Federal Reserve System as in effect from time to time (expressed as a decimal), applicable to such Tranche Period plus (ii) the Applicable Margin.

“Liquidity Agreement” means an agreement entered into by a Conduit Purchaser with one or more financial institutions in connection herewith for the purpose of providing liquidity with respect to the Capital funded by such Conduit Purchaser under this Agreement.

“Liquidity Termination Date” means June 9, 2005, unless such date is extended with the consent of the parties hereto.

“Lock-Box” means a locked postal box maintained by McKesson, in its capacity as Servicer with respect to which a bank who has executed a Collection Account Agreement has been granted exclusive access for the purpose of retrieving and processing payments made on the Receivables and which is listed on Exhibit IV.

“Loss Horizon Ratio” means, for any Collection Period, a fraction (calculated as a percentage) computed by dividing (i) the aggregate Outstanding Balance of all Receivables generated during the three (3) most recently ended Collection Periods by (ii) the aggregate Outstanding Balance of total Eligible Receivables as at the last day of the most recently ended Collection Period.

“Loss Reserve” means, on any date, an amount equal to (x) the greater of (i) 21.5% and (ii) the Loss Reserve Ratio then in effect times (y) the aggregate Outstanding Balance of Eligible Receivables (net of Earned Discounts and quarterly volume rebates) as of the close of business on the immediately preceding Business Day.

“Loss-to-Balance Ratio” means, as of the last day of any Collection Period, a percentage equal to (i) the aggregate amount of Receivables which were Defaulted Receivables as of the last day of such Collection Period and as of the last day of the two (2) preceding Collection Periods plus, without duplication, the dollar amount of Receivables less than ninety (90) days past due which were written off as uncollectible during such three Collection Periods, divided by (ii) the sum of the aggregate Outstanding Balance of all Receivables as of the last day of such three (3) Collection Periods.

“Loss Reserve Ratio” means, as of any date, an amount calculated as follows:

$$\text{LRR} = 2.0 \times \text{DPR} \times \text{LHR}$$

where

LRR = the Loss Reserve Ratio;

DPR = the highest average of the Default Proxy Ratios for any three consecutive Collection Periods during the most recent twelve months; and

LHR = the Loss Horizon Ratio.

The Loss Reserve Ratio shall be calculated monthly in each Monthly Report and such Loss Reserve Ratio shall, absent manifest error, be effective from the corresponding Monthly Settlement Date until the next succeeding Monthly Settlement Date.

“Managing Agent” has the meaning set forth in the preamble to this Agreement. As of the Effective Date, the Managing Agents are Bank One, Wachovia, Scotia, STCM, BTM and Rabobank.

“Material Adverse Effect” means a material adverse effect on (i) the financial condition or operations of any Seller Party and its Material Subsidiaries (except as otherwise disclosed to or discussed with the Managing Agents prior to the date hereof), (ii) the ability of any Seller Party to perform its obligations under this Agreement, (iii) the legality, validity or enforceability of this Agreement or any other Transaction Document, (iv) any Purchaser’s interest in the Receivables generally or in any significant portion of the Receivables, the Related Security or the Collections with respect thereto, or (v) the collectibility of the Receivables

generally or of any material portion of the Receivables; provided, that the insolvency of, or any other event with respect to, any Obligor or Obligors which results in the Eligible Receivables from such Obligor or Obligors ceasing to be Eligible Receivables shall not be deemed to have a “Material Adverse Effect” so long as (x) immediately after giving effect to such insolvency or event, as applicable, the Net Receivables Balance less the Aggregate Reserves equals or exceeds the Aggregate Capital, and (y) such insolvency or event, as applicable, does not materially adversely affect the ability of the initial Servicer to perform its obligations and duties under this Agreement.

“Material Subsidiary” means, at any time, any Subsidiary of McKesson having at such time ten percent (10%) or more of McKesson’s consolidated total (gross) revenues for the preceding four fiscal quarter period, as of the last day of the preceding fiscal quarter based upon McKesson’s most recent annual or quarterly financial statements delivered to the Collateral Agent and the Managing Agents under Section 6.1(a).

“McKesson” has the meaning set forth in the preamble to this Agreement.

“Monthly Report” means a report, in substantially the form of Exhibit X hereto (appropriately completed), furnished by the Servicer to the Managing Agents pursuant to Section 7.5.

“Monthly Settlement Date” means the twentieth (20th) day of each month, or, if such date is not a Business Day, the next succeeding Business Day.

“Moody’s” means Moody’s Investors Service, Inc. and any successor thereto.

“Net Receivables Balance” means, at any time, the aggregate Outstanding Balance of all Eligible Receivables at such time (net of all Earned Discounts and quarterly volume rebates then in effect) reduced by (i) the aggregate amount by which the Outstanding Balance of all Eligible Receivables of each Obligor and its Affiliates exceeds the Concentration Limit for such Obligor, (ii) the aggregate amount by which the Outstanding Balance of all Government Receivables exceeds the Government Receivables Limit, (iii) the aggregate amount by which the Outstanding Balance of all Extended Term Receivables exceeds the Extended Term Receivables Limit and (iv) the excess of (A) the Outstanding Balance of all Eligible Receivables with respect to which Eckerd Drug Co. or The Jean Coutu Group (PJC) USA Inc. (d/b/a Brooks Pharmacy) is the Obligor over (B) an amount equal to 7.83% of the aggregate Outstanding Balance of all Eligible Receivables (net of all Earned Discounts and quarterly volume rebates).

“Net Worth” means the sum of a capital stock and additional paid in capital plus retained earnings (or minus accumulated deficits) of the Originator and its Subsidiaries determined on a consolidated basis in conformity with generally accepted accounting principles on such date.

“Nieuw Amsterdam” means Nieuw Amsterdam Receivables Corporation, a Delaware corporation, in its individual capacity and its successors.

“Obligations” shall have the meaning set forth in Section 2.1.

“Obligor” means a Person obligated to make payments pursuant to a Contract.

“Originator” means McKesson, in its capacity as Seller under the Tier One Receivables Sale Agreement.

“Outstanding Balance” of any Receivable at any time means the then outstanding principal balance thereof.

“Person” means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

“Pooled Commercial Paper” means Commercial Paper notes of a Conduit Purchaser subject to any particular pooling arrangement by such Conduit Purchaser but excluding Commercial Paper issued by a Conduit Purchaser for a tenor and in an amount specifically requested by any Person in connection with any agreement effected by such Conduit Purchaser; provided, however, that if and to the extent that the Seller requests a Conduit Purchaser to issue Commercial Paper notes with particular tranche periods and the related Managing Agent agrees to such request, such Commercial Paper notes shall not constitute Pooled Commercial Paper

“Potential Amortization Event” means an event which, with the passage of time or the giving of notice, or both, would constitute an Amortization Event.

“PREFCO” has the meaning set forth in the preamble to this Agreement.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by Wachovia as its “prime rate.” (The “prime rate” is a rate set by Wachovia based upon various factors including Wachovia’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above or below such announced rate.) Any change in the prime rate announced by Wachovia shall take effect at the opening of business on the day specified in the public announcement of such change.

“Proposed Reduction Date” has the meaning set forth in Section 1.3.

“Pro Rata Share” means, for each Purchaser, as applicable, a fraction (expressed as a percentage), the numerator of which is the Capital associated with such Purchaser and the denominator of which is the Aggregate Capital.

“Purchase Limit” means \$1,400,000,000.

“Purchase Notice” has the meaning set forth in Section 1.2.

“Purchase Price” means, with respect to any Incremental Purchase of a Purchaser Interest, the amount paid to Seller for such Purchaser Interest which shall not exceed the least of (i) the amount requested by Seller in the applicable Purchase Notice, (ii) the unused portion of the Purchase Limit on the applicable purchase date and (iii) the excess, if any, of the Net

Receivables Balance (less the Aggregate Reserves) on the applicable purchase date over the aggregate outstanding amount of Capital determined as of the date of the most recent Monthly Report, taking into account such proposed Incremental Purchase.

“Purchaser” means any Conduit Purchaser or Committed Purchaser, as applicable.

“Purchaser Group” means a group consisting of one or more Conduit Purchasers, the related Committed Purchasers and the related Managing Agent. As of the date hereof, the Purchaser Groups are (i) the Bank One Purchaser Group, consisting of PREFCO and Falcon, as Conduit Purchasers and Bank One, as Committed Purchaser and Managing Agent, (ii) the Wachovia Purchaser Group, consisting of Blue Ridge, as a Conduit Purchaser and Wachovia, as Committed Purchaser and Managing Agent, (iii) the Scotia Purchaser Group, consisting of Liberty Street, as Conduit Purchaser and Scotia, as Committed Purchaser and Managing Agent, (iv) the SunTrust Purchaser Group, consisting of Three Pillars, as Conduit Purchaser and Committed Purchaser and STCM, as Managing Agent, (v) the BTM Purchaser Group, consisting of Gotham, as Conduit Purchaser and BTM, as Committed Purchaser and as Managing Agent and (vi) the Rabobank Purchaser Group, consisting of Nieuw Amsterdam, as Conduit Purchaser and Rabobank, as Committed Purchaser and Managing Agent.

“Purchaser Group Limit” means, for any Purchaser Group at any time, the aggregate amount of the Commitments of the Committed Purchasers in such Purchaser Group at such time.

“Purchaser Interest” means, at any time, an undivided percentage ownership interest (computed as set forth below) associated with a designated amount of Capital, Discount Rate and Tranche Period selected pursuant to the terms and conditions hereof in (i) each and every Receivable, (ii) all Related Security with respect to the Receivables, and (iii) all Collections with respect to, and other proceeds of the Receivables. Each such undivided percentage interest shall equal:

$$\frac{C}{NRB - AR}$$

where:

C = the Capital associated with such Purchaser Interest

AR = Aggregate Reserves

NRB = the Net Receivables Balance.

Such undivided percentage ownership interest shall be initially computed on its date of purchase. Thereafter, until its Amortization Date, each Purchaser Interest shall be automatically recomputed (or deemed to be recomputed) on each day prior to its Amortization Date. The variable percentage represented by any Purchaser Interest as computed (or deemed recomputed) as of the close of the business day immediately preceding its Amortization Date shall remain constant at all times after such Amortization Date.

“Rabobank” means Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank International”, New York Branch, in its individual capacity and its successors.

“Rabobank Federal Funds Rate” means, for any period, a fluctuating interest rate per annum equal for each day during such period equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by Rabobank from three federal funds brokers of recognized standing selected by it.

“Rabobank Group Reference Bank” means Rabobank or such other bank as Rabobank shall designate with the consent of the Seller.

“Rating Agency” means each of S&P and Moody’s.

“Receivable” means any indebtedness or obligations owed to Seller by an Obligor (without giving effect to any transfer or conveyance hereunder) or in which the Seller has a security interest or other interest, whether constituting an account, chattel paper, instrument or general intangible, arising in connection with the sale of pharmaceutical and other products and related services by the Originator to retail, chain and hospital pharmacies or drugstores and other healthcare facilities, and any other entities engaged in the sale or provision of pharmaceutical products and other products and related services, including, without limitation, the obligation to pay any Finance Charges with respect thereto. Indebtedness and other rights and obligations arising from any one transaction, including, without limitation, indebtedness and other rights and obligations represented by an individual invoice, shall constitute a Receivable separate from a Receivable consisting of the indebtedness and other rights and obligations arising from any other transaction.

“Receivables Dilution Ratio” means, as of the last day of any Collection Period, a percentage equal to (i) the aggregate amount of Dilutions plus any Earned Discounts or quarterly volume rebates) during such Collection Period and the two (2) preceding Collection Periods, divided by (ii) the sum of the aggregate Outstanding Balance of all Receivables as of the last day of each of such three (3) Collection Periods.

“Receivables Sale Agreement” means (1) the Tier One Receivables Sale Agreement, or (2) the Tier Two Receivables Sale Agreement, as applicable.

“Records” means, with respect to any Receivable, all Contracts and other documents, books, records and other information (including, without limitation, computer programs, tapes, disks, punch cards, data processing software and related property and rights) relating to such Receivable, any Related Security therefor and the related Obligor.

“Reduction Notice” has the meaning set forth in Section 1.3.

“Reinvestment” has the meaning set forth in Section 2.2.

“Related Security” means, with respect to any Receivable:

- (i) all of Seller’s interest in the inventory and goods (including returned or repossessed inventory or goods), if any, the sale of which by Originator gave rise to such Receivable, and all insurance contracts with respect thereto,
- (ii) all other security interests or liens and property subject thereto from time to time, if any, purporting to secure payment of such Receivable, whether pursuant to the Contract related to such Receivable or otherwise, together with all financing statements and security agreements describing any collateral securing such Receivable,
- (iii) all guaranties, insurance and other agreements or arrangements of whatever character from time to time supporting or securing payment of such Receivable whether pursuant to the Contract related to such Receivable or otherwise,
- (iv) all service contracts and other contracts and agreements associated with such Receivable,
- (v) all Records related to such Receivable,
- (vi) all of Seller’s right, title and interest in, to and under the Receivables Sale Agreements in respect of such Receivable, and
- (vii) all proceeds of any of the foregoing.

“Required Capital Amount” means, as of any date of determination, an amount equal to the Net Receivables Balance multiplied by 3%.

“Required Committed Purchasers” means, at any time, Committed Purchasers with Commitments in excess of 66-2/3% of the Purchase Limit.

“Required Notice Period” means the number of days required notice set forth below applicable to the Aggregate Reduction indicated below:

Aggregate Reduction	Required Notice Period
<\$100,000,000	two Business Days
\$100,000,000 to \$250,000,000	five Business Days
>\$250,000,000	ten Business Days

provided, that the Required Notice Period shall be one Business Day if the Seller is curing a default of the type described in Section 8.1(e) or a breach of the negative covenant set forth in Section 7.2(e).

“Revolving Credit Agreement” means that certain Credit Agreement, dated as of September 30, 2002 among McKesson, Bank of America, N.A., as administrative agent, JPMorgan Chase Bank, as syndication agent, Wachovia, as documentation agent, Bank One, as documentation agent, the other “Lenders” party thereto and Banc of America Securities LLC, as

sole lead arranger and sole book manager (as amended, restated, supplemented or otherwise modified from time to time) providing a 364-day revolving credit facility in favor of McKesson.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

“Scotia” means The Bank of Nova Scotia, in its individual capacity, and its successors.

“Scotia Group Reference Bank” means Scotia or such other bank as Scotia shall designate with the consent of Seller.

“Seller” has the meaning set forth in the preamble to this Agreement.

“Seller Interest” means, at any time, an undivided percentage ownership interest of Seller in the Receivables, Related Security and all Collections with respect thereto equal to (i) one, minus (ii) the aggregate of the Purchaser Interests.

“Seller Parties” has the meaning set forth in the preamble to this Agreement.

“Servicer” means at any time the Person (which may be the Collateral Agent) then authorized pursuant to Article VIII to service, administer and collect Receivables.

“Servicing Fee” has the meaning set forth in Section 7.6 of this Agreement.

“Settlement Date” means (A) the Monthly Settlement Date and (B) the last day of the relevant Tranche Period in respect of each Purchaser Interest.

“Settlement Period” means (A) in respect of each Purchaser Interest of the Conduits, the immediately preceding Accrual Period, and (B) in respect of each Purchaser Interest of the Committed Purchasers, the entire Tranche Period of such Purchaser Interest.

“Special Concentration Limit” means, at any time, with respect to any Special Obligor (together with its Affiliates or subsidiaries), the lesser of (i) the applicable percentage set forth below multiplied by the aggregate Outstanding Balance of Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time and (ii) the maximum dollar amounts set forth below, in each case corresponding to the Moody’s and S&P short-term debt ratings for such Special Obligor at such time or such percentage as may be otherwise set forth below with respect to such Special Obligor:

Special Obligors with ratings at or above:

<u>S&P Rating</u>		<u>Moody’s Rating</u>	<u>Percentage</u>	<u>Maximum Dollar Amount</u>
A-1+	and	P-1	11%	\$350,000,000
A-1	and	P-1	8%	\$250,000,000
A-2	and	P-2	6%	\$200,000,000
lower than A-2 or unrated	and	lower than P-2 or unrated	3%	\$175,000,000

provided, that notwithstanding the foregoing grid:

(a) the Special Concentration Limit for Rite Aid Corporation shall be the lesser of (i) 4% multiplied by the aggregate Outstanding Balance of Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time and (ii) \$175,000,000;

(b) the Special Concentration Limit for Eckerd Drug Co. shall be the lesser of (i) 6.67% multiplied by the aggregate Outstanding Balance of Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time and (ii) \$200,000,000;

(c) the Special Concentration Limit for Caremark Rx, Inc. shall be the lesser of (i) 6.67% multiplied by the aggregate Outstanding Balance of Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time and (ii) \$200,000,000; and

(d) for so long as the short-term debt rating of Albertson's, Inc. from Moody's is "P-2" or higher and "A-2" or higher from S&P, the Special Concentration Limit for Albertson's, Inc. shall be the lesser of (i) 13% multiplied by the aggregate Outstanding Balance of Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time and (ii) \$400,000,000, it being understood that if, at any time, (x) the short-term debt rating of Albertson's, Inc. from S&P is below "A-2" or "P-2" from Moody's or (y) the short-term debt of Albertson's, Inc. is unrated by either S&P or Moody's, the Standard Concentration Limit shall apply to such Obligor;

(e) the Special Concentration Limit for The Jean Coudu Group (PJC) USA Inc. (d/b/a Brooks Pharmacy) shall be the lesser of (i) 6.67% multiplied by the aggregate Outstanding Balance of Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time and (ii) \$200,000,000;

provided, further, that any Managing Agent or the Required Committed Purchasers may, upon not less than fifteen (15) Business Days' notice to Seller, cancel or reduce any Special Concentration Limit.

"Special Obligor" means Rite Aid Corporation, Albertson's, Inc., Wal-Mart Stores, Inc., Caremark Rx, Inc., Eckerd Drug Co., Target Corporation, Walgreen Stores RX/OTC, Safeway, Inc., The Jean Coudu Group (PJC) USA Inc. (d/b/a Brooks Pharmacy) and such other Special Obligors as may be designated by the Managing Agents from time to time.

"Standard Concentration Limit" means, at any time, with respect to any Obligor other than a Special Obligor, 3% times the aggregate Outstanding Balance of Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time.

"STCM" means SunTrust Capital Markets, Inc., a Tennessee corporation, in its individual capacity and its successors.

"Subsidiary" of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or

controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a “Subsidiary” shall mean a Subsidiary of Seller.

“SunTrust” means SunTrust Bank, a Georgia banking corporation, in its individual capacity and its successors.

“SunTrust Federal Funds Rate” means, for any period, a fluctuating interest rate per annum equal for each day during such period equal to (a) the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the preceding Business Day) by the Federal Reserve Bank of New York in the Composite Closing Quotations for U.S. Government Securities; or (b) if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by SunTrust from three federal funds brokers of recognized standing selected by it.

“Terminating Committed Purchaser” has the meaning set forth in Section 11.5.

“Terminating Tranche” has the meaning set forth in Section 4.3(b).

“Termination Date” has the meaning set forth in Section 11.5.

“Termination Percentage” means, with respect to any Terminating Committed Purchaser, a percentage equal to (i) the Capital of such Terminating Committed Purchaser outstanding on its respective Termination Date, divided by (ii) the Aggregate Capital outstanding on such Termination Date.

“Three Pillars” means Three Pillars Funding LLC, a Delaware limited liability company, in its individual capacity and its successors.

“Tier One Receivables Sale Agreement” means that certain Receivables Sale Agreement, dated as of the date hereof, between the Originator and CGSF, (as amended, restated, supplemented or otherwise modified and in effect from time to time).

“Tier Two Receivables Sale Agreement” means that certain Receivables Sale Agreement, dated as of the date hereof, between CGSF and the Seller, (as amended, restated, supplemented or otherwise modified and in effect from time to time).

“Total Capitalization” means, on any date, the sum of (a) Total Debt and (b) the Net Worth on such date.

“Total Debt” means, on any date, all “Indebtedness” (as such term is defined in the Revolving Credit Agreement) of the Originator and its Subsidiaries determined on a consolidated basis.

“Tranche Period” means, with respect to any Purchaser Interest:

(a) if Yield for such Purchaser Interest is calculated with respect to the CP Rate, the relevant CP Tranche Period;

(b) if Yield for such Purchaser Interest is calculated on the basis of the LIBO Rate, a period of one, two, three or six months, or such other period as may be mutually agreeable to the applicable Managing Agent and Seller, commencing on a Business Day selected by Seller or such Managing Agent pursuant to this Agreement. Such Tranche Period shall end on the day in the applicable succeeding calendar month which corresponds numerically to the beginning day of such Tranche Period, provided, however, that if there is no such numerically corresponding day in such succeeding month, such Tranche Period shall end on the last Business Day of such succeeding month; or

(c) if Yield for such Purchaser Interest is calculated on the basis of the Base Rate, a period commencing on a Business Day selected by Seller and agreed to by the applicable Managing Agent, provided no such period shall exceed one month.

If any Tranche Period would end on a day which is not a Business Day, such Tranche Period shall end on the next succeeding Business Day, provided, however, that in the case of Tranche Periods corresponding to the LIBO Rate, if such next succeeding Business Day falls in a new month, such Tranche Period shall end on the immediately preceding Business Day. In the case of any Tranche Period for any Purchaser Interest of which commences before the Amortization Date and would otherwise end on a date occurring after the Amortization Date, such Tranche Period shall end on the Amortization Date. The duration of each Tranche Period which commences after the Amortization Date shall be of such duration as selected by the applicable Managing Agent. In no event shall any Tranche Period extend beyond the Facility Termination Date.

“Transaction Documents” means, collectively, this Agreement, each Purchase Notice, the Receivables Sale Agreements, each Collection Account Agreement, the Fee Letter, each Liquidity Agreement and all other instruments, documents and agreements executed and delivered in connection herewith.

“UCC” means the Uniform Commercial Code as from time to time in effect in the specified jurisdiction.

“Wachovia” means Wachovia Bank, N.A., in its individual capacity, and its successors.

“Yield” means for each respective Tranche Period relating to Purchaser Interests, an amount equal to the product of the applicable Discount Rate for each Purchaser Interest multiplied by the Capital of such Purchaser Interest for each day elapsed during such Tranche Period, annualized on a 360 day basis.

All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles. All terms used in Article 9 of the UCC in the State of New York or California, as applicable, and not specifically defined herein, are used herein as defined in such Article 9.

EXHIBIT II

FORM OF PURCHASE NOTICE

[Date]

Bank One, NA,
as Managing Agent
Suite 0079, 1-21
1 Bank One Plaza
Chicago, Illinois 60670
Attention: Asset Backed Finance

Wachovia Bank, N.A.,
as Managing Agent
191 Peachtree Street, NE-GA-423
Atlanta, Georgia 30303
Attention: Elizabeth Wagner

The Bank of Nova Scotia,
as Managing Agent
One Liberty Plaza
New York, New York 10006
Attention: Michael Eden

SunTrust Capital Markets, Inc.,
as Managing Agent
303 Peachtree Street, NE
24th Floor, MC 3950
Atlanta, Georgia 30308
Attention: Securitization Asset Management
Group

The Bank of Tokyo-Mitsubishi, Ltd.,
as Managing Agent
1251 Avenue of the Americas
New York, New York 10020
Attention: Securitization Group

Cooperatieve Centrale Raiffeisen-
Boerenleenbank B.A., "Rabobank
International", New York Branch, as Managing
Agent
245 Park Avenue
New York, New York 10167
Attention: Neetu Mohan

Re: Purchase Notice

Ladies and Gentlemen:

The undersigned refers to the Amended and Restated Receivables Purchase Agreement, dated as of June 11, 2004 (the "Receivables Purchase Agreement," the terms defined therein being used herein as therein defined), among the undersigned, as Seller and McKesson Corporation, as initial Servicer, the "Conduit Purchasers" from time to time party thereto, the "Committed Purchasers" from time to time party thereto, the "Managing Agents" from time to time parties thereto and Bank One, NA (Main Office Chicago), as Collateral Agent for the Purchasers, and hereby gives you notice, irrevocably, pursuant to Section 1.2 of the Receivables Purchase Agreement, that the undersigned hereby requests an Incremental Purchase under the Receivables Purchase Agreement, and in that connection sets forth below the information relating to such Incremental Purchase (the "Proposed Purchase") as required by Section 1.2 of the Receivables Purchase Agreement:

(i) The Business Day of the Proposed Purchase is [insert purchase date], which date is at least two (2) Business Days after the date hereof.

(ii) The requested Purchase Price in respect of the Proposed Purchase is \$____.

(iii) If the Proposed Purchase to be funded by the Committed Purchasers, the requested Discount Rate is ____ and the requested Tranche Period is ____.

(iv) The requested maturity date for the Tranche Period is ____.

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Purchase (before and after giving effect to the Proposed Purchase):

(i) the representations and warranties of the undersigned set forth in Section 5.1 of the Receivables Purchase Agreement are true and correct on and as of the date of such Proposed Purchase as though made on and as of such date;

(ii) no event has occurred and is continuing, or would result from such Proposed Purchase, that will constitute an Amortization Event or a Potential Amortization Event; and

(iii) the Facility Termination Date shall not have occurred, the aggregate Capital of all Purchaser Interests shall not exceed the Purchase Limit and the aggregate Receivable Interests shall not exceed 100%.

Very truly yours,

CGSF FUNDING CORPORATION

By: _____

Name:

Title:

II-2

EXHIBIT II-A

FORM OF REDUCTION NOTICE

[Date]

Bank One, NA,
as Managing Agent
Suite 0079, 1-21
1 Bank One Plaza
Chicago, Illinois 60670
Attention: Asset Backed Finance

SunTrust Capital Markets, Inc.,
as Managing Agent
303 Peachtree Street, NE
24th Floor, MC 3950
Atlanta, Georgia 30308
Attention: Securitization Asset Management
Group

Wachovia Bank, N.A.,
as Managing Agent
191 Peachtree Street, NE-GA-423
Atlanta, Georgia 30303
Attention: Elizabeth Wagner

The Bank of Tokyo-Mitsubishi, Ltd.,
as Managing Agent
1251 Avenue of the Americas
New York, New York 10020
Attention: Securitization Group

The Bank of Nova Scotia,
as Managing Agent
One Liberty Plaza
New York, New York 10006
Attention: Michael Eden

Cooperatieve Centrale Raiffeisen-
Boerenleenbank B.A., "Rabobank
International", New York Branch, as Managing
Agent
245 Park Avenue
New York, New York 10167
Attention: Neetu Mohan

Re: *Reduction Notice*

Ladies and Gentlemen:

Reference is hereby made to the Amended and Restated Receivables Purchase Agreement, dated as of June 11, 2004, by and among CGSF Funding Corporation (the "Seller"), McKesson Corporation, as servicer, the Conduit Purchasers from time to time party thereto, the Committed Purchasers from time to time party thereto, the Managing Agents from time to time party thereto and Bank One, NA (Main Office Chicago), as Collateral Agent (the "Receivables Purchase Agreement"). Capitalized terms used herein shall have the meanings assigned to such terms in the Receivables Purchase Agreement.

The Managing Agents are hereby notified of the following Aggregate Reduction:

Aggregate Reduction:	\$(_____)
Proposed Reduction Date:	[_____]

Aggregate Reduction will be made in available funds (by 12:00 noon Chicago time) to:

Preferred Receivables Funding Corporation / Falcon Asset Securitization Corporation
Bank One N.A.
Chicago, IL 60670
ABA# 071000013
Account No. 7521-76830000
Reference: CGSF Funding Corporation

Blue Ridge Asset Funding Corporation
First Union National Bank
ABA#53000219
Account#2000010384921
Account Name: CP Liability Account
Ref: CGSF Funding Corporation/McKesson Corp.

Liberty Street Funding Corp.
The Bank of Nova Scotia — New York Agency
ABA# 026-002532
Account: Liberty Street Funding Corp.
Acct# 2158-13

Three Pillars Funding LLC
SunTrust Bank
Atlanta, Georgia
ABA#061000104
Account to be credited: Three Pillars Funding
Account No: 8800171236
Attn: Janice Taylor
Ref: McKesson

Gotham Funding Corporation
Bank of Tokyo-Mitsubishi Trust Company
ABA#026-009-687
Gotham Funding Corporation
Account# 310-035-147
Ref: Tax ID# 04-3226091

Nieuw Amsterdam Receivables Corporation
U.S. Bank Trust N.A.
ABA# 091-000-002
Account Name: MMI Central Cash Account
Account # 1731-0185-1827
FFC to Account # 7708-7081
Reference: NARCO // CGSF Funding Corporation/McKesson Corporation

After giving effect to such Aggregate Reduction made on the Proposed Reduction Date, the Aggregate Capital is \$[•].

Very truly yours,

CGSF FUNDING CORPORATION

By: _____

Name:

Title:

II-A-3

EXHIBIT III

PLACES OF BUSINESS OF THE SELLER PARTIES;

LOCATIONS OF RECORDS;

FEDERAL EMPLOYER IDENTIFICATION NUMBER(S)

	CGSF Funding Corporation	McKesson Corporation
Principal Place of Business	One Post Street San Francisco CA 94104	One Post Street San Francisco, CA 94104
Location of Records	One Post Street San Francisco, CA 94104 Customer and Financial Services 1220 Senlac Drive Carrollton, TX 75006	One Post Street San Francisco, CA 94104 Customer and Financial Services 1220 Senlac Drive Carrollton, TX 75006
FEIN	94-3269972	94-3207296

EXHIBIT IV

NAMES OF COLLECTION BANKS; COLLECTION ACCOUNTS

Bank Name	Account #	Type	Lock-Box #	Address
Bank of America	1233112374	Dallas LB	848442	P.O. Box 848442, Dallas, TX 75284
Bank of America	1233403137	Chicago LB	12748	12748 Collections Center Drive Chicago, IL 60693
Bank of America	1233403151	Los Angeles LB	57256	File 57256, Los Angeles, CA 90074
Bank of America	1233403156	Atlanta LB	409521	P.O. Box 409521, Atlanta, GA 30384
Bank of America	1233833656	Electronic LB	Wire Transfers	
Mellon Bank	0047378	Electronic LB	ACH	
US Bank	153655314687	Credit Card Receipts		
Wachovia	2087300577322	Electronic LB	ACH	
Wachovia	2087350090846	Electronic LB	ACH	
Wachovia	2087360577346	Electronic LB	ACH	
Wachovia	2087380577339	Electronic LB	ACH	
Wachovia	2087390577374	Electronic LB	ACH	
Wells Fargo	0755008	Electronic LB	ACH	

EXHIBIT V

FORM OF COMPLIANCE CERTIFICATE

To: Bank One, NA (Main Office Chicago), Wachovia Bank, N.A., The Bank of Nova Scotia, SunTrust Capital Markets, Inc., BTM Capital Corporation and Rabobank, as Managing Agents

This Compliance Certificate is furnished pursuant to that certain Amended and Restated Receivables Purchase Agreement dated as of June 11, 2004 among CGSF Funding Corporation (the "Seller"), McKesson Corporation (the "Servicer"), the "Conduit Purchasers" from time to time party thereto, the "Committed Purchasers" from time to time party thereto, the "Managing Agents" from time to time parties thereto and Bank One, NA (Main Office Chicago), as Collateral Agent for the Purchasers (as amended, restated, supplemented or otherwise modified from time to time, the "Agreement").

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the duly elected _____ of Seller.
2. I have reviewed the terms of the Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of Seller and its Subsidiaries during the accounting period covered by the attached financial statements.
3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes an Amortization Event or Potential Amortization Event, as each such term is defined under the Agreement, during or at the end of the accounting period covered by the attached financial statements or as of the date of this Certificate, except as set forth in paragraph 5 below.
4. Schedule I attached hereto sets forth financial data and computations evidencing the compliance with certain covenants of the Agreement, all of which data and computations are true, complete and correct.
5. Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which Seller has taken, is taking, or proposes to take with respect to each such condition or event:

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this ____ day of _____, _____.

Name:
Title:

SCHEDULE I TO COMPLIANCE CERTIFICATE

A. Schedule of Compliance as of _____, ____ with Section ____ of the Agreement. Unless otherwise defined herein, the terms used in this Compliance Certificate have the meanings ascribed thereto in the Agreement.

This schedule relates to the month ended: _____

EXHIBIT VI

FORM OF COLLECTION ACCOUNT AGREEMENT

[On letterhead of Originator]

[Date]

[Lock-Box Bank/Concentration Bank/Depository Bank]

Re: McKesson Corporation

Ladies and Gentlemen:

Reference is hereby made to P.O. Box # _____ in [city, state, zip code] (the "Lock-Box") of which you have exclusive control for the purpose of receiving mail and processing payments therefrom pursuant to that certain [name of lock-box agreement] between you and McKesson Corporation (the "Company") dated _____ (the "Agreement"). You hereby confirm your agreement to perform the services described therein. Among the services you have agreed to perform therein, is to endorse all checks and other evidences of payment, and credit such payments to the Company's checking account no. _____ maintained with you in the name of the Company (the "Lock-Box Account").

The Company hereby informs you that (i) pursuant to that certain Receivables Sale Agreement, dated as of June 25, 1999 between the Company and California Golden State Finance Company ("CGSF"), the Company has transferred all of its right, title and interest in and to, and exclusive ownership and control of, the Lock-Box and the Lock-Box Account to CGSF, (ii) pursuant to that certain Receivables Sale Agreement, dated as of June 25, 1999 between CGSF and CGSF Funding Corporation (the "Seller"), CGSF has transferred all of its right, title and interest in and to, and exclusive ownership and control of, the Lock-Box and the Lock-Box Account to the Seller and (iii) pursuant to that certain Second Amended and Restated Receivables Purchase Agreement, dated as of June 11, 2004 (the "RPA") among the Seller, the Company, the "Conduit Purchasers" from time to time party thereto, the "Committed Purchasers" from time to time party thereto, the "Managing Agents" from time to time party thereto and Bank One, NA (Main Office Chicago) ("Bank One"), as collateral agent (in such capacity, the "Collateral Agent"), the Seller has transferred all of its right, title and interest in and to, and control of, the Lock-Box and the Lock-Box Account to Bank One, as Collateral Agent. The Company, CGSF and the Seller hereby request that the name of the Lock-Box Account be changed to "CGSF Funding Corporation, an indirect subsidiary of McKesson Corporation."

The Company and the Seller hereby irrevocably instruct you, and you hereby agree, that upon receiving notice from Bank One in the form attached hereto as Annex A (the "Notice"), you shall comply with instructions originated by Bank One, as Collateral Agent, directing disposition of the funds in the Lock-Box and the Lock-Box Account without further consent of either the Company or the Seller. Notwithstanding the foregoing, the Collateral Agent hereby authorizes you to take instructions from the Company or the Seller, on behalf of the Collateral Agent, with respect to the funds delivered to the Lock-Box and/or on deposit in the

Lock-Box Account until such time as you receive the Notice. Following receipt of such Notice: (i) the name of the Lock-Box and the Lock-Box Account will be changed to "Bank One, NA, for itself and as Collateral Agent" (or any designee of Bank One) and the Collateral Agent will have exclusive ownership of and access to the Lock-Box and the Lock-Box Account, and none of the Company, the Seller nor any of their respective affiliates will have any control of the Lock-Box or the Lock-Box Account or any access thereto, (ii) you will either continue to send the funds from the Lock-Box to the Lock-Box Account, or will redirect the funds as the Collateral Agent may otherwise request, (iii) you will transfer monies on deposit in the Lock-Box Account, at any time, as directed by the Collateral Agent, (iv) all services to be performed by you under the Agreement will be performed on behalf of the Collateral Agent, (v) you will not take any direction or instruction with respect to the Lock-Box, the Lock-Box Account or any monies or funds on deposit therein under any circumstance from the Company, the Seller or any affiliate thereof without the prior written consent of the Collateral Agent and (vi) copies of all correspondence or other mail which you have agreed to send to the Company or the Seller will be sent to the Collateral Agent at the following address:

Bank One, NA
Suite 0596, 21st Floor
1 Bank One Plaza
Chicago, Illinois 60670
Attention: Credit Manager, Asset Backed
Securities Division

Moreover, upon such notice, Bank One for itself and as Collateral Agent will have all rights and remedies given to the Company (and CGSF and the Seller, as the Company's assignees) under the Agreement. The Company agrees, however, to continue to pay all fees and other assessments due thereunder at any time.

You hereby acknowledge that monies deposited in the Lock-Box Account or any other account established with you by Bank One for the purpose of receiving funds from the Lock-Box are subject to the liens of Bank One for itself and as Collateral Agent, and will not be subject to deduction, set-off, banker's lien or any other right you or any other party may have against the Company or the Seller, except that you may debit the Lock-Box Account for any items deposited therein that are returned or otherwise not collected and for all charges, fees, commissions and expenses incurred by you in providing services hereunder, all in accordance with your customary practices for the charge back of returned items and expenses.

You hereby agree that you are a "bank" within the meaning of Section 9-102 of the Uniform Commercial Code as is in effect in the State of New York (the "UCC"), that the Lock-Box Account constitutes a "deposit account" within the meaning of Section 9-102 of the UCC and that this letter agreement shall constitute an "authenticated record" for purposes of, and the Company and the Seller hereby grant to and confer upon the Collateral Agent "control" of the Lock-Box Account as contemplated in, Section 9-104 (and similar and related provisions) of the UCC. You hereby represent that you have not entered into any agreement that grants to or confers upon any other party control of the Lock-Box or the Lock-Box Account and you agree that you will not enter into any such agreement during the term of this letter agreement.

The parties acknowledge that you may assign or transfer your rights and obligations hereunder to a wholly-owned subsidiary of Bank One Corporation.

THIS LETTER AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER WILL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. This letter agreement may be executed in any number of counterparts and all of such counterparts taken together will be deemed to constitute one and the same instrument.

This letter agreement contains the entire agreement between the parties, and may not be altered, modified, terminated or amended in any respect, nor may any right, power or privilege of any party hereunder be waived or released or discharged, except upon execution by all parties hereto of a written instrument so providing. In the event that any provision in this letter agreement is in conflict with, or inconsistent with, any provision of the Agreement, this letter agreement will exclusively govern and control. Each party agrees to take all actions reasonably requested by any other party to carry out the purposes of this letter agreement or to preserve and protect the rights of each party hereunder.

Please indicate your agreement to the terms of this letter agreement by signing in the space provided below. This letter agreement will become effective immediately upon execution of a counterpart of this letter agreement by all parties hereto.

Very truly yours,

McKESSON CORPORATION

By: _____

Name:

Title:

CGSF FUNDING CORPORATION

By: _____

Name:

Title:

Acknowledged and agreed to
this ____ day of _____

[COLLECTION BANK]

By: _____

Name:

Title:

BANK ONE, NA (MAIN OFFICE CHICAGO),
as Collateral Agent

By: _____

Name:

Title:

ANNEX A

FORM OF NOTICE

[On letterhead of Bank One]

_____,

[Collection Bank/Depository Bank/Concentration Bank]

Re: McKesson Corporation

Ladies and Gentlemen:

We hereby notify you that we are exercising our rights pursuant to that certain letter agreement among McKesson Corporation, CGSF Funding Corporation, you and us, to have the name of, and to have exclusive ownership and control of, account number [____] (the "Lock-Box Account ") maintained with you, transferred to us. [Lock-Box Account will henceforth be a zero-balance account, and funds deposited in the Lock-Box Account should be sent at the end of each day to ____.] You have further agreed to perform all other services you are performing under that certain agreement dated [____] between you and McKesson Corporation on our behalf.

We appreciate your cooperation in this matter.

Very truly yours,

BANK ONE, NA (MAIN OFFICE CHICAGO)
(for itself and as Collateral Agent)

By: _____

Name:

Title:

VI-5

EXHIBIT VII

FORM OF ASSIGNMENT AGREEMENT

THIS ASSIGNMENT AGREEMENT is entered into as of the [_____] day of [[_____, _____], by and between _____ (“Seller”) and _____ (“Purchaser”).

PRELIMINARY STATEMENTS

A. This Assignment Agreement is being executed and delivered in accordance with Section 11.1(b) of that certain Amended and Restated Receivables Purchase Agreement dated as of June 11, 2004 by and among CGSF Funding Corporation, as Seller, McKesson Corporation, as Servicer, the “Conduit Purchasers” from time to time party thereto, the “Committed Purchasers” from time to time party thereto, the “Managing Agents” from time to time parties thereto and Bank One, NA (Main Office Chicago), as Collateral Agent for the Purchasers (as amended, modified or restated from time to time, the “Purchase Agreement”). Capitalized terms used and not otherwise defined herein are used with the meanings set forth or incorporated by reference in the Purchase Agreement.

B. The Seller is a Committed Purchaser party to the Purchase Agreement, and the Purchaser wishes to become a Committed Purchaser thereunder; and

C. The Seller is selling and assigning to the Purchaser an undivided _____% (the “Transferred Percentage”) interest in all of Seller’s rights and obligations under the Purchase Agreement and the Transaction Documents, including, without limitation, the Seller’s Commitment, the Seller’s obligations under [*describe applicable Liquidity Agreement*] and (if applicable) the Capital of the Seller’s Purchaser Interests as set forth herein;

The parties hereto hereby agree as follows:

1. This sale, transfer and assignment effected by this Assignment Agreement shall become effective (the “Effective Date”) two (2) Business Days (or such other date selected by the Collateral Agent in its sole discretion) following the date on which a notice substantially in the form of Schedule II to this Assignment Agreement (“Effective Notice”) is delivered by the Collateral Agent to the Conduit Purchasers, the Seller and the Purchaser. From and after the Effective Date, the Purchaser shall be a Committed Purchaser party to the Purchase Agreement for all purposes thereof as if the Purchaser were an original party thereto and the Purchaser agrees to be bound by all of the terms and provisions contained therein.

2. If the Seller has no outstanding Capital under the Purchase Agreement, on the Effective Date, Seller shall be deemed to have hereby transferred and assigned to the Purchaser, without recourse, representation or warranty (except as provided in paragraph 6 below), and the Purchaser shall be deemed to have hereby irrevocably taken, received and assumed from the Seller, the Transferred Percentage of the Seller’s Commitment and all rights and obligations associated therewith under the terms of the Purchase Agreement, including, without limitation, the Transferred Percentage of the Seller’s future funding obligations under Section 4.1 of the Purchase Agreement.

3. If the Seller has any outstanding Capital under the Purchase Agreement, at or before 12:00 noon, local time of the Seller, on the Effective Date the Purchaser shall pay to the Seller, in immediately available funds, an amount equal to the sum of (i) the Transferred Percentage of the outstanding Capital of the Seller's Purchaser Interests (such amount, being hereinafter referred to as the "Purchaser's Capital"); (ii) all accrued but unpaid (whether or not then due) Yield attributable to the Purchaser's Capital; and (iii) accruing but unpaid fees and other costs and expenses payable in respect of the Purchaser's Capital for the period commencing upon each date such unpaid amounts commence accruing, to and including the Effective Date (the "Purchaser's Acquisition Cost");

whereupon, the Seller shall be deemed to have sold, transferred and assigned to the Purchaser, without recourse, representation or warranty (except as provided in paragraph 6 below), and the Purchaser shall be deemed to have hereby irrevocably taken, received and assumed from the Seller, the Transferred Percentage of the Seller's Commitment and the Capital of the Seller's Purchaser Interests (if applicable) and all related rights and obligations under the Purchase Agreement and the Transaction Documents, including, without limitation, the Transferred Percentage of the Seller's future funding obligations under Section 4.1 of the Purchase Agreement.

4. Concurrently with the execution and delivery hereof, the Seller will provide to the Purchaser copies of all documents requested by the Purchaser which were delivered to such Seller pursuant to the Purchase Agreement.

5. Each of the parties to this Assignment Agreement agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to effect the purposes of this Assignment Agreement.

6. By executing and delivering this Assignment Agreement, the Seller and the Purchaser confirm to and agree with each other, the Collateral Agent and the Committed Purchasers as follows: (a) other than the representation and warranty that it has not created any Adverse Claim upon any interest being transferred hereunder, the Seller makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made by any other Person in or in connection with the Purchase Agreement or the Transaction Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Purchaser, the Purchase Agreement or any other instrument or document furnished pursuant thereto or the perfection, priority, condition, value or sufficiency of any collateral; (b) the Seller makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Seller, any Obligor, any Seller Affiliate or the performance or observance by the Seller, any Obligor, any Seller Affiliate of any of their respective obligations under the Transaction Documents or any other instrument or document furnished pursuant thereto or in connection therewith; (c) the Purchaser confirms that it has received a copy of the Transaction Documents, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement; (d) the Purchaser will, independently and without reliance upon the Collateral Agent, the Conduit Purchasers, the Seller or any other Committed Purchaser or Purchaser and based on such documents and information as it shall deem appropriate at the time,

continue to make its own credit decisions in taking or not taking action under the Purchase Agreement and the Transaction Documents; (e) the Purchaser appoints and authorizes the Collateral Agent to take such action as collateral agent on its behalf and to exercise such powers under the Transaction Documents as are delegated to the Collateral Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (f) the Purchaser appoints and authorizes the Collateral Agent to take such action as collateral agent on its behalf and to exercise such powers under the Transaction Documents as are delegated to the Collateral Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (g) the Purchaser agrees that it will perform in accordance with their terms all of the obligations which, by the terms of the Purchase Agreement and the Transaction Documents, are required to be performed by it as a Committed Purchaser or, when applicable, as a Purchaser.

7. Each party hereto represents and warrants to and agrees with the Collateral Agent that it is aware of and will comply with the provisions of the Purchase Agreement, including, without limitation, Sections 4.1 and 14.6 thereof.

8. Schedule I hereto sets forth the revised Commitment of the Seller and the Commitment of the Purchaser, as well as administrative information with respect to the Purchaser.

9. THIS ASSIGNMENT AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

10. The Purchaser hereby covenants and agrees that, prior to the date which is one year and one day after the payment in full of all senior indebtedness for borrowed money of the Conduits, it will not institute against, or join any other Person in instituting against, any Conduit, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or other similar proceeding under the laws of the United States or any state of the United States.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment Agreement to be executed by their respective duly authorized officers of the date hereof.

[SELLER]

By: _____
Name:
Title:

[PURCHASER]

By: _____
Name:
Title:

SCHEDULE I TO ASSIGNMENT AGREEMENT

LIST OF LENDING OFFICES, ADDRESSES

FOR NOTICES AND COMMITMENT AMOUNTS

Date: _____, _____

Transferred Percentage: _____ %

	A-1	A-2	B-1	B-2
Seller	Commitment [existing]	Commitment [revised]	Outstanding Capital (if any)	Ratable Share

	A-1	B-1	B-2
Purchaser	Commitment [initial]	Outstanding Capital (if any)	Ratable Share

Address for Notices

Attention:

Phone:

Fax:

SCHEDULE II TO ASSIGNMENT AGREEMENT

EFFECTIVE NOTICE

TO: _____, Seller

TO: _____, Purchaser

The undersigned, as Collateral Agent under the Amended and Restated Receivables Purchase Agreement dated as of June 11, 2004 by and among CGSF Funding Corporation, as Seller, McKesson Corporation, as Servicer, the "Conduit Purchasers" from time to time party thereto, the "Committed Purchasers" from time to time party thereto, the "Managing Agents" from time to time parties thereto and Bank One, NA (Main Office Chicago), as Collateral Agent for the Purchasers, hereby acknowledges receipt of executed counterparts of a completed Assignment Agreement dated as of _____, _____ between _____, as Seller, and _____, as Purchaser. Terms defined in such Assignment Agreement are used herein as therein defined.

1. Pursuant to such Assignment Agreement, you are advised that the Effective Date will be _____, _____.

2. The Managing Agent, on behalf of the affected Conduits, hereby consents to the Assignment Agreement as required by Section 12.1(b) of the Purchase Agreement.

[3. Pursuant to such Assignment Agreement, the Purchaser is required to pay \$_____ to the Seller at or before 12:00 noon (local time of the Seller) on the Effective Date in immediately available funds.]

Very truly yours,

BANK ONE, NA (Main Office Chicago), individually and
as Collateral Agent [and a Managing Agent]

By: _____
Title:

EXHIBIT VIII

CREDIT AND COLLECTION POLICY

Attached.

VIII-1

EXHIBIT IX
FORM OF CONTRACT(S)

Attached.

IX-1

EXHIBIT X

FORM OF MONTHLY REPORT

Attached.

X-1

EXHIBIT XI

FORM OF JOINDER AGREEMENT

Reference is made to the Amended and Restated Receivables Purchase Agreement dated as of June 11, 2004 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Agreement"), among CGSF Funding Corporation (the "Seller"), McKesson Corporation, as initial Servicer (together with its successors and assigns, the "Servicer"), the "Conduit Purchasers" from time to time party thereto, the "Committed Purchasers" from time to time party thereto, the "Managing Agents" from time to time party thereto and Bank One, NA (Main Office Chicago), as collateral agent (the "Collateral Agent"). To the extent not defined herein, capitalized terms used herein have the meanings assigned to such terms in the Agreement.

_____ (the "New Managing Agent"), _____ (the "New Conduit Purchaser"), _____ (the "New Committed Purchaser[s]"); and together with the New Managing Agent and New Conduit Purchaser, the "New Purchaser Group"), the Seller, the Servicer and the Collateral Agent agree as follows:

1. Pursuant to Section 12.3 of the Agreement, the Seller has requested that the New Purchaser Group agree to become a "Purchaser Group" under the Agreement.
2. The effective date (the "Effective Date") of this Joinder Agreement shall be the later of (i) the date on which a fully executed copy of this Joinder Agreement is delivered to the Collateral Agent and (ii) the date of this Joinder Agreement.
3. By executing and delivering this Joinder Agreement, each of the New Managing Agent, the New Conduit Purchaser and the New Committed Purchaser[s] confirms to and agrees with each other party to the Agreement that (i) it has received a copy of the Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Joinder Agreement; (ii) it will, independently and without reliance upon the Collateral Agent, the other Managing Agents, the other Purchasers or any of their respective Affiliates, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Agreement or any Transaction Document; (iii) it appoints and authorizes the Collateral Agent to take such action as agent on its behalf and to exercise such powers under the Agreement, the Transaction Documents and any other instrument or document pursuant thereto as are delegated to the Collateral Agent by the terms thereof, together with such powers as are reasonably incidental thereto and to enforce its respective rights and interests in and under the Agreement, the Transaction Documents, the Receivables, the Related Security and the Collections; (iv) it will perform all of the obligations which by the terms of the Agreement and the Transaction Documents are required to be performed by it as a Managing Agent, a Conduit Purchaser and a Committed Purchaser, respectively; (v) its address for notices shall be the office set forth beneath its name on the signature pages of this Joinder Agreement; and (vi) it is duly authorized to enter into this Joinder Agreement.

4. On the Effective Date of this Joinder Agreement, each of the New Managing Agent, the New Conduit Purchaser and the New Committed Purchaser[s] shall join in and be a party to the Agreement and, to the extent provided in this Joinder Agreement, shall have the rights and obligations of a Managing Agent, a Conduit Purchaser and a Committed Purchaser, respectively, under the Agreement.

5. This Joinder Agreement may be executed by one or more of the parties on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

6. This Joinder Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Joinder Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written, such execution being made on Schedule I hereto.

Schedule I
to
Joinder Agreement

Dated _____, 20_____

Section 1.

The "CP Rate" for any Tranche Period for any Purchaser Interest owned by the New Conduit Purchaser is [_____].

The "LIBO Rate" for any Tranche Period for any Purchaser Interest funded by any member of the New Purchaser Group is [_____].

The "Base Rate" for any Tranche Period for any Purchaser Interest owned by the New Purchaser Group is [_____].

Section 2.

The "Commitment[s]" with respect to the New Committed Purchaser[s] [is][are]:

[New Committed Purchaser] \$[_____]

NEW CONDUIT PURCHASER:

[NEW CONDUIT PURCHASER]

By: _____

Name:

Title:

Address for notices:

[Address]

NEW COMMITTED PURCHASER[S]:

[NEW COMMITTED PURCHASER]

By: _____

Name:

Title:

Address for notices:

[Address]

NEW MANAGING AGENT:

[NEW MANAGING AGENT]

By: _____

Name:

Title:

Address for notices:

[Address]

Consented to this _____ day of _____, 20 _____ by:

CGSF FUNDING CORPORATION
as Seller

By: _____
Name:
Title:

MCKESSON CORPORATION
as Servicer

By: _____
Name:
Title:

BANK ONE, NA (MAIN OFFICE CHICAGO), as Collateral Agent

By: _____
Name:
Title:

[SIGNATURE BLOCK FOR EACH MANAGING AGENT]
as a Managing Agent

By: _____
Name:
Title:

SCHEDULE A

PURCHASER GROUPS AND COMMITMENTS

Purchaser Group	Conduit Purchaser(s)	Committed Purchaser(s)	Commitment(s)	Purchaser Group Limit
Bank One Purchaser Group	Preferred Receivables Funding Corporation Falcon Asset Securitization Corporation	Bank One, NA (Main Office Chicago)	\$500,000,000	\$500,000,000
Wachovia Purchaser Group	Blue Ridge Funding Corporation	Wachovia Bank, National Association	\$300,000,000	\$300,000,000
Scotia Purchaser Group	Liberty Street Funding Corp.	The Bank of Nova Scotia	\$300,000,000	\$300,000,000
SunTrust Purchaser Group	Three Pillars Funding LLC	Three Pillars Funding LLC	\$100,000,000	\$100,000,000
BTM Purchaser Group	Gotham Funding Corporation	The Bank of Tokyo-Mitsubishi Ltd., New York Branch	\$100,000,000	\$100,000,000
Rabobank Purchaser Group	Nieuw Amsterdam Funding Corporation	Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank International", New York Branch	\$100,000,000	\$100,000,000

SCHEDULE B

DOCUMENTS TO BE DELIVERED
ON OR PRIOR TO THE EFFECTIVE DATE

Document		Responsible Party
Amended and Restated Receivables Sale Agreement between McKesson, as seller and California Golden State Finance Company, as buyer		SABW
Exhibit I	Definitions	SABW
Exhibit II	Principal Place of Business; Location(s) of Records; Federal Employer Identification Number; Other Names	McKesson
Exhibit III	Lock-Boxes; Collection Accounts; Collection Banks	McKesson
Exhibit IV	Form of Compliance Certificate	SABW
Exhibit V	Credit and Collection Policy	McKesson
Amended and Restated Receivables Sale Agreement between California Golden State Finance Company, as seller and the CGSF Funding Corporation, as buyer		SABW
Exhibit I	Definitions	SABW
Exhibit II	Principal Place of Business; Location(s) of Records; Federal Employer Identification Number; Other Names	McKesson
Exhibit III	Lock-Boxes; Collection Accounts; Collection Banks	McKesson
Exhibit IV	Form of Compliance Certificate	SABW
Exhibit V	Credit and Collection Policy	McKesson
Amended and Restated Receivables Purchase Agreement (the "RPA") among CGSF Funding Corporation, as Seller, McKesson, as Servicer, the Conduit Purchasers from time to time party thereto, the Committed Purchasers from time to time party thereto, the Managing Agents from time to time party thereto and Bank One, as Collateral Agent		SABW
Exhibit I	Definitions	SABW
Exhibit II	Form of Purchase Notice	SABW
Exhibit II-A	Form of Reduction Notice	SABW
Exhibit III	Places of Business of the Seller Parties; Locations of Records; Federal Employer Identification Number(s)	McKesson
Exhibit IV	Names of Collection Banks; Collection Accounts	McKesson
Exhibit V	Form of Compliance Certificate	SABW
Exhibit VI	Form of Collection Account Agreement	SABW
Exhibit VII	Form of Assignment Agreement	SABW
Exhibit VIII	Credit and Collection Policy	McKesson
Exhibit IX	Form of Contract	McKesson
Exhibit X	Forms of Monthly Report	Bank One / McKesson
Exhibit XI	Form of Joinder Agreement	SABW
Schedule A	Commitments	SABW
Schedule B	Documents to be Delivered to the Managing Agents on or prior to the Effective Date	SABW
Articles of Incorporation of Seller, certified by the Secretary of State of Delaware		McKesson
Good Standing Certificates for Seller issued by the Secretary of State of the States of California and Delaware		McKesson
Certificate of the Secretary of Seller certifying (i) a copy of the Articles of Incorporation of Seller (attached thereto), (ii) a copy of the By-Laws of Seller (attached thereto), (iii) a copy		McKesson

Document	Responsible Party
of the written consent of the board of directors of Seller (attached thereto) authorizing the execution, delivery and performance of the RPA and each other document to be executed and delivered by it in connection therewith, and (iv) the names and signatures of the officers authorized on its behalf to execute the RPA and any other documents to be delivered by it in connection therewith	
Certificate of Incorporation of McKesson certified by the Secretary of State of Delaware.	McKesson
Good Standing Certificate for McKesson issued by the Secretary of State of the States of Delaware and California.	McKesson
Certificate of the Secretary of McKesson certifying (i) a copy of the Articles of Incorporation of McKesson (attached thereto), (ii) a copy of the By-Laws of McKesson (attached thereto), (iii) a copy of the written consent of the board of directors of McKesson (attached thereto) authorizing the execution, delivery and performance of the RPA and any other documents to be delivered by it in connection with such agreements, and (iv) the names and signatures of the officers authorized on its behalf to execute the RPA and any other documents, instruments and agreements to be delivered by it in connection with such agreements.	McKesson
Certificate of Incorporation of California Golden State Finance Company ("CGSF") certified by the Secretary of State of California	McKesson
Good Standing Certificate for CGSF issued by the Secretary of State of California	McKesson
Certificate of the Secretary of CGSF certifying (i) a copy of the Articles of Incorporation of CGSF (attached thereto), (ii) a copy of the By-Laws of CGSF (attached thereto), (iii) a copy of the written consent of the board of directors of CGSF (attached thereto) authorizing the execution, delivery and performance of the Tier One Receivables Sale Agreement, the Tier Two Receivables Sale Agreement and any other documents to be delivered by it in connection with such agreements, and (iv) the names and signatures of the officers authorized on its behalf to execute the Tier One Receivables Sale Agreement, the Tier Two Receivables Sale Agreement and any other documents, instruments and agreements to be delivered by it in connection with such agreements	McKesson
UCC Lien Search Reports in respect of filings made against McKesson (including tradenames).	SABW
Tax Lien and Judgment Search Reports in respect of filings made against McKesson	SABW
UCC Lien Search Reports in respect of filings made against CGSF (including tradenames)	SABW
Tax Lien and Judgment Search Reports in respect of filings made against CGSF	SABW
UCC Lien Search Reports in respect of filings made against Seller	SABW
Tax Lien and Judgment Search Reports in respect of filings made against the Seller	SABW
Opinion of Ivan D. Meyerson, Executive Vice President and General Counsel and Secretary of McKesson relating to corporate matters and noncontravention	McKesson
Opinion of Bingham McCutchen LLP, counsel to McKesson relating to, among other things, corporate matters, enforceability and creation, perfection and priority of security interests.	Bingham

Document	Responsible Party
Opinion of Bingham McCutchen LLP, counsel to McKesson, relating to true sale and nonconsolidation issues.	Bingham
Fourth Amended and Restated Fee Letter among Seller, McKesson, the Managing Agents and the Collateral Agent	SABW
Upfront Fee Letter among Seller, McKesson, SunTrust, BTM and Rabobank	SABW

McKESSON CORPORATION
CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

<i>(In millions)</i>	Years Ended March 31,				
	2005	2004	2003	2002	2001
Earnings:					
Income (loss) from continuing operations before income taxes	\$ (239.8)	\$ 911.4	\$ 851.4	\$ 602.1	\$ 4.6
Adjustments:					
Equity in net income of and dividends from equity investees	24.2	(1.1)	(5.6)	1.8	(2.8)
Fixed charges	162.6	160.9	167.9	164.4	162.0
Interest capitalized	(6.1)	(3.7)	(3.3)	(1.8)	(2.0)
Earnings as adjusted	\$ (59.1)	\$1,067.5	\$1,010.4	\$ 766.5	\$ 161.8
Fixed charges:					
Interest expense (a)	\$ 118.0	\$ 120.2	\$ 128.1	\$ 125.9	\$ 123.8
Portion of rental expense representative of the interest factor	38.5	37.0	36.5	36.7	36.2
Capitalized interest	6.1	3.7	3.3	1.8	2.0
Total fixed charges	\$ 162.6	\$ 160.9	\$ 167.9	\$ 164.4	\$ 162.0
Ratio:					
Ratio of earnings to fixed charges	(b)	6.6X	6.0X	4.7X	1.0X

(a) Interest expense includes amortization of debt discounts and deferred loan costs.

(b) Earnings for the year ended March 31, 2005 were inadequate to cover fixed charges. The coverage deficiency was \$221.7 million for the ratio of earnings to fixed charges.

SUBSIDIARIES OF THE REGISTRANT

There is no parent of the Company. The following is a listing of the significant subsidiaries of the Company, or if indented, subsidiaries of the Company under which they are listed.

	<u>JURISDICTION OF ORGANIZATION</u>
McKesson Capital Funding Corporation	Delaware
McKesson Information Solutions Holdings Limited	Ireland
McKesson Information Solutions LLC	Delaware
McKesson Services LLC	Delaware
McKesson Medical-Surgical Inc.	Virginia
McKesson Medical-Surgical Minnesota Inc.	Minnesota
McKesson Trading Company	California

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-86536, 333-00611, 333-02871, 333-21931, 333-30104, 333-30216, 333-30218, 333-30220, 333-30222, 333-20224, 333-30226, 333-32643, 333-32645, 333-43101, 333-43079, 333-48337, 333-43068, 333-48339, 333-48859, 333-50261, 333-70501, 333-71917, 333-85965, 333-39952, 333-39954, 333-62870, 333-67378, 333-67380, 333-84806 and 333-101210 on Form S-8, Registration Statement Nos. 333-26443, and Amendment No. 1 thereto, 333-85973, 333-50985 and 333-66359 on Form S-3 and Registration Statement Nos. 333-49119, and Amendment No. 1 thereto, and 333-56623 on Form S-4 of our report dated May 12, 2005, relating to the consolidated financial statements and the consolidated financial statement schedule of McKesson Corporation, and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of McKesson Corporation for the fiscal year ended March 31, 2005.

Deloitte & Touche LLP
San Francisco, California
May 12, 2005

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT the undersigned directors and officers of McKesson Corporation, a Delaware corporation (the "Company"), do hereby constitute and appoint Ivan D. Meyerson and Kristina Veaco his or her true and lawful attorney and agent, each with full power and authority (acting alone and without the other) to execute in the name and on behalf of the undersigned as such Director and/or Officer, under the Securities Act of 1934, as amended, an Annual Report on Form 10-K for the fiscal year ended March 31, 2005, and thereafter to execute and file any and all amendments to such Form, whether filed prior or subsequent to the time such Form becomes effective. The undersigned hereby grants unto such attorneys and agents, and each of them, full power of substitution or resubstitution and revocation in the premises and hereby ratifies and confirms all that such attorneys and agents may do or cause to be done by virtue of these presents.

Wayne A. Budd

Wayne A Budd, Esq., Director

Jeffrey C. Campbell

Jeffrey C. Campbell, Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

John H. Hammergren

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

Alton F. Irby III

Alton F. Irby III, Director

M. Christine Jacobs

M. Christine Jacobs, Director

Marie L. Knowles

Marie L. Knowles, Director

David M. Lawrence

David. M. Lawrence, M.D., Director

Robert W. Matschullat

Robert W. Matschullat, Director

James V. Napier

James V. Napier, Director

Nigel A. Rees

Nigel A. Rees, Vice President and Controller
(Principal Accounting Officer)

Jane E. Shaw

Jane E. Shaw, Director

Richard Syron

Richard F. Syron, Director

Dated: April 28, 2005

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John H. Hammergren, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 12, 2005

/s/ John H. Hammergren

John H. Hammergren

Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey C. Campbell, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 12, 2005

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of McKesson Corporation (the "Company") on Form 10-K for the year ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John H. Hammergren

John H. Hammergren
Chairman and Chief Executive Officer
May 12, 2005

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
May 12, 2005

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.