MCKESSON CORP
Form DEF 14A
June 15, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12

McKESSON CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(3) Filing Party:
(4) Date Filed:

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A LETTER FROM OUR LEAD INDEPENDENT DIRECTOR

Dear Fellow Shareholders,

We believe that McKesson has been successful over the long term because we listen carefully to our customers, partners and shareholders, which informs our corporate governance practices and enables us to anticipate market developments and customer needs.

Our directors work together to continually assess how we can operate responsibly and effectively protect and increase the value of your investment. As we approach the 2018 Annual Meeting, I would like to highlight some of the ways the Board of Directors has been working on your behalf.

Overseeing Strategy to Drive Long-Term Growth and Value Creation

The Board has several stewardship functions, which include: providing critical oversight, advising on McKesson s strategic plans and setting the tone at the top. The Board actively oversees McKesson s long-term strategy as we seek to build long-term shareholder value and assure the vitality of the Company for its customers, employees and shareholders. We:

- **Leverage our directors diverse experiences** to help the Company navigate the rapidly evolving healthcare environment;

- **Assess strategy throughout the year**, including discussions at regular Board meetings, and at least one multi-day meeting to focus on long-term strategic planning as well as risks that could challenge the successful execution of our plan; and

- **Review our capital allocation strategy**, which is designed to focus on creating shareholder value through internal investment and M&A followed by distribution through buybacks and dividends. In line with this portfolio approach to capital deployment, in FY 2018, the Company made several strategic acquisitions, such as CoverMyMeds, intraFUSION and RxCrossroads; divested Enterprise Information Solutions; and returned $2.0 billion to shareholders through dividends and share repurchases.

Refreshing the Board and Committees with New Perspectives

We invigorate Board discussion through the appointment of new directors and the rotation of directors through different Board roles. Thoughtful and ongoing attention to Board composition is an important part of our role as we seek to ensure an appropriate mix of tenure and expertise that provides a **balance of fresh perspectives and significant institutional knowledge**. The Governance Committee has invested a substantial amount of time considering Board composition as part of the annual self-evaluation process, and revisits the topic during the year if the Board sees changes in the Company s governance needs.

This year we appointed Bradley E. Lerman to the Board. Mr. Lerman s deep understanding of the healthcare industry and experience linking compliance and legal considerations with corporate strategy will bring valuable insights to our Board. We also **approved a number of changes to the composition and leadership of our Compensation Committee**; changes that will be effective July 23, 2018. As part of this refreshment, N. Anthony Coles, M.D. will

assume the role of Compensation Committee Chair, Susan R. Salka and Mr. Lerman will join the committee as new members, and M. Christine Jacobs will leave the committee. Our current Compensation Committee Chair Andy D. Bryant will not stand for reelection at the 2018 Annual Meeting. In addition, our newest Board member, Mr. Lerman, will assume the role of Governance Committee Chair and Donald R. Knauss will assume the role of Finance Committee Chair.

Refining Our Compensation Program to Align with Our Strategy

Ensuring that the Company has an executive compensation program that appropriately attracts, retains and incentivizes our management team is one of the Board s most critical responsibilities. Following low support for our executive pay program at the 2017 Annual Meeting, **our Compensation Committee undertook a robust process to review the Company s executive compensation structure**, taking into account feedback from our shareholders gathered during an extensive outreach effort.

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We listened to our shareholders, and the following actions we have taken reflect your input:

- For FY 2019, the Compensation Committee reduced our CEO s total target long-term incentive (LTI) compensation by $4.7 million. This is a 32% decrease in target LTI compared to FY 2018. This is in addition to the 30% decrease in reported CEO pay over the past five fiscal years.

- The Compensation Committee also substantially increased the weighting of relative total shareholder return in our CEO s long-term incentive plan, effective FY 2019.

- We eliminated the individual modifier from the annual cash incentive plan for our executive officers, reducing the potential payout under that plan, effective FY 2018.

- In FY 2018, reported CEO pay declined by 10% compared to the prior year.

- In May 2018, the Compensation Committee also reinforced and codified its longstanding practice of considering regulatory, compliance and legal issues when making executive compensation decisions.

We believe these changes effectively **link our executive compensation program to financial objectives consistent with our long-term goals** and are aligned with our shareholders interests. We are committed to maintaining a compensation structure that aligns pay with performance, drives long-term value creation and reflects the views of our shareholders.

Committing to Fight the Opioid Epidemic

McKesson is **deeply concerned by the impact the opioid epidemic is having on families and communities** across the U.S., and this issue is top of mind for the Board of Directors. In response to a shareholder request, the Board formed **an independent Special Review Committee** (the SRC) to investigate senior management s and the Board s oversight of compliance with the Company s legal and regulatory obligations relating to the distribution of opioids. While the investigation revealed a strong culture that encouraged ethical and compliant conduct, as led by management and reinforced by the Board, the SRC offered recommendations in the interest of further strengthening our compliance framework. On the basis of these recommendations, the Board enhanced oversight procedures related to opioid distribution, the Controlled Substance Monitoring Program, and the pending lawsuits and investigations. In March 2018, the Company also announced **a series of new initiatives to help fight the opioid epidemic**, including the formation of a foundation dedicated to combating the crisis. The Company contributed $100 million to the new foundation as part of McKesson s ongoing mission of delivering better care for patients. The Company s new initiatives will provide additional tools to fight abuse, such as leveraging data and analytics to flag at-risk patients and fast-tracking distribution of new, non-opioid pain medications. We believe this investment and the Company s continued actions can have a positive impact, particularly when done in collaboration with others in the healthcare industry, government policymakers, administrators and regulators.

We Ask for Your Support

We take seriously the trust you place in us through your investment in McKesson. Your vote is very important to us. We strongly encourage you to read both our proxy statement and annual report in their entirety, and ask that you vote with our recommendations.

Edward A. Mueller

Lead Independent Director

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Notice of 2018 Annual Meeting of Stockholders

Wednesday, July 25, 2018

8:30 a.m. Central Daylight Time

The 2018 Annual Meeting of Stockholders of McKesson Corporation will be held at the Dallas/Fort Worth Airport Marriott, 8440 Freeport Parkway, Irving, Texas 75063.

ITEMS OF BUSINESS:

Elect for a one-year term a slate of eight directors as nominated by the Board of Directors;

Ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2019;

Conduct a non-binding advisory vote on executive compensation;

Vote on four proposals submitted by shareholders, if properly presented; and

Conduct such other business as may properly be brought before the meeting.

Shareholders of record at the close of business on May 31, 2018 are entitled to notice of and to vote at the meeting or any adjournment or postponement of the meeting.

June 15, 2018

By Order of the Board of Directors

Michele Lau

Senior Vice President,

Corporate Secretary and

Associate General Counsel

YOUR VOTE IS IMPORTANT

We encourage you to read the proxy statement and vote your shares as soon as possible. Specific instructions on how to vote via Internet, by phone, by mail or in person are included on the proxy card.

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PROXY SUMMARY

This summary highlights certain information in this proxy statement and does not contain all the information you should consider in voting your shares. Please refer to the complete proxy statement and our annual report prior to voting at the Annual Meeting of Stockholders to be held on July 25, 2018 (Annual Meeting).

Meeting Information

2018 Annual Meeting of Stockholders	
Date and Time	Wednesday, July 25, 2018 | 8:30 a.m. Central Daylight Time
Location	Dallas/Fort Worth Airport Marriott, 8440 Freeport Parkway, Irving, Texas
Record Date	May 31, 2018

Voting Items

Our board of directors (Board or Board of Directors) is asking you to take the following actions at the Annual Meeting:

Item	**Your Board s Recommendation**	**Page**
1 Election of Eight Directors for a One-Year Term	Vote **FOR**	8
2 Ratification of the Appointment of the Independent Registered Public Accounting Firm	Vote **FOR**	26
3 Non-binding Advisory Vote on Executive Compensation	Vote **FOR**	76
4 Shareholder Proposal on Disclosure of Lobbying Activities and Expenditures	Vote **AGAINST**	77

5 Shareholder Proposal on Accelerated Vesting of Equity Awards	Vote **AGAINST**	79
6 Shareholder Proposal on Policy to Use GAAP Financial Metrics for Purposes of Determining Executive Compensation	Vote **AGAINST**	81
7 Shareholder Proposal on Ownership Threshold for Calling Special Meetings of Shareholders	Vote **AGAINST**	84

How to Vote (see pages 86-90 for additional voting information)

Your vote is important. On June 15, 2018, McKesson Corporation (Company, McKesson, we or us) began deliver proxy materials to all shareholders of record at the close of business on May 31, 2018 (Record Date). As a shareholder, you are entitled to one vote for each share of common stock you held on the Record Date. You can vote in any of the following ways:

Vote via Internet	Call Toll-Free	Vote by Mail	Vote in Person
www.proxyvote.com	Call the phone number located at the top of your proxy card	Follow the instructions on your proxy card	Attend our Annual Meeting and vote by ballot

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PROXY SUMMARY

Company Highlights

McKesson is a global leader in delivering pharmaceutical and medical products and business services to retail pharmacies, hospitals, health systems, physician offices and others throughout North America and Europe. While distribution represents our core competency and generates the majority of our business by revenue (99% in FY 2018), we also provide technology solutions to support healthcare organizations in areas such as clinical, financial and supply chain management.

In FY 2018, our Company delivered solid performance across many of our businesses. Despite some industry-wide headwinds, we produced strong returns and invested to enhance our ability to deliver value to our manufacturing partners, our customers and patients. The Company generated revenues of $208.4 billion compared to $198.5 billion in FY 2017 and produced adjusted earnings of $12.62 per diluted share compared to $12.54 in FY 2017.

To build sustainable long-term value, we try to think years out as opposed to quarters out. In April 2018, we announced a multi-year growth initiative, which is intended to position us to take advantage of significant new growth opportunities in patient care delivery. Over the next few years, we anticipate achieving meaningful cost savings through an operating model review and redesign that we anticipate will primarily be used to fund the following growth priorities:

- Expanded supply chain and commercialization services for pharmaceutical and medical supply manufacturers;
- Enhanced solutions for the rapidly growing specialty pharmaceutical market;
- New offerings that will strengthen and expand the role of retail pharmacy in patient care delivery; and
- Develop world-class data and analytics platforms and build solutions to become more efficient and agile.

Governance Highlights

The Board actively seeks input from our shareholders and is committed to continuous monitoring of sound and effective governance practices. Below are highlights of some of our key governance attributes. Details on our corporate governance can be found on pages 19-25.

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Director Nominees

There are eight nominees for election to the Board of Directors. Additional information on each nominee may be found under Item 1 - Election of Directors, beginning on page 8. Our Board approved a number of changes to the composition and leadership of its committees, which will be effective on July 23, 2018. The new committee memberships are outlined below. Information on the current committee memberships can be found on page 13.

Name and Title	Committee Memberships*			
	AC	CC	FC	GC
N. Anthony Coles, M.D. *Chairman and Chief Executive Officer, Yumanity Therapeutics, LLC*		C		
John H. Hammergren *Chairman of the Board, President and Chief Executive Officer, McKesson Corporation*				
M. Christine Jacobs *Chairman of the Board, President and Chief Executive Officer, Theragenics Corporation (Retired)*				
Donald R. Knauss *Executive Chairman of the Board, The Clorox Company (Retired)*			C	
Marie L. Knowles *Executive Vice President and Chief Financial Officer, ARCO (Retired)*	C			
Bradley E. Lerman New in 2018				C

Senior Vice President, General Counsel and Corporate Secretary, Medtronic plc

Edward A. Mueller **Lead Independent Director**

Chairman of the Board and Chief Executive Officer, Qwest Communications International Inc. (Retired)

Susan R. Salka

Chief Executive Officer and President, AMN Healthcare Services, Inc.

AC: *Audit Committee* **CC:** *Compensation Committee* **FC:** *Finance Committee* **GC:** *Governance Committee* **C:** *Committee Chair*

* *Committee memberships effective July 23, 2018*

The eight director nominees standing for reelection to the Board have diverse backgrounds, skills and experiences. We believe their varied backgrounds contribute to an effective and well-balanced Board that is able to provide valuable insight to, and effective oversight of, our senior management team.

Multidisciplinary Board Skills **Balanced Board Tenure**

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PROXY SUMMARY

Comprehensive Approach to Shareholder Feedback

As we do every year, our Board undertook a significant engagement effort to receive feedback from shareholders regarding our executive compensation program and other matters of importance to the Company and our shareholders. We were disappointed to receive low support for our advisory say-on-pay proposal at the 2017 Annual Meeting of Stockholders, and actively sought to understand what actions we could take to address shareholder concerns.

Scope of Outreach

Since our last Annual Meeting of Stockholders, we reached out to shareholders representing over 80% of our outstanding common stock. We met with shareholders representing over 40% of our outstanding common stock and we specifically requested feedback regarding our executive compensation program given our low say-on-pay support in 2017.

Engagement and Response Efforts

Compensation Committee Chair Andy D. Bryant led engagements with shareholders representing 24% of our outstanding common stock. Management continued to meet with shareholders individually, at annual conferences and through other forums. Feedback from shareholders was shared regularly with the Board, including the Governance Committee and the Compensation Committee, for review and further discussion.

Key Issues of Discussion

In our meetings with shareholders over the last year, in addition to executive compensation, we discussed the Company s robust disclosure and governance record, Board leadership, composition and refreshment, political engagement and response to the opioid crisis. We heard strong support for our CEO and senior management team, and recognition of executive retention as an issue for the Company. We also heard concerns relating to our executive compensation program, including overall pay magnitude for our CEO, pay-for-performance alignment and plan design. **We summarize below what we have heard on both executive compensation and governance matters, and how we responded to shareholder feedback.**

Shareholder Feedback on Executive Compensation

Overall magnitude of CEO pay remains high

Our Board s Response: For FY 2019, the Compensation Committee reduced our CEO s total target LTI by $4.7 million, a 32% decrease in target LTI compared to FY 2018. This is in addition to the 30% decrease in reported CEO pay over the past five fiscal years.

The individual modifier in the annual cash incentive plan does not reflect a pay-for-performance philosophy

Our Board s Response: For FY 2018, the Compensation Committee eliminated the individual modifier for executive officers, which includes our CEO, and reduced their annual cash incentive maximum payout to 200% of target. This enhances alignment of annual cash incentives with the Company s financial results.

The weighting of relative TSR in the PSU program means that pay is not sufficiently aligned to performance

Our Board s Response: For FY 2018, the Compensation Committee increased the weighting of Performance Stock Unit (PSU) awards (formerly called TSR Unit awards) to 50% (from 40%) of total target LTI for executive officers. Relative TSR (rTSR) is one of the metrics included in the calculation of PSU awards earned at the end of the measurement period. This further incentivizes long-term performance by tying executive compensation more closely to rTSR and cumulative adjusted EPS metrics.

For FY 2019, the Compensation Committee also increased the weighting of rTSR to 75% (from 25%) in the CEO s PSU award (which is 50% of total target LTI). This further incentivizes long-term performance and ties our CEO s compensation more closely to stock price performance.

Compensation plans should address compliance risk related to opioid distribution

Our Board s Response: In May 2018, the Compensation Committee reinforced and codified its longstanding practice of considering the impact of regulatory, compliance and legal issues when making executive compensation decisions by incorporating this item into its annual governance checklist. (See pages 6-7 of this proxy statement for further discussion of the Company s response to the opioid crisis.)

Shareholder Feedback on Board Composition

The Board and its committees should be regularly refreshed with directors of diverse backgrounds and skills

Our Board s Response: On April 24, 2018, the Board elected Bradley E. Lerman as a new independent director. Mr. Lerman is Senior Vice President, General Counsel and Corporate Secretary of Medtronic plc and leads that company s global legal, government affairs and ethics and compliance functions. His deep understanding of the healthcare industry and experience in the public and private sectors bring valuable insights to our Board. His election is a continued demonstration of the Board s commitment to refreshment, with 50% of our independent directors joining our Board since 2014. Since 2002, women have held three of our Board seats (30% or more of our Board).

The Board also made a number of changes to the composition and leadership of our Board committees. As part of this refreshment, effective July 23, 2018, N. Anthony Coles, M.D. will assume the role of Compensation Committee Chair while Susan R. Salka and Mr. Lerman will join the committee as new members and M. Christine Jacobs will leave the committee. Our current Compensation Committee Chair Andy D. Bryant will not stand for reelection at the 2018 Annual Meeting. In addition, our newest Board member, Mr. Lerman, will assume the role of Governance Committee Chair and Donald R. Knauss will assume the role of Finance Committee Chair.

Shareholder Feedback on Governance Practices

Chairman of the Board and CEO positions should be split

Our Board s Response: In 2017, the Board announced its decision to split the role of Chairman of the Board and CEO in the future, commencing with the Company s next CEO. The Board believes that Mr. Hammergren currently remains the right person to serve as Chairman based on the needs of the Company and its shareholders, and that the Board s Lead Independent Director provides strong management oversight and independent leadership. The Board continues its practice of evaluating at least annually whether its leadership structure remains in the best interest of the Company and its shareholders.

The Company should increase disclosure and institute policies regarding lobbying and political activity

Our Board s Response: This year, we enhanced the Company s policies to provide greater transparency and codify our practices related to lobbying activity, which you can view at *http://www.mckesson.com/about-mckesson/public-affairs/political-engagement/*. Beginning last year, the Company also voluntarily discloses corporate political contributions and trade associations to which payments exceed $50,000. The Company also prohibits trade organizations from using corporate dollars for political purposes.

Shareholder Feedback on the Opioid Epidemic

Better articulate Board oversight of opioid distribution and how it is preventing opioid diversion

Our Board s Response: At McKesson, we are deeply concerned by the impact the opioid epidemic is having on families and communities across our nation. See pages 6-7 of this proxy statement for further discussion of the Company s response to the opioid crisis, including an overview of our role in the pharmaceutical supply chain, information on our ongoing opioid anti-diversion platform, how we are fighting the epidemic, our role in public policy advocacy, and how the Board has taken action.

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McKesson Taking Action: The Opioid Epidemic

At McKesson, we are deeply concerned by the impact the opioid epidemic is having on families and communities across our nation. We deliver life-saving medicines to millions of Americans each day and take our role in helping protect the safety and integrity of the pharmaceutical supply chain very seriously. We take to heart that at the end of each and every item delivered every pill bottle, every vial, every ointment there is a patient in need. We know that it s not just a package, it s a patient.

Our Role in the Pharmaceutical Supply Chain

As a pharmaceutical distributor, we operate as one component within the pharmaceutical supply chain, which also includes drug manufacturers, regulatory bodies like the U.S. Drug Enforcement Administration (DEA) and state pharmacy boards, insurance companies, prescribing doctors and dispensing pharmacists.

McKesson is one part of the controlled substances supply chain

Our Ongoing Opioid Anti-Diversion Platform

We are committed to maintaining and continuously enhancing our Controlled Substances Monitoring Program (CSMP). This program helps detect and prevent opioid diversion within the pharmaceutical supply chain.

Our Company is guided by our ICARE shared principles, which include integrity and accountability, and takes compliance extremely seriously. We exclude commonly diverted and abused controlled substances from the incentive compensation structure for our sales team. We continually evaluate the program to keep up with changing diversion tactics and in recent years have taken significant action to strengthen our anti-diversion program including:

- Increased staffing with an array of subject matter expertise, including approximately 240 years in cumulative DEA enforcement experience;
- Strengthened our internal oversight and reporting structure;
- Increased our internal review process;
- Provide our employees with current and relevant training to improve their effectiveness;
- Reinforced our Pharmacy Customer Due Diligence process;
- Implemented an advanced customer threshold methodology to identify suspicious orders; and
- Enhanced our data & analytics with advanced technologies to closely monitor our pharmacy customers.

How We re Fighting the Epidemic

In March 2018, we announced a series of new initiatives to help fight the opioid epidemic. These additional programs are part of our Company s ongoing mission delivering better care for patients. We believe our investment and continued actions can have a positive impact, particularly when done in partnership with others in the healthcare industry, as well as with government policymakers, administrators and regulators.

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Creation of a New Foundation

We contributed $100 million to a newly-formed foundation, which is expected to focus on education for patients, caregivers and providers, addressing key policy issues, and increasing access to life-saving treatments, such as opioid overdose reversal medications. The foundation s work will be overseen by a board comprised of a majority of outside directors, including healthcare and subject matter experts.

Company-led Initiatives

With deep expertise in pharmaceutical distribution, analytics and information technology, we are committed to using our industry knowhow with the following initiatives to help address some of the multitude of issues contributing to the opioid epidemic. The Company will develop and make available an annual report that examines the progress of these Company initiatives with the purpose of sharing learnings and insights with the public.

- Expedite development of a national prescription safety-alert system for pharmacists and, ultimately, prescribers, to flag potential signs of abuse or misuse, and indicate when additional patient information may be needed before dispensing opioids
- Facilitate e-prescribing by stopping sales of opioids during 2019 to customers who cannot accept prescriptions electronically
- Support limited-dose opioid packaging with manufacturers to promote smaller doses and reduce potential for unused product
- Fast-track distribution of new, non-opioid pain medications
- Provide complimentary pharmacist training, developed by third-party experts, on opioid overdose reversal medications

Our Active Role in Public Policy Recommendations & Advocacy

We believe that we can play a role in identifying and advocating for a variety of creative options, outside the confines of our role as a pharmaceutical distributor, to help solve the opioid abuse public health crisis. Three years ago, our Chairman & CEO directed the creation of an internal task force of experts to look at holistic ways to combat the problem. The task force has since released two white papers recommending public policy solutions to address the opioid epidemic across the healthcare ecosystem. McKesson has held hundreds of meetings with government policymakers, administrators and regulators to advocate for public policies that align with the following recommendations to help tackle the opioid epidemic:

How Our Board Has Taken Action

At McKesson, the way we do business is just as important as the business itself. Our Board is dedicated to maintaining and enhancing a culture focused on integrity and accountability, and takes its role in risk oversight seriously, including on matters related to controlled substances. Distributing controlled substances represents a small share of our overall business. The two schedules of controlled substances that include the most commonly abused

prescription opioids constitute approximately 3-4% of McKesson s total revenue. However, our Board is committed to strengthening its oversight processes as we help the country combat this crisis.

This year, in response to a shareholder request, a Special Review Committee (the SRC) of the Board investigated senior management s and the Board s oversight of compliance with the Company s legal and regulatory obligations relating to the distribution of opioids that occurred between 2008 and 2015. The SRC was composed of three independent directors and assisted by an independent law firm. The SRC s extensive investigation found that both senior management and the Board acted in good faith on these issues. The Board adopted the SRC s recommendations to further strengthen our current compliance framework and ongoing oversight:

- The Board will continue actively monitoring the pending litigation and investigations related to opioid distribution through regular updates, which is a standing item on the Board s agenda.
- The Board will continue its review of the Company s anti-diversion program, including reports from internal and external experts, and receive updates on the Company s ongoing efforts to help mitigate and address the opioid epidemic.
- Executive management and the General Counsel will conduct an annual assessment of the Company s regulatory and compliance programs and report to the Board on whether there are any potential areas for improvement.
- The Board will continue to receive annual reports regarding the Company s compliance with laws regulating controlled substances.

In May 2018, the Compensation Committee reinforced and codified its longstanding practice of considering the impact of regulatory, compliance and legal issues when making executive compensation decisions by incorporating this item into its annual governance checklist.

For additional information on the SRC s extensive investigation and on the Company s response to the opioid epidemic please visit *www.mckesson.com/fightingopioidabuse*. Our Board is committed to building on the significant steps we have taken to enhance our CSMP and Board oversight. Each of our employees, officers and directors is dedicated to our ICARE shared principles and ensuring McKesson helps contribute to combating the opioid crisis.

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PROPOSALS TO BE VOTED ON

ITEM 1. Election of Directors

There are eight nominees for election to the Board of Directors of the Company. The directors elected at the Annual Meeting will hold office until the 2019 Annual Meeting of Stockholders and until their successors have been elected and qualified, or until their earlier resignation, removal or death.

All nominees are current directors. N. Anthony Coles, M.D., John H. Hammergren, M. Christine Jacobs, Donald R. Knauss, Marie L. Knowles, Edward A. Mueller and Susan R. Salka were elected to the Board at the 2017 Annual Meeting of Stockholders. Bradley E. Lerman was elected to the Board effective April 24, 2018.

For purposes of the upcoming Annual Meeting, the Governance Committee has recommended the reelection of each nominee as a director. Each nominee has informed the Board that he or she is willing to serve as a director. If any nominee should decline or become unable or unavailable to serve as a director for any reason, your proxy authorizes the persons named in the proxy to vote for a replacement nominee, or the Board may reduce its size.

The following is a brief description of the age, principal occupation, position and business experience, including other public company directorships, for at least the past five years and major affiliations of each of the nominees. Each director s biographical information includes a description of the director s experience, qualifications, attributes or skills that qualify the director to serve on the Company s Board at this time.

Nominees

Your Board recommends a vote FOR each Nominee.

Independent Director

Current Committees:

Finance Committee, Chair

N. Anthony Coles, M.D.

Chairman and Chief Executive Officer, Yumanity Therapeutics, LLC

Biography: Dr. Coles, age 58, has served as Chairman and Chief Executive Officer of Yumanity Therapeutics, LLC, a company focused on transforming drug discovery for neurodegenerative diseases, since October 2014. From October 2013 to October 2014, Dr. Coles served as Chairman and CEO of TRATE Enterprises LLC, a privately held company. Dr. Coles served as President, Chief Executive Officer and Chairman of the Board of Onyx Pharmaceuticals, Inc., a biopharmaceutical company, from 2012 until 2013, having served as its President, Chief Executive Officer and a member of its board of directors from 2008 until 2012. Prior

Compensa
Committee

to joining Onyx Pharmaceuticals, Inc. in 2008, he was President, Chief Executive Officer and a member of the board of directors of NPS Pharmaceuticals, Inc., a public biopharmaceutical company. Before joining NPS Pharmaceuticals, Inc. in 2005, he served in various leadership positions in the biopharmaceutical and pharmaceutical industries, including at Merck & Co., Inc., Bristol-Myers Squibb Company and Vertex Pharmaceuticals Incorporated. Dr. Coles currently serves as a director of Regeneron Pharmaceuticals, Inc. In addition to having previously served as a director of Onyx Pharmaceuticals, Inc. and NPS Pharmaceuticals, Inc., he was formerly a director of Laboratory Corporation of America Holdings, Campus Crest Communities, Inc. and CRISPR Therapeutics. Dr. Coles has been a director of the Company since April 2014.

Skills & Qualifications: In light of his former and current chairman and chief executive positions, Dr. Coles brings to the Board executive and board leadership experience, as well as business management and strategic planning experience, in the healthcare industry. He also brings an innovative mindset. We believe Dr. Coles diverse perspective as a physician serves the Board well as it provides oversight with respect to various aspects of the Company s businesses.

New Committee Assignments, Effective July 2018:

Compensation Committee, Chair

Finance Committee

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ITEM 1. ELECTION OF DIRECTORS

Chairman of the Board

John H. Hammergren

Chairman of the Board, President and Chief Executive Officer, McKesson Corporation

Biography: Mr. Hammergren, age 59, has served as Chairman of the Board since July 2002, and President and Chief Executive Officer of the Company since April 2001. Mr. Hammergren joined the Company in 1996 and held a number of management positions before becoming President and Chief Executive Officer. Mr. Hammergren is the Chairman of the Supervisory Board of McKesson Europe, formerly known as Celesio AG. Additionally, he is currently a member of the Business Council, the Business Roundtable and the Healthcare Leadership Council, as well as the Board of Trustees for the Center for Strategic & International Studies. He has been a director of the Company since July 1999.

Skills & Qualifications: Mr. Hammergren brings more than 30 years of business and healthcare experience to the Board, including service on other public company boards. Under Mr. Hammergren s leadership, McKesson has become a leading provider of healthcare services and information technology solutions, increased revenues more than $165 billion, expanded into global markets, and provided shareholders with a significant return on investment. The Board benefits from Mr. Hammergren s extensive knowledge of the Company, including his deep understanding of its customer base, competition, management team, workforce, challenges and opportunities. His involvement with the Healthcare Leadership Council, the Business Council and the Business Roundtable allows him to bring the Board new insights and perspectives on the changing healthcare industry, the nation s economic and regulatory climate, and relevant public policy issues.

Independent Director

Current Committees:

Compensa
Committee

Governanc
Committee

M. Christine Jacobs

Chairman of the Board, President and Chief Executive Officer, Theragenics Corporation (Retired)

Biography: Ms. Jacobs, age 67, retired from Theragenics Corporation, a manufacturer of prostate cancer treatment devices and surgical products, in 2013, having served as its Chairman, President and Chief Executive Officer. She held the position of Chairman from 2007 to 2013, and previously from 1998 to 2005. She was Co-Chairman of the Board from 1997 to 1998 and was elected President in 1992 and Chief Executive Officer in 1993. Ms. Jacobs has been a director of the Company since January 1999.

Skills & Qualifications: Having led a public company within the healthcare industry for over 20 years, Ms. Jacobs brings to our Board significant relevant industry experience and a keen understanding of and strong insight into issues, challenges and opportunities facing the Company, including those related to legislative healthcare initiatives. As Chairman and Chief Executive Officer of Theragenics Corporation, she was at the forefront of her company in regard to the evolving corporate governance environment, which enables her to provide ongoing valuable contributions as a member of the Governance Committee of our Board. Ms. Jacobs served as Co-Chair of the Securities and Exchange Commission (SEC) Advisory Committee on Small and Emerging Companies from September 2011 to September 2015, which reflects her leadership and public company experience, including capital formation experience.

New Committee Assignments, Effective July 2018:

Audit Committee

Governance Committee

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ITEM 1. ELECTION OF DIRECTORS

Independent Director

Current Committees:

Governa
Committee,
Chair

A u
Committee

Donald R. Knauss

Executive Chairman of the Board, The Clorox Company (Retired)

Biography: Mr. Knauss, age 67, retired from The Clorox Company in 2015, having served as Executive Chairman of the Board from November 2014 until July 2015 and Chairman and Chief Executive Officer from October 2006 until November 2014. He was Executive Vice President of The Coca-Cola Company and President and Chief Operating Officer for Coca-Cola North America from February 2004 until September 2006. Prior to his employment with The Coca-Cola Company, he held various positions in marketing and sales with PepsiCo, Inc. and Procter & Gamble and served as an officer in the United States Marine Corps. He currently serves as a director of the Kellogg Company and Target Corporation. Mr. Knauss also serves as the Chairman of the Board of Trustees for the University of San Diego and is a member of the Economic Advisory Council of the San Francisco Federal Reserve Board. He was formerly a director of URS Corporation. Mr. Knauss has been a director of the Company since October 2014.

Skills & Qualifications: Mr. Knauss has gained substantial board leadership skills through his chairmanship role at The Clorox Company. He also brings substantial executive experience, including in the roles of Chief Executive Officer, President and Chief Operating Officer, through which he has developed valuable operational insights and strategic and long-term planning capabilities. In addition, Mr. Knauss possesses extensive international business management experience, which provides him with valuable insights into global business strategy. He also possesses extensive retail expertise, which includes experience in the retail pharmacy area. Mr. Knauss also has significant other public company board experience. Having worked outside of the healthcare industry, Mr. Knauss enhances the diverse perspectives on the Board.

New Committee Assignments, Effective July 2018:

Finance Committee, Chair

Audit Committee

Independent Director

Current Committees:

Audit Committee, Chair

Fina
Committee

Marie L. Knowles

Executive Vice President and Chief Financial Officer, Atlantic Richfield Company (Retired)

Biography: Ms. Knowles, age 71, retired from Atlantic Richfield Company in 2000 and was Executive Vice President and Chief Financial Officer from 1996 until 2000. She joined Atlantic Richfield Company in 1972 and held a number financial and operating management positions including President of ARCO Transportation Company from 1993 to 1996. Ms. Knowles is also the Chair of the Independent Trustees Fidelity Fixed Income and Asset Allocation Funds. Ms. Knowles was formerly a director of America West Holdings Corporation, Atlantic Richfield Company, Phelps Dodge Corporation and URS Corporation. She has been a director of the Company since March 2002.

Skills & Qualifications: Ms. Knowles brings to the Board extensive financial experience gained through her career at Atlantic Richfield Company, including her tenure as Chief Financial Officer. This experience makes her well qualified to serve as Chair of the Company s Audit Committee and as the audit committee financial expert. This experience also enables Ms. Knowles to provide critical insight into, among other things, the Company s financial statements, accounting principles and practices, internal control over financial reporting, and risk management processes. Ms. Knowles was named a 2013 Outstanding Director by the San Francisco Business Times and the Silicon Valley Business Journal.

New Committee Assignments, Effective July 2018:

Audit Committee, Chair

Finance Committee

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Independent Director

New in 2018

Bradley E. Lerman

Senior Vice President, General Counsel and Corporate Secretary,

Medtronic plc

Biography: Mr. Lerman, age 61, was named Senior Vice President, General Counsel and Corporate Secretary of Medtronic plc in May of 2014 and serves as a member of its executive committee. In this role, he leads the company s global legal, government affairs and ethics and compliance functions. Prior to Medtronic plc, Mr. Lerman served as Executive Vice President, General Counsel and Corporate Secretary for the Federal National Mortgage Association (Fannie Mae). Previous to Fannie Mae, he served as Senior Vice President, Associate General Counsel and Chief Litigation Counsel for Pfizer. Mr. Lerman also served as a litigation partner at Winston & Strawn LLP in Chicago and as an Assistant U.S. Attorney in the Northern District of Illinois. Mr. Lerman has been a director of the Company since April 2018.

Skills & Qualifications: Mr. Lerman brings to our Board significant legal and regulatory expertise gained from years of large law firm practice and in-house experience, as well as major governmental positions with law enforcement responsibilities. His legal experience and seasoned judgment are instrumental in helping the Board navigate legal challenges. Mr. Lerman s deep understanding of the healthcare industry and experience linking compliance and legal considerations with corporate strategy also bring valuable insights to our Board.

New Committee Assignments, Effective July 2018:

Governance Committee, Chair

Compensation Committee

Independent Director

Current Committees:

Compensa
Committee

Governa
Committee

Edward A. Mueller

Chairman of the Board and Chief Executive Officer, Qwest Communications International Inc. (Retired)

Biography: Mr. Mueller, age 71, retired as Chairman and Chief Executive Officer of Qwest Communications International Inc., a provider of voice, data and video services, in April 2011. He held the position of Chairman and Chief Executive Officer of Qwest Communications International Inc. from August 2007 to April 2011. From January 2003 until July 2006, he served as Chief Executive Officer of Williams-Sonoma, Inc., a provider of specialty products for cooking. Prior to joining Williams-Sonoma, Inc., Mr. Mueller served as President and Chief Executive Officer of Ameritech Corporation, a subsidiary of SBC Communications, Inc., from 2000 to 2002. He was formerly a director of The Clorox Company, CenturyLink, Inc., Williams-Sonoma, Inc. and VeriSign, Inc. Mr. Mueller has been a director of the Company since April 2008 and was elected to the role of Lead Independent Director in July 2013. He was re-elected to an additional two-year term as Lead Independent Director effective July 2017.

Skills & Qualifications: Mr. Mueller brings to the Board chief executive leadership and business management experience, as well as a strong business acumen and strategic planning expertise. Having worked outside the healthcare industry, he also adds to the mix of experiences and perspectives on our Board that promote a robust, deliberative and decision-making process. While Chairman of the Board of Qwest Communications, Mr. Mueller had a leadership role in corporate governance, which enables him to provide valuable contributions as a member of the Governance Committee of our Board. He also has public company board experience with audit committee service.

New Committee Assignments, Effective July 2018:

Compensation Committee

Governance Committee

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ITEM 1. ELECTION OF DIRECTORS

Independent Director

Current Committees:

A u
Committee

Governa
Committee

Susan R. Salka

Chief Executive Officer and President, AMN Healthcare Services, Inc.

Biography: Ms. Salka, age 53, has served as Chief Executive Officer and President of AMN Healthcare Services, Inc., the leader in providing healthcare workforce solutions and staffing services to healthcare facilities across the nation, since 2005, and a director of the company since 2003. She has served in several other executive roles since joining AMN Healthcare Services, Inc. in 1990, including Chief Operating Officer, Chief Financial Officer and Senior Vice President of Business Development. She was formerly a director of Beckman Coulter Inc. and Playtex Products. Ms. Salka has been a director of the Company since October 2014.

Skills & Qualifications: With over 30 years of experience in the healthcare services industry, Ms. Salka brings to the Board a deep understanding of emerging trends in healthcare services. This industry experience gives her insight into important aspects of the Company s businesses, including opportunities potentially available to those businesses. She has also served in a number of executive leadership positions, including as a Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, which have provided her with business management, operational, financial and long-range planning experience. Ms. Salka also brings valuable experience acquired through significant public company board service.

New Committee Assignments, Effective July 2018:

Compensation Committee

Governance Committee

The Board, Committees and Meetings

The Board of Directors is the Company s governing body with responsibility for oversight, counseling and direction of the Company s management to serve the long-term interests of the Company and its shareholders. The Board s goal is to build long-term value for the Company s shareholders and to ensure the vitality of the Company for its customers, employees and other individuals and organizations that depend on the Company. To achieve its goal, the Board monitors both the performance of the Company and the performance of the Chief Executive Officer (CEO). The Board consisted of eight members at the end of fiscal year ended March 31, 2018 (FY 2018), all of whom were independent with the exception of John H. Hammergren, the Chairman of the Board (Chairman). Mr. Bryant will not stand for reelection at the 2018 Annual Meeting. With the election of Mr. Lerman effective April 2018, the Board currently consists of nine members, all of whom are independent with the exception of the Chairman.

The Board has four standing committees: the Audit Committee, the Compensation Committee, the Finance Committee, and the Governance Committee. Each of these committees is governed by a written charter approved by the Board in compliance with the applicable requirements of the SEC and the New York Stock Exchange (NYSE) listing requirements (collectively, the Applicable Rules). The charter of each committee requires an annual review by that committee. Each member of our standing committees is independent, as determined by the Board, under the NYSE listing standards and the Company s director independence standards. In addition, each member of the Audit Committee and Compensation Committee meets the additional, heightened independence criteria applicable to such committee members under the Applicable Rules. The members of each standing committee are appointed by the Board each year for a term of one year or until their successors are elected and qualified or their earlier resignation.

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ITEM 1. ELECTION OF DIRECTORS

Board and Meeting Attendance

The Board met seven times during FY 2018. Each director attended at least 75% of the aggregate number of meetings of the Board and of all the standing and other committees on which he or she served. Directors meet their responsibilities not only by attending Board and committee meetings, but also through communication with senior management, independent accountants, advisors and consultants and others on matters affecting the Company. Directors are also expected to attend the upcoming Annual Meeting. All then directors attended the 2017 Annual Meeting of Stockholders. The membership of each standing committee in FY 2018 and the number of meetings held during FY 2018 are identified in the table below.

Director	Audit	Compensation	Finance	Governance
Andy D. Bryant		Chair		
N. Anthony Coles, M.D.			Chair	
John H. Hammergren				
M. Christine Jacobs				
Donald R. Knauss				Chair

Marie L. Knowles	**Chair**			
Edward A. Mueller				
Susan R. Salka				
Number of meetings held during FY 2018	**7**	**9**	**4**	**4**

In addition, the Board has, on occasion, established committees to deal with particular matters the Board believes appropriate to be addressed in that manner. For example, the Board formed a Special Review Committee (the SRC), comprised of three independent directors and assisted by independent counsel. The scope of the SRC s investigation focused on senior management s and the Board s oversight of compliance with the Company s legal and regulatory obligations relating to the distribution of opioids that occurred between 2008 and 2015. For more information on the SRC s findings, please see pages 6-7 of this proxy statement.

Committee Responsibilities and Other Information

Committee Responsibilities

Audit Committee

The Audit Committee is responsible for, among other things, reviewing with management the annual audited financial statements filed in the Annual Report on Form 10-K, including any major issues regarding accounting principles and practices, as well as the adequacy and effectiveness of internal control over financial reporting that could significantly affect the Company s financial statements. Along with other responsibilities, the Audit Committee reviews with management and the independent registered public accounting firm (the independent accountants) the interim financial statements prior to the filing of the Company s quarterly reports on Form 10-Q. In addition to appointing the independent accountants, monitoring their independence, evaluating their performance and approving their fees, the Audit Committee has responsibility for reviewing and accepting the annual audit plan, including the scope of the audit activities of the independent accountants. The Audit Committee at least annually reassesses the adequacy of its charter and recommends to the Board any proposed changes, and periodically reviews major changes to the Company s accounting principles and practices. The committee also reviews the appointment, performance and replacement of the senior internal audit department executive and assists the Board with respect to its oversight of the Company s policies and procedures regarding compliance with applicable laws and regulations.

Certain matters are reviewed and discussed with the full Board. For example, the Board actively monitors the pending litigation and investigations related to opioid distribution as well as the Company s Controlled Substance Monitoring Program. In addition, the full Board discusses the implementation and effectiveness of the Company s compliance and ethics program.

Additionally, the committee performs such other activities and considers such other matters as the Audit Committee or the Board deems necessary or appropriate. For example, the committee, and at times the Board as a whole, reviews the Company s cybersecurity risk mitigation initiatives and related policies and procedures.

The composition of the Audit Committee, the attributes of its members, including the requirement that each be financially literate and have other requisite experience, and the responsibilities of the committee, as reflected in its charter, are in accordance with the Applicable Rules for corporate audit committees.

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ITEM 1. ELECTION OF DIRECTORS

Audit Committee Financial Expert

The Board has designated Ms. Knowles as the Audit Committee s financial expert and has determined that she meets the qualifications of an audit committee financial expert in accordance with SEC rules, and that she is independent as defined for audit committee members in the listing standards of the NYSE and applicable SEC requirements, and in accordance with the Company s director independence standards.

Compensation Committee

The Compensation Committee has responsibility for, among other things, reviewing all matters relating to executive officer compensation. Along with its other responsibilities, the Compensation Committee, with respect to executive officers, annually reviews and determines the salary paid, the grants of cash-based incentives and equity compensation, the entering into or amendment or extension of any employment contract or similar arrangement, the severance or change in control arrangements, the material perquisites provided, and any other executive officer compensation matter that may arise from time to time as directed by the Board.

The Compensation Committee periodically reviews and makes recommendations to the Board with respect to adoption of, or amendments to, all equity-based incentive compensation plans for employees, and cash-based incentive plans for executive officers, including an evaluation of whether the relationship between the incentives associated with these plans and the level of risk-taking by executive officers in response to such incentives is reasonably likely to have a material adverse effect on the Company. Subject to certain limitations, the Compensation Committee approves the grant of stock, stock options, stock purchase rights or other equity grants to employees eligible for such grants. Annually, the Compensation Committee reviews its charter and recommends to the Board any changes it determines are appropriate. It participates with management in the preparation of the Compensation Discussion and Analysis for the Company s proxy statement. The committee also performs such other activities required by applicable law, rules or regulations and, consistent with its charter, as the Compensation Committee or the Board deems necessary or appropriate.

The Compensation Committee determines the structure and amount of all executive officer compensation, including awards of equity, after considering the initial recommendation of management and in consultation with the Compensation Committee s independent compensation consultant. The Compensation Committee may delegate to the CEO the authority to grant awards to employees other than directors or executive officers, provided that such grants are within the limits established by the Delaware General Corporation Law and by resolution of the Board.

In accordance with its charter, the Compensation Committee annually evaluates the qualifications, performance and independence of its advisors. The Compensation Committee has the sole authority and right, when it deems necessary or appropriate, to retain, obtain the advice of and terminate compensation consultants, independent legal counsel or other advisors of its choosing. The committee has the sole authority to approve the fee arrangement and other retention terms of such advisors, and the Company must provide for appropriate funding. In this regard, the Compensation Committee is directly responsible for the appointment, fee arrangement and oversight of the work of any compensation consultant, independent legal counsel or other advisor retained.

During FY 2018, the Compensation Committee engaged an independent compensation consultant, Semler Brossy Consulting Group, LLC (Semler Brossy), and independent legal counsel, Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP (Gunderson Dettmer). In addition to advising the Compensation Committee on executive compensation matters, Semler Brossy also provided independent consulting services to the Governance Committee in the area of director compensation. Additional information on the Compensation Committee s process and procedures for consideration of executive compensation is addressed in the Compensation Discussion and Analysis.

Finance Committee

The Finance Committee has responsibility for, among other things, reviewing the Company s dividend policy at least annually, reviewing the adequacy of the Company s insurance programs at least annually and reviewing with management the long-range financial policies of the Company. Annually, the Finance Committee reviews its charter and recommends to the Board any changes it determines are appropriate. Along with other responsibilities, the Finance Committee provides advice and counsel to management on the financial aspects of significant acquisitions and divestitures, major capital commitments, proposed financings and other significant transactions of a financial nature. The committee also makes recommendations concerning significant changes in the capital structure of the Company, reviews tax policy utilized by management, reviews the funding status and investment policies of the Company s tax-qualified retirement plans, and reviews and (when authorized by the Board) approves the principal terms and conditions of securities that may be issued by the Company.

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ITEM 1. ELECTION OF DIRECTORS

Governance Committee

The Governance Committee has responsibility for, among other things, annually reviewing the size and composition of the Board and recommending measures to be taken so that the Board reflects the appropriate balance of knowledge, experience, skills, expertise and diversity, recommending the slate of nominees to be proposed for election at the annual meeting of stockholders, recommending qualified candidates to fill Board vacancies, and reviewing, in consultation with the Lead Independent Director, the composition of the standing committees of the Board and recommending any changes to the Board. The Governance Committee annually reviews its charter and recommends to the Board any changes it determines are appropriate. Along with other responsibilities, the Governance Committee evaluates the Board s overall performance, develops and administers the Company s related party transactions policy, monitors emerging corporate governance trends, and oversees and evaluates the Company s corporate governance policies and programs. The committee annually reviews non-employee director compensation, including equity awards to directors, and advises the Board on these matters.

Director Qualifications, Nomination and Diversity

To fulfill its responsibility to recruit and recommend to the Board nominees for election as directors, the Governance Committee considers all qualified candidates who may be identified by any one of the following sources: current or former Board members, a professional search firm, Company executives or shareholders.

Shareholders who wish to make a recommendation or propose a director candidate for consideration by the Governance Committee may do so by submitting the candidate s name, resume and biographical information and qualifications to the attention of the Corporate Secretary s Office at One Post Street, 33rd Floor, San Francisco, California 94104. All recommendations or nominations received by the Corporate Secretary will be presented to the Governance Committee for its consideration. The Governance Committee and the Company s CEO will consider those candidates who meet the criteria described below, and the Governance Committee will recommend to the Board nominees who best suit the Board s needs. In order for a shareholder to make a nomination of a director candidate for election at an upcoming annual meeting of stockholders, in accordance with the Advance Notice By-Law provisions, the nomination must be received by the Corporate Secretary not less than 90 days nor more than 120 days prior to the anniversary date of the Company s most recent annual meeting of stockholders. Shareholders may also request that director nominees be included in the Company s proxy materials in accordance with the proxy access provision in the By-Laws. Such requests must be received no earlier than 150 days and no later than 120 days prior to the anniversary of the immediately preceding annual meeting of stockholders. Each shareholder making a nomination would be required to provide certain information, representations and undertakings as outlined in the By-Laws.

In evaluating candidates for the Board, the Governance Committee reviews each candidate s independence, skills, experience and expertise, against the criteria adopted by the Board. Members of the Board should have the highest professional and personal ethics, integrity and values, and represent diverse backgrounds and experiences, consistent with the Company s values. They should have broad experience at the policy-making level in business, technology, healthcare or public interest, or have achieved prominence in a relevant field. The Governance Committee will consider whether the candidate s background and experience demonstrates the ability to make the kind of important and sensitive judgments that the Board is called upon to make, and whether the nominees skills are complementary to the existing Board members skills. Board members must take into account and balance the legitimate interests and

concerns of all of the Company s stockholders and other stakeholders. In addition, Board members must be able to devote sufficient time and energy to the performance of his or her duties as a director, and must be open to hearing different perspectives.

Mr. Lerman has been nominated to stand for election by the shareholders for the first time. He was initially identified as a potential director candidate by a professional search firm. The search firm gathered biographical information on Mr. Lerman and vetted his qualifications, experience and skills, as well as those of other potential director candidates, after which Mr. Lerman was brought to the attention of Governance Committee members and Mr. Hammergren as Chairman. At its meeting in January 2018, the Governance Committee considered biographical and background information on Mr. Lerman and evaluated his experience, qualifications and skills, as well as those of other potential director candidates. Several members of the Board interviewed Mr. Lerman. Other potential director candidates were also interviewed. At its April 2018 meeting, the Governance Committee, after further considering and evaluating Mr. Lerman s candidacy and after assessing his independence, nominated Mr. Lerman for election as a director. In April 2018, the Board elected Mr. Lerman as a director effective as of April 24, 2018. In May 2018, the Governance Committee recommended for nomination, and the Board nominated, Mr. Lerman along with the other seven nominees to stand for election by the shareholders.

The Governance Committee has responsibility under its charter to review annually with the Board the size and composition of the Board with the objective of achieving the appropriate balance of knowledge, experience, skills, expertise and diversity required for the Board as a whole. Although the Board does not maintain a formal policy regarding diversity, the Governance Committee considers diversity to include diversity of backgrounds, cultures, education, experience, skills, thought, perspectives,

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ITEM 1. ELECTION OF DIRECTORS

personal qualities and attributes, and geographic profiles (i.e., where the individuals have lived and worked), as well as race, ethnicity, gender, national origin and other categories. A high level of diversity on our Board has been achieved in these areas, as evidenced by the information concerning our directors that is provided under Nominees above. Our Governance Committee and the Board believe that a diverse representation on the Board fosters a robust, comprehensive, and balanced deliberation and decision-making process that is essential to the continued effective functioning of the Board and continued success of the Company.

Director Compensation

We use a combination of cash and equity-based compensation to attract and retain qualified candidates to serve on our Board. The Governance Committee annually reviews the level and form of the Company s director compensation and, if it deems appropriate, recommends to the Board changes in director compensation. In reviewing our non-employee director compensation program, the committee is guided by these principles:

- Compensation should pay directors at competitive levels for the work required in a company of our size and scope, differentiating among directors where appropriate to reflect different levels of responsibilities;

- A significant portion of compensation should be in the form of stock, to align the directors interests with our shareholders; and

- The structure of the program should be simple and transparent.

The compensation for each non-employee director of the Company includes an annual cash retainer, an annual restricted stock unit (RSU) award and meeting fees. The Lead Independent Director and chairs of the standing committees receive an additional annual cash retainer, and the Lead Independent Director receives an additional annual grant of RSUs. Detail on the value of the annual retainer and RSU awards is provided below. With regard to the Board and standing committees, non-employee directors receive a $1,500 per-meeting fee, except that the fee is $2,000 for Audit Committee meetings. With regard to meetings other than standing committee meetings, the Governance Committee determines on a case-by-case basis whether meeting fees are appropriate for non-employee directors. Non-employee directors are paid their reasonable expenses for attending Board and committee meetings. Directors who are employees of the Company or its subsidiaries do not receive any compensation for service on the Board.

Cash Compensation

Each non-employee director receives an annual retainer, and the Lead Independent Director and chairs of the standing committees receive an additional annual retainer. These amounts, and information on meeting fees, are set forth in the table below. Directors may elect in advance of a calendar year to defer up to 100% of their annual retainer (including any standing committee chair or Lead Independent Director retainer) and meeting fees into the Company s Deferred

Compensation Administration Plan III (DCAP III). The minimum deferral period for any amounts deferred is five years; however, notwithstanding the director s deferral election, if a director ceases to be a director of the Company for any reason other than disability, retirement or death, the account balance will be paid in a lump sum in the first January or July which is at least six months following and in the year after the director s separation from service. In the event of disability, retirement or death, the account balance will be paid in accordance with the director s deferral election. To be eligible for retirement, a director must have served on the Board for at least six consecutive years prior to the director s separation. The Compensation Committee approves the rate at which interest or earnings are credited each year to amounts deferred into DCAP III. A director may elect to have all or part of his or her DCAP III account credited with earnings (or losses) based on the director s choice of a hypothetical investment in certain funds, other than the McKesson stock fund, available under the Company s tax-qualified 401(k) plan. To the extent no such hypothetical investment selection is made by the director, interest is credited at an interest rate determined by the committee, which for calendar year 2018 is 120% of the long-term applicable federal rate published for December 2017 by the Internal Revenue Service (IRS).

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ITEM 1. ELECTION OF DIRECTORS

The following table summarizes the cash compensation provided to non-employee directors:

Non-Employee Director Cash Compensation	Total ($)
Annual cash retainer	80,000
Additional retainer for Lead Independent Director	25,000
Additional retainer for Chair of the Audit Committee	20,000
Additional retainer for Chair of the Compensation Committee	20,000
Additional retainer for Chair of all other standing committees	10,000
Meeting fee for each Audit Committee meeting attended	2,000
Meeting fee for each Board, committee or other meeting attended	1,500

Equity Compensation

Non-employee directors receive an automatic annual grant of RSUs with an approximate grant date value of $180,000. The actual number of RSUs granted is determined by dividing $180,000 by the closing price of the Company s common stock on the grant date (with any fractional unit rounded up to the nearest whole unit); provided, however, that the number of units granted in any annual grant will in no event exceed 5,000, in accordance with our 2013 Stock Plan. In addition to the $25,000 annual cash retainer for the Lead Independent Director (as shown in the above table), the Lead Independent Director receives an annual grant of RSUs with an approximate grant date value of $25,000.

The RSUs granted to non-employee directors are vested upon grant. If a director meets the director stock ownership guidelines (currently $480,000, six times the annual cash retainer), then the director will, on the grant date, receive the shares underlying the RSUs, unless the director elects to defer receipt of the shares. The determination of whether a director meets the director stock ownership guidelines is made as of the last day of the deferral election period preceding the applicable RSU award. If a non-employee director has not met the stock ownership guidelines as of the last day of such deferral election period, then issuance of the shares underlying the RSUs will automatically be deferred until the director s separation from service.

Recipients of RSUs are entitled to dividend equivalents at the same dividend rate applicable to the Company s common shareholders, which is determined by our Board and currently is $0.34 per share each quarter. For our directors, dividend equivalents on RSUs are credited quarterly to an interest-bearing cash account and are not distributed until the shares underlying the RSUs are issued to the director. Interest accrues on directors credited dividend equivalents at the rate set by the Compensation Committee under the terms of our 2013 Stock Plan, which is currently 120% of the long-term applicable federal rate published for December 2017 by the IRS.

All Other Compensation and Benefits

Non-employee directors are eligible to participate in the McKesson Foundation s Executive Request Program and Matching Gifts Program. Under the Executive Request Program, our non-employee directors may request that the foundation make donations to qualifying public charitable organizations. Under the Matching Gifts Program, our non-employee directors own gifts to schools, educational associations or funds and other public charitable organizations are eligible for a match by the foundation of up to $5,000 per director for each fiscal year.

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ITEM 1. ELECTION OF DIRECTORS

2018 Director Compensation Table

The following table sets forth information concerning the compensation paid to or earned by each non-employee director for the fiscal year ended March 31, 2018 (FY 2018). Mr. Hammergren, our Chairman, President and CEO, is not included in this table as he is an employee of the Company and receives no compensation for his service as a director. The compensation paid to or earned by Mr. Hammergren as an officer of the Company is shown in the 2018 Summary Compensation Table. Mr. Lerman is not included in this table because he was not elected to the Board until after March 31, 2018.

Name	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2]	All Other Compensation ($)[4]	Total ($)
Andy D. Bryant	134,500	180,157	10,696	325,353
Wayne A. Budd	44,359		10,000	54,359
N. Anthony Coles, M.D.	144,000	180,157	5,000	329,157
M. Christine Jacobs	110,000	180,157	-0-	290,157

Donald R. Knauss	145,821	180,157	-0-	325,978
Marie L. Knowles	132,000	180,157	-0-	312,157
Edward A. Mueller	135,000	205,276[3]	11,951	352,227
Susan R. Salka	137,500	180,157	49,742	367,399

(1) Consists of the following, as applicable, whether paid or deferred: director annual cash retainer; standing committee meeting fees; other meeting fees; the annual standing committee chair and Lead Independent Director retainers. The Special Review Committee (the SRC) was formed to investigate senior management s and the Board s oversight of compliance with the Company s legal and regulatory obligations relating to the distribution of opioids that occurred between 2008 and 2015. During FY 2018, the SRC met on 19 occasions and its members were paid $1,500 for each meeting.

(2) Represents the aggregate grant date fair value of RSUs, computed in accordance with Accounting Standards Codification issued by the Financial Accounting Standards Board, Topic 718, labeled Compensation Stock Compensation (ASC Topic 718) disregarding any estimates of forfeitures related to service-based vesting conditions. Such values do not reflect whether the recipient has actually realized a financial benefit from the award. For information on the assumptions used to calculate the value of the awards, refer to Financial Note 8 of the Company s consolidated financial statements in its Annual Report on Form 10-K for the fiscal year ended March 31, 2018 as filed with the SEC on May 24, 2018.

(3) Represents both the regular annual grant of RSUs and the annual grant of RSUs for service as Lead Independent Director.

(4) Represents (i) the amount of donations and matching charitable contributions provided by the McKesson Foundation as follows: Mr. Budd, $10,000; Dr. Coles, $5,000; and Ms. Salka, $30,000; and (ii) the value of air travel and other items or services provided to our directors and their spouses in connection with the annual Board of Directors planning sessions as follows: Mr. Bryant, $10,696; Mr. Mueller, $11,951; and Ms. Salka, $19,742. The value of perquisites provided to Mr. Budd, Dr. Coles, Ms. Jacobs, Mr. Knauss and Ms. Knowles did not meet the threshold value for disclosure in this proxy statement.

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Corporate Governance

McKesson is committed to, and for many years has adhered to, sound and effective corporate governance practices. Our Board diligently exercises its oversight responsibilities with respect to the Company s business and affairs consistent with the highest principles of business ethics and corporate governance requirements of federal law, state law and the NYSE. We highlight these practices below.

Key Governance Attributes	
Independent Board	All directors, with the exception of Mr. Hammergren, are independent, consistent with NYSE requirements and our Corporate Governance Guidelines.
Strong Role for Lead Independent Director (LID)	Initially established in 2013, the role of Lead Independent Director has a robust set of duties and authorities under our Corporate Governance Guidelines. Details of this role are provided below.
Commitment to Split CEO/Chair upon Next CEO Succession	Commencing with the next CEO, the Board will split the role of chairman and CEO, but continue to evaluate the Company s leadership structure annually.
Leading on Board Diversity	One-half of McKesson s 2018 director nominees are diverse. Since 2002, women have held 3 of our Board s seats which represents more than one-third of our current nominees.
Significant Risk Oversight	

	The Board as a whole and its committees devote significant time and effort to understanding and reviewing enterprise risks. This includes oversight of our Company s strategy and reputation as well as review of risks related to financial reporting, compensation practices, cybersecurity and opioid distribution.
Annual Director Performance Evaluation	The Lead Independent Director conducts the performance evaluation of all Board members.
Annual CEO Succession Review	The Board is responsible for approving and maintaining a succession plan for the CEO and other executive officers. The annual CEO succession review is overseen and facilitated by the Lead Independent Director and held in executive session of the full Board.
Shareholder Right to Call a Special Meeting	A By-Law amendment in 2013 established the right to call a special meeting of stockholders, for record holders who have held a net long position of at least 25% of the Company s outstanding shares for at least 1 year.
Political Contributions and Lobbying Transparency	McKesson believes that transparency and accountability with respect to political expenditures and lobbying are important. This year, we enhanced the Company s policies to provide greater transparency and codify our practices related to lobbying activity. Beginning last year, the Company also voluntarily discloses corporate political contributions and trade associations to which payments exceed $50,000. The Company also prohibits trade organizations from using corporate dollars for political purposes.
Proxy Access	A shareholder or shareholder group holding at least 3% of the Company s stock for at least 3 years may include in McKesson s proxy materials director candidates to fill up to 20% of available Board seats.

Global Code of Conduct	McKesson s Code of Conduct, which describes fundamental principles, policies and procedures that shape our work and help our employees, officers and directors make ethical decisions, has been adapted and translated to apply throughout our global presence.
Corporate Governance Guidelines	McKesson s Corporate Governance Guidelines address various governance matters, including access to management and independent advisors; annual Board performance evaluation executive session; and Board review of corporate social responsibility practices, including environmental sustainability.
Other Shareholder-Friendly Practices	Eliminated poison pill Eliminated supermajority voting requirements Majority voting standard for uncontested director elections Declassified Board

You can access our Certificate of Incorporation, By-Laws, Corporate Governance Guidelines, Committee Charters, Director Independence Standards and Code of Conduct on our website at *www.mckesson.com* under the caption Investors Corporate Governance.

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ITEM 1. ELECTION OF DIRECTORS

Corporate Social Responsibility

Our approach to corporate social responsibility is rooted in our commitment to better health for our employees, our communities and beyond. We create better health for patients, and we mirror that commitment by advancing the health of our employees, our communities and the planet we all share.

McKesson s Focus on Human Capital

We are committed to developing and investing in our most important asset our people. We know that the well-being of our employees is an essential component of a healthy company, and we continually strive to promote a culture in which all employees feel supported and valued. Our culture is grounded in our shared ICARE (integrity, customer-first, accountability, respect and excellence) and ILEAD (inspire, leverage, execute, advance and develop) principles. These values guide all that we do, and help advance our company across every dimension, creating maximum value for our customers and making McKesson a great place to work.

We seek opportunities to create excitement among our employees about their careers. We invest heavily in employee growth and development through rewarding job assignments, one-on-one development with managers and opportunities for continued learning.

FY 2018 Education & Development Highlights

- McKesson s educational assistance program provided $3.13 million to employees pursuing higher education;

- McKesson employees in the U.S. and Canada completed 211,458 hours of management, professional development, technical and other employee training;

- Our Medical-Surgical business created a three-year strategic plan focused on developing leaders within McKesson rather than relying on external talent; and

- McKesson expanded its investment in developing rising C-suite talent, focusing on assessment, coaching and experience management.

McKesson s Commitment to Diversity and Equal Pay

Because we believe that our people drive our Company s success, McKesson takes very seriously its commitment to the principles of equal opportunity, pay equity, diversity and inclusion. As we focus on delivering better health in a transformative healthcare landscape, we know it will take the best and brightest to keep us ahead of the curve. Our diversity and inclusion strategy is about building a strong pipeline of future leaders, whose diverse backgrounds and view-points infuse innovation, agility and creativity into our mission of delivering better health for the future. Our Board of Directors and management team have a long track record of advancing these important principles throughout the organization, which includes the creation of a diversity and inclusion organization (D&I Organization) more than ten years ago, followed shortly thereafter by the appointment of our first Chief Diversity Officer.

Our Board of Directors routinely receives reports from management on McKesson s diversity and inclusion efforts. Our U.S. practices and policies are disclosed on our website and help McKesson ensure our workforce is reflective of our communities, values and cultural differences, and leverages the views and experiences of each other to create the best possible solutions.

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ITEM 1. ELECTION OF DIRECTORS

Diversity & Inclusion Highlights

Beginning in 2018, McKesson expanded its U.S. parental leave policy to include partners of both genders as well as same-sex couples and adoptive parents

100% on the Human Rights Campaign s Corporate Equality Index (LGBT) since 2013

Military Friendly® Employer by GI Jobs® since 2015

Ranked as one of the 50 BEST COMPANIES for Diversity by Black Enterprise in 2017

Named as best place to work for People with Disabilities by the Disability Equality Index® in 2017

McKesson s Work on Environmental Sustainability

Healthier communities thrive in a healthier environment. That is why we are steadfast in our commitment to integrating environmental sustainability into our businesses. We are going beyond compliance to establish new environmental practices across the entirety of our organization, and continually seeking business efficiencies that lead to reduced environmental impact.

A key area of focus in FY 2018 was in setting targets for reduced CO_2 emissions through:

EPA s Energy Star Portfolio Manager g McKesson headquarters achieved a rating of 95

Fleet Optimization g Continued addition of fuel-efficient, four-cylinder vehicles

Redistribution Center Model g A model for better management inventory

Environmental Certifications g Multiple McKesson locations are LEED (Leadership in Energy and Environmental Design) certified

For more information about our Corporate Social Responsibility efforts and accomplishments, visit our website at *http://www.mckesson.com/about-mckesson/corporate-citizenship/* where you will also find a link to our Corporate Social Responsibility Report. Additionally, we are pleased to share that McKesson Europe recently published its first dedicated Corporate Responsibility Report addressing the strategies and accomplishments unique to McKesson Europe.

McKesson s Action on the Opioid Epidemic

At McKesson, we are deeply concerned by the impact the opioid epidemic is having on families and communities across our nation. We deliver life-saving medicines to millions of Americans each day and take our role in helping protect the safety and integrity of the pharmaceutical supply chain very seriously. For more information about how we are taking action to address the crisis, see pages 6-7 of this proxy statement.

Director Independence

Under the Company s Corporate Governance Guidelines, the Board must have a substantial majority of directors who meet the applicable criteria for independence required by the NYSE. Each year, the Board must determine, based on all relevant facts and circumstances, whether in its business judgment the nonexecutive directors satisfy the criteria for independence, including the absence of a direct or indirect material relationship with the Company. Provided that no relationship or transaction exists that would disqualify such a director under these standards, and no other relationship or transaction exists of a type not specifically mentioned in NYSE standards that, in the Board s opinion, taking into account all relevant facts and circumstances, would impair a director s ability to exercise his or her independent judgment, the Board will deem such person to be independent. Applying these standards, and all applicable laws, rules or regulations, the Board has determined that, with the exception of John H. Hammergren, all of the Company s directors, namely Andy D. Bryant, N. Anthony Coles, M.D., M. Christine Jacobs, Donald R. Knauss, Marie L. Knowles, Bradley E. Lerman, Edward A. Mueller and Susan R. Salka, are independent.

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ITEM 1. ELECTION OF DIRECTORS

Board Leadership Structure

Determination of Board Leadership Structure

The Board annually evaluates its leadership structure to determine the structure that would best serve the Company and its shareholders. The Company s Corporate Governance Guidelines provide the Board with the ability to select its Chairman as it deems best for the Company at that time. However, in 2017, the Board announced its decision to split the role of Chairman of the Board and CEO in the future, commencing with the Company s next CEO.

When the Chairman is not independent, a Lead Independent Director is elected by a majority of independent directors, with the purpose of also providing independent leadership to the Board. The Lead Independent Director is expected to serve a two-year term, unless he or she resigns, ceases to be an independent director, or a majority of independent directors appoints a new Lead Independent Director.

Current Leadership Structure

Mr. Hammergren currently serves as both Chairman and CEO, and Mr. Mueller is the Lead Independent Director. Although the Company has in the past separated the roles of Chairman and CEO, as was the case during the tenure of our prior CEO, the Board believes that this is the most effective Board leadership structure for the Company at this time.

A number of factors support the current leadership structure. Mr. Hammergren has more than 30 years of experience in healthcare and has served as the Chairman and CEO of the Company for more than 16 years. Since becoming CEO, he has delivered nearly 500% total shareholder return, transformed the Company during a period of unprecedented change in our industry, successfully tackled a number of challenges, and shaped an organization which delivered ongoing, long-term growth. His leadership includes the recent launch of a multi-year growth initiative which will enable the Company to provide new and innovative services and solutions to partners and customers. This strategic growth effort will help McKesson improve patient care delivery and drive shareholder value. The Board believes that Mr. Hammergren s in-depth knowledge of the healthcare industry and of the complex businesses and operations of the Company makes him uniquely qualified to lead the Board, especially as the directors evaluate key business and strategic matters. Mr. Hammergren s unique expertise and experience contributes significantly to how the Board guides the Company s strategic moves, including navigating the opportunities and challenges in a rapidly changing industry. In addition, Mr. Hammergren s leadership promotes better alignment of McKesson s long-term strategic development with its operational execution.

In the end, the Board believes that the current combined Chairman and CEO structure promotes decisive leadership, ensures clear accountability, supports risk oversight, and enhances the flow of business information and communications between the Board and management. The Company is able to communicate with a single and consistent voice to shareholders, customers, employees and other stakeholders. At the same time, Mr. Hammergren reports to and is accountable to the independent directors, who have direct oversight of his performance as CEO.

Lead Independent Director Role

McKesson places great value on having strong independent Board leadership and has had a robust Lead Independent Director role in place since 2013. In selecting a Lead Independent Director, the independent directors consider the characteristics and skills required to carry out the duties and responsibilities of the position, including promotion of strong governance and engagement among all directors, character and integrity, a thorough knowledge of the Company s strategy, business and operations, and ability to meet the required time commitment.

Mr. Mueller was elected to serve an additional two-year term as the Company s Lead Independent Director effective July 26, 2017, subject to his continuing reelection and status as an independent director. Mr. Mueller has been an independent director of the Company since April 2008, and was first elected to the newly created role of Lead Independent Director in July 2013.

The independent directors believe Mr. Mueller has been an effective Lead Independent Director and remains best qualified for continued service. He has valuable long-term perspective and deep experience in corporate governance. Previously, Mr. Mueller was Chairman of the Board of Qwest Communications International Inc., where he demonstrated leadership skills critical to his position as Lead Independent Director. Mr. Mueller also has public company board experience with audit committee service, and has served as a member of McKesson s Compensation Committee and Governance Committee since 2009.

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ITEM 1. ELECTION OF DIRECTORS

The Lead Independent Director role has clear responsibilities, which are reviewed annually by the Governance Committee and the full Board, including:

Board Meetings and Executive Sessions

Presides at all meetings of the Board at which the Chairman is not present;

Presides at executive sessions of the independent directors;

Participates in the development of and approves of Board and Committee meeting agendas;

Participates in the development of and approves meeting schedules to assure that there is sufficient time for discussion of all agenda items; and

Calls meetings of the independent directors, as appropriate.

Communication between Chair and Independent Directors

Serves as liaison between the Chairman and the independent directors.

CEO Performance and Succession Plans

Oversees and facilitates the Board s annual evaluation of the CEO succession process; and

Leads the Board s annual evaluation of the CEO in executive session.

Board Performance and Evaluation

Meets annually with each independent director to discuss his/her performance, and leads the Board s discussion regarding director self-assessments; and

Recommends to the Governance Committee the membership of various Board committees, as well as the selection of committee chairs.

Communication with Shareholders

Direct communication with shareholders where appropriate.

Duties to the Board

Upon the occurrence of a temporary or permanent incapacity or disability or other similar temporary or permanent absence of the Chairman, assumes the day-to-day duties and authorities of the Chairman on an interim basis;

Retains, or recommends retention of, independent legal, accounting, consulting and other advisors; and

Assists in assuring compliance with, and implementation of, the Corporate Governance Guidelines.

Other Board Leadership Structure Practices

The current Board leadership structure is further enhanced by additional practices the Board takes on to ensure effective independent Board leadership and oversight of management.

The Chairman and Lead Independent Director regularly solicit input from independent directors as to the additional matters to place on the Board agenda and the information that would be useful for their review and consideration. All of the Board s standing committees are composed solely of, and chaired by, independent directors.

Board of Directors Role in Risk Oversight

The Company s management is responsible for the day-to-day management of the risks facing the Company, including macroeconomic, financial, strategic, operational, public reporting, legal, regulatory, political, cybersecurity, compliance, and reputational risks. Management carries out this risk management responsibility through a coordinated effort among the various risk management functions within the Company.

Under our By-Laws and Corporate Governance Guidelines, the Board has responsibility for overseeing the business and affairs of the Company. This general oversight responsibility includes oversight of risk management, which the Board carries out as a whole or through its committees. Among other things, the Board as a whole periodically reviews the Company s enterprise risk management processes for identifying, ranking and assessing risks across the organization, as well as the output of that process. The Board as a whole also receives periodic reports from the Company s management on various risks,

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ITEM 1. ELECTION OF DIRECTORS

including risks facing the Company s businesses. The Board actively monitors the pending litigation and investigations related to opioid distribution as well as the Company s Controlled Substance Monitoring Program. In addition, the full Board discusses the implementation and effectiveness of the Company s compliance and ethics program. As discussed on pages 6-7 of this proxy statement, we are deeply concerned by the impact the opioid epidemic is having on families and communities across our nation, and our Board is committed to strengthening its oversight processes as we help the country combat this crisis.

Although the Board has ultimate responsibility for overseeing risk management, it has delegated to its committees certain oversight responsibilities. For example, in accordance with its charter, the Audit Committee engages in ongoing discussions regarding major financial risk exposures and the process and system employed to monitor and control such exposures. Periodically, the Board, and at times the Audit Committee, will engage in a discussion with management concerning the process by which risk assessment and management are undertaken, including review of cybersecurity and information security procedures and policies. In carrying out these responsibilities, the Audit Committee, among other things, regularly reviews with the head of Internal Audit and other senior members of Internal Audit, the audits or assessments of significant risks conducted by Internal Audit personnel based on their audit plan; and the committee regularly meets in executive sessions with the head of Internal Audit. The Audit Committee also regularly reviews with the Controller the Company s internal control over financial reporting, including any significant deficiencies. As part of the reviews involving Internal Audit and the Controller, the Audit Committee reviews steps taken by management to monitor, control and mitigate risks. The Audit Committee also regularly reviews with the General Counsel and Chief Compliance Officer significant legal, regulatory, and compliance matters that could have a material impact on the Company s financial statements or business. Finally, from time to time, executives who are responsible for managing a particular risk report to the Audit Committee on how the risk is being controlled and mitigated.

The Board has also delegated to other committees the responsibility to oversee risk within their areas of responsibility and expertise. For example, the Finance Committee exercises oversight with regard to the risk assessment and management processes related to, among other things, credit, capital structure, liquidity and insurance programs. As noted in the section below titled Risk Assessment of Compensation Policies and Practices, the Compensation Committee oversees risk assessment and management with respect to the Company s compensation policies and practices.

In those cases in which committees have risk oversight responsibilities, the chairs of the committees regularly report to the full Board the significant risks facing the Company, as identified by management, and the measures undertaken by management for controlling and mitigating those risks.

Risk Assessment of Compensation Policies and Practices

We annually conduct a review of all incentive compensation plans utilized throughout the Company, using a framework for risk assessment provided to us by a nationally recognized outside compensation advisor. In conducting our review, a detailed assessment of each incentive compensation plan, without regard to materiality, is first prepared by representatives from the Company s business units and then reviewed by senior executives of our Human Resources Department. The review framework requires representatives of our business units to examine and report on the

presence of certain design elements under both cash and equity incentive compensation plans that could encourage our employees to incur excessive risk, such as the selection and documentation of incentive metrics, the ratio of incentive to fixed compensation, the year-over-year variability in payouts, the amount of management discretion, and the percentage of compensation expense as compared to the business units revenues. Consistent with our findings in past years, management concluded that for FY 2018 our policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company. A summary of management s findings was reviewed with the Compensation Committee at its April 2018 meeting.

The Compensation Committee discussed management s findings, and considered that the Company utilizes many design features that mitigate the likelihood of encouraging excessive risk-taking behavior. Among these design features are:

- Multiple metrics across the entire enterprise that balance top-line, bottom-line and cash management objectives;
- Linear payout curves, performance thresholds and caps;
- Reasonable goals and objectives, which are well-defined and communicated;
- Strong compensation recoupment (clawback) policy; and
- Training on our Code of Conduct and other policies that educate our employees on appropriate behaviors and the consequences of taking inappropriate actions.

In addition, incentives for senior management feature the following:

- Balance of short- and long-term variable compensation tied to a mix of financial and operational objectives and the long-term value of our stock;

ITEM 1. ELECTION OF DIRECTORS

The Compensation Committee s ability to exercise downward discretion in determining payouts, including after consideration of regulatory, compliance and legal issues; and

Rigorous stock ownership and retention guidelines.

Based on the foregoing, the Compensation Committee concurred with management that our compensation policies and practices do not create inappropriate or unintended significant risk to the Company as a whole. We believe that our incentive compensation plans do not provide incentives that encourage risk-taking beyond the organization s ability to effectively identify and manage significant risks, are compatible with effective internal controls and the risk management practices of the Company, and are supported by the oversight and administration of the Compensation Committee with regard to our executive compensation program.

Related Party Transactions Policy

The Company has a written Related Party Transactions Policy requiring approval or ratification of certain transactions involving executive officers, directors and nominees for director, beneficial owners of more than 5% of the Company s common stock, and immediate family members of any such persons where the amount involved exceeds $100,000. Under the policy, the Company s General Counsel initially determines if a transaction or relationship constitutes a transaction that requires compliance with the policy or disclosure. If so, the matter will be referred to the CEO for consideration with the General Counsel as to approval or ratification in the case of other executive officers and/or their immediate family members, or to the Governance Committee in the case of transactions involving directors, nominees for director, the General Counsel, the CEO or holders of more than 5% of the Company s common stock and/or their immediate family members. Annually, our directors, nominees and executive officers are asked to identify any transactions that might fall under the policy as well as to identify immediate family members. Additionally, they are required to notify the General Counsel promptly of any proposed related party transaction. The policy is administered by the Governance Committee. The transaction may be ratified or approved if it is fair and reasonable to the Company and consistent with its best interests. Factors that may be taken into account in making that determination include: (i) the business purpose of the transaction; (ii) whether it is entered into on an arms-length basis; (iii) whether it would impair the independence of a director; and (iv) whether it would violate the provisions of the Company s Code of Conduct.

The Company and its subsidiaries may, in the ordinary course of business, have transactions involving more than $100,000 with unaffiliated companies of which certain of the Company s directors are directors and/or executive officers. The Governance Committee reviews these transactions in accordance with the policy. However, the Company does not consider the amounts involved in such transactions to be material in relation to its businesses, the businesses of such other companies or the interests of the directors involved. In addition, the Company believes that such transactions are on the same terms generally offered by such other companies to other entities in comparable transactions.

Communications with Directors

Shareholders and other interested parties may communicate with any of the directors, including the Lead Independent Director, or all of the directors as a group, by addressing their correspondence to the Board member or members, c/o the Corporate Secretary s Office, McKesson Corporation, One Post Street, San Francisco, CA 94104, or via e-mail to leaddirector@mckesson.com or nonmanagementdirectors@mckesson.com. The Corporate Secretary s office maintains a log of such correspondence received by the Company that is addressed to members of the Board, other than advertisements, solicitations or correspondence deemed by the Corporate Secretary to be irrelevant to Board responsibilities. Directors may review the log at any time, and request copies of any correspondence received.

Indemnity Agreements

The Company has entered into separate indemnity agreements with its directors and executive officers that provide for defense and indemnification against any judgment or costs assessed against them in the course of their service. Such agreements do not, however, permit indemnification for acts or omissions for which indemnification is not permitted under Delaware law.

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ITEM 2. Ratification of Appointment of Deloitte & Touche LLP as the Company s Independent Registered Public Accounting Firm for Fiscal Year 2019

Your Board recommends a vote FOR this ratification proposal.

The Audit Committee of the Company s Board of Directors has approved Deloitte & Touche LLP (D&T) as the Company s independent registered public accounting firm to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending March 31, 2019. The committee believes that D&T is knowledgeable about the Company s operations and accounting practices, and is well qualified to act as the Company s independent registered public accounting firm.

We are asking our shareholders to ratify the selection of D&T as the Company s independent registered public accounting firm. Although ratification is not required by our By-Laws or otherwise, the Board is submitting the selection of D&T to our shareholders for ratification as a matter of good corporate practice. If shareholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain D&T. Even if the selection is ratified, the Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our shareholders. Representatives of D&T are expected to be present at the Annual Meeting to respond to questions and to make a statement if they desire to do so. For the fiscal years ended March 31, 2018 and 2017, professional services were performed by D&T, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte & Touche), which includes Deloitte Consulting. Fees for those years were as follows:

	FY 2018	FY 2017
Audit Fees	$ 19,420,500	$ 24,431,000
Audit-Related Fees	4,865,000	3,763,251
TOTAL AUDIT AND AUDIT-RELATED FEES	**24,285,500**	**28,194,251**
Tax Fees	1,248,000	757,088

All Other Fees		
TOTAL	**$ 25,533,500**	**$ 28,951,339**

Audit Fees. This category consists of fees for professional services rendered for the audit of the Company s consolidated annual financial statements, the audit of the Company s internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002, review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by D&T in connection with statutory and regulatory filings or engagements. This category also includes advice on accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, foreign statutory audits required by non-U.S. jurisdictions, registration statements and comfort letters. The decrease in the fiscal year ended March 31, 2018 was primarily related to the 2017 Change Healthcare transaction.

Audit-Related Fees. This category consists of fees for assurance and related services such as employee benefit plan audits, accounting consultations, due diligence in connection with mergers, divestitures and acquisitions, attest services related to financial reporting that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Tax Fees. This category consists of fees for professional services rendered for U.S. and international tax compliance, including services related to the preparation of tax returns and professional services. For the fiscal years ended March 31, 2018 and 2017, no amounts were incurred by the Company for tax advice, planning or consulting services.

All Other Fees. This category consists of fees for products and services other than the services reported above. The Company paid no fees in this category for the fiscal years ended March 31, 2018 and 2017.

ITEM 2. RATIFICATION OF APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2019

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Pursuant to the Applicable Rules, and as set forth in the terms of its charter, the Audit Committee has sole responsibility for appointing, setting compensation for, and overseeing the work of the independent registered public accounting firm. The Audit Committee has established a policy that requires it to pre-approve all audit and permissible non-audit services, including audit-related and tax services, to be provided by Deloitte & Touche. Between meetings, the Chair of the Audit Committee is authorized to pre-approve services, which are reported to the committee at its next meeting. All of the services described in the fee table above were approved in conformity with the Audit Committee s pre-approval process.

Audit Committee Report

The Audit Committee of the Company s Board of Directors assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the Company s financial reporting processes. The functions of the Audit Committee are described in greater detail in the Audit Committee s written charter adopted by the Company s Board of Directors, which may be found on the Company s website at *www.mckesson.com* under the caption Investors Corporate Governance. The Audit Committee is composed exclusively of directors who are independent under the applicable SEC and NYSE rules and the Company s independence standards. The Audit Committee s members are not professionally engaged in the practice of accounting or auditing, and they necessarily rely on the work and assurances of the Company s management and the independent registered public accounting firm. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control over financial reporting. The independent registered public accounting firm of D&T is responsible for performing an independent audit of the Company s consolidated financial statements in accordance with generally accepted auditing standards and expressing opinions on the conformity of those audited financial statements with United States generally accepted accounting principles and the effectiveness of the Company s internal control over financial reporting. The Audit Committee has: (i) reviewed and discussed with management the Company s audited financial statements for the fiscal year ended March 31, 2018; (ii) discussed with D&T the matters required to be discussed by the Public Company Accounting Oversight Board (PCAOB) standards; (iii) received the written disclosures and the letter from D&T required by applicable requirements of the PCAOB regarding D&T s communications with the Audit Committee concerning independence; and (iv) discussed with D&T its independence from the Company. The Audit Committee further considered whether the provision of non-audit related services by D&T to the Company is compatible with maintaining the independence of that firm from the Company. The Audit Committee has also discussed with management of the Company and D&T such other matters and received such assurances from them as it deemed appropriate.

The Audit Committee discussed with the Company s internal auditors and D&T the overall scope and plans for their respective audits. The Audit Committee meets regularly with the internal auditors and D&T, with and without management present, to discuss the results of their audits, the evaluation of the Company s internal control over financial reporting and the overall quality of the Company s accounting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements for the fiscal year ended March 31, 2018 be included in the Company s Annual Report on Form 10-K for filing with the SEC.

Audit Committee of the Board of Directors

Marie L. Knowles, *Chair*

Donald R. Knauss

Susan R. Salka

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PRINCIPAL SHAREHOLDERS

Security Ownership of Certain Beneficial Owners

The following table sets forth information regarding ownership of the Company s outstanding common stock by any entity or person, to the extent known by us or ascertainable from public filings, that is the beneficial owner of more than 5% of the outstanding shares of common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class*
Wellington Management Company, LLP 280 Congress Street Boston, Massachusetts 02210	20,971,721 (1)	10.4%
BlackRock, Inc. 55 East 52nd Street New York, New York 10022	15,833,130 (2)	7.8%
The Vanguard Group 100 Vanguard Boulevard Malvern, Pennsylvania 19355	14,248,323 (3)	7.1%

* Based on 201,775,835 shares of common stock outstanding as of May 31, 2018.

(1) This information is based upon a Schedule 13G/A filed with the SEC on February 14, 2018 by Wellington Management Group LLP, which reports shared voting power with respect to 5,653,158 shares and shared dispositive power with respect to 20,971,721 shares.

(2) This information is based upon a Schedule 13G/A filed with the SEC on January 25, 2018 by BlackRock, Inc., which reports sole voting power with respect to 13,547,984 shares and sole dispositive power with respect to 15,833,131 shares as a result of being a parent company or control person of the following subsidiaries, each of which holds less than 5% of the outstanding shares: BlackRock Life Limited, BlackRock International Limited, BlackRock Advisors, LLC, BlackRock Capital Management, Inc., BlackRock (Netherlands) B.V., BlackRock Institutional Trust Company, National Association, BlackRock Asset Management Ireland Limited, BlackRock Financial Management, Inc., BlackRock Japan Co., Ltd., BlackRock Asset Management Schweiz AG, BlackRock Investment Management, LLC, FutureAdvisor, Inc., BlackRock Investment Management (UK) Limited,

BlackRock Asset Management Canada Limited, BlackRock (Luxembourg) S.A., BlackRock Investment Management (Australia) Limited, BlackRock Advisors (UK) Limited, BlackRock Fund Advisors, BlackRock Asset Management North Asia Limited, BlackRock (Singapore) Limited, and BlackRock Fund Managers Ltd; and an aggregate beneficial ownership of 15,833,130 shares.

(3) This information is based upon a Schedule 13G/A filed with the SEC on February 9, 2018 by The Vanguard Group, which reports sole voting power with respect to 296,238 shares, shared voting power with respect to 46,489 shares, sole dispositive power with respect to 13,913,931 shares, shared dispositive power with respect to 334,392 shares, and an aggregate beneficial ownership of 14,248,323 shares.

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PRINCIPAL SHAREHOLDERS

Security Ownership of Directors and Executive Officers

The following table sets forth, as of May 31, 2018, except as otherwise noted, information regarding ownership of the Company s outstanding common stock by: (i) all directors and director nominees; (ii) each executive officer named in the 2018 Summary Compensation Table below (collectively, the NEOs); and (iii) all directors, NEOs and executive officers as a group. The table also includes shares of common stock that underlie outstanding RSUs and options to purchase common stock of the Company that either vest or become exercisable within 60 days of May 31, 2018:

Name of Individual	Shares of Common Stock Beneficially Owned[1]	Percent of Class
James A. Beer	5,973 [4]	*
Andy D. Bryant	17,644 [2]	*
Wayne A. Budd	2,380 [2]	*
N. Anthony Coles, M.D.	3,789 [2]	*
Jorge L. Figueredo	90,710 [3][5]	*

John H. Hammergren	967,199 (3)(4)(5)	*
M. Christine Jacobs	25,261 (2)	*
Paul C. Julian	471,319 (3)(4)(5)	*
Donald R. Knauss	3,364 (2)	*
Marie L. Knowles	9,342 (2)	*
Bradley E. Lerman	312 (2)	*
Edward A. Mueller	17,887 (2)	*
Bansi Nagji	34,597 (3)	*
Susan R. Salka	5,369 (2)(4)	*
Lori A. Schechter	70,515 (3)(4)	*

Britt J. Vitalone	11,451 (3)(5)	*
All directors, NEOs and executive officers as a group (17 persons)	1,757,019 (2)(3)(4)(5)	*

* Less than 1.0%. The number of shares beneficially owned and the percentage of shares beneficially owned are based on 201,775,835 shares of the Company s common stock outstanding as of May 31, 2018, adjusted as required by the rules promulgated by the SEC. Shares of common stock that may be acquired by exercise of stock options or vesting of RSUs within 60 days of May 31, 2018 and vested RSUs that are not yet settled are deemed outstanding and beneficially owned by the person holding such stock options or RSUs for purposes of computing the number of shares and percentage beneficially owned, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person.

(1) Except as otherwise indicated in the footnotes to this table, the persons named have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.

(2) Includes vested RSUs or common stock units accrued under the 2013 Stock Plan, 2005 Stock Plan, Directors Deferred Compensation Administration Plan and the 1997 Non-Employee Directors Equity Compensation and Deferral Plan (the receipt of the underlying shares having been deferred) as follows: Mr. Bryant, 17,644 units; Mr. Budd, 1,880 units; Dr. Coles, 3,789 units; Ms. Jacobs, 25,261 units; Mr. Knauss, 3,364 units; Ms. Knowles, 9,342 units; Mr. Lerman, 312 units; Mr. Mueller, 17,887 units; Ms. Salka, 3,364 units; and all directors, NEOs and executive officers as a group, 82,843 units. Directors, NEOs and executive officers have neither voting nor investment power with respect to such units.

(3) Includes shares that may be acquired by exercise of stock options or vesting of RSUs within 60 days of May 31, 2018, as follows: Mr. Figueredo, 74,053 shares; Mr. Hammergren, 562,724 shares; Mr. Julian, 442,270 shares; Mr. Nagji, 31,517 shares; Ms. Schechter, 62,121 shares; Mr. Vitalone, 9,880 shares and all directors, NEOs and executive officers as a group, 1,201,245 shares.

(4) Includes shares held by immediate family members who share a household with the named person, by family trusts as to which the named person and his or her spouse have shared voting and investment power, or by an independent trust for which the named person disclaims beneficial ownership as follows: Mr. Beer, 5,973 shares; Mr. Hammergren, 400,256 shares; Mr. Julian, 57 shares; Ms. Salka, 2,005 shares; Ms. Schechter, 8,394 shares; and all directors, NEOs and executive officers as a group, 416,685 shares.

(5) Includes shares held under the Company s 401(k) Retirement Savings Plan as of May 31, 2018, as follows: Mr. Figueredo, 277 shares; Mr. Hammergren, 4,219 shares; Mr. Julian, 3 shares; Mr. Vitalone, 517 shares; and all NEOs and executive officers as a group, 5,016 shares.

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A Letter From Our Compensation Committee

Dear Fellow Shareholders,

As members of McKesson s Compensation Committee, we endeavor to create an executive compensation program that strikes the right balance of pay for performance; attracts and retains an exceptionally talented executive team; and steers McKesson s leadership to meet ambitious goals without taking undue risk. We recognize that our 2017 say-on-pay vote was a signal that many of you wanted us to take a new approach to certain aspects of our executive compensation program. We were determined to understand your perspectives and committed to making constructive changes in response to your feedback.

We gathered your views during an extensive outreach effort that included members of the Board and management. This effort involved meeting with shareholders representing over 40% of the Company s outstanding common stock. We had robust discussions in which we listened to your views and shared our perspectives. We also heard your enthusiasm for retaining our management team, an enthusiasm we share, and targeted changes to the program that would be meaningful to you. The range of views we encountered and the thoughtful dialogue reminded us of the debates that we have within our boardroom, where a diversity of voices helps to identify the right path forward.

Based on those discussions, we brought a fresh eye to the compensation program and implemented a number of significant changes. In FY 2018, reported CEO pay declined by nearly 10%, and we eliminated the individual modifier from the annual cash incentive plan for our executive officers, reducing the potential payout under that plan. In addition, for FY 2019 we reduced our CEO s target long-term incentive (LTI) compensation by $4.7 million, and increased the weighting of relative TSR in his target LTI compensation to 75% of his PSU (formerly TSR Unit) award, which is 50% of his total target LTI compensation. In response to the Special Review Committee s recommendation to this committee, we also reinforced and codified our longstanding practice of considering regulatory, compliance and legal issues when making executive compensation decisions, by revising our annual governance checklist to incorporate these considerations as a formal agenda item at appropriate committee meetings. We followed this process when making compensation decisions in May 2018.

We believe these changes, which are described on pages 32-33 of this proxy statement, are consistent with your input and our strategic goals. Your views are diverse not every suggestion aligned with our corporate strategy and many recommendations were in conflict with one another. We worked diligently to implement changes that we believe are in the best interests of our shareholders as a group and allow us to retain our executive team. We think of this as an ongoing conversation that will continue as long as McKesson has investors.

We also recently approved a number of changes to the composition and leadership of our committee. As part of this refreshment, effective as of July 23, 2018, N. Anthony Coles, M.D. will assume the role of Committee Chair, Susan R. Salka and Bradley E. Lerman will join this committee as new members, and M. Christine Jacobs will leave this committee. Our current Committee Chair Andy D. Bryant will not stand for reelection at the 2018 Annual Meeting.

Our Committee is and will remain committed to the ongoing evaluation and improvement of our executive compensation program, informed by an ongoing discussion with you. We look forward to continuing the dialogue and

encourage you to reach out with any questions or concerns related to our program before making your voting decision. Thank you for your investment in McKesson.

The Compensation Committee,

Andy D. Bryant, Compensation Committee Chair, **N. Anthony Coles, M.D.**, **M. Christine Jacobs**, **Edward A. Mueller**

Compensation Discussion and Analysis

The Compensation Discussion and Analysis describes McKesson s executive compensation program and reviews compensation decisions for our CEO and CFO, our three other most highly compensated executive officers serving as of March 31, 2018, our former CFO, James A. Beer, and our former Executive Vice President and Group President, Paul C. Julian, both of whose employment terminated during FY 2018 (collectively, our Named Executive Officers or NEOs). The NEOs who were serving at fiscal year-end, which excludes Mr. Beer and Mr. Julian, are referred to collectively as our Current NEOs. For FY 2018, our NEOs and their respective titles were as follows:

Name	**Title**
John H. Hammergren	Chairman of the Board, President and Chief Executive Officer
Britt J. Vitalone	Executive Vice President and Chief Financial Officer
Lori A. Schechter	Executive Vice President, General Counsel and Chief Compliance Officer
Jorge L. Figueredo	Executive Vice President, Human Resources
Bansi Nagji	Executive Vice President, Corporate Strategy and Business Development

James A. Beer	*Former Executive Vice President and Chief Financial Officer*
Paul C. Julian	*Former Executive Vice President and Group President*

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EXECUTIVE COMPENSATION

Addressing the 2017 Say-on-Pay Vote

Our annual say-on-pay vote is one of our opportunities to receive feedback from shareholders regarding our executive compensation program. We were disappointed to receive low support for our advisory say-on-pay proposal at the 2017 Annual Meeting of Stockholders. We actively sought feedback from shareholders to better understand what motivated their votes and what actions we could take to address their concerns about our executive compensation program. Our Compensation Committee considered the vote result and the feedback we received as it evaluated the compensation opportunities provided to our executive officers.

Since our last Annual Meeting of Stockholders, we reached out to shareholders representing over 80% of our outstanding common stock. We met with shareholders representing more than 40% of our outstanding common stock, and we specifically requested feedback regarding our executive compensation program given our low say-on-pay support in 2017.

In our meetings with shareholders, we heard strong support for our CEO and senior management team and recognition of executive retention as an issue for the Company. Generally, shareholders reacted positively to the increase in the overall weighting of our Performance Stock Unit (PSU) awards to 50% of target long-term incentive (LTI) value for FY 2018, reducing our reliance on stock options from 40% to 30% of target LTI value, which further ties our NEOs pay to performance.

We also heard concerns relating to our executive compensation program. We summarize below what we heard and how we responded to those concerns.

What We Heard	How We Responded	Intended Outcome and When Effective
Overall magnitude of CEO pay remains high.	Committee **reduced CEO s total target LTI by $4.7 million, a 32% decrease in total target LTI** compared to FY 2018. This is in addition to the 30% decrease in reported CEO pay over the past five fiscal years. *(See table below for target LTI values beginning effective FY 2019.)*	Aligns CEO Total Direct Compensation more closely with that of peer companies. *Effective for FY 2019*
Individual modifier in annual cash incentive	Committee **eliminated the individual modifier** for executive officers.	Enhances alignment of annual cash incentives with Company s financial results.

plan (Management Incentive Plan, or MIP) does not reflect a pay-for-performance philosophy.	Committee **reduced MIP maximum payout to 200% of target** for executive officers.	*Effective for FY 2018*
Weighting of relative TSR (rTSR) in PSU program means that pay is not sufficiently aligned to performance.	Committee **increased PSUs to 50% (from 40%) of total target LTI for executive officers.** rTSR is one of the metrics included in the calculation of awards earned at the end of the measurement period.	Further incentivizes long-term performance and ties executive compensation more closely to rTSR and cumulative adjusted EPS metrics. *Effective for FY 2018*
(PSUs were formerly called TSR Units.)	Committee **increased weighting of rTSR in CEO s PSU award to 75%** (from 25%; PSU is 50% of total target LTI).	Further incentivizes long-term performance and ties CEO s compensation more closely to stock price performance. *Effective for FY 2019*
Compensation plans should address compliance risk related to opioid distribution.	In May 2018, the committee reinforced and codified its longstanding practice of considering the impact of regulatory, compliance and legal issues when making executive compensation decisions, by incorporating this item into its annual governance checklist. The committee discussed and considered legal, compliance and regulatory matters when making compensation decisions at its May 2018 meeting. *(See pages 6-7 of this proxy statement for further discussion of the Company s response to the opioid crisis.)*	Committee will continue to consider the impact of regulatory, compliance and legal issues on executive compensation programs.

Continued Reduction in CEO Pay

Consistent with our pay-for-performance philosophy and in addition to the significant reduction in our CEO s target long-term incentive compensation for FY 2019, we highlight that for FY 2018:

- CEO pay as disclosed in the 2018 Summary Compensation Table is **down 30% over the past five years**, including a 10% decrease from FY 2017 to FY 2018;
- CEO **total realizable pay for the last three fiscal years is 44% lower** than the value disclosed in the Summary Compensation Tables for the same period (see page 35);
- CEO **base salary remains unchanged** since May 2010 (eighth consecutive year); and
- CEO **target annual MIP award remains unchanged** since May 2008 (tenth consecutive year) and removal of the individual modifier **reduced the maximum payout opportunity by nearly $1 million beginning with FY 2018.**

Lowered CEO FY 2019 Target LTI by $4.7 million

As highlighted in the table below, the Compensation Committee reduced our CEO s target LTI opportunity by $4.7 million for FY 2019. This represents a 32% decrease in target LTI compared to FY 2018, and is in addition to the 30% decrease in reported CEO pay over the last five fiscal years. We believe this change directly addresses shareholder feedback relating to the overall magnitude of CEO pay.

	CEO Target Long-Term Incentives			
Fiscal Year	PSU Target ($)	Option Grant Value ($)	Cash LTIP Target[1] ($)	Total Target LTI ($)
2019	5,000,000	3,000,000	2,000,000	10,000,000
2018	7,369,248	4,422,022	2,948,000	14,739,270
2017	5,896,178	5,896,024	2,947,000	14,739,202

(1) The Cash Long-Term Incentive Plan (Cash LTIP) is disclosed in the Grants of Plan-Based Awards Table at target (and maximum) in the year of grant, and the actual payout is disclosed in the Summary Compensation Table for the year in which the performance period ends. Because of the difference in how cash and equity long-term incentives are disclosed, the Summary Compensation Table in next year s proxy statement will not fully reflect this decrease in target LTI.

Payouts Reflect Alignment Between Pay and Performance

Our plans reflect performance: Although we performed well against our FY 2018 operational goals and MIP paid out above target, we did not deliver results on multi-year metrics, particularly those tied to our stock price. This is reflected in FY 2018 compensation outcomes, noted below:

Our **PSU program did not pay out** for the second consecutive year;
The **Cash LTIP paid out at 26%** of target; and
As of the end of FY 2018, **all stock options awarded to our executives over the past three years were underwater.**

Our FY 2018 incentive plan outcomes demonstrate our commitment to a pay-for-performance philosophy. Three-year TSR was -36.4% and cumulative payout values for FY 2018 incentive awards were only 42% of target values, as illustrated below:

FY 2018 Incentive Compensation Payout Values[1]

Name	Total Target ($)	Total Payout ($)	Total Payout (% of Target)
John H. Hammergren	12,032,049	4,048,300	34%
Britt J. Vitalone	665,279	572,499	86%
Lori A. Schechter	2,077,091	1,147,500	55%
Jorge L. Figueredo	2,333,137	1,129,900	48%
Bansi Nagji	1,710,129	1,072,800	63%

(1) For Mr. Hammergren, Ms. Schechter, Mr. Figueredo and Mr. Nagji, consists of target and payout value of FY 2018 MIP, FY 2016 FY 2018 Cash LTIP, and FY 2016 FY 2018 PSUs. For Mr. Vitalone, consists of target and payout value of FY 2018 MIP, FY 2016 FY 2018 Cash LTIP, and FY 2018 Performance Restricted Stock Units (PeRSUs). Mr. Vitalone s FY 2018 MIP payout was blended to reflect the roles he held over the entire fiscal year. Beginning in FY 2019, Mr. Vitalone will not be eligible to participate in the PeRSU program and will instead participate in the PSU program. The payout for Mr. Vitalone s FY 2018 PeRSU award was calculated using the actual number of Restricted Stock Units (RSUs) earned and the $144.43 closing price of our common stock as

reported by the NYSE on the RSU grant date, May 30, 2018.

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EXECUTIVE COMPENSATION

Overview

FY 2018 Performance Highlights

In FY 2018, we delivered solid performance across our business units. Despite some industry-wide headwinds, we produced strong operational returns and invested to enhance our ability to deliver value to our manufacturing partners, our customers, and patients. Most importantly, we positioned ourselves to lead in areas of patient care delivery that present powerful new growth opportunities. Our recently announced multi-year strategic growth initiative articulates a bold path for McKesson and we are poised for the next significant wave of healthcare innovation. See page 2 of this proxy statement for more information about McKesson.

Top Line Growth	***$208B*** Total Revenue	***4% Growth*** Constant Currency Basis
Bottom Line Results	***$4.3B*** Operating Cash Flow	***$12.62*** Adjusted EPS

Key Highlights

FY 2018

Announced multi-year strategic growth initiative articulating a bold plan to build sustainable long-term value

Executed balanced capital allocation program, including several strategic acquisitions, to drive shareholder value

Completed first full year of joint sourcing collaboration with Walmart

In our discussion of executive compensation throughout this proxy statement, we refer to Adjusted EPS as a performance metric specifically used in our incentive programs. In Appendix A to this proxy statement, we provide a reconciliation of earnings from continuing operations, net of tax, per diluted share attributable to the Company, as calculated in accordance with generally accepted accounting principles (GAAP), to Adjusted EPS (non-GAAP).

Best Practices in Compensation Governance

What We Do	
Pay for performance	**Engage with investors**
Emphasize long-term performance	**Align with business strategy**
Design with mix of metrics	**Balance of annual and long-term metrics**
Develop sound financial goals	**Engage independent advisors**
Manage use of equity incentive plan conservatively	**Maintain robust compensation recoupment policy**
Use double-trigger vesting provisions	**Review tally sheets**
Maintain rigorous stock ownership guidelines	**Mitigate undue risk**

What We Don t Do

Allow directors and executive officers to hedge or pledge Company securities

Enter into new agreements with executive officers providing for golden parachute tax gross-ups

Re-price or exchange stock options without shareholder approval

Accrue or pay dividend equivalents during performance periods

Provide tax gross-ups for executive perquisites

Pay above-market interest on deferred compensation

Five-Year Total Shareholder Return of 35%, CEO Pay Down 30%

From the end of FY 2013 through the end of FY 2018, McKesson delivered total shareholder return of 35%, while the Compensation Committee s decisions and cumulative changes to our executive compensation program reduced the CEO s total compensation over the same period by 30%, as disclosed in the Summary Compensation Table (SCT) in the Company s proxy statements.

Total Shareholder Return[(1)] vs. CEO Total SCT Compensation

(1) Total shareholder return (TSR) assumes $100 invested at the close of trading on March 28, 2013, the last trading day of FY 2013, and the reinvestment of dividends.

CEO Realizable Pay

The ultimate value our CEO actually realizes from long-term incentives is based entirely on the value of McKesson shares and the Company s financial and operational performance. Due to the strong alignment between pay and performance over the last three years, our CEO s total realizable pay is 44% lower than the values disclosed in the SCT for FY 2016 through FY 2018, and the realizable pay with respect to our CEO s long-term incentives alone is 62% lower than the values disclosed in the SCT for FY 2016 through FY 2018.

Three-Year Total CEO Disclosed Pay vs. Three-Year Total Realizable Pay[(1)]

(1) For this purpose, Realizable Pay is defined as the sum of: (i) actual base salary and annual incentives paid for the three-year period; (ii) the intrinsic value (i.e., the excess, if any, of the closing price of our common stock as reported by the NYSE on March 29, 2018, the last trading day of our FY 2018, over the option exercise price) of all stock options granted during the three-year period; (iii) the actual payout value of PSU and Cash LTIP awards granted in FY 2016; and (iv) target Cash LTIP awards granted in FY 2017 and FY 2018 and target PSUs granted in FY 2017 and FY 2018, calculated using $140.87, the closing price of our common stock as reported by the NYSE on March 29, 2018.

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EXECUTIVE COMPENSATION

Target Direct Compensation Mix

Our executive compensation program is predominantly performance-based. As an executive s ability to impact operational performance increases, so does the proportion of his or her at-risk compensation. Target long-term incentive compensation grows proportionately as job responsibilities increase, which encourages our officers to focus on McKesson s long-term success and aligns with the long-term interests of our shareholders. The graphics below illustrate the mix of fixed, annual and long-term target incentive compensation we provided to our CEO and other Current NEOs for FY 2018. These graphics also illustrate the amount of target direct compensation tied to achievement of performance goals.

FY 2018 CEO Compensation Mix **FY 2018 Other Current NEOs Compensation Mix**

(1) Mr. Vitalone did not receive PSUs in FY 2018 because he was not an executive officer when awards were granted in May 2017; rather, he received PeRSUs. Beginning with FY 2019, he is no longer eligible for the PeRSU program and instead participates in the PSU program along with our other Current NEOs.

FY 2018 Pay Strategy Aligns with Shareholder Value Creation

The metrics below incentivize our executives to focus on operational objectives which are expected to drive shareholder returns. Our FY 2018 incentive metrics were determined by the Compensation Committee in May 2017. All incentives are performance-based, and all LTI awards have performance or vesting periods of at least three years.

Pay Element	Performance Metric	Rationale	Target Pay
Base Salary		Attracts and retains high-performing executives by providing market-competitive fixed pay	

Management Incentive Plan (annual cash incentive)	Adjusted EPS (75%)	Sets growth expectations for shareholders and serves as a key indicator of operational performance and profitability	100% - 150% of Target Base Salary
	Adjusted OCF (25%)	Measures the ability to translate earnings to cash which fuels our capital deployment with a goal of maximizing shareholder returns	
Performance Stock Units (long-term equity incentive)	3-Year Cumulative Adjusted EPS (75%)	Measures earnings power, drives returns for the Company and directly correlates to share price performance	50% of Target LTI Value
	MCK TSR vs. S&P 500 Health Care Index (25%)	Rewards relative performance against peers over time	
Stock Options	Stock Price	Directly aligns with value delivered to shareholders	30% of Target LTI Value

Cash Long-Term Incentive Plan	3-Year Cumulative Adjusted OCF (75%)	Measures effective management of working capital and cash generation over a multi-year period to return value to shareholders	20% of Target LTI Value
	3-Year Average ROIC (25%)	Encourages leaders to make sound investments that will generate strong future returns for shareholders	

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Performance-Based Program with Rigorous Targets

Performance Targets Designed to Reward Stretch Performance

Each year the Compensation Committee establishes performance goals to drive operational performance and TSR growth. The committee reviews, challenges and establishes performance targets for all our corporate incentive plans to motivate our leaders to deliver a high degree of business performance without encouraging excessive risk-taking. Targets are set after a rigorous planning process that considers external factors, the competitive environment and McKesson s business objectives. The committee also considers analysts growth expectations for our competitors, as well as the market outlook for our industry. Payout levels are then determined following a thorough review of performance.

Key Considerations in Development of Annual and Long-Term Goals

External Factors	Competitive Environment	McKesson s Objectives
Analyst & Shareholder Expectations	Competitor Performance	Historical Performance
Market Outlook	Competitor Plans	Historical Trends
International Trends	Competitive Landscape	Long Range Planning
Tax Policy	Market Growth	Capital Deployment Opportunities
Recent Tax Legislation	Industry Trends	Recent Capital Deployment Decisions
Public Policy		Long Range Corporate Strategy

Target Setting for Annual Plans

We set rigorous annual goals based on Company and industry outlook for the year, historical and projected growth rates for McKesson and its peers, and performance expectations from analysts. The annual incentive plan is aligned with the Company s annual operating plan and is designed so that target payout requires achievement of a high degree of business performance without encouraging excessive risk-taking. Financial goals for our annual plans include significant corporate events, including acquisition activity. The Company s annual operating and three-year strategic plans serve as the basis of the annual forward earnings guidance we communicate to investors. The annual operating plan builds on the prior year s results and is based on the anticipated business environment. Our projected earnings growth reflects market conditions that affect our peer group and analyst forecasts. Cash flow goals are set by focusing on working capital efficiency and reviewing operating plans by business unit.

The Compensation Committee followed the process described above when establishing our FY 2018 performance targets. The FY 2018 performance targets were not set higher than FY 2017 performance targets, but were challenging for our executives to achieve. We entered FY 2018 with headwinds, including pricing for branded pharmaceuticals and the degree of sell-side price competition for generics, particularly within the independent retail pharmacy channel. In addition, our FY 2018 operating cash flow projections were meaningfully reduced by our having contributed most of our technology businesses to the Change Healthcare joint venture. Consistent with prior years, our FY 2018 targets considered analyst expectations and competitors publicly disclosed projected performance.

Target Setting for Long-Term Plans

The Company s three-year plan considers business strategies that will take longer than 12 months to accomplish and reflects projected acquisitions and other capital deployment, risks, opportunities and challenges. Our Cash Long-Term Incentive Plan is aligned with our rolling three-year strategic plan and is designed so that a target payout requires achievement of stretch operational and financial goals. Our projections account for signed or announced mergers and acquisitions.

Our FY 2016 FY 2018 PSU awards were based solely on TSR performance relative to the S&P 500 Health Care Index. PSU awards currently outstanding were redesigned to tie payouts to financial as well as TSR performance, to drive sustainable earnings growth and returns. For payouts tied to rTSR performance, payout at target level continues to require above-median performance at the 55th percentile. No shares are earned for the rTSR portion of the award if rTSR for the three-year period falls below the 35th percentile.

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EXECUTIVE COMPENSATION

Each Compensation Element Serves Unique Purpose

Motivating and rewarding our executive officers to meet and exceed challenging business goals and deliver sustained performance growth is a core objective of our executive compensation program. McKesson s executive compensation program consists of four compensation elements that each serve a unique purpose. We provide three direct compensation elements: base salary, annual cash incentive, and long-term cash and equity incentives. The fourth element consists of other compensation and benefits (e.g., limited perquisites, severance and change in control benefits). Our incentive plans incorporate metrics that we believe are the key measures of our success and will drive long-term shareholder returns.

We focus on Adjusted EPS in our incentive plans because earnings is one of the principal measures used by investors to assess financial performance. Operating cash flow is important to our value creation because thoughtful, efficient use of cash supports our portfolio approach to capital deployment. We grow our earnings by putting the cash we generate to work. We use return on invested capital as a metric to encourage our leaders to make sound investments that will generate strong future returns for our shareholders.

Annual Compensation

Annual compensation is delivered in cash with a substantial portion at risk and contingent on the successful accomplishment of pre-established performance targets.

Base Salary

Base salary is the only fixed component of our executive officers total cash compensation and is intended to provide market-competitive pay to attract and retain executives. Following a review of target direct compensation components and competitive market data derived from our Compensation Peer Group, during FY 2018 the Compensation Committee approved base salary increases for all of our Current NEOs other than our CEO.

The table below summarizes base salary decisions for our Current NEOs:

Name	FY 2017 Annual Base Salary	FY 2018 Annual Bas Salary

	($)	($)
John H. Hammergren	1,680,000	1,680,000
Britt J. Vitalone[(1)]		750,000
Lori A. Schechter	717,000	775,000
Jorge L. Figueredo	718,000	750,000
Bansi Nagji	650,000	735,000

(1) Mr. Vitalone was not an executive officer on April 1, 2017, the start of FY 2018.

At its May 2018 meeting, following a review of competitive market data derived from our Compensation Peer Group, the Compensation Committee approved FY 2019 base salary increases to all of our Current NEOs other than our CEO. Our CEO s base salary has been unchanged since May 2010.

Management Incentive Plan

New for FY 2018: Eliminated the individual modifier for executive officers, reducing MIP maximum payout to 200% of target.

Overview. The Management Incentive Plan (MIP) is our corporate annual cash incentive plan. MIP awards are conditioned on the achievement of Company financial and operational performance goals. Our CEO s target MIP award, which is expressed as a percentage of base salary, has remained unchanged since May 2008.

Elimination of MIP Individual Modifier and Reduction in Maximum Payout. In order to address key shareholder concerns and tie a larger percentage of compensation to financial and operational performance, the Compensation Committee eliminated the individual modifier from the MIP payout calculation for our executive officers, beginning with payouts for FY 2018. The maximum MIP payout for our executive officers was therefore reduced to 200% of target.

FY 2018 MIP Performance Metrics. In May 2017, the Compensation Committee selected Adjusted EPS and Adjusted OCF as financial metrics for FY 2018 MIP, which were the same metrics used for the prior fiscal year. The following summarizes the FY 2018 MIP performance metrics:

Adjusted EPS. Adjusted EPS is an important driver of share price valuation and shareholder expectations, and determined 75% of the payout. The Compensation Committee applied an Adjusted EPS result of $11.71 for purposes of

calculating FY 2018 MIP payouts. See Appendix A to this proxy statement for a reconciliation of diluted earnings per share from continuing operations as reported under U.S. generally accepted accounting principles (GAAP) to the Adjusted EPS result used for incentive payout purposes.

Adjusted OCF. Adjusted Operating Cash Flow fuels our portfolio approach to capital deployment and determined 25% of the payout. For purposes of calculating FY 2018 MIP payouts, the Compensation Committee approved an Adjusted OCF result of $4,348 million. The committee applied this result when determining FY 2018 MIP payouts to all MIP participants.

The following summarizes the new FY 2018 MIP payout formula, with the entirety of the payout based on pre-established financial and operational goals. As is the case for all of the Company s performance-based payout scales, when a result falls between reference points, we use linear interpolation to determine the result.

The table below summarizes MIP payouts to our Current NEOs for FY 2018:

Name	Eligible Earnings ($)	X	MIP Target (%)	=	MIP Target Award ($)	X	(Adjusted EPS Result (%) 75% Weight	+	Adjusted OCF Result (%) 25% Weight)	=	Payout ($)
John H. Hammergren	1,680,000		150%		2,520,000		151%		100%		3,477,600
Britt J. Vitalone[(1)]	544,383		62.5%		340,240			98.9%			336,497
Lori A. Schechter	775,000		100%		775,000		151%		100%		1,069,500

Jorge L. Figueredo	750,000	100%	750,000	151%	100%	1,035,000
Bansi Nagji	735,000	100%	735,000	151%	100%	1,014,300

(1) Mr. Vitalone s MIP target and performance results were prorated and blended to reflect the roles he held over the entire fiscal year.

FY 2018 and FY 2019 MIP Targets. MIP financial and operational goals are established each May, shortly after the beginning of the fiscal year. During FY 2018, in connection with his promotion, the Compensation Committee increased Mr. Vitalone s MIP target opportunity for the remainder of FY 2018 to 100% of his annual salary. Based on a competitive market assessment, the committee also determined to adjust the FY 2018 MIP opportunity for Mr. Figueredo to equal 100% of his base salary. At its May 2018 meeting, no adjustments were made to FY 2019 MIP target opportunities for any of the Current NEOs. The Adjusted EPS goals established by the Compensation Committee for FY 2019 MIP are consistent with the FY 2019 guidance published by the Company on May 24, 2018 that disclosed a projected (non-GAAP) Adjusted EPS range of $13.00 to $13.80 per diluted share before excluding the Change Healthcare joint venture.

EXECUTIVE COMPENSATION

Long-Term Incentive Compensation

Changes to Long-Term Incentive Compensation

New for FY 2018: Increased overall weighting of our performance-based equity awards to 50% (from 40%) of total target LTI value.
New for FY 2019: Increased weighting of rTSR in CEO s PSU award to 75% (from 25%); PSU is 50% of total target LTI value.

Long-term incentive (LTI) compensation is a critical component of our executive compensation program. It is in the shareholders interest that our executives foster a long-term view of the Company s financial results. Long-term incentives are also an important retention tool that management and the Compensation Committee use to align the financial interests of executives and other key contributors with sustained shareholder value creation.

For FY 2018, the Company s LTI compensation program for NEOs included three award opportunities:

- Cash LTIP is performance-based cash (20% of target LTI value);
- Performance Stock Units (PSUs) are performance-based awards paid in shares (50% of target LTI value; formerly the TSR Unit program); and
- Stock Options are time-vested equity grants (30% of target LTI value).

In May 2017, as part of its ongoing assessment of the Company s business needs and competitive market compensation practices, the Compensation Committee approved structural changes to our executive compensation program for FY 2018. The committee increased the overall weighting of our PSU awards to 50% of target LTI value, reducing our reliance on stock options to 30%, and adjusted the weighting of the operational metric in our PSU program. In order to conserve shares and manage dilution responsibly, Cash LTIP remained unchanged at 20% of target LTI value.

Cash Long-Term Incentive Plan

Overview. The Cash Long-Term Incentive Plan (Cash LTIP) is a cash-based long-term incentive plan. We use cash in

our long-term incentive mix to reduce shareholder dilution attributable to equity compensation awards. Cash LTIP awards are conditioned on the achievement of Company financial performance goals and are earned over a three-year performance period. A new three-year performance period with new performance goals begins each fiscal year. Cash LTIP payouts made to executive officers may not exceed 200% of Cash LTIP target awards.

FY 2016 FY 2018 Cash LTIP Performance Metrics. In May 2015, the Compensation Committee established Long-Term Earnings Growth and Average ROIC as the financial metrics for FY 2016 FY 2018 Cash LTIP awards. The following summarizes each FY 2016 FY 2018 Cash LTIP performance metric:

Long-Term Earnings Growth. Long-Term Earnings Growth reflects management s ability to increase net income over a multi-year period and determined 75% of the payout. Long-Term Earnings Growth is the compound annual growth rate of the Company s adjusted earnings per diluted share measured over a three-year performance period. For FY 2016 FY 2018, the Compensation Committee approved a Long-Term Earnings Growth result for Cash LTIP payouts of 5.7%. Consistent with prior practice, we neutralized for foreign exchange; we also excluded the Change Healthcare joint venture in determining this result for Cash LTIP payouts for all plan participants.

Average ROIC. Return on Invested Capital (ROIC) measures the Company s ability to create value by generating a return that is above our weighted average cost of capital; adjusted three-year average ROIC determined 25% of the payout. Adjusted three-year average ROIC measures, as a percentage, the average of our annual after-tax adjusted operating income divided by invested capital over the three-year performance period. The ROIC component for FY 2017 was adjusted to exclude the impact of the formation of the Change Healthcare joint venture. For FY 2016 FY 2018, the Compensation Committee approved an Average ROIC result for Cash LTIP payouts of 13.4%.

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Based on these results, our NEOs received 26% of their FY 2016 FY 2018 Cash LTIP target awards. As with all of the Company s performance-based payout scales, when a result falls between reference points, we use linear interpolation to determine the result.

The table below summarizes Cash LTIP payouts for our Current NEOs for the FY 2016 FY 2018 performance period:

Name	FY 2016 FY 2018 Cash LTIP Target ($)	X	(Long-Term Earnings Growth Result (%) 75% Weight	+	Average ROIC) Result (%) 25% Weight	=	FY 2016 FY 201 LTIP Payout ($)
John H. Hammergren	2,195,000		3.9%		94%		570,700
Britt J. Vitalone	115,000		3.9%		94%		29,900
Lori A. Schechter	300,000		3.9%		94%		78,000
Jorge L. Figueredo	365,000		3.9%		94%		94,900

Bansi Nagji	225,000	3.9%	94%	58,500

FY 2018 FY 2020 Cash LTIP Performance Metrics. In May 2017, the Compensation Committee established Cash LTIP target awards for our executive officers utilizing the same metrics used in May 2016 for the prior year s target awards. Cumulative Adjusted OCF is the primary metric, with Average ROIC as the secondary metric.

We do not disclose forward-looking goals for our multi-year incentive programs, because the Company does not provide forward-looking guidance to our investors with respect to multi-year periods and it is competitively sensitive information. Consistent with our past and current practice, we disclose multi-year performance goals in full after the close of the performance period.

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EXECUTIVE COMPENSATION

FY 2019 FY 2021 Cash LTIP Target Awards. Cash LTIP performance goals, as well as the target award levels for participants, are established in May, shortly after the beginning of each fiscal year. The Compensation Committee established Cumulative Adjusted OCF and Average ROIC as the metrics for the FY 2019 FY 2021 performance period, which are the same metrics used for the FY 2018 FY 2020 performance period. At its May 2018 meeting, following a review of all target direct compensation components and market data derived from our Compensation Peer Group, the committee established the following Cash LTIP target awards for our Current NEOs for the FY 2019 FY 2021 performance period: Mr. Hammergren, $2,000,000; Mr. Vitalone, $600,000; Ms. Schechter, $521,000; Mr. Figueredo, $525,000; and Mr. Nagji, $400,000.

Performance Stock Unit Program

New for FY 2018:	Increased overall weighting of our performance-based PSU awards to 50% (from 40%) of total target LTI value.
New for FY 2019:	Increased weighting of rTSR in CEO s PSU award to 75% (from 25%); PSU award is 50% of total target LTI value.

Overview. The Performance Stock Unit (PSU) program is a long-term equity incentive program conditioned in part on the achievement of the Company s total shareholder return relative to the S&P 500 Health Care Index. We chose the S&P 500 Health Care Index as the comparator peer group because it is an objective, widely available index with broad representation in the healthcare sector. Awards are earned over a three-year period with a new three-year performance period beginning each year.

FY 2016 FY 2018 PSU Performance Metric. In May 2015, the Compensation Committee established total shareholder return relative to the S&P 500 Health Care Index as the sole performance metric for FY 2016 FY 2018 PSU payouts. Total shareholder return (TSR) is calculated as stock price appreciation (or reduction) over the performance period, including reinvestment of dividends when paid, divided by the stock price at the beginning of the period. At the end of the performance period, performance is determined by ranking the Company s TSR against the TSR of the companies in the index. Upon certification of the result, participants receive shares of Company common stock if the performance threshold is met.

The Company had to achieve performance at the 35th percentile relative to the S&P 500 Health Care Index to earn a threshold payout. As our TSR was at the eighth percentile relative to the S&P 500 Health Care Index over the three-year period ending March 31, 2018, our NEOs did not receive a payout for the FY 2016 FY 2018 performance cycle.

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Name	FY 2016 FY 2018 PSU Target ($)	X	Relative TSR Result (%)	=	FY 2016 FY 2018 PSU Value Earned ($)
John H. Hammergren	7,317,049		0%		0
Lori A. Schechter	1,002,091		0%		0
Jorge L. Figueredo	1,218,137		0%		0
Bansi Nagji	750,129		0%		0

FY 2018 FY 2020 PSU Performance Metrics. For FY 2018 FY 2020 awards, established in May 2017, PSU payouts are based 25% on McKesson s TSR performance relative to the S&P 500 Health Care Index and 75% on Cumulative Adjusted EPS performance over the three-year period. The Compensation Committee believes that the combination of Cumulative Adjusted EPS and rTSR over a three-year period will drive value creation and ensure alignment with shareholders. No changes were made to the peer group or slopes for the rTSR portion of the PSU awards. The Company must continue to achieve above-median performance (55th percentile) relative to the S&P 500 Health Care Index to earn a target payout for the rTSR portion of the award. If the Company s TSR is negative for the performance period, then the rTSR result is capped at target regardless of ranking relative to the index. No shares are earned for the rTSR portion of the award if rTSR for the three-year period falls below the 35th percentile.

We do not disclose forward-looking goals for our multi-year incentive programs, because the Company does not provide forward-looking guidance to our investors with respect to multi-year periods and it is competitively sensitive information. Consistent with our past and current practice, we disclose multi-year performance goals in full after the close of the performance period.

FY 2019 FY 2021 PSU Target Awards. Our CEO s FY 2019 FY 2021 PSU target award is based 75% on McKesson s three-year TSR relative to the S&P 500 Health Care Index and 25% on three-year Cumulative Adjusted EPS. No changes were made to the performance metrics for our other Current NEOs.

PSU performance goals and the target awards for our executive officers are established each May, shortly after the beginning of the fiscal year. At its May 2018 meeting, following a review of all target direct compensation components and market data derived from our Compensation Peer Group, the Compensation Committee established the following PSU target awards for our Current NEOs for the FY 2019 FY 2021 performance period: Mr. Hammergren, 32,102 units; Mr. Vitalone, 10,135 units; Ms. Schechter, 8,804 units; Mr. Figueredo, 8,864 units; and Mr. Nagji, 6,757 units.

Stock Options

Overview. Stock option awards are time-vested equity grants that generally vest 25% on the first four anniversaries of the grant date and have a seven-year term. Stock option awards directly align the interests of executives with those of shareholders, because executives recognize value only if the market value of the Company s stock appreciates over time. The Compensation Committee determines the proportion of total target long-term incentives that will be awarded in stock options by considering the balance of cash and equity in our annual and long-term incentive plans, our strategic and operational objectives, the responsibilities of our NEOs, a review of similar grants made at companies in our Compensation Peer Group and other factors the committee deems relevant.

FY 2018 Stock Option Awards. At its May 2017 meeting, following a review of all direct compensation components and market data derived from our Compensation Peer Group, the Compensation Committee granted FY 2018 stock option awards to our Current NEOs as follows: Mr. Hammergren, 127,915 shares; Mr. Vitalone, 5,786 shares; Ms. Schechter, 21,204 shares; Mr. Figueredo, 21,551 shares; and Mr. Nagji, 15,042 shares. Stock options granted in May 2017 to Mr. Beer and Mr. Julian were canceled upon their separation from the Company.

The ultimate value of these awards will not be known until the options vest and are exercised. The stock options awarded in May 2017 were granted with an exercise price of $159.00. The closing price of our common stock on the last trading day of our fiscal year, March 29, 2018, was $140.87. Stock options granted to our Current NEOs during the last three fiscal years were all underwater as of the end of FY 2018.

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EXECUTIVE COMPENSATION

FY 2019 Stock Option Awards. At its May 2018 meeting, following a review of all target direct compensation components and market data derived from our Compensation Peer Group, the Compensation Committee granted FY 2019 stock option awards to our Current NEOs as follows: Mr. Hammergren, 84,318 shares; Mr. Vitalone, 25,296 shares; Ms. Schechter, 21,951 shares; Mr. Figueredo, 22,120 shares; and Mr. Nagji, 16,864 shares.

Performance Restricted Stock Unit Program

Mr. Vitalone was the only NEO to participate in this program in FY 2018, because he was not an executive officer when PSU awards were granted in May 2017 for the FY 2018 FY 2020 performance period.

Overview. The Performance Restricted Stock Unit (PeRSU) program is a long-term equity incentive program. Our NEOs other than Mr. Vitalone have not been granted awards under this program since May 2013. However, Mr. Vitalone was a participant in this program for the FY 2018 performance period in his prior role as Senior Vice President and Chief Financial Officer, U.S. Pharmaceutical and McKesson Specialty Health. Beginning with the new FY 2019 FY 2021 performance period, Mr. Vitalone is participating in the PSU program with our other executive officers.

PeRSU awards are conditioned on the achievement of Company financial performance goals. PeRSUs convert to restricted stock units (RSUs) upon completion of a one-year performance period and are subject to an additional vesting period of three years. PeRSUs are long-term performance-based equity awards, because the value of the actual RSU award links directly to the performance of the Company s stock at the end of the three-year vesting period. The grant date fair value of Mr. Vitalone s FY 2018 PeRSU award appears in the 2018 Summary Compensation Table. His FY 2018 threshold, target and maximum PeRSU opportunities appear in the 2018 Grants of Plan-Based Awards Table.

FY 2018 PeRSU Performance Metrics for FY 2018 Payouts. In May 2017, the Compensation Committee established Adjusted EPS and Adjusted OCF as financial metrics for FY 2018 PeRSUs. The following summarizes each FY 2018 PeRSU performance metric:

Adjusted EPS. Adjusted EPS is an important driver of share price valuation and shareholder expectations and is the primary metric. For FY 2018, the Adjusted EPS result for PeRSU payouts was $11.71, the same result used for determining FY 2018 MIP payouts.

Adjusted OCF. Adjusted OCF fuels our portfolio approach to capital deployment and is used as a multiplier. For purposes of calculating FY 2018 PeRSU payouts, the Compensation Committee approved an Adjusted OCF result of $4,348 million. For FY 2018, the Adjusted OCF multiplier result for PeRSU payouts was 100%.

Based on these results, Mr. Vitalone received RSUs equal to 108% of his FY 2018 PeRSU target award, which are subject to an additional three-year vesting period.

Chief Financial Officer Transition

James Beer resigned from his position as Executive Vice President and Chief Financial Officer effective December 31, 2017 and separated from the Company on January 12, 2018. He was not entitled to any severance benefits, and in connection with his departure Mr. Beer forfeited all of his outstanding cash incentive awards and unvested equity awards.

Britt Vitalone was promoted to Executive Vice President and Chief Financial Officer effective January 1, 2018. Mr. Vitalone s annual base salary was increased to $750,000 and he became eligible for a target MIP award for the remainder of FY 2018 equal to 100% of his eligible earnings. He also received a one-time promotion cash award of $500,000. Beginning with FY 2019, he is eligible to participate in the PSU program. Mr. Vitalone is also eligible to participate in executive benefit programs normally provided to other executive officers of the Company excluding the CEO.

Other Compensation and Benefits

The Company provides an array of benefits to all employees. These benefits are comparable to those offered by employers in our industry and geographic footprint, including a competitive suite of health and life insurance and retirement benefits. In providing these benefits, both management and the Compensation Committee determined that they are appropriate for the attraction and retention of talent. In addition to the discussion of benefits below, the compensation associated with these items is described in footnote 7 to the 2018 Summary Compensation Table.

The Company offers two voluntary nonqualified, unfunded deferred compensation plans: (i) the Supplemental Profit-Sharing Investment Plan II (SPSIP II) and (ii) the Deferred Compensation Administration Plan III (DCAP III). The SPSIP II is offered to all employees, including executive officers, who may be impacted by compensation limits that restrict participation in the McKesson Corporation 401(k) Retirement Savings Plan (401(k) Plan). The DCAP III is offered to all employees eligible for MIP (annual cash incentive) targets of at least 15% of base salary, including executive officers.

All employees are eligible to participate in McKesson Foundation s Matching Gifts Program. Under this program, gifts to schools, educational associations or funds and other public charitable organizations are eligible for a Company match of up to $2,500 per employee for each fiscal year.

The Company has two benefit plans that are generally restricted to executive officers: (i) the Executive Survivor Benefits Plan, which provides a supplemental death benefit in addition to the voluntary life insurance plan provided to all employees; and (ii) the Executive Benefit Retirement Plan, a nonqualified average final pay defined benefit pension plan. These plans were frozen to new participants in 2010 and 2007, respectively. We provide annual physical examinations to executive officers and their spouses.

A limited number of other benefits are provided to executive officers, because it is customary to provide such benefits or it is in the best interest of the Company and its shareholders to do so. Our Executive Officer Security Policy requires our CEO to use corporate aircraft for both business and personal use. Our CEO authorized Mr. Julian to use corporate aircraft for personal use during his employment in FY 2018. The Company provides security services for Mr. Hammergren and reimburses him for expenses related to the installation and maintenance of home security. The Company periodically engages an independent security consultant to conduct a comprehensive study of our security program, which includes an evaluation of the risks to certain executive officers and the need for executive transportation and a residential security system. We consider the security measures provided to Mr. Hammergren to be a reasonable and necessary expense for the Company s benefit. In accordance with SEC disclosure rules, the aggregate cost of these services is reported in the 2018 Summary Compensation Table.

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EXECUTIVE COMPENSATION

Compensation Peer Group

Peer Selection Process

Each year, the Compensation Committee determines which companies best reflect McKesson s competitors for customers, shareholders and talent. A key objective of our executive compensation program is to ensure that the total compensation package we provide to our executive officers is competitive with the companies against which we compete for executive talent. The Compensation Committee consults with its independent compensation consultant, Semler Brossy, to develop a compensation peer group of companies to serve as the basis for comparing McKesson s executive compensation program to the market. The Compensation Committee uses the guiding principles and questions below as a foundational tool to determine McKesson s Compensation Peer Group.

Guiding Principles for McKesson Peer Selection

Consider Industry to identify companies with similar business model or philosophy

Start with direct distribution peers in the healthcare industry

Expand to other healthcare peers that might interact with McKesson in its value supply chain

Extend search to non-healthcare peers with operationally similar business models (i.e., companies that have a manufacturing, distribution, wholesale and/or retail component)

Consider Size to ensure companies are similar in scope

Consider other Business Characteristics to identify publicly traded companies headquartered in the U.S.

Questions Addressed in Developing an Effective Peer Group	
Who are key performance comparators?	Who is McKesson competing against for customers? Which companies have similar market demands and influences?
Who are closest competitors for talent?	Which companies might try to recruit from McKesson? If McKesson had to replace the executive team, from which companies might it recruit to attract executives with similar capabilities?
Who are the peers from an external perspective?	Who is McKesson competing against for shareholders? Who do key analysts name as peers? Who do current peers name as peers?

FY 2018 Compensation Peer Group and How We Used the Data

Our Company has few direct business competitors, which makes it difficult to create a Compensation Peer Group based on industry codes, revenues or market capitalization alone. The Compensation Committee strives to develop a peer group that best reflects all aspects of McKesson s complex business. For FY 2018, the committee and its independent compensation consultant used a value supply chain framework to identify companies that may compete with McKesson for executive talent. McKesson s peers include the following: (i) healthcare companies that may compete or interact with McKesson s supply chain; (ii) non-healthcare companies that are operationally similar to McKesson or other companies in its supply chain; and (iii) managed care companies.

The committee then considered factors such as revenue and market capitalization to derive an appropriate number of peers within our value supply chain framework. No information technology companies were included as peers because comparator companies had insufficient revenues or were divisions of much larger technology companies. The committee believes our diverse selection of peer group companies provides a better understanding of the evolving and competitive marketplace for executive talent.

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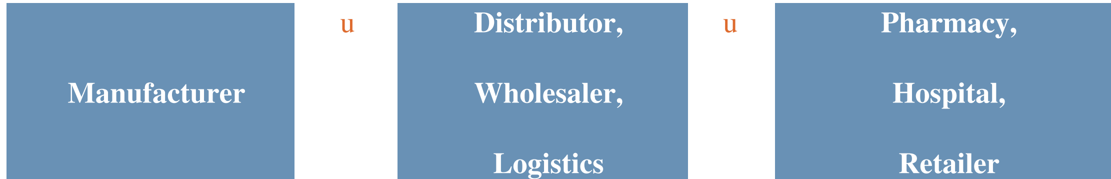
McKesson s Peer Group Framework



	Manufacturer	Distributor, Wholesaler, Logistics	Pharmacy, Hospital, Retailer
Healthcare Peers	Abbott Laboratories Johnson & Johnson Merck Pfizer	AmerisourceBergen Cardinal Health Express Scripts	CVS Health HCA Walgreens Boots Alliance
Non-Healthcare Peers	Procter & Gamble	FedEx Sysco UPS	Costco Kroger Target
Managed Care Peers	Aetna Anthem	Humana	UnitedHealth

The Compensation Committee used data derived from our Compensation Peer Group to inform its decisions about

overall compensation, compensation elements, optimum pay mix and the relative competitive landscape of our executive compensation program. The committee used multiple reference points when establishing target compensation levels. The committee did not strive to benchmark any individual compensation component or compensation in the aggregate to be at any specific percentile level relative to the market. Our 21 peer companies below are sorted by revenue and market capitalization. They reflect the Compensation Peer Group utilized by the Compensation Committee at its May 2017 meeting, when it established FY 2018 target direct compensation for our executive officers.

FY 2018 Compensation Peer Group

(1) Revenues are stated in billions for the most recently completed fiscal year as publicly reported by each company as of May 31, 2018.

(2) Market capitalizations are stated in billions as of March 31, 2018, the last day of our fiscal year.

No Change for FY 2019 Compensation Peer Group. The Compensation Committee made no change to the peer group used to inform FY 2019 target compensation decisions.

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EXECUTIVE COMPENSATION

Independent Review Process

The Compensation Committee sets performance goals, payout scales and target award levels for executive officers. The committee also determines incentive payouts for the prior fiscal year based on actual results against performance goals. While performance goals and payout scales are initially developed by senior management and driven by the one-year operating plan and the rolling three-year strategic plan reviewed with the Board, the Compensation Committee has the authority to approve, modify or amend management s performance goals and payout scale recommendations. Performance goals are selected to be consistent with the operating and strategic plans reviewed, challenged and approved by the Board and information routinely communicated to employees or shareholders by management.

Setting Targets for Fiscal Year

Independent compensation consultant uses Compensation Peer Group data from independent executive compensation surveys and data published by public companies to inform the Compensation Committee of competitive pay levels for executive officers.

Compensation Committee sets pay targets for executive officers, including our CEO.

Mid-Year Review of Compensation Design, Shareholder Feedback and Market Trends

Compensation Committee examines the design and purpose of all executive compensation pay elements, including a review of tally sheets for executive officers.

Tally sheets include holistic displays of current compensation and estimated benefits on separations from service due to voluntary and involuntary terminations and terminations in connection with a change in control.

Committee reviews and considers feedback from shareholders and proxy advisory firms regarding executive compensation program and policies.

Committee reviews a compilation of outstanding earned equity awards, unearned cash awards and unvested equity awards for each executive officer.

Management updates the Compensation Committee on actual performance against pre-established targets for performance-based incentive compensation plans.

Committee reflects on market trends and emerging practices in executive compensation and application to McKesson.

Assessing Year-End Results and Approving Compensation Decisions

Our CEO, in consultation with the Compensation Committee s independent compensation consultant and our Executive Vice President, Human Resources, develops compensation recommendations for the other executive officers, for approval by the committee.

Our CEO presents an assessment of his individual performance results to the Board and discusses his goals for the new fiscal year.

Compensation Committee considers, among other things, regulatory, compliance and legal issues in making executive compensation determinations.

Board conducts our CEO s performance review and discusses in executive session his performance for the prior fiscal year and approves, modifies or amends his goals for the new fiscal year.

Compensation Committee determines our CEO s compensation in executive session with input from the Compensation Committee s independent compensation consultant.

At McKesson, the way we do business is just as important as the business itself, so each executive is evaluated on his or her commitment to the Company s ICARE and ILEAD principles. These principles serve as a guide to all our employees enterprise-wide.

ICARE is the cultural foundation of the Company. Our ICARE principles unify the Company and guide individuals behavior toward each other, customers, vendors and other stakeholders.

Integrity **C**ustomer first **A**ccountability **R**espect **E**xcellence

ILEAD is our common definition, shared leadership framework and our commitment to how we drive better health for our company, our customers and the patients whose lives we touch.

Inspire **L**everage **E**xecute **A**dvance **D**evelop

Role of Independent Compensation Consultant and Legal Counsel

Pursuant to its charter, the Compensation Committee may retain and terminate any consultant or other advisor, as well as approve the advisor s fees and other engagement terms. Each year, the Compensation Committee evaluates the qualifications, performance and independence of its independent compensation consultant and legal counsel. To ensure it receives independent and unbiased advice and analysis, the Compensation Committee adopted a formal independence policy certified annually by its compensation consultant and legal counsel.

The Compensation Committee retained Semler Brossy as its independent compensation consultant and Gunderson Dettmer as its independent legal counsel for FY 2018. Representatives from Semler Brossy and Gunderson Dettmer attended Compensation Committee meetings, participated in executive sessions and communicated directly with the committee. Semler Brossy also provided consulting advice to the Governance Committee regarding director compensation in FY 2018. Neither of the firms performed any services for management.

At the start of FY 2019, the Compensation Committee reviewed information regarding the independence and potential conflicts of interest of Semler Brossy and Gunderson Dettmer. The committee members took into account, among other things, the factors set forth in Exchange Act Rule 10C-1 and the NYSE listing standards, and concluded that its compensation consultant and legal counsel are both independent and that no conflict of interest exists with respect to the work performed by either firm.

Role of Management

Our CEO provides the Compensation Committee with pay recommendations for executive officers other than himself. The Compensation Committee, with input from the committee s independent compensation consultant, determines our CEO s compensation in executive session. Our Executive Vice President, Human Resources attends committee meetings to provide perspective and expertise relevant to the agenda. Management supports the committee s activities by providing analyses and recommendations as requested.

Information on Other Compensation-Related Topics

Severance and Change in Control Benefits

Our Severance Policy for Executive Employees (Executive Severance Policy) affords benefits to selected management employees, including our executive officers, who do not have employment agreements. We provide severance benefits to give executives a measure of financial security following the loss of employment, and to protect the Company from competitive activities after the departure of certain executives. We believe these benefits are important to attract and retain executives in a highly competitive industry. This policy applies if an executive officer is terminated by the Company for reasons other than for cause and the termination is not covered by the Company s Change in Control Policy for Selected Executive Employees (CIC Policy). The Executive Severance Policy does not apply to Mr. Hammergren, whose severance pay is governed by an employment agreement. A detailed description of the Executive Severance Policy is provided below at Executive Employment Agreements Executive Severance Policy.

Our stock plan and award agreements include change in control provisions which provide for double-trigger vesting upon an involuntary or constructive termination of employment following a change in control. Our CIC Policy provides for severance benefits to selected management employees in the event of an involuntary or constructive termination of employment occurring in connection with a change in control. We believe our CIC Policy is in our shareholders best interest, so that senior management can remain focused on important business decisions and not on how a potential transaction may affect them personally. The CIC Policy is administered by the Compensation Committee and benefits are consistent with current market practice. The CIC Policy does not apply to Mr. Hammergren, whose severance pay is governed by an employment agreement. A detailed description of the CIC Policy is provided below at Executive Employment Agreements Change in Control Policy.

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EXECUTIVE COMPENSATION

Mr. Hammergren s employment agreement, in substantially its current form, was executed when he assumed the position of co-Chief Executive Officer in 1999. The agreement provides for severance benefits in the case of voluntary, involuntary and constructive termination with or without a change in control. The agreement s severance provisions, including provisions regarding pension rights, have been in place for many years and are not materially different from the terms provided to his predecessor. However, Mr. Hammergren has relinquished his right to be paid a golden parachute tax gross-up and the right to have his change in control-related cash severance calculated as the product of 2.99 times the base amount as defined under Section 280G of the Internal Revenue Code (IRC). The employment agreement continues to provide for the alternative severance formulation of a cash lump sum equal to three years salary continuation and three years MIP participation. A detailed description of Mr. Hammergren s employment agreement is provided below at Executive Employment Agreements Mr. John H. Hammergren.

Employment Agreements

While we have discontinued the practice of entering into employment agreements with executive officers, we continue to honor our legacy contractual commitments. Mr. Hammergren and Mr. Julian entered into employment agreements with the Company upon their appointment to executive officer positions in 1996 and 1999, respectively. With Mr. Julian s retirement in January 2018, Mr. Hammergren s employment agreement is now the only such agreement currently in effect at the Company.

Stock Ownership Policy

The Company has robust guidelines for stock ownership by executive officers. Our CEO s ownership requirement is 10 times base salary, and the ownership requirement for each of the Company s other executive officers is three times base salary. Stock options and PSU target awards do not count toward ownership under the policy. The Company reserves the right to restrict sales of the underlying shares of vesting equity awards if executives fail to meet the ownership requirements specified in our Stock Ownership Policy. Additionally, we require executives to hold 75% of the net after-tax shares issued upon the vesting or exercise of an award until the policy s requirements are met. The Company s directors are also subject to stock ownership guidelines, which are summarized above at Director Stock Ownership Guidelines.

The Compensation Committee reviews executive officer compliance with our Stock Ownership Policy each year. As of March 31, 2018, Mr. Hammergren and Mr. Figueredo satisfied their stock ownership requirement.

	Stock Ownership Policy			
	Target Ownership		Actual Ownership	
Name	Multiple of Base Salary	Multiple Expressed in Dollars	Multiple of Base Salary[1]	Value of Shares Held by Executives in Dollars[2]
John H. Hammergren	10	16,800,000	33.9	56,977,010
Britt J. Vitalone	3	2,250,000	2.8	2,133,128
Lori A. Schechter	3	2,325,000	1.5	1,178,765
Jorge L. Figueredo	3	2,250,000	3.1	2,346,375

Bansi Nagji	3	2,205,000	0.8	607,431

(1) NEO ownership is stated as of March 31, 2018, using FY 2018 salary levels. The ownership requirement may be met through any combination of the following:

Direct stock holdings of the Company s common stock, including shares held in a living trust, a family partnership or corporation controlled by the officer, unless the officer expressly disclaims beneficial ownership of such shares;

Shares of the Company s common stock held in the 401(k) Plan;

Shares of the Company s common stock underlying outstanding restricted stock and restricted stock unit awards; and/or

Shares of the Company s common stock underlying restricted stock units that are vested and deferred under a Company-sponsored deferral program.

(2) Based on the $140.87 closing price of the Company s common stock as reported by the NYSE for March 29, 2018, the last trading day of our fiscal year.

Insider Trading Policy

The Company maintains an insider trading policy applicable to all directors and employees. The policy provides that Company personnel may not: buy, sell or engage in other transactions in the Company s stock while in possession of material non-public information; buy or sell securities of other companies while in possession of material non-public information about those companies they become aware of as a result of business dealings between the Company and those companies; disclose material non-public information to any unauthorized persons outside of the Company; or engage in hedging transactions through the use of certain derivatives, such as put and call options involving the Company s securities. The policy also restricts trading for a limited group of Company employees (including all directors and NEOs) to defined window periods which follow our quarterly earnings releases.

Anti-Hedging and Pledging Policy

The Company adopted an anti-hedging and pledging policy in April 2013 which applies to all directors and executive officers. The policy prohibits these individuals from engaging in any hedging transaction with respect to Company securities. These individuals are also prohibited from holding Company securities in a margin account or otherwise pledging Company securities as collateral for a loan. Pledges of Company securities arising from certain types of hedging transactions are also prohibited under our insider trading policy, as described above.

Equity Grant Practices

The Company has a written Equity Grant Policy which states that stock options will be awarded at an exercise price equal to the closing price of the Company s common stock on the date of grant. The policy also generally prohibits the granting of an equity award when the Company s directors or employees may be in possession of material non-public information. When the Compensation Committee meeting occurs shortly following our public announcement of earnings, the grant date is the same day as the committee meeting. Otherwise, in most situations, the grant date is postponed until the third trading day following the release of our earnings results. The Company s annual grant cycle occurs at the end of May each year, close in time to our public announcement of financial results for the prior completed fiscal year and publication of our forward estimate of earnings for the current fiscal year.

Under the terms of our 2013 Stock Plan and 2005 Stock Plan, stock option re-pricing is not permitted without shareholder approval. Stock option awards generally vest ratably over four years with a contractual term of seven years. PeRSU target awards have a one-year performance period and convert to RSU awards that cliff-vest in three years. RSU awards that are not granted pursuant to PeRSU awards generally vest over four years. The PSU program has a three-year performance period and the shares that are earned are not subject to any further vesting conditions.

Tax Deductibility and Considerations for Compensation Design

IRC Section 162(m) generally provided, prior to its amendment, that publicly held corporations may not deduct in any taxable year specified compensation in excess of $1,000,000 paid to the CEO and the next three most highly compensated executive officers, excluding the chief financial officer, unless the compensation qualifies as performance-based compensation meeting specified criteria, including shareholder approval of the material terms of applicable plans. Recent tax legislation expanded the scope of IRC Section 162(m) to include the chief financial officer in the group of covered executive officers, and repealed the exemption for performance-based compensation,

in each case for tax years beginning after December 31, 2017. Accordingly, compensation in excess of $1,000,000 per year paid to the covered executive officers beginning with FY 2019 will not be deductible unless it qualifies for transition relief applicable to certain arrangements in place prior to November 2, 2017. However, for FY 2018, performance-based compensation in excess of $1,000,000 is deductible if the specified criteria are met.

The Compensation Committee s intention has been to comply with the requirements for deductibility under IRC Section 162(m), unless the committee concludes that adherence to the limitations imposed by these provisions would not be in the best interest of the Company or its shareholders. Incentive payments made under our MIP, Cash LTIP and PSU programs, RSUs granted under our PeRSU program and our stock options were intended to qualify for deductibility as performance-based compensation under IRC Section 162(m) prior to its amendment. Despite the Compensation Committee s efforts to structure the Company s annual and long-term incentive programs in a manner intended to be exempt from IRC Section 162(m), because of uncertainties as to the scope of the transition relief under the recent legislation, there can be no assurance that compensation intended to satisfy the requirements of performance-based compensation in fact will.

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EXECUTIVE COMPENSATION

Compensation Recoupment (Clawback) Policy

The Board is dedicated to maintaining and enhancing a culture focused on integrity and accountability which discourages conduct detrimental to the Company s sustainable growth. On January 21, 2014, following constructive engagement by management with a group of key institutional investors and a review of the compensatory practices by peer companies, the Compensation Committee approved an updated Compensation Recoupment Policy (Recoupment Policy) that both expanded and clarified the previous policy that was incorporated into the Company s annual and long-term incentive compensation plans. The new Recoupment Policy applies to all cash or equity incentive awards granted after January 1, 2014.

Under the Recoupment Policy, the Company may recover, or claw back incentive compensation if an employee: (i) engages in misconduct pertaining to a financial reporting requirement under the federal securities laws that requires the Company to file a restatement of its audited financial statements with the SEC to correct an error; (ii) receives incentive compensation based on an inaccurate financial or operating measure that when corrected causes significant harm to the Company; or (iii) engages in any fraud, theft, misappropriation, embezzlement or dishonesty to the detriment of the Company s financial results as filed with the SEC.

If triggered, then to the fullest extent permitted by law, the Company may require the employee to reimburse the Company for all or a portion of any incentive compensation received in cash within the last 12 months, and remit to the Company any compensation received from the vesting or exercise of equity-based awards occurring within the last 12 months. The Company will publicly disclose the results of any deliberations about whether to recoup compensation from an executive officer under the Recoupment Policy unless, in individual cases and consistent with any legally mandated disclosure requirements, the Board or the Compensation Committee concludes that legal or privacy concerns would prevent such disclosure.

Our executive incentive plans provide that the Compensation Committee may also seek to recoup economic gain from any employee who engages in conduct that is not in good faith and which disrupts, damages, impairs or interferes with the business, reputation or employees of the Company.

Supplemental Death Benefits

In January 2010, the Board froze the Company s Executive Survivor Benefits Plan to the then-current roster of participants, which includes three of our NEOs, namely, Mr. Hammergren, Mr. Figueredo and Mr. Julian. The Company will not enter into a new plan, program or agreement (Benefit Agreement) with any executive officer, or a material amendment of an existing Benefit Agreement with any executive officer that provides for a death benefit, including salary continuation upon death, if that benefit is not generally available to all employees, unless such Benefit Agreement or material amendment is approved by the Company s shareholders pursuant to an advisory vote.

This plan continues to provide a supplemental death benefit for its participants, which is in addition to the voluntary and Company-provided life insurance plan afforded to all employees. A detailed description of this plan is available below at Potential Payments upon Termination or Change in Control.

Excise Tax Gross-Up Policy

The Company may not enter into any new agreement with an executive officer, or a material amendment of an existing executive officer agreement, that provides for payment or reimbursement of excise taxes that are payable by such executive officer under IRC Section 4999 as a result of a change in control of the Company. This policy does not adversely affect any Company plan, policy or arrangement generally available to management employees that provides for the payment or reimbursement of taxes.

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Compensation Committee Report on Executive Compensation

We have reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference to McKesson Corporation s Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

Compensation Committee of the Board of Directors

Andy D. Bryant, *Chair*

N. Anthony Coles, M.D.

M. Christine Jacobs

Edward A. Mueller

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is composed of the four independent directors listed above. No member of the Compensation Committee is, or was during FY 2018, a current or former officer or employee of the Company or any of its subsidiaries. Additionally, during FY 2018, none of our executive officers served on the board of directors or compensation committee of any entity that had one or more of its executive officers serving on the Board or the Compensation Committee of the Company.

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EXECUTIVE COMPENSATION

2018 Summary Compensation Table

The table below provides information regarding compensation and benefits earned by: (i) our Chairman of the Board, President and Chief Executive Officer; (ii) our Executive Vice President and Chief Financial Officer; (iii) the three other most highly compensated executive officers serving as of March 31, 2018; (iv) our former Executive Vice President and Chief Financial Officer; and (v) our former Executive Vice President and Group President (collectively, our Named Executive Officers or NEOs):

Name and Principal Position	Fiscal Year	Salary ($)(2)	Bonus ($)(3)	Stock Awards ($)(4)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(6)	All Other Compensation ($)(7)	Total ($)
John H. Hammergren *Chairman, President*	2018	1,680,000	-0-	7,369,248	4,422,022	4,048,300	-0-	623,447	18,143,017
and Chief Executive Officer	2017	1,680,000	-0-	5,896,178	5,896,024	6,036,000	-0-	588,397	20,096,599
	2016	1,680,000	-0-	7,317,049	5,057,023	9,233,600	-0-	361,966	23,649,638
Britt J. Vitalone *Executive Vice President and Chief Financial*	2018	620,839	500,000	560,157	200,022	366,397	-0-	40,193	2,287,608

Officer									
Lori A. Schechter *Executive Vice President, General Counsel and Chief Compliance Officer*	2018	775,000	-0-	1,223,022	733,022	1,147,500	-0-	100,816	3,979,360
Jorge L. Figueredo *Executive Vice President, Human Resources*	2018	750,000	-0-	1,242,149	745,018	1,129,900	-0-	95,821	3,962,888
	2017	708,167	-0-	994,166	994,002	1,203,861	-0-	83,912	3,984,108
	2016	650,833	-0-	1,218,137	852,034	1,297,248	-0-	93,005	4,111,257
Bansi Nagji *Executive Vice President, Corporate Strategy and Business Development*	2018	735,000	-0-	866,065	520,002	1,072,800	-0-		

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance, beginning of period	$ 83	$ 83	$ 83	$ 100
Amounts accrued for current period sales	8	9	32	22
Adjustments of prior accrual estimates	7	3	10	(2)
Settlements of warranty claims	(12)	(15)	(36)	(41)
	3	1		2

Foreign currency translation and other								
Balance, end of period	$	89	$	81	$	89	$	81

We have been notified by Toyota Motor Corporation concerning a quality issue relating to frame corrosion on certain Toyota Tacoma trucks produced between 1995 and 2004 that could allegedly result in a warranty claim. Dana and Toyota have recently participated in non-binding mediation. Based on the information currently available, we do not believe that this matter will result in a material liability to Dana. In addition, we have been notified of an alleged quality issue at a foreign subsidiary of Dana that produces engine coolers for Sogefi that are used in modules supplied to Volkswagen. Based on the information currently available to us, we do not believe that this matter will result in a material liability to Dana.

Note 16. Income Taxes

We estimate the effective tax rate expected to be applicable for the full fiscal year and use that rate to provide for income taxes in interim reporting periods. We also recognize the tax impact of certain discrete (unusual or infrequently occurring) items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. During the third quarter of 2010, we reorganized our business operations in Brazil, resulting in the reversal of $16 of valuation allowances that had been recorded against certain deferred tax assets.

The tax expense or benefit recorded in operations is generally determined without regard to other categories of earnings, such as OCI. An exception occurs if there is aggregate pre-tax income from other categories and a pre-tax loss from operations, where a valuation allowance has been established against deferred tax assets. The tax benefit allocated to operations is the amount by which the loss from operations reduces the tax expense recorded with respect to the other categories of earnings.

This exception resulted in a third-quarter 2010 charge of $14 to OCI. An offsetting income tax benefit was attributed to operations for the three months and nine months ended September 30, 2010. The benefit recorded in operations for the three months and nine months ended September 30, 2010 was limited to $7 due to interperiod tax allocation rules, leaving a liability of $7 in current liabilities at September 30, 2010. The amount to be recognized for the remainder of 2010 will be determined by the amount of OCI reported for the full year which is attributable to the U.S.

This exception also resulted in a charge of $14 and $23 to OCI during the third quarter and first nine months of 2009. An offsetting income tax benefit was attributed to operations for the three months and nine months ended September 30, 2009. The benefit recorded in operations for the three and nine months ended September 30, 2009 was limited to $14 and $18 due to interperiod tax allocation rules, leaving a liability of $5 in current liabilities at September 30, 2009.

We provide for U.S. federal income and non-U.S. withholding taxes on the future repatriations of the earnings from our non-U.S. operations. During the first nine months of 2010, we continued to modify our forecast for future repatriations due to the current market conditions. Accordingly, we adjusted the future income and non-U.S. withholding tax liabilities for these repatriations and recognized a benefit of $1 and an expense of $2 for the three and nine months ended September 30, 2010. We also incurred withholding tax of $2 during the third quarter related to the transfer of funds between subsidiaries in Europe. We recognized an expense of $1 and a benefit of $18 for the three and nine months ended September 30, 2009 related to future income tax and non-U.S. withholding tax liabilities on future repatriations of the earnings of our non-U.S. subsidiaries.

We record interest income or expense, as well as penalties, related to uncertain tax positions as a component of income tax expense or benefit. Net interest expense of less than $1 and $1 was recognized in income tax expense for the three and nine months ended September 30, 2010 and net interest expense of $2 and $6 was recognized in the three and nine months ended September 30, 2009. During the first quarter of 2010, we reversed accruals for uncertain tax positions of $9 related to the 1999 through 2002 and 2003 through 2005 U.S. Internal Revenue Service (IRS) audit cycles that were settled during the quarter. During the second quarter of 2010, we paid $75 to satisfy a bankruptcy claim related to these audit cycles.

We have generally not recognized tax benefits on losses generated in several countries, including the U.S., where the recent history of operating losses does not allow us to satisfy the "more likely than not" criterion for the recognition of deferred tax assets. Consequently, there is no income tax benefit recognized on the pre-tax losses in these jurisdictions as valuation allowances are established offsetting the associated tax benefit.

We reported an income tax benefit of $4 and expense of $10 for the three and nine months ended September 30, 2010 and income tax benefits of $9 and $39 for the three and nine months ended September 30, 2009. The income tax rate varies from the U.S. federal statutory rate of 35% due to a valuation allowance in several countries, the adjustment of valuation allowances in Brazil, non-deductible expenses, withholding tax on intercompany transfers of funds, withholding taxes related to expected repatriations of international earnings to the U.S. and adjustments to reserves on uncertain tax positions.

Note 17. Other Income, Net

Other income, net included —

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest income	$ 8	$ 6	$ 21	$ 18
Export and other credits	2	5	6	13
Gain (loss) on extinguishment of debt	(3)	(5)	(7)	35
Foreign exchange gain (loss)	(2)	3	(12)	9
Loss on sale of Structural Products business			(5)	
Contract cancellation income				17
Other	5	1	6	8
Other income, net	$ 10	$ 10	$ 9	$ 100

The sale of substantially all of our Structural Products business is discussed in Note 2.

Dana and its subsidiaries enter into foreign exchange forward contracts to hedge currency exposure on certain intercompany loans and accrued interest balances as well as to reduce exposure in cross-currency transactions arising in the normal course of business. Foreign exchange forward contracts are marked to market, with the gain or loss recorded in cost of sales for material purchase transactions and in other income, net for intercompany accounts. Foreign exchange gains and losses on cross-currency intercompany loan balances that are not considered permanently invested are included in foreign exchange gain (loss) above. Foreign exchange gains and losses on loans that are permanently invested are reported in OCI. Foreign exchange gain (loss) for the nine months ended September 30, 2010 also includes a charge of $3 for the devaluation of the Venezuelan bolivar.

The contract cancellation income of $17 in 2009 represents recoveries in connection with early cancellation of certain customer programs during the first quarter of 2009.

Note 18. Segments

The components that management establishes for purposes of making decisions about an enterprise's operating matters are referred to as "operating segments." We manage our operations globally through a total of five operating segments with three operating segments – LVD, Structures and Power Technologies – focused on specific products for the light vehicle market and two operating segments – Commercial Vehicle and Off-Highway – focused on specific medium-duty and heavy-duty vehicle markets. In the first quarter of 2010, the reporting of our operating segment results was reorganized in line with our management structure and internal reporting and the Sealing and Thermal segments were combined into the Power Technologies segment. The results of these segments have been retroactively adjusted to conform to the current reporting.

In March 2010, we completed the sale of substantially all of our Structures segment. We retained the Longview, Texas facility in this segment and we are continuing to report the results of that operation in our Structures segment. The operations of the Structures segment in Venezuela are also included pending the close on the sale of those operations which is expected to occur in the fourth quarter.

The primary measure of operating results is segment EBITDA which is closely aligned with the definition of EBITDA in our debt agreements. Our segments receive a charge for corporate and other shared administrative costs. Costs allocated to the operating segments are $28 and $28 for the three months and $88 and $84 for the nine months ended September 30, 2010 and 2009.

We used the following information to evaluate our operating segments:

	Three Months Ended September 30,					
	2010			2009		
	External Sales	Inter-Segment Sales	Segment EBITDA	External Sales	Inter-Segment Sales	Segment EBITDA
LVD	$ 634	$ 57	$ 67	$ 532	$ 33	$ 45
Power Technologies	235	7	33	186	4	14
Commercial Vehicle	362	26	37	270	19	27
Off-Highway	271	12	23	184	6	11
Structures	13	1		157	3	11
Eliminations and other	1	(103)			(65)	
Total	$ 1,516	$ -	$ 160	$ 1,329	$ -	$ 108

	Nine Months Ended September 30,					
	2010			2009		
	External Sales	Inter-Segment Sales	Segment EBITDA	External Sales	Inter-Segment Sales	Segment EBITDA
LVD	$ 1,861	$ 149	$ 177	$ 1,393	$ 91	$ 76
Power Technologies	697	20	95	503	11	14
Commercial Vehicle	999	70	96	796	47	56
Off-Highway	815	30	69	640	20	27
Structures	175	3	8	403	7	20
Eliminations and other	3	(272)			(176)	
Total	$ 4,550	$ -	$ 445	$ 3,735	$ -	$ 193

During the third quarter of 2009, we reduced inventory and charged cost of sales for $6 to correct an overstatement of inventory related to full absorption costing that arose in 2008. The $6 charge is not included in segment EBITDA, as full absorption adjustments are recorded at the corporate level. This adjustment was not considered material to the current period or the prior periods to which it related. The correction of full absorption costing also required the reclassification of $5 from cost of sales to selling, general and administrative expenses in each of the first two quarters of 2009. Year-to-date cost of sales has been reduced and selling, general and administrative expenses increased by $10 in the financial statements for the nine months ended September 30, 2009 to correct the classification of these costs. The impact on classification of costs in prior periods was not considered material.

The following table reconciles segment EBITDA to the consolidated income (loss) before income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Segment EBITDA	$ 160	$ 108	$ 445	$ 193
Shared services and administrative	(4)	(5)	(13)	(15)
Other income (expense) not in segments	(6)	(2)	(15)	30
Foreign exchange not in segments	(2)		(7)	3
Depreciation	(57)	(79)	(180)	(231)
Amortization of intangibles	(19)	(22)	(57)	(64)
Restructuring	(10)	(14)	(60)	(93)
Impairment of long-lived assets				(6)
Reorganization items, net				2
Gain (loss) on extinguishment of debt	(3)	(5)	(7)	35
Strategic transaction expenses		(2)		(4)
Loss on sale of assets, net	(1)	(1)	(7)	(2)
Stock compensation expense	(4)	(3)	(9)	(7)
Foreign exchange on intercompany loans, Venezuelan currency devaluation and market value adjustments on forwards	2	6	(13)	11
Interest expense	(22)	(36)	(68)	(108)
Interest income	8	6	21	18
Income (loss) before income taxes	$ 42	$ (49)	$ 30	$ (238)

Assets and liabilities of the Structures segment declined with the sale of substantially all of the Structural Products business in March 2010. See Note 2 for additional information on the detail of assets and liabilities held for sale related to this segment.

Note 19. Reorganization Items

Professional advisory fees and other costs directly associated with our reorganization are reported separately as reorganization items. We incurred a net benefit of $2 during the first nine months of 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (In millions)

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes in this report.

Forward-looking Information

Statements in this report (or otherwise made by us or on our behalf) that are not entirely historical constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are indicated by words such as "anticipates," "expects," "believes," "intends," "plans," "estimates," "projects" and similar expressions. These statements represent the present expectations of Dana Holding Corporation and its consolidated subsidiaries based on our current information and assumptions. Forward-looking statements are inherently subject to risks and uncertainties. Our plans, actions and actual results could differ materially from our present expectations due to a number of factors, including those discussed below and elsewhere in this report and in our other filings with the Securities and Exchange Commission (SEC). All forward-looking statements speak only as of the date made or the date of this filing and we undertake no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances that may arise after the date of this report.

Management Overview

Dana Holding Corporation (Dana) is a leading supplier of driveline products (axles and driveshafts) power technologies (sealing and thermal-management products) and genuine service parts for light and heavy vehicle manufacturers world-wide. Our customer base includes virtually every major vehicle manufacturer in the global light vehicle, medium/heavy vehicle and off-highway markets. Headquartered in Maumee, Ohio, Dana was incorporated in Delaware in 2007. As of September 30, 2010, we employed approximately 22,500 people and owned or leased 93 major facilities in 23 countries around the world.

We are committed to continuing to diversify our product offerings, customer base and geographic footprint and minimizing our exposure to individual market and segment declines. In the first nine months of 2010, 49% of our revenue came from North American operations and 51% from operations throughout the rest of the world. Light vehicle products accounted for 60% of our global revenues, with commercial vehicle and off-highway products representing 40%.

Our Internet address is www.dana.com. The inclusion of our website address in this report is an inactive textual reference only and is not intended to include or incorporate by reference the information on our website into this report.

Business Strategy

We continue to evaluate the strategy for each of our operating segments and to focus on driving operational improvements and restructuring our operations to improve profitability. Over the past two years, we have been implementing the Dana Operating System – an operational excellence system – in our manufacturing facilities. The lean operational standards and global metrics rolled out through this system have been instrumental in helping us achieve the significant cost reductions that enabled us to largely offset the effects of substantially lower production levels. Driving our cost structure down and improving our manufacturing efficiency will be critical to our future success as lower production levels are expected to continue to be a major challenge affecting our businesses.

Over the past two years, we have also worked with our customers to address program pricing. The improvements on this front, combined with reductions to our cost structure, have improved the underlying profitability of our major customer programs. These operational improvements, along with the actions we took in 2009 and 2010 to reduce debt and strengthen our cash position, have significantly improved our financial position. As a result, we are better positioned today to pursue attractive growth opportunities in a number of our businesses, particularly outside North America. Our growth strategies include reinvigorating our product portfolio and capitalizing on technology advancement opportunities. Material technology advancements are playing a key role in this endeavor, with an emphasis on research and development of efficient technologies such as lightweight, high-strength aluminum applications currently in demand. During the first quarter of 2010, we announced the consolidation of our heavy vehicle products North American engineering centers in Kalamazoo, Michigan and Statesville, North Carolina with our light vehicle engineering center in Maumee, Ohio, allowing us the opportunity to better share technologies among our businesses.

Securing new program wins while maintaining existing business is important to our future success. We currently expect to achieve net new business awards during 2010 that would generate aggregate sales from 2010 through 2014 of around $650 to $700.

As we drive additional operational improvements, restructure the businesses and pursue growth opportunities, we intend to do so with a discipline that ensures continued improvement in profitability and maintaining a strong balance sheet.

Sale of the Structural Products Business

In December 2009, we signed an agreement to sell substantially all of our Structural Products business to Metalsa S.A. de C.V. (Metalsa), the largest vehicle frame and structures supplier in Mexico. As a result of the sale agreement, we had recorded a $161 charge ($153 net of tax) in December 2009, including an impairment of $150 of the intangible and long-lived assets of the Structures segment and transaction and other expenses associated with the sale of $11 which was recorded in other income, net.

In March 2010, we completed the sale of all but the operations in Venezuela, representing $140 of the $147 total purchase price, and recorded a pre-tax loss of $5 ($3 net of tax) resulting primarily from a $3 negotiated reduction of the purchase price. We received cash proceeds of $113 and recorded a receivable of $27 for the deferred proceeds, including $15 related to an earn-out provision, which we expect to receive in the second quarter of 2011. We recorded an additional receivable of $8 representing recovery of working capital, which we expect to receive in the fourth quarter of 2010, subject to final agreement with the buyer. No significant changes to this receivable are expected based on current discussions.

The $15 earn-out payment will be realized if the aggregate number of units produced by the divested operations for nine vehicle platforms specified in the agreement exceeds 650,000 during a twelve-month period within the fourteen months ending April 30, 2011. Estimated production for these periods currently ranges from 706,000 to 713,000 units. The earn-out payment decreases if unit production is below 650,000 and would be eliminated if production falls below 610,000. We believe that the realization of this earn-out is reasonably assured and its recognition is consistent with our policy regarding recognition of contingent consideration at fair value.

In connection with the sale, leases covering three U.S. facilities were assigned to a U.S. affiliate of Metalsa. Under the terms of the sale agreement, Dana will guarantee the affiliate's performance under the leases which run through June 2025 including approximately $6 of annual payments. In the event of a required payment by Dana as guarantor, Dana is entitled to pursue full recovery from Metalsa of the amounts paid under the guarantee and to take possession of the leased property. The sale of our Structural Products business in Venezuela is expected to be completed in the

fourth quarter of 2010.

In connection with the receipt of proceeds from the sale, we repaid $83 of our term loan debt in March 2010 and $7 in June 2010. Future cash proceeds and repatriations to the U.S. of proceeds already received are required to be used to repay our term loan debt. See Note 11 to the consolidated financial statements in Item 1 of Part I.

Acquisitions

In June 2007, our subsidiary Dana Mauritius Limited (Dana Mauritius) purchased 4% of the registered capital of Dongfeng Dana Axle Co., Ltd. (DDAC), a commercial vehicle axle manufacturer in China formerly known as Dongfeng Axle Co., Ltd., from Dongfeng Motor Co., Ltd. (Dongfeng Motor) and certain of its affiliates for $5. Dana Mauritius agreed, subject to certain conditions, to purchase an additional 46% equity interest in DDAC. Based on the discussions among the parties to date, we expect to sign an agreement in 2010 and to increase our investment in DDAC by approximately $120.

Segments

We manage our operations globally through five operating segments. Our products in the light vehicle market primarily support light vehicle original equipment manufacturers (OEMs) with products for light trucks, sports utility vehicles (SUVs), crossover utility vehicles, vans and passenger cars. The operating segments in the light vehicle markets are Light Vehicle Driveline (LVD), Power Technologies and Structures. Substantially all of the Structures business was sold in the first quarter of 2010.

The reporting of our operating segment results was reorganized in the first quarter of 2010 in line with our management structure as the Sealing and Thermal segments were combined into the Power Technologies segment. The results of these segments have been retroactively adjusted to conform to the current reporting structure.

Two operating segments, Commercial Vehicle and Off-Highway, support the OEMs of medium-duty (Classes 5-7) and heavy-duty (Class 8) commercial vehicles (primarily trucks and buses) and off-highway vehicles (primarily wheeled vehicles used in construction and agricultural applications).

Trends in Our Markets

Light Vehicle Markets

Markets outside of North America – Overseas markets are expected to take on increasing importance for us as they experience greater growth. During 2009, overall global economic weakness impacted light vehicle production in these markets, just as it did in North America. The improving market conditions that were evident in the fourth quarter of 2009 continued into 2010. Third quarter 2010 production outside North America was up about 8% from the same period in 2009. Europe third quarter production was about 3% lower, while the South America and Asia Pacific regions were up about 12%. Production levels outside North America for the nine months ended September 30, 2010 were about 25% higher than the comparable 2009 period – with Europe and South America up about 16% and Asia Pacific up 33%. Our current outlook for light vehicle markets outside North America is full year 2010 unit production of 53 to 56 million. We expect European production in 2010 to be up around 7 to 10% as compared to 2009, with our two other regions being somewhat stronger – South America up in the 12 to 20% range and Asia Pacific 12 to 18% higher than in 2009.

North America – Production levels in the North American markets were negatively impacted by overall economic conditions beginning in the second half of 2008 and continuing through much of 2009. Production levels increased dramatically during the second half of 2009 as General Motors and Chrysler both emerged from relatively short bankruptcy reorganizations and improving market and overall economic conditions led to increased vehicle sales. For the third quarter of 2010, light vehicle unit production was approximately 3 million vehicles – about 25% higher than third quarter 2009. In the specific light truck pickup, van and SUV segment where more of our programs are focused, third quarter 2010 production of 879,000 vehicles was up about 26% from 2009. Light vehicle production levels for the first nine months of 2010 were higher than the same period in 2009 by about 53%, with 2010 light truck pickup, van and SUV segment production for the first nine months of 2010 46% higher than in 2009.

With vehicle sales strengthening since the second half of 2009, total light vehicle inventory levels declined significantly from relatively high levels in the first half of 2009 to 53 days supply at December 31, 2009. Inventory levels throughout 2010 have been relatively stable with September 30, 2010 inventory levels being around 58 days for all light vehicles, 59 days for light trucks and 73 days for the light truck pickup, van and SUV segment. Based on current inventory levels, near-term production levels are likely to be driven more directly by vehicle sales.

While the overall economic environment continues to be somewhat fragile, we have increased our expectation for full year 2010 North American light vehicle production to 11.5 to 11.8 million units, an increase of 35 to 38% over 2009, based on the strength of relatively strong third quarter 2010 vehicle sales. As we look at our primary light truck segment, we are now forecasting higher 2010 production levels which represent increases over 2009 in the 42 to 50% range for the full year.

Medium/Heavy Vehicle Markets

Markets outside of North America – Outside of North America, medium- and heavy-duty truck production was severely impacted in 2009 by the overall global economic weakness. With improving economic conditions, production levels outside North America are expected to rebound through the remainder of 2010. We currently expect production outside North America in 2010 to be around 1.8 to 1.9 million units compared to 1.5 million units in 2009.

North America – Developments in this region have a significant impact on our results as North America accounts for more than 60% of our sales in the commercial vehicle market. The North American medium/heavy truck market is being impacted by many of the same overall economic conditions negatively impacting the light vehicle markets, as customers are being cautious about the economic outlook and, consequently, new vehicle purchases. We have begun to see signs of improving market conditions with new heavy-duty (Class 8) truck orders picking up in recent months and we expect this market to continue strengthening over the remainder of 2010 and into 2011. The rebound in the medium-duty (Class 5-7) market has been somewhat slower with continuing weakness in the housing and construction sectors constraining demand. Third quarter and year-to-date 2010 production of Class 8 vehicles of approximately 38,000 units and 109,000 units is about 29% and 35% higher than unit production in the comparable 2009 periods. In the medium-duty market, production of approximately 29,000 units during the third quarter of 2010 and 85,000 units for year-to-date 2010 is about 26% and 21% higher than production levels in the corresponding 2009 periods.

With the continued strengthening of new truck orders, we have adjusted our full year 2010 Class 8 production expectation in North America to 140,000 to 150,000 units – an increase of 21% to as much as 29% from 2009. On the medium-duty Class 5-7 side, we expect 2010 production of 106,000 to 120,000 units – up from 97,000 units in 2009.

Off-highway Markets

Our off-highway business has become an increasingly more significant component of our total operations over the past few years. Unlike our on-highway businesses, our off-highway business is largely outside of North America, with about 75% of its sales coming from outside of North America. We serve several segments of the diverse off-highway market, including construction, agriculture, mining and material handling. Our largest markets are the European and North American construction and agricultural equipment segments. During 2009, the adverse effects of a weaker global economy significantly reduced demand levels in these markets. Demand in the construction market was down 70 to 75% from 2008 while demand in the agricultural market was down 35 to 40%. Earlier this year we expected that this segment's primary construction and agriculture markets would be somewhat weaker in 2010 than in 2009 or, at the top end of our estimates, relatively flat year over year. However, during the second and third quarters of 2010, we have seen some strengthening in these markets and improving levels of customer demand. As such, we now expect full year 2010 demand levels in the construction market to be 10 to 15% higher than last year, with the agriculture market expected to be up 2 to 5%.

Sales, Earnings and Cash Flow Outlook

With the lower level of sales in 2009, we focused on aggressively right sizing our costs. We are making additional cost improvements this year as we continue making progress on our remaining restructuring actions and identify new opportunities to reduce our costs. Further, given the structural cost improvements that we have made, we have resisted bringing back all of the salaried and indirect labor cost that was eliminated as sales levels improved in the remainder of this year. Partially offsetting these expected operational cost improvements are higher costs associated with pension benefits and restoration of certain additional compensation programs. We also completed several pricing and material recovery initiatives during the latter part of 2008 and into 2009 that benefited margins in these years. While certain of these actions provide additional margin this year, on balance additional pricing is a less significant factor in our 2010 year-over-year profitability. During the first three months of 2010, market prices for steel and other commodity costs increased and have remained relatively stable at the increased levels during the second and third quarters. Pricing arrangements with our customers will enable us to recover a substantial portion of such increases, albeit subject to a time lag which varies by customer and operating segment. At present, the level of increases has not significantly impacted our 2010 profitability.

Based on the production outlook in our markets and the addition of some net new business, we currently expect our 2010 sales to be about $6,000 – an increase of around 25% exclusive of our Structural Products business. In addition to the margin contribution from higher sales, as indicated above, cost reduction actions are expected to provide incremental profit improvement. Considering these factors and the sale of the Structural Products business, we currently expect improvement in full year 2010 profitability of approximately $205 to $225.

During 2009, we generated free cash flow of $109 (cash provided by operations – excluding bankruptcy related claims payments – of $208 less capital expenditures of $99). Improved profitability, reduced working capital and disciplined capital expenditures helped cover cash needed for right sizing and restructuring the business. We currently expect free cash flow of more than $275 to $300 in 2010, primarily on the strength of improved earnings as well as continued working capital and capital expenditure discipline. Cash requirements for capital expenditures are expected to be $125 to $140 with restructuring activities expected to use approximately $100.

Free cash flow is a non-GAAP financial measure, which we have defined as cash provided by operations excluding any bankruptcy claim-related payments, less capital spending. We believe this measure is useful to investors in evaluating the operational cash flow of the company inclusive of the spending required to maintain the operations. Free cash flow is neither intended to represent nor be an alternative to the measure of net cash provided by (used in) operating activities reported under GAAP. Free cash flow may not be comparable to similarly titled

measures reported by other companies.

Consolidated Results of Operations

Summary Consolidated Results of Operations (Third Quarter, 2010 versus 2009)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)
Net sales	$ 1,516	$ 1,329	$ 187
Cost of sales	1,338	1,247	91
Gross margin	178	82	96
Selling, general and administrative expenses	99	73	26
Amortization of intangibles	15	18	(3)
Restructuring charges, net	10	14	(4)
Other income, net	10	10	
Income (loss) before interest, reorganization items and income taxes	$ 64	$ (13)	$ 77
Net income (loss) attributable to the parent company	$ 46	$ (38)	$ 84

Sales – The following table shows changes in our sales by geographic region for the quarters ended September 30, 2010 and 2009. In the third quarter of 2010, based on realignment of organizational responsibilities, we began including our South African operations in Europe instead of Asia Pacific. The geographical results have been retroactively adjusted to conform to the current reporting structure.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase/ (Decrease)	Amount of Change Due To: Currency Effects	Amount of Change Due To: Divestitures	Amount of Change Due To: Organic Change
North America	$ 733	$ 676	$ 57	$ 3	$ (99)	$ 153
Europe	410	318	92	(31)		123
South America	217	216	1	10	(36)	27
Asia Pacific	156	119	37	4	(10)	43
Total	$ 1,516	$ 1,329	$ 187	$ (14)	$ (145)	$ 346

Third quarter 2010 sales increased $187 over the comparable 2009 period. The sale of our Structural Products business in early March 2010 resulted in reduced sales of $145 as compared to 2009. The organic sales increase primarily attributable to market volume, pricing and mix is $346 – an increase of 29% on 2009 sales adjusted for divestitures.

In North America, the organic sales increase of $153 for the third quarter of 2010 represents an increase of about 27% on 2009 sales adjusted for the effects of divestitures. The increase is largely due to the increased OEM production levels in the light vehicle and medium- and heavy-duty truck markets. Light duty production was up about 25% compared to 2009 and medium/heavy truck production was up about 27%. In the off-highway sector, third quarter 2010 demand levels also showed significant improvement compared to 2009.

Sales in Europe were reduced by $31 due primarily to a stronger U.S. dollar in 2010. Excluding currency effects, European sales were 39% higher than in 2009. Our European business is heavily weighted in the off-highway market where increased demand levels led to higher sales of about 45%. Europe sales also benefited from increased medium/heavy truck production of about 37% and favorable mix in our light vehicle businesses.

Stronger international currencies increased third quarter 2010 sales by $10 in South America and $4 in Asia Pacific. The organic sales increases of 15% and 39% in South America and Asia Pacific on adjusted 2009 sales were driven principally by the year-over-year increases in 2010 production levels in these regions.

Cost of sales and gross margin – Cost of sales decreased to 88.3% of sales in 2010 from 93.8% of sales in 2009, as higher production levels contributed to improved absorption of fixed costs. Additionally, manufacturing costs benefited from our restructuring initiatives, material cost savings associated with engineering design changes and reduced purchase prices and other cost reduction actions. Higher sales levels, cost reductions and pricing improvement combined to improve gross margin to $178 (11.7% of sales) in the third quarter of 2010 from $82 (6.2% of sales) in the same period of 2009.

Selling, general and administrative expenses (SG&A) – SG&A expenses in the third quarter of 2010 were $26 higher than in 2009. Additional compensation and benefit costs are a major reason for the increase. The third quarter 2010 results include estimated costs associated with the annual incentive compensation program and long-term incentive grants that were awarded this year, whereas no annual incentive compensation was accrued in the first three quarters of 2009. Additionally, we increased our incentive compensation expense in the third quarter of 2010 to reflect higher expected performance under our incentive compensation programs. Throughout 2009, we also suspended certain benefits and merit increases and we implemented mandatory unpaid furloughs. In 2010, we restored most of the suspended programs, granted merit increases and minimized mandatory furloughs. Primarily as a result of these actions, benefits and other compensation-related costs in the third quarter of 2010 were higher than in 2009 by approximately $19. Absent these effects, SG&A expenses as a percentage of sales for the third quarter of 2010 would have been 5.3% as compared to 5.5% in 2009.

Restructuring charges – Restructuring charges in both 2010 and 2009 were primarily employee separation costs associated with workforce reduction actions and facility closures.

Other income, net – Other income was $10 for the quarters ended September 30, 2010 and 2009. We had net foreign exchange losses of $2 in 2010 and gains of $3 in 2009. In 2010 and 2009, we recognized a net loss on extinguishment of debt of $3 and $5. These items were more than offset by interest and other income of $15 in 2010 and $12 in 2009.

Interest expense – Interest expense in the third quarter of 2010 was $14 less than in the same period in 2009, primarily as a result of debt repurchases and repayments over the past year and a reduction in the contractual rate paid under our Amended Term Facility.

Income tax expense – A total income tax benefit of $4 for the quarter ended September 30, 2010 compares to a benefit of $9 in 2009. The income tax rate varies from the U.S. federal statutory rate of 35% primarily due to non-deductible expenses, withholding taxes on intercompany transfers of funds, withholding taxes on the expected repatriation of earnings from our non-U.S. subsidiaries, adjustments to reserves for uncertain tax positions and the effects of valuation allowances as discussed in Note 16 to the consolidated financial statements in Item 1 of Part I. During the third quarter of 2010, as a consequence of reorganizing our operations in Brazil, we determined that valuation allowances against certain deferred tax assets were no longer required. Reversal of these valuation allowances in 2010 resulted in a tax benefit of $16.

In the U.S. and certain other countries, our recent history of operating losses does not allow us to satisfy the "more likely than not" criterion for recognition of deferred tax assets. Consequently, there is no income tax recognized on the pre-tax income or losses of these jurisdictions as valuation allowance adjustments offset the associated tax effect. As described in Note 16 of the notes to our consolidated financial statements in Item 1 of Part I, an exception occurs when there is a pre-tax loss from operations where a valuation allowance has been recorded and pre-tax income in categories such as other comprehensive income (OCI). The tax benefit allocated to operations is the amount by which the loss from operations reduces the tax expense recorded with respect to the other categories of earnings. Due to the application of this exception in the third quarter of 2010, we recognized an income tax benefit of $7 on pre-tax losses from operations in the U.S. Due to the application of this exception in the third quarter of 2009, we recognized an income tax benefit of $14 on pre-tax losses of operations in the U.S.

Summary Consolidated Results of Operations (Year-to-Date, 2010 versus 2009)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
Net sales	$ 4,550	$ 3,735	$ 815
Cost of sales	4,063	3,598	465
Gross margin	487	137	350
Selling, general and administrative expenses	292	217	75
Amortization of intangibles	46	53	(7)
Restructuring charges, net	60	93	(33)
Impairment of long-lived assets		6	(6)
Other income, net	9	100	(91)
Income (loss) before interest, reorganization items and income taxes	$ 98	$ (132)	$ 230
Net income (loss) attributable to the parent company	$ 24	$ (195)	$ 219

Sales – The following table shows changes in our sales by geographic region for the nine months ended September 30, 2010 and 2009.

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase/ (Decrease)	Amount of Change Due To: Currency Effects	Divestitures	Organic Change
North America	$ 2,241	$ 1,902	$ 339	$ 14	$ (196)	$ 521
Europe	1,142	917	225	(34)		259
South America	633	556	77	63	(73)	87
Asia Pacific	534	360	174	41	(19)	152
Total	$ 4,550	$ 3,735	$ 815	$ 84	$ (288)	$ 1,019

Year-to-date 2010 sales increased $815 over the comparable 2009 period. The overall strengthening of several of our international currencies against the U.S. dollar accounted for $84 of the increase. The sale of our Structural Products business in early March 2010 resulted in a year-over-year sales reduction of $288. The organic sales increase, attributable primarily to market volume, pricing and mix, of $1,019 is an increase of 30% on 2009 sales adjusted for divestitures.

Increased sales in North America during the first nine months of 2010, adjusted for the effects of currency and divestitures, was $521 – a 31% increase on 2009 sales adjusted for divestitures. The increase was largely due to the

increased OEM production levels in the light vehicle and medium/heavy truck markets. Light duty production levels were more than 50% higher in 2010 with increased production in the light pickup, van and SUV segment being somewhat less at around 46%. In the medium/heavy truck markets nine-month production was up about 28%. In the off-highway sector, improved 2010 demand levels contributed to increased sales of around 25%.

After adjusting for currency effects, our European sales were 28% higher in the first nine months of 2010 than in 2009. Our businesses in Europe benefited from stronger production levels in each of our markets, while also benefiting from demand levels for certain light vehicle programs that were stronger than the overall market.

Stronger international currencies increased year-to-date 2010 sales by $63 in South America and $41 in Asia Pacific. The organic sales increases in South America and Asia Pacific represent increases of 18% and 45% on 2009 sales adjusted for divestitures, due principally to the higher 2010 production levels in these regions.

Cost of sales and gross margin – Cost of sales decreased to 89.3% of sales in the first nine months of 2010 from 96.3% of sales in the comparable 2009 period. Higher production levels contributed to improved absorption of fixed costs. Additionally, manufacturing costs benefited from our restructuring initiatives, material cost savings associated with engineering design changes and reduced purchase prices and other cost reduction actions. In 2009, cost of sales was reduced by $12 of insurance recoveries, primarily attributable to settlement of environmental claims. Higher sales levels, cost reductions and pricing improvement combined to improve gross margin to $487 (10.7% of sales) in 2010 from $137 (3.7% of sales) in 2009.

Selling, general and administrative expenses (SG&A) – SG&A expenses in the first nine months of 2010 were $75 higher than in 2009. Additional compensation and benefit costs are a major reason for the increase. The nine-month 2010 results include estimated costs associated with the annual incentive compensation program as well as long-term incentive grants that were awarded this year, whereas no annual incentive compensation was accrued in 2009. Throughout 2009, we also suspended certain benefits and merit increases and we implemented mandatory unpaid furloughs. In 2010, we have restored most of the suspended programs, granted merit increases and minimized mandatory furloughs. Primarily as a result of these actions, benefits and other compensation-related costs in the first nine months of 2010 were higher by approximately $47 versus the same period of 2009. Additionally, as described in Note 14 to the consolidated financial statements in Item 1 of Part I, a reduction to our liability for asbestos claims reduced 2009 SG&A by $6. Absent these effects, SG&A expenses as a percentage of sales for the first nine months of 2010 would have been 5.4% as compared to 6.0% in 2009.

Restructuring charges and impairments – Restructuring expense was $60 for the first nine months of 2010 compared to $93 for 2009 as we continued to right-size the operations through workforce reductions and facility closure or realignment. Expense in both periods is primarily due to employee separation costs. Charges of $6 were recognized in the second quarter of 2009 for impairment of indefinite lived intangibles.

Other income, net – Other income, net was $9 for the nine months ended September 30, 2010, as compared to $100 in the corresponding period of 2009. A pre-tax loss of $5 was recorded in March 2010 in connection with the completion of the sale of our Structures business. Interest income was $21 in 2010 and $18 in 2009 while we incurred foreign exchange losses of $12 in the first nine months of 2010 versus a net gain of $9 in 2009. We recognized a loss on extinguishment of debt of $7 in 2010 versus a net gain of $35 in 2009. Additionally, we benefited from contract cancellation income of $17 in 2009 in connection with the early termination of a customer program.

Interest expense – Interest expense in the first nine months of 2010 was $40 less than in the same period in 2009, primarily as a result of debt repurchases and repayments over the past year and a reduction in the contractual rate paid under our Amended Term Facility.

Income tax expense – In the U.S. and certain other countries, our recent history of operating losses does not allow us to satisfy the "more likely than not" criterion for recognition of deferred tax assets. Consequently, there is no income tax recognized on the pre-tax income or losses of these jurisdictions as valuation allowance adjustments offset the associated tax benefit or expense. As described in Note 16 of the notes to our consolidated financial statements in Item 1 of Part I, an exception occurs when there is a pre-tax loss from operations where a valuation allowance has been recorded and pre-tax income in categories such as other comprehensive income (OCI). The tax benefit allocated to operations is the amount by which the loss from operations reduces the tax expense recorded with respect to the other categories of earnings. Due to the application of this exception for the nine months ended September 30, 2010, we recognized an income tax benefit of $7 on pre-tax losses of operations in the U.S. Due to the application of this exception for the nine months ended September 30, 2009, we recognized an income tax benefit of $18 on pre-tax losses of operations in the U.S.

Income tax expense of $10 for the nine months ended September 30, 2010 compares to a benefit of $39 in 2009. The income tax rate varies from the U.S. federal statutory rate of 35% primarily due to non-deductible expenses, withholding taxes on the expected repatriation of earnings from our non-U.S. subsidiaries, adjustment to reserves for uncertain tax positions and the effects of valuation allowances as discussed in Note 16 to the consolidated financial statements in Item 1 of Part I. For the nine months ended September 30, 2010, we recorded a $2 expense for withholding taxes on cash transfers between subsidiaries in Europe, and, as a consequence of reorganizing our operations in Brazil, we determined that valuation allowances against certain deferred tax assets were no longer required. Reversal of these valuation allowances in 2010 resulted in a tax benefit of $16. The first nine months of 2009 included a tax benefit of $18 to reduce liabilities previously accrued for expected repatriation of earnings from our non-U.S. subsidiaries.

Segment Results of Operations

Segment Sales

				Amount of Change Due To		
Three Months Ended September 30,	2010	2009	Increase/ (Decrease)	Currency Effects	Divestitures	Organic Change
LVD	$ 634	$ 532	$ 102	$ 10	$	$ 92
Power Technologies	235	186	49	(6)		55
Commercial Vehicle	362	270	92			92
Off-Highway	271	184	87	(18)		105
Structures	13	157	(144)		(145)	1
Other	1		1			1
Total	$ 1,516	$ 1,329	$ 187	$ (14)	$ (145)	$ 346
Nine Months Ended September 30,						
LVD	$ 1,861	$ 1,393	$ 468	$ 64	$ -	$ 404
Power Technologies	697	503	194	6		188
Commercial Vehicle	999	796	203	25		178
Off-Highway	815	640	175	(18)		193
Structures	175	403	(228)	7	(290)	55
Other	3		3		2	1
Total	$ 4,550	$ 3,735	$ 815	$ 84	$ (288)	$ 1,019

Our LVD and Power Technologies segments principally serve the light vehicle markets. Exclusive of currency effects, 2010 sales increases over 2009 in LVD and Power Technologies were 17% and 30% for the third quarter and 29% and 37% for this year's first nine months. The higher sales were due primarily to increased light vehicle unit production levels in 2010 across all regions.

Commercial Vehicle segment 2010 sales, adjusted for currency, were up 34% in the third quarter compared to 2009 and up 22% over 2009 for the first nine months of the year. This segment is heavily concentrated in the North American market where medium/heavy (Class 5-8) truck production during these periods was up more than 25%. Outside of North America, third quarter 2010 medium/heavy truck production was about 20% higher than 2009, while nine-month production was about 25% higher.

With its significant European presence, our Off-Highway segment was unfavorably impacted by a weaker euro during 2010. Excluding currency effects, sales in the third quarter of 2010 were up about 57% compared to 2009, while sales for the first nine months of this year were up 30%. These increases reflect the stronger 2010 demand levels in the construction, agriculture and other segments of this market.

We completed the sale of a substantial portion of the Structures business in March 2010 which accounts for the reduced sales in this segment. Partially offsetting this was the impact of higher production levels in 2010 prior to the divestiture.

Segment EBITDA

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Segment EBITDA *						
Light Vehicle Driveline	$ 67	$ 45	$ 22	$ 177	$ 76	$ 101
Power Technologies	33	14	19	95	14	81
Commercial Vehicle	37	27	10	96	56	40
Off-Highway	23	11	12	69	27	42
Structures		11	(11)	8	20	(12)
Total Segment EBITDA	160	108	52	445	193	252
Shared services and administrative	(4)	(5)	1	(13)	(15)	2
Other income (expense) not in segments	(6)	(2)	(4)	(15)	30	(45)
Foreign exchange not in segments	(2)		(2)	(7)	3	(10)
Adjusted EBITDA *	148	101	47	410	211	199
Depreciation and amortization	(76)	(101)	25	(237)	(295)	58
Restructuring	(10)	(14)	4	(60)	(93)	33
Interest expense, net	(14)	(30)	16	(47)	(90)	43
Other **	(6)	(5)	(1)	(36)	29	(65)
Income (loss) before income taxes	$ 42	$ (49)	$ 91	$ 30	$ (238)	$ 268

* See discussion of non-GAAP financial measures below.

** Other includes reorganization items, gain (loss) on extinguishment of debt, strategic transaction expenses, stock compensation expense, loss on sales of assets and foreign exchange costs and benefits. See Note 18 to the consolidated financial statements in Item 1 of Part I for additional details.

Non-GAAP financial measures – The table above refers to segment EBITDA and adjusted EBITDA, non-GAAP financial measures which we have defined to be earnings before interest, taxes, depreciation, amortization, non-cash equity grant expense, restructuring expense and other nonrecurring items (gain/loss on debt extinguishment or divestitures, impairment, etc.). Segment EBITDA is currently being used by Dana as the primary measure of its operating segment performance. The most significant impact on Dana's ongoing results of operations as a result of applying fresh start accounting following our emergence from bankruptcy was higher depreciation and amortization. By using segment EBITDA and Adjusted EBITDA, performance measures that exclude depreciation and amortization, the comparability of results is enhanced. Management also believes that Adjusted EBITDA is an important measure since the financial covenants in our Amended Term Facility are based on Adjusted EBITDA and our management incentive performance programs are based, in part, on Adjusted EBITDA. Segment EBITDA and Adjusted EBITDA should not be considered a substitute for income (loss) before income taxes, net income (loss) or other results reported in accordance with GAAP. Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.

LVD segment EBITDA in the third quarter of 2010 of $67 improved $22 from the same period in 2009. Higher sales volumes resulting from stronger market production levels increased earnings by about $13. Material cost recovery and other pricing actions contributed $7 to the improvement. The remaining increase was driven by cost reductions, as higher material cost, pension and other benefits cost and other items partially offset the conversion cost savings. Segment EBITDA for the first nine months of 2010 was $177, an increase of $101 from 2009. Higher sales volumes, pricing and material cost recovery contributed $78, with higher warranty cost reducing segment EBITDA by $11. The remaining improvement in both periods was due primarily to cost actions which more than offset higher costs associated with restoring compensation and benefits programs that were suspended in 2009 and other benefit program increases.

In Power Technologies, segment EBITDA for the third quarter and first nine months of 2010 were $33 and $95, as compared to $14 for both the three and nine months ended September 30, 2009. Higher sales volumes from stronger markets improved third quarter segment EBITDA by $15 and nine-month results by $62. Many of the restructuring initiatives impacting this segment occurred in the second half of 2009 and first half of 2010. Benefits from these actions along with other cost reduction efforts provided most of the remaining improvement, more than offsetting the increase in compensation and benefit costs that followed curtailment of extensive cost-saving actions taken in 2009 and other developments.

The Commercial Vehicle segment EBITDA for the third quarter of 2010 was $37, an increase over the same period in 2009 of $10, while nine-month 2010 EBITDA of $96 was higher by $40. Stronger production levels in this segment's markets added approximately $17 and $46 to the third quarter and nine-month improvement. The third quarter volume-related improvement was partially offset principally by higher material costs and a lower contribution from material cost pricing recovery actions. Lower material cost recovery of $10 similarly offset some of the EBITDA improvement from stronger volume levels in the nine-month period of 2010. The remaining nine-month improvement was due principally to benefits resulting from our restructuring and other cost reduction actions, which more than covered compensation and benefit cost increases.

Off-Highway segment EBITDA of $23 in the third quarter of 2010 was up $12 from the same period in 2009, with nine-month 2010 results of $69 up $42. Improving market conditions in this business and stronger sales volume increased third-quarter segment EBITDA by about $17 and nine-month segment EBITDA by $25. Lower material cost recovery and higher warranty cost in the third quarter of 2010 as compared to 2009 partially offset the EBITDA improvement from stronger sales volumes. For the nine-month period, 2010 EBITDA also benefited from restructuring and other cost reduction efforts, which more than offset higher warranty cost and increased compensation and benefit costs associated with restoring suspended 2009 programs and other benefit program increases.

As indicated above, we completed the sale of a substantial portion of our Structures business in early March 2010, which contributed to the reduced third-quarter segment EBITDA in this segment compared to 2009. Nine-month Structures EBITDA was down $12 from 2009 due to the divestiture. Additionally, the first quarter of 2009 included a benefit of $17 from contract cancellation income in connection with the early termination of a customer program.

Liquidity

Covenants – At September 30, 2010, we were in compliance with our debt covenants under the Amended Term Facility. Based on our current forecast assumptions, which include the effects of cost reduction actions and other initiatives, we expect to be able to maintain compliance for the next twelve months and we believe that our overall liquidity and operating cash flow will be sufficient to meet our anticipated cash requirements for capital expenditures, working capital, debt obligations and other commitments during that period. While uncertainty surrounding the current economic environment could adversely impact our business, based on our current financial position, we

believe it is unlikely that any such effects would preclude us from being able to satisfy the financial covenants in our debt agreements or to maintain sufficient liquidity.

Global liquidity – Our global liquidity at September 30, 2010 was as follows:

Cash and cash equivalents	$	1,137
Less: Deposits supporting obligations		(46)
Available cash		1,091
Additional cash availability from lines of credit in the U.S. and Europe		334
Total global liquidity	$	1,425

As of September 30, 2010, the consolidated cash balance includes $486 located in the U.S. In addition, $96 of the total cash balance is held by less-than-wholly-owned subsidiaries where our access may be restricted. Our ability to efficiently access other cash balances in certain subsidiaries and foreign jurisdictions is subject to local regulatory, statutory or other requirements. Our current credit ratings are B+ and B3 from Standard and Poor's and Moody's.

The principal sources of liquidity available for our future cash requirements are expected to be (i) cash flows from operations, (ii) cash and cash equivalents on hand, (iii) proceeds related to our trade receivable securitization and financing programs and (iv) borrowings from the Revolving Facility.

At September 30, 2010, there were no borrowings under our European trade receivable securitization program and $96 of availability based on the borrowing base. At September 30, 2010, we had no borrowings under the Revolving Facility but we had utilized $146 for letters of credit. Based on our borrowing base collateral, we had availability at that date under the Revolving Facility of $238 after deducting the outstanding letters of credit. As a result, we had aggregate additional borrowing availability of $334 under these credit facilities.

Cash Flow

	Nine Months Ended September 30,			
	2010		2009	
Cash provided by (used for) changes in working capital	$	(10)	$	49
Reorganization-related tax claim payment		(75)		
Other cash provided by operations		302		39
Net cash flows provided by operating activities		217		88
Net cash provided by (used in) investing activities		54		(71)
Net cash flows used in financing activities		(106)		(7)
Net increase in cash and cash equivalents	$	165	$	10

Operating activities – The table above summarizes our consolidated statement of cash flows. Exclusive of working capital and reorganization-related activity, other cash provided from operations was $302 during 2010 and $39 during 2009. An increased level of operating earnings and reduced cash used for restructuring were primary factors for the higher level of other cash provided by operations in 2010.

Working capital used cash of $10 in the first nine months of 2010 and provided $49 during last year's first nine months. Higher sales levels in 2010 as compared to 2009 resulted in increased levels of receivables and inventory. Cash of $170 was used in 2010 to finance increased receivables, whereas in 2009, nine-month sales were relatively weak and a reduction in receivables provided cash of $84. Inventory levels at the end of 2008 were relatively high in relation to customer requirements. Consequently, concerted efforts to reduce inventory enabled us to generate cash of $264 in 2009. Excess inventory levels coming into 2010 had largely been worked down. As such, the higher sales levels in the first nine months of 2010 resulted in a cash use of $85 to fund inventory. The cash use in 2010 for higher receivables and inventory was substantially offset by cash provided by increased accounts payable and other net

liabilities of $245 resulting in the net cash use of $10. In contrast, reduced inventory and other purchases in 2009 led to a decrease in accounts payable and other net liabilities which used cash of $299.

Investing activities – Proceeds from the sale of the Structural Products business provided cash of $113 in the first nine months of 2010. Expenditures for property, plant and equipment in 2010 were $62, whereas $74 of cash was used in 2009 for capital expenditures.

Financing activities – The $106 use of cash in 2010 for financing activities was principally due to a use of $128 for long-term debt repayment. As described in Note 11 to the consolidated financial statements in Item 1 of Part I, proceeds from the sale of the Structural Products business are required to be used to repay term loan debt. Dividend payments to preferred shareholders also consumed cash of $32 during the first nine months of 2010. Partially offsetting these 2010 cash uses were proceeds of $52 from new long-term debt issuance. In September 2009, we completed a common stock offering for 34 million shares at a price per share of $6.75, generating net proceeds of $217, net of underwriting fees. Cash of $197 was used in 2009 to reduce long-term debt, with another $36 being used to reduce short-term borrowings. In October 2009, our underwriters exercised an over-allotment option and purchased an additional 5 million shares generating net proceeds of $33 with $15 used to repay third party debt principal.

Contractual Obligations

Preferred dividends accrued but not paid were $34 at September 30, 2010 and $42 at December 31, 2009. In October 2010, the Board of Directors authorized the payment of dividends to shareholders of 4.0% Series A Convertible Preferred Stock and 4.0% Series B Convertible Preferred Stock. An aggregate cash payment of $34 representing our total accrued dividend obligation is to be paid on December 10, 2010 to preferred shareholders of record as of the close of business on November 5, 2010. In March and July 2010, our Board authorized two $16 dividend payments which were made in April and August 2010.

The sale of substantially all of the Structural Products business reduced the 2009 projections previously reported in our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 10-K) for our capital and operating lease commitments by $10, $17, $14 and $70 for 2010, 2011 through 2012, 2013 through 2014 and thereafter. Unconditional purchase obligations reported in our 2009 10-K were reduced by $43 for the year 2010.

During the first quarter of 2010, we finalized a closing agreement with the U.S. Internal Revenue Service (IRS). In connection therewith, we made a payment of $75 during the second quarter of 2010.

Our U.S. pension plans represent the largest share of recorded defined benefit retirement obligations. Although long-term interest rates have declined during 2010, the U.S. pension plan asset performance has been favorable through the first nine months of 2010. Based on our current estimate of 2010 plan performance, required contributions for our U.S. plans in 2011 is expected to be approximately $50.

There are no other material changes at September 30, 2010 in our contractual obligations from those reported or estimated in the disclosures in Item 7 of our 2009 10-K.

Contingencies

For a summary of litigation and other contingencies, see Note 14 to our consolidated financial statements in Item 1 of Part I. We believe that any liabilities beyond the amounts already accrued that may result from these contingencies will not have a material adverse effect on our liquidity, financial condition or results of operations.

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires us to use estimates and make judgments and assumptions about future events that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. Our assumptions, estimates and judgments are based on historical experience, current trends and other factors we believe are relevant at the time we prepare our consolidated financial statements. Our significant accounting policies and critical accounting estimates are consistent with those described in Note 1 to our consolidated financial statements and in Item 7 of our 2009 10-K and Item 1 of Part I of this Form 10-Q. There were no significant changes in the application of our critical accounting policies during the first nine months of 2010.

Goodwill and non-amortizable intangible assets – We test goodwill and non-amortizable intangible assets for impairment as of October 31 of each year for all of our reporting units, or more frequently if events occur or circumstances change that would warrant such a review. We make significant assumptions and estimates about the extent and timing of future cash flows, growth rates and discount rates. The cash flows are estimated over a significant future period of time, which makes those estimates and assumptions subject to a high degree of uncertainty. We also utilize market valuation models which require us to make certain assumptions and estimates regarding the applicability of those models to our assets and businesses. We use our internal forecasts, which we update monthly, to make our cash flow projections. These forecasts are based on our knowledge of our customers' production forecasts, our assessment of market growth rates, net new business, material and labor cost estimates, cost recovery agreements with customers and our estimate of savings expected from our restructuring activities. Inherent in these forecasts is an assumption of modest economic recovery in 2010 and continuing relatively low interest rates which can impact end-user purchases.

The most likely factors that would significantly impact our forecasts are changes in customer production levels and loss of significant portions of our business. We believe that the assumptions and estimates used to determine the estimated fair value of our Off-Highway reporting unit and our intangible assets as of October 31, 2009 were reasonable. There have been no significant subsequent changes to the expected cash flows of our segments that would indicate that any of these assets are not recoverable. Given the significant excess of carrying value over the fair value of these assets, we do not believe that our Off-Highway segment is at risk of failing the goodwill impairment test.

Non-amortizable intangible asset valuations are generally based on revenue streams. We impaired non-amortizable intangible assets by $35 in 2009 including $29 related to the sale of substantially all of our Structural Products business. There have been no significant changes in our revenue forecasts since our 2009 impairments that would warrant a review of these intangibles.

Long-lived and amortizable intangible assets – We perform impairment analyses on our property, plant and equipment and our amortizable assets whenever events and circumstances indicate that the carrying amount of such assets may not be recoverable. When indications are present, we compare the estimated future undiscounted net cash flows of the operations to which the assets relate to their carrying amount (step one test). We utilize the cash flow projections discussed above for property, plant and equipment and amortizable intangibles. We group the assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the undiscounted future cash flows using the life of the primary assets. If the operations are determined to be unable to recover the carrying amount of their assets, the long-lived assets are written down to their estimated fair value. Fair value is determined based on discounted cash flows, third party appraisals or other methods that provide appropriate estimates of value. A considerable amount of management judgment and assumptions are required in performing the impairment tests, principally in determining whether an adverse event or circumstance has triggered the need for an impairment review of the fair value of the operations.

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In the Structural Products business, we impaired the long-lived assets at December 31, 2009 based on the expected proceeds from the sale of substantially all of the assets of this segment. The remaining property, plant and equipment of this segment has a carrying value of $30 at September 30, 2010. Based on our current forecasts, no triggering events have occurred and, accordingly, no valuation has been made since December 31, 2009. We believe that the undiscounted cash flows exceed the carrying value of these assets and we do not expect to impair these assets in the future. There are no intangible assets remaining in this segment.

Pension benefits – Pension benefits are funded through deposits with trustees that satisfy, at a minimum, the applicable funding regulations. The regulatory funding requirements use assumptions that differ from assumptions used to measure the funded status for U.S. GAAP. The most significant of our funded plans exist in the U.S. Future contributions are dependent on a number of factors, principally the changes in plan asset values and changes in interest rates. The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 was signed into U.S. law on June 25, 2010. We are evaluating this and other available elective pension funding relief to determine its potential impact on our future funding requirements and strategies. Our U.S. plans represent the largest share of recorded pension obligations. No cash contributions to these plans are required in 2010. Assuming no contributions in excess of the minimum requirements during the remainder of 2010 or in 2011, we currently estimate that required contributions for our U.S. plans in 2011 will approximate $50.

Long-term interest rates have declined during 2010 and asset performance has been better than our assumed annual return of 7.50%. Using current market rates, our estimated discount rate at December 31, 2010 would be 4.94% which is 85 basis points lower than the rate used at December 31, 2009. Using this expected rate and projecting the assumed 7.50% annual return on our September 30, 2010 assets for the remainder of the year, we estimate a $70 net adverse impact on the year-end funded status of our U.S. plans which would result in a corresponding pre-tax reduction in our shareholders' equity at December 31, 2010. Under these assumptions our net periodic pension cost is expected to decrease from $20 in 2010 to about $12 in 2011. A change of 25 basis points in the assumed discount rate would affect the adjustment of shareholders' equity at December 31, 2010 by $50 and the 2011 pension expense by $3. For our international defined benefit pension plans, the impact of changes in discount rates would not be of the same magnitude as the domestic plans due to lower benefit and funding obligations. The ultimate impact on our financial condition and results of operations will depend on the actual year-end valuations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the nature of the market risk exposures discussed in Item 7A of our 2009 10-K. The following information quantifies our market risk exposures.

Foreign currency exchange rate risk – We use forward exchange contracts to manage foreign currency exchange rate risks. Foreign currency exposures are reviewed monthly and natural offsets are considered prior to entering into forward contracts. Our primary exposure is on cross-currency intercompany loans, intercompany receivable/payable balances and third party non-U.S.-dollar-denominated debt. A 10% instantaneous increase in foreign currency rates versus the U.S. dollar would result in a gain of $24. A 10% decrease would result in a loss of $24.

Interest rate risk – We are subject to interest rate risk in connection with the issuance of fixed and variable rate debt. Our exposure arises primarily from changes in the London Interbank Offered Rate (LIBOR). At September 30, 2010, approximately 13% of total debt was in foreign currencies. A 10% instantaneous increase (decrease) in the interest rate (primarily LIBOR) underlying our total outstanding debt would result in an annualized increase (decrease) of less than $1 in interest expense. The interest on our debt is primarily at a LIBOR rate plus a fixed margin as defined in our Amended Term Loan Agreement and the margin does not change. The offsetting impact of interest income on our cash balances is not considered in the preceding amounts but represents a significant offset to rate changes.

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Forward contracts – Our foreign exchange contracts are not designated as hedges at September 30, 2010 and, accordingly, changes in fair value of these instruments are reported in income in the period in which they occur. Forward contracts associated with product-related transactions are marked to market in cost of sales while other contracts are marked to market through other income, net. See Note 12 to the consolidated financial statements in Item 1 of Part I.

Sensitivity – The following table summarizes the sensitivities of certain instruments and balances to a 10% change in our LIBOR interest rate or foreign exchange rates (versus the U.S. dollar) on the fair value of fixed rate instruments and cash flow (interest expense) for variable rate instruments. The sensitivities do not include the interaction that would be likely between exchange rates and interest rates.

Foreign Currency Rate Sensitivity:	Assuming a 10% Increase in Rates	Assuming a 10% Decrease in Rates	Favorable (Unfavorable) Change in
Forwards (1)			
Long U.S. dollars	$ (2)	$ 2	Fair value
Short U.S. dollars	$ 9	$ (9)	Fair value
Debt (2)			
Foreign currency denominated	$ 24	$ (24)	Fair value
Interest Rate Sensitivity:			
Debt			
Fixed rate	$ -	$ -	Fair value
Variable rate	$ -	$ -	Cash Flow
Derivatives (3)	$ -	$ -	Cash Flow

See Note 12 to the consolidated financial statements in Item 1 of Part 1 for the fair values of our forward contracts.

(1) Change in fair value of forward contracts assuming a 10% change in the value of the U.S. dollar vs. foreign currencies. Amount does not include the impact of the underlying exposure.

(2) Change in fair value of foreign currency denominated debt assuming a 10% change in the value of the foreign currency. This amount includes the impact of U.S.-dollar-based cross-currency intercompany loans.

(3) Under our Amended Term Facility, we are required to carry interest rate hedge agreements covering a notional amount of not less than 50% of the aggregate loans outstanding under the Amended Term Facility until January 2011. These contracts effectively cap our interest rate at 10.25%. A 10% increase in our interest rates would not reach the cap. The value of the cap was less than $1 as of September 30, 2010.

Commodity price risk – We do not utilize forward contracts to manage commodity price risk. Our overall strategy is to pass through commodity risk to our customers in our pricing agreements. A substantial portion of our customer agreements include contractual provisions for the pass-through of commodity price movements. In instances where the risk is not covered contractually, we have generally been able to adjust customer pricing to recover commodity cost increases.

Long-term debt – Our long-term debt matures as follows and carries the following interest rates:

	Year ended September 30,						
Instrument	2011	2012	2013	2014	2015	Thereafter	Total

Fixed rate long-term debt	$ 8	$ 13	$ 64	$ 1	$ -	$ -	$ 86
Average interest rate	4.24%	4.26%	4.27%	1.95%	1.95%		4.24%
Variable rate long-term debt	$ 9	$ 9	$ 14	$ 506	$ 336	$ -	$ 874
Average interest rate	4.66%	4.66%	4.66%	4.69%	4.69%		4.67%

Note: The amounts shown exclude original issue discount, short-term debt and non-recourse debt.

Item 4. Controls and Procedures

Disclosure controls and procedures – We maintain disclosure controls and procedures that are designed to ensure that the information disclosed in the reports we file with the SEC under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Our management, with participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report on Form 10-Q. Our CEO and CFO have concluded that, as of the end of the period covered by this Report on Form 10-Q, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Changes in internal control over financial reporting – There was no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

CEO and CFO certifications – The Certifications of our CEO and CFO that are attached to this report as Exhibits 31.1 and 31.2 include information about our disclosure controls and procedures and internal control over financial reporting. These Certifications should be read in conjunction with the information contained in this Item 4 and in Item 9A of our 2009 10-K for a more complete understanding of the matters covered by the Certifications.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

As discussed in Note 14 to our consolidated financial statements in Item 1 of Part I, we are a party to various pending judicial and administrative proceedings that arose in the ordinary course of business.

After reviewing the currently pending lawsuits and proceedings (including the probable outcomes, reasonably anticipated costs and expenses, availability and limits of our insurance coverage and our established reserves for uninsured liabilities), we believe that the liabilities that may result from these proceedings beyond the amounts already accrued will not have a material adverse effect on our liquidity, financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes in our risk factors disclosed in Item 1A of our 2009 10-K.

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

The following table presents information with respect to repurchases of common stock made by us during the three months ended September 30, 2010. These shares were delivered to us by employees as payment for withholding taxes due upon the distribution of stock awards.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
7/1/10 - 7/31/10	2,101	$ 11.03	-	-
8/1/10 - 8/31/10	-	-	-	-
9/1/10 - 9/30/10	4,981	$ 11.09	-	-

Item 6. Exhibits

The Exhibits listed in the “Exhibit Index” are filed or furnished with this report.

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, hereunto duly authorized.

		DANA HOLDING CORPORATION	
Date: October 28, 2010		By:	/s/ James A. Yost James A. Yost Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer
32	Section 1350 Certifications (furnished only)