



*Essential to care™*


  
**CardinalHealth**  
*Essential to care™*

# Impacting the continuum of care

We provide resources to

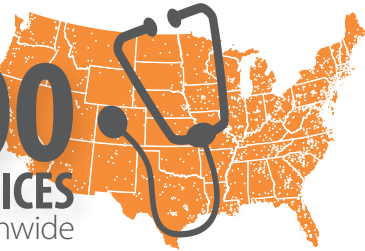
**MORE THAN 75%**  
of U.S. hospitals

Serving pharmacies nationwide

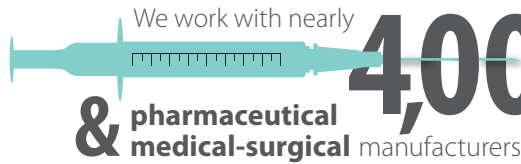
 **9,000+** RETAIL  
**10,000+** RETAIL CHAIN

We support nearly

**20,000**  
PHYSICIAN OFFICES  
nationwide



We work with nearly **4,000**  
& pharmaceutical  
medical-surgical manufacturers



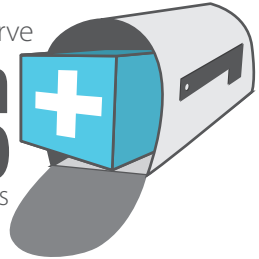
More than

**10,000,000**  
TIME-CRITICAL  
PATIENT-SPECIFIC  
RADIOPHARMACEUTICAL  
**DOSES**  
delivered annually



In home healthcare, we serve

**1.5 million**  
patients  
with **40,000**  
products



WE PROVIDE  
MORE THAN

**80,000**  
LABORATORY  
PRODUCTS  
from over  
**400 MANUFACTURERS**  
to more than 3,000 laboratories  
& 7,500 physician offices

WE MANUFACTURE  
OR SOURCE NEARLY

**2**  
billion **PRODUCTS**  
EACH YEAR

individual  
Consumer healthcare  
Home medical equipment  
& Over-the-counter



**\$91.1 billion**

in revenue

**\$2.5 billion**

in operating  
cash flow

**\$1.1 billion**

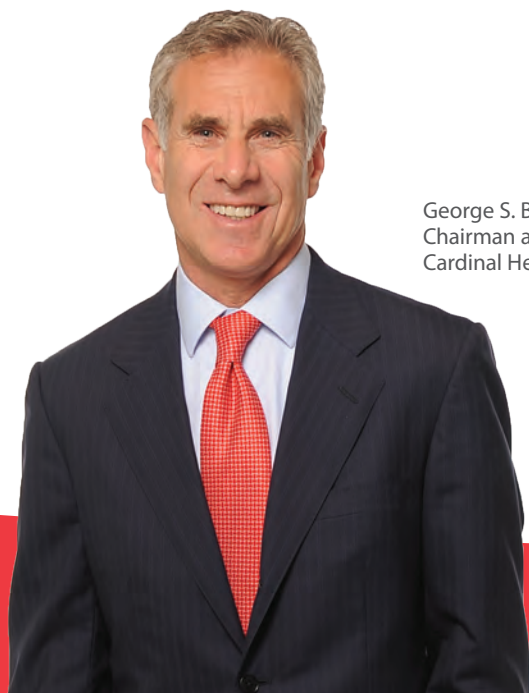
returned to  
shareholders through  
dividends and  
share buybacks

# Dear Shareholders of Cardinal Health:

Fiscal 2014 was an enormously important year for Cardinal Health. Our organization exceeded its financial goals for the year along multiple dimensions: revenue, gross margin dollars, non-GAAP operating earnings, operating margin rate and cash flow. Of particular note, we were able to absorb a revenue headwind of nearly \$17 billion due to the fiscal year 2014 first quarter expiration of the Walgreens contract and still grow our non-GAAP earnings over the prior year. At the same time, we have been able to enhance our market position, deploy capital efficiently and continue to grow the talent so critical to our future.

Equally important, we begin our fiscal 2015 stronger and better positioned than ever to address the needs of a healthcare system looking for solutions to two very basic questions. First, how do we deliver better care more cost-effectively? And, second, who are those industry players who listen and act to bring innovative solutions to the table?

Answering these questions is at the heart of what we do. Our team has approached this recognizing that we need to compete and win, every day in today's marketplace, while at the same time making the important moves to adapt to a changing healthcare environment.



George S. Barrett  
Chairman and CEO  
Cardinal Health, Inc.

You could make a strong argument that this has been a transition year for the industry as well. It's been an extraordinary 12 months, particularly here in the U.S. Last fall, we saw the first rollout of the exchanges under the Affordable Care Act, and, throughout the year, our system continued to explore different models for providing coverage for patients, delivering care and managing costs. We saw consumers playing a more active role in their own healthcare, much of this fueled by the impact of changing healthcare benefit design. And we saw some medical breakthroughs that expanded our system's capacity to manage and even cure disease, but also test our ability or readiness to pay for that innovation. At the same time, we saw clear signs of an industry actively repositioning and consolidating upstream among pharmaceutical and medical device manufacturers, as well as downstream among providers and health systems; and, we saw a continued blurring of the lines that delineated what used to be distinct segments of the healthcare market. This has certainly been a year of transition.

## Fiscal 2014 performance overview

With that as context, I'll review our performance in fiscal 2014. As I mentioned, fiscal year 2014 required some major transitions for Cardinal Health after the expiration of the Walgreens contract, and given this headwind, I am particularly pleased with our results. Our revenues for the year, excluding Walgreens, grew 8 percent, fueled primarily by strong growth from existing customers. Our reported revenues, including the impact from Walgreens for the year, declined by 10 percent to \$91.1 billion. Non-GAAP operating earnings rose 4 percent to \$2.1 billion, while non-GAAP diluted earnings per share were \$3.84, up 3 percent. And our gross margin rate expanded by 80 basis points to 5.7 percent for the year.

Our team continued to drive capital efficiency this year, generating \$2.5 billion in cash from operations. We returned more than \$1.1 billion to shareholders in fiscal 2014, through both our strong dividend and share buybacks, and I'm very pleased that we were able to provide our investors with a total shareholder return of 46.7 percent for the year.

## Pharmaceutical Segment highlights

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Our Pharmaceutical Segment more than met the challenge associated with the Walgreens contract expiration, actually delivering a profit increase while absorbing that \$17 billion revenue headwind. It's worth noting that the rate of revenue growth excluding Walgreens would have been a robust 8 percent for our Pharmaceutical Segment. Our overall Pharmaceutical Segment profit margin expanded almost 30 basis points for the year. And we made some very critical advances in our key strategic priorities.

There is little doubt that generic drugs will continue to be a significant lever in holding down prescription drug costs in most markets around the world. Current data suggests that generics now represent more than 85 percent of prescriptions in the United States. We have significantly increased our scale in generics through our various internal and external moves, most notably our joint venture with CVS Caremark, now named Red Oak Sourcing.

We are extremely excited about our progress in getting to a "go live" with Red Oak, which was formalized in July 2014. CVS Caremark has been a terrific partner throughout the process. As we have worked through the details in our preparation for the launch, our enthusiasm has only increased.

We have assembled a talented team, with both Cardinal Health and CVS Caremark well represented. Our teams have put in the hard work to manage through all of the intricate details so we can go to the manufacturers with one face and as one decision maker. We feel confident that our participation in Red Oak will ensure that Cardinal Health is in the best position to serve our diverse mix of customers in this competitive landscape.

Diversifying our customer base has been a priority. We've continued to grow our position with independent pharmacies and other pharmacy channels over the year. Our portfolio of solutions for these customers has never been more comprehensive, and the response of retailers has never been more enthusiastic. Our focus remains to help these critical members of the healthcare system improve patient care, broaden their products and services, and increase the efficiency and profitability of their businesses.

At the same time, our ability to serve hospital and health systems with pharmaceutical products continues to strengthen, including some of the important work we are doing with our clinical pharmacy teams to help with discharge management.

Specialty medicine and the services surrounding these innovations continue to play an increasingly large role in our healthcare landscape and, of course, for Cardinal Health. During fiscal 2014, we were able to deliver a 30 percent revenue growth in the Specialty Solutions Group.

We have expanded our presence in specialty biopharmaceuticals, particularly in building out our tools to interface with patients who need to be served in an integrated and high-touch model. This enables us to serve the providers of care to these unique patient populations and also to capture value as a partner to biopharmaceutical companies who seek to get closer to the patient.

To support this program, we established a best-in-class, patient-centric hub with the acquisition of Sonexus Health in the third quarter of fiscal year 2014. This platform and experienced team is an important step to position Cardinal Health to assist in these efforts and to deliver value-added services.

## Medical Segment highlights

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Medical Segment fiscal year 2014 revenues grew 9 percent; segment profit margin rate expanded by 35 basis points; and, segment profit grew 19 percent.

The delivery of medical care has been undergoing fairly rapid change, and the work of our Medical Segment has been focused on aligning to address the evolution in the system.

Recently, we formalized some adaptations to these changes, launching a team-based approach to addressing the needs of large, integrated delivery networks (IDNs). These are not sales teams, but rather business and system experts who are charged with delivering the full range and breadth of the Cardinal Health portfolio to address the complex needs of these diverse customers.

As I mentioned earlier, we have seen consolidation among hospital systems, continued affiliation between doctors and those systems, and some shifting sand as it relates to where care is delivered. On this last point, while the sickest patients will continue to be served in acute care settings, it's clear that many patients with lower acuity will be served in different settings — whether that's a community hospital, a surgery center, a clinic, a physician's office or even the home. This has been at the heart of our strategy to serve patients across the continuum of care.

In this context, the March 2013 acquisition of AssuraMed, the leading distributor of direct-to-home medical supplies, has been an important extension of our strategy. It has significantly increased our touch points and created opportunities in a market that is growing an estimated 5 to 7 percent per year. Most important for Cardinal Health, it's increasing our direct linkages with chronic patients.

As we indicated at the time of the acquisition, we intended to increase the AssuraMed portfolio. We have, in fact, broadened the product line as well as increased the number of Cardinal Health branded products to this important channel of the home. All told, we are extremely pleased with the progress here and the fact that AssuraMed exceeded our articulated full-year, non-GAAP earnings per share accretion target of \$0.18 per share.

Our medical consumables business has represented an opportunity to use our scale to bring significant savings to the healthcare system while at the same time expanding our margins. Our consumables business grew faster than the market this year, driven by share gains from new private label product launches, new channel penetration and growth within our strategic accounts. We saw full year sales growth of 6 percent and launched over 500 new SKUs.

During this past year, we have seen the challenges many of our hospital, IDN and surgery center customers face in managing physician preference items. These categories tend to consume resources and, from our perspective, represent an inefficiency. We have recognized an opportunity to bring standardization and, with that, real-time value to this system. We have positioned ourselves to address some critical pain points building platforms in orthopedic, wound management and — with our third quarter acquisition of AccessClosure Inc. — interventional cardiology.

## China

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China has continued to be an outstanding growth story for us. In 2014, we grew revenues by 30 percent, reaching \$2.6 billion.

We continue to build strong relationships with biopharmaceutical and medical device companies at a time when company reputation is particularly important. We've expanded our geographic footprint and our lines of business, which now include 30 direct-to-patient pharmacies focused on specialized pharmaceutical products.

## Fiscal Year 2015 outlook

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As we leave fiscal year 2014 and turn to our fiscal year 2015, we begin the year with increased scale in generics, a more robust specialty business, a reconfigured customer and product portfolio, some important solution offerings for the medical system, the flexibility that comes with financial strength, a deep bench of organizational talent and a sense of confidence for the future.

Most important, we believe our strategic priorities align with the needs of a healthcare system experiencing rapid change, including new performance-based models, a new world of bundled risk, changing network design, accountable care organizations and a more involved patient acting more like a consumer.



## In appreciation

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I'd like to express my appreciation to our outstanding board of directors for its guidance and relentless focus on shareholder value. We welcomed Patricia Hemingway Hall to our board this year. Pat brings years of leadership and experience in the healthcare payor community and in guiding large and complex organizations. We are excited that Pat has joined us, and she is already making great contributions to our company.

We are also extremely pleased to welcome Dave Anderson to our board of directors. Dave has a distinguished career across multiple industries and has been recognized by investors and peers as one of the most accomplished and influential CFOs in the global business community.

After more than 20 years of service to Cardinal Health, John Finn has decided to retire from our board. In his role as independent lead director over the past five years, John has been a great partner to me. John's tremendous business instincts, extensive experience with Cardinal Health and uncanny ability to bring out the best in each director has had a major impact on the course of Cardinal Health. We will miss John's regular presence at our meetings but wish him all the best going forward. We are pleased that Greg Kenny will serve as our independent lead director. Greg has demonstrated extraordinary wisdom during his tenure serving on our board of directors.

Finally, I report with sadness the passing of Glenn Britt. Glenn served as the chair of our audit committee and was a deeply engaged director for Cardinal Health. Glenn was a man of tremendous talent but also one of unusual humility. All of us will miss his quick mind and his insightful counsel, as well as his friendship.

Our CFO, Jeff Henderson, announced his plans to retire next August, after the completion of fiscal year 2015. He has been a terrific partner in helping shape the direction and the performance of Cardinal Health over the past decade. I'm thankful for his many contributions and wish him all the best for the future.

To our business partners, manufacturers, providers and caregivers — those who directly touch patients — we thank you for putting your trust in us and for allowing us to help you serve your patients.

To all of my colleagues at Cardinal Health, my gratitude for your talents, your spirit and your readiness to respond to important challenges and to do so with your eyes always on the patient.

And to our shareholders — we appreciate your support and your high expectations.

We are proud, and feel very privileged to be part of the healthcare system.

We are dedicated to bringing the highest quality and cost-effectiveness to our customers and to patients.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Barrett". The signature is fluid and cursive, with a large initial "G" and a stylized "Barrett".

George Barrett  
Chairman and CEO

# Board of directors

**David J. Anderson (A)**

Retired Senior Vice President and  
Chief Financial Officer, Honeywell International Inc.

**Colleen F. Arnold (N)**

Senior Vice President, Sales and Distribution,  
International Business Machines Corporation

**George S. Barrett (E)**

Chairman and Chief Executive Officer,  
Cardinal Health, Inc.

**Carrie S. Cox (H)**

Chairman and Chief Executive Officer, Humacyte, Inc.  
Former Executive Vice President and President,  
Global Pharmaceuticals, Schering-Plough Corporation

**Calvin Darden (H)**

Retired Senior Vice President, U.S. Operations,  
United Parcel Service, Inc.

**Bruce L. Downey (A)**

Partner, New Spring Health Capital II, LP  
Retired Chairman and Chief Executive Officer,  
Barr Pharmaceuticals, Inc.

**John F. Finn\* (E,A,N)**

President and Chief Executive Officer,  
Gardner, Inc.

**Patricia A. Hemingway Hall (A)**

President and Chief Executive Officer,  
Health Care Service Corporation

**Clayton M. Jones (E,A)**

Retired Chairman, President and  
Chief Executive Officer, Rockwell Collins, Inc.

**Gregory B. Kenny (E,H,N)**

President and Chief Executive Officer,  
General Cable Corporation

**David P. King (H)**

Chairman, President and Chief Executive Officer,  
Laboratory Corporation of America Holdings

**Richard C. Notebaert (E,H,N)**

Retired Chairman and Chief Executive Officer,  
Qwest Communications International Inc.

## Executive team

**George S. Barrett**

Chairman and Chief Executive Officer

**Mark R. Blake**

Executive Vice President,  
Strategy and Corporate Development

**Donald M. Casey Jr.**

Chief Executive Officer, Medical Segment

**Stephen T. Falk**

Executive Vice President,  
General Counsel and Corporate Secretary

**Jeffrey W. Henderson**

Chief Financial Officer

**Michael C. Kaufmann**

Chief Executive Officer,  
Pharmaceutical Segment

**Craig S. Morford**

Chief Legal and Compliance Officer

**Patricia B. Morrison**

Executive Vice President,  
Customer Care Shared Services  
and Chief Information Officer

**Carole S. Watkins**

Chief Human Resources Officer

A: Audit Committee member

E: Executive Committee member

H: Human Resources and Compensation Committee member

N: Nominating and Governance Committee member

\*Mr. Finn has decided not to stand for re-election when his term  
expires at the 2014 Annual Meeting of Shareholders.

# Cardinal Health, Inc. and subsidiaries

## GAAP / Non-GAAP reconciliation

(in millions, except per common share amounts)

<b>Fiscal year 2014</b>	<b>GAAP</b>	<b>Restructuring and employee severance</b>	<b>Amortization and other acquisition-related costs</b>	<b>Impairments and loss on disposal of assets</b>	<b>Litigation (recoveries) / charges, net</b>	<b>Other spin-off costs</b>	<b>Non-GAAP</b>
<b>Operating earnings</b>							
Amount	\$1,885	\$31	\$223	\$15	\$(21)	—	\$2,133
Growth rate	89%						4%
<b>Diluted EPS from continuing operations</b>							
Amount	\$3.37	\$0.06	\$0.42	\$0.03	\$(0.04)	—	\$3.84
Growth rate	247%						3%

<b>Fiscal year 2013</b>	<b>GAAP</b>	<b>Restructuring and employee severance</b>	<b>Amortization and other acquisition-related costs</b>	<b>Impairments and loss on disposal of assets</b>	<b>Litigation (recoveries) / charges, net</b>	<b>Other spin-off costs</b>	<b>Non-GAAP</b>
<b>Operating earnings</b>							
Amount	\$996	\$71	\$158	\$859	\$(38)	—	\$2,046
Growth rate	(44)%						10%
<b>Diluted EPS from continuing operations</b>							
Amount	\$0.97	\$0.13	\$0.31	\$2.39	\$(0.07)	—	\$3.73
Growth rate	(68)%						16%

<b>Fiscal year 2012</b>	<b>GAAP</b>	<b>Restructuring and employee severance</b>	<b>Amortization and other acquisition-related costs</b>	<b>Impairments and loss on disposal of assets</b>	<b>Litigation (recoveries) / charges, net</b>	<b>Other spin-off costs</b>	<b>Non-GAAP</b>
<b>Operating earnings</b>							
Amount	\$1,792	\$21	\$33	\$21	\$(3)	\$2	\$1,866
Growth rate	18%						13%
<b>Diluted EPS from continuing operations</b>							
Amount	\$3.06	\$0.04	\$0.07	\$0.04	\$(0.01)	—	\$3.21
Growth rate	12%						15%

The sum of the components may not equal the total due to rounding.

<b>Fiscal year 2014</b>	<b>GAAP</b>	<b>Walgreens Revenue</b>	<b>Excluding Walgreens</b>	<b>Fiscal year 2013</b>	<b>GAAP</b>	<b>Walgreens Revenue</b>	<b>Excluding Walgreens</b>
<b>Revenue</b>							
Total Company	\$91,084	\$3,310	\$87,774	Total Company	\$101,093	\$20,160	\$80,933
Growth rate	(10)%		8%	Pharmaceutical Segment	\$91,097	\$20,160	\$70,937
Pharmaceutical Segment	\$80,110	\$3,310	\$76,800				
Growth rate	(12)%		8%				

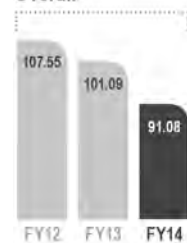
### Important notice regarding forward-looking statements

This annual report contains forward-looking statements addressing expectations, prospects, estimates and other matters that are dependent upon future events or developments. These statements may be identified by words such as "expect," "anticipate," "intend," "plan," "believe," "will," "should," "could," "would," "project," "continue," "likely," and similar expressions, and include statements reflecting future results or guidance, statements of outlook and expense accruals. These matters are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. These risks and uncertainties include competitive pressures in Cardinal Health's various lines of business; the ability to achieve the expected benefits from the generic sourcing joint venture with CVS Caremark; the frequency or rate of pharmaceutical price appreciation or deflation and the timing of generic and branded pharmaceutical introductions; the non-renewal or a default under one or more key customer or supplier arrangements or changes to the terms of or level of purchases under those arrangements; the ability to achieve the anticipated results from the AccessClosure and Sonexus Health acquisitions; uncertainties due to government health care reform including federal health care reform legislation; changes in the distribution patterns or reimbursement rates for health care products and services; the effects of any investigation or action by any regulatory authority; and changes in the cost of commodities such as oil-based resins, cotton, latex and diesel fuel. Cardinal Health is subject to additional risks and uncertainties described in Cardinal Health's Form 10-K, Form 10-Q and Form 8-K reports and exhibits to those reports. This presentation reflects management's views as of August 13, 2014. Except to the extent required by applicable law, Cardinal Health undertakes no obligation to update or revise any forward-looking statement.



# Consolidated financials

## Overall



Revenue  
\$ billions

## Operating earnings



GAAP  
\$ billions

Non-GAAP  
\$ billions

## Diluted EPS from continuing operations

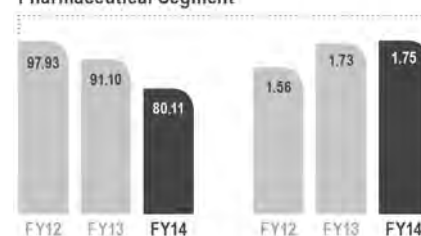


GAAP  
\$ dollars

Non-GAAP  
\$ dollars

# Segment financials

## Pharmaceutical Segment



Revenue  
\$ billions

Segment profit  
\$ billions

## Medical Segment



Revenue  
\$ billions

Segment profit  
\$ millions



## Fiscal 2014 Financial Results

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## Business Overview

### General

Cardinal Health, Inc. is an Ohio corporation formed in 1979. As used in this report, “we,” “our,” “us” and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. We are a healthcare services company providing pharmaceutical and medical products and services that help pharmacies, hospitals and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality. We also provide medical products to patients in the home.

Our fiscal year ends on June 30. References to fiscal 2014, 2013 and 2012 are to the fiscal years ended June 30, 2014, 2013 and 2012, respectively. Except as otherwise specified, information in this annual report is provided as of June 30, 2014.

We report our financial results in two segments: Pharmaceutical and Medical.

### Pharmaceutical Segment

In the United States, the Pharmaceutical segment:

- distributes branded and generic pharmaceutical, over-the-counter healthcare and consumer products through its Pharmaceutical Distribution division to retailers (including chain and independent drug stores and pharmacy departments of supermarkets and mass merchandisers), hospitals and other healthcare providers. This division:
- maintains prime vendor relationships that streamline the purchasing process resulting in greater efficiency and lower costs for our customers;
- renders services to pharmaceutical manufacturers including distribution, inventory management, data reporting, new product launch support, and contract pricing and chargeback administration;
- provides pharmacy services to hospitals and other healthcare facilities; and
- franchises retail pharmacies under the Medicine Shoppe® and Medicap® brands;

- operates nuclear pharmacies and cyclotron facilities through its Nuclear Pharmacy Services division that manufacture, prepare and deliver radiopharmaceuticals for use in nuclear imaging and other procedures in hospitals and physician offices; and
- distributes specialty pharmaceutical products, provides services to pharmaceutical manufacturers, third-party payors and healthcare providers supporting the development, marketing, distribution and payment for specialty pharmaceutical products, and operates specialty pharmacies through its Specialty Solutions division.

In China, the Pharmaceutical segment distributes branded, generic and specialty pharmaceutical, over-the-counter healthcare and consumer products as well as provides logistics, marketing and other services and operates direct-to-patient specialty pharmacies through Cardinal Health China.

### Medical Segment

The Medical segment distributes a broad range of medical, surgical and laboratory products to hospitals, ambulatory surgery centers, clinical laboratories, physician offices and other healthcare providers in the United States, Canada and China and to patients in the home in the United States through our Cardinal Health at Home division, which was formerly known as our AssuraMed division. This segment also manufactures, sources and develops its own line of private brand medical and surgical products. Manufactured products include: single-use surgical drapes, gowns and apparel; exam and surgical gloves; and fluid suction and collection systems. The segment began to manufacture extravascular closure devices after the acquisition of Access Closure, Inc. in May 2014. We expect to expand the segment's product offering for orthopedic, cardiovascular and other procedures. This segment also assembles and offers sterile and non-sterile procedure kits. Our manufactured products are sold directly or through third-party distributors in the United States, Canada, Europe and other regions internationally. In addition, the segment provides supply chain services, including spend management, distribution management and inventory management services, to healthcare providers.

## Selected Financial Data

The consolidated financial data below includes all business combinations as of the date of acquisition that occurred during these periods. The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(in millions, except per common share amounts)	2014	2013 (1)	2012	2011	2010
<b>Earnings Data:</b>					
Revenue	\$ 91,084	\$ 101,093	\$ 107,552	\$ 102,644	\$ 98,503
Earnings from continuing operations	\$ 1,163	\$ 335	\$ 1,070	\$ 966	\$ 587
Earnings/(loss) from discontinued operations (2)	3	(1)	(1)	(7)	55
<b>Net earnings</b>	<b>\$ 1,166</b>	<b>\$ 334</b>	<b>\$ 1,069</b>	<b>\$ 959</b>	<b>\$ 642</b>
<b>Basic earnings/(loss) per common share:</b>					
Continuing operations	\$ 3.41	\$ 0.98	\$ 3.10	\$ 2.77	\$ 1.64
Discontinued operations (2)	0.01	—	—	(0.02)	0.15
<b>Net basic earnings per common share</b>	<b>\$ 3.42</b>	<b>\$ 0.98</b>	<b>\$ 3.10</b>	<b>\$ 2.75</b>	<b>\$ 1.79</b>
<b>Diluted earnings/(loss) per common share:</b>					
Continuing operations	\$ 3.37	\$ 0.97	\$ 3.06	\$ 2.74	\$ 1.62
Discontinued operations (2)	0.01	—	—	(0.02)	0.15
<b>Net diluted earnings per common share</b>	<b>\$ 3.38</b>	<b>\$ 0.97</b>	<b>\$ 3.06</b>	<b>\$ 2.72</b>	<b>\$ 1.77</b>
Cash dividends declared per common share	\$ 1.2500	\$ 1.0900	\$ 0.8825	\$ 0.8000	\$ 0.7200
<b>Balance Sheet Data:</b>					
Total assets	\$ 26,033	\$ 25,819	\$ 24,260	\$ 22,846	\$ 19,990
Long-term obligations, less current portion	3,171	3,686	2,418	2,175	1,896
Shareholders' equity	6,401	5,975	6,244	5,849	5,276

- (1) During the fourth quarter of fiscal 2013, we recognized a non-cash goodwill impairment charge of \$829 million (\$799 million, net of tax) related to our Nuclear Pharmacy Services division.
- (2) On August 31, 2009, we separated the clinical and medical products businesses from our other businesses through a pro rata distribution to shareholders of 81 percent of the then outstanding common stock of CareFusion Corporation and met the criteria for classification of these businesses as discontinued operations.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis presented below refers to, and should be read in conjunction with, the consolidated financial statements and related notes included in this annual report. Unless otherwise indicated, throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, we are referring to our continuing operations.

### Overview

We are a healthcare services company providing pharmaceutical and medical products and services that help pharmacies, hospitals and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality. We also provide medical products to patients in the home.

We report our financial results in two segments: Pharmaceutical and Medical.

During fiscal 2014, revenue decreased 10 percent to \$91.1 billion largely due to the previously disclosed expiration of our pharmaceutical distribution contract with Walgreen Co. ("Walgreens") on August 31, 2013.

Gross margin increased 5 percent to \$5.2 billion reflecting the positive impact of acquisitions and strong performance from generic programs, offset in part by the impact of the Walgreens contract expiration.

Operating earnings increased to \$1.9 billion and earnings from continuing operations increased to \$1.2 billion due primarily to an \$829 million (\$799 million, net of tax) non-cash goodwill impairment charge related to our Nuclear Pharmacy Services division in fiscal 2013.

Our cash and equivalents balance was \$2.9 billion at June 30, 2014 compared to \$1.9 billion at June 30, 2013. The increase in cash and equivalents during fiscal 2014 was driven by net cash provided by operating activities of \$2.5 billion, which includes the decrease in our net working capital associated with the Walgreens contract expiration. Net cash provided by operating activities was deployed for share repurchases (\$673 million), acquisitions (\$519 million) and dividends (\$415 million). We plan to continue to execute a balanced deployment of available capital to position ourselves for sustainable competitive advantage and to enhance shareholder value.

### Walgreens Contract

The Walgreens contract expiration unfavorably impacted period-over-period comparisons of revenue and operating earnings for fiscal 2014, but favorably affected net cash provided by operating activities due to a significant reduction in net working capital. Because revenue from Walgreens was \$3.3 billion during the first quarter of fiscal 2014, we expect the contract expiration to have an adverse impact on our period-over-period comparisons of revenue and operating earnings during the first quarter of fiscal 2015.

### Joint Venture With CVS Caremark

In July 2014, we established Red Oak Sourcing, LLC ("Red Oak Sourcing"), a U.S.-based generic pharmaceutical sourcing entity with CVS Caremark Corporation ("CVS") with an initial term of 10 years. Both companies have contributed sourcing and supply chain expertise to the 50/50 joint venture and have committed to source generic pharmaceuticals through arrangements negotiated by it. Red Oak Sourcing will negotiate generic pharmaceutical supply contracts on behalf of both companies, but will not own products or hold inventory on behalf of either company. We are required to pay 39 quarterly payments of \$25.6 million to CVS commencing in October 2014 and, only if certain milestones are achieved, to pay additional predetermined amounts to CVS beginning in fiscal 2016. The fixed payments of \$25.6 million will be expensed evenly commencing with the ramp-up of the venture, which we expect to begin by the end of the first quarter of fiscal 2015. No physical assets were contributed by either company to Red Oak Sourcing, and minimal funding has been provided to capitalize the entity.

### Acquisitions

We have completed several acquisitions since July 1, 2011, the largest of which were AssuraMed, Inc. ("AssuraMed") in fiscal 2013 and Access Closure, Inc. ("AccessClosure") in fiscal 2014.

On May 9, 2014, we completed the acquisition of AccessClosure for \$320 million in an all-cash transaction. We funded the acquisition with cash on hand. The acquisition of AccessClosure, a manufacturer and distributor of extravascular closure devices, expands the Medical segment's portfolio of self-manufactured products.

On March 18, 2013, we completed the acquisition of AssuraMed for \$2.07 billion, net of cash acquired, in an all-cash transaction. We funded the acquisition through the issuance of \$1.3 billion in fixed rate notes and cash on hand. The acquisition of AssuraMed, a provider of medical supplies to homecare providers and patients in the home, expands Medical segment's ability to serve this patient base. The AssuraMed division is now known as our Cardinal Health at Home division ("Home division"). This acquisition increased revenue and operating earnings during fiscal 2014. The increase in amortization and other acquisition-related costs during fiscal 2014 was primarily due to intangible assets from this acquisition. We expect the amortization of acquisition-related intangible assets to continue to be a significant expense in future periods.

See Note 2 of the "Notes to Consolidated Financial Statements" for additional information on these acquisitions.

### Goodwill

As part of our annual goodwill impairment test during fiscal 2013, we concluded that the entire goodwill amount of our Nuclear Pharmacy Services division was impaired, resulting in a non-

## Management's Discussion and Analysis of Financial Condition and Results of Operations

cash impairment charge of \$829 million (\$799 million, net of tax). This impairment charge did not impact our liquidity, cash flows from operations, or compliance with debt covenants. See Note 5 of the "Notes to Consolidated Financial Statements" for additional information.

### Restructuring

On January 30, 2013, we announced a restructuring plan within our Medical segment. Under this restructuring plan, among other things, we have reorganized our Medical segment, moved production of procedure kits from our facility in Waukegan, Illinois to other facilities, and consolidated office space in Waukegan, Illinois. In addition, we are selling property in Waukegan, Illinois, and we are exiting our gamma sterilization business in El Paso, Texas. We currently estimate the total costs associated with this restructuring plan to be approximately \$74 million on a pre-tax basis, of which \$18 million and \$51 million was recognized in fiscal 2014 and fiscal 2013, respectively.

### Trends

Within our Pharmaceutical segment, pharmaceutical price appreciation on some generic products positively impacted our margins during fiscal 2014, but the frequency and magnitude of future generic product price appreciation is uncertain and the impact on earnings may be less in fiscal 2015 than in fiscal 2014.

## Results of Operations

### Revenue

(in millions)	Revenue			Change	
	2014	2013	2012	2014	2013
Pharmaceutical	\$ 80,110	\$ 91,097	\$ 97,925	(12)%	(7)%
Medical	10,962	10,060	9,642	9 %	4 %
Total segment revenue	91,072	101,157	107,567	(10)%	(6)%
Corporate	12	(64)	(15)	N.M.	N.M.
Total revenue	\$ 91,084	\$ 101,093	\$ 107,552	(10)%	(6)%

### Fiscal 2014 Compared to Fiscal 2013

#### Pharmaceutical Segment

Revenue for fiscal 2014 compared to fiscal 2013 was negatively impacted by the Walgreens contract expiration (\$16.9 billion) and by the expiration of our pharmaceutical distribution contract with Express Scripts, Inc. ("Express Scripts") on September 30, 2012 (\$2.0 billion). This decrease was partially offset by sales growth from existing pharmaceutical distribution customers (\$7.1 billion).

#### Medical Segment

Revenue for fiscal 2014 compared to fiscal 2013 reflects the benefit of acquisitions (\$816 million).

### Fiscal 2013 Compared to Fiscal 2012

#### Pharmaceutical Segment

Revenue for fiscal 2013 compared to fiscal 2012 was negatively impacted by the expiration of our pharmaceutical distribution

contract with Express Scripts (approximately \$6.7 billion). Revenue from existing pharmaceutical distribution customers decreased by approximately \$3.6 billion, primarily as a result of brand-to-generic pharmaceutical conversions. The decrease was partially offset by increased pharmaceutical distribution revenue from new customers (approximately \$3.8 billion) and revenue growth within our Specialty Solutions division (\$961 million).

#### Medical Segment

Revenue for fiscal 2013 compared to fiscal 2012 reflects the benefit of acquisitions (\$459 million).

### Cost of Products Sold

As a result of the same factors affecting the change in revenue, cost of products sold decreased \$10.2 billion (11 percent) and \$6.8 billion (7 percent) during fiscal 2014 and fiscal 2013, respectively. See the gross margin discussion below for additional drivers impacting cost of products sold.

### Gross Margin

(in millions)	Gross Margin			Change	
	2014	2013	2012	2014	2013
Gross margin	\$ 5,161	\$ 4,921	\$ 4,541	5%	8%

### Fiscal 2014 Compared to Fiscal 2013

Gross margin increased during fiscal 2014 compared to fiscal 2013 (\$240 million), reflecting the positive impact of acquisitions (\$221 million).

Gross margin for fiscal 2014 was positively impacted by \$32 million due to sales growth, which primarily reflects growth from existing customers, and was largely offset by the impact of the Walgreens contract expiration.

Gross margin rate, apart from the impact of the Walgreens contract expiration, was flat for fiscal 2014. Gross margin rate was positively impacted by strong performance from generic programs, including the impact of generic pharmaceutical price appreciation, and was adversely impacted by customer pricing changes.

### Fiscal 2013 Compared to Fiscal 2012

Gross margin increased in fiscal 2013 compared to fiscal 2012 driven by strong performance in our generic pharmaceutical programs (\$350 million) and acquisitions (\$131 million). Increased margin from branded pharmaceutical distribution agreements (exclusive of the related volume impact) also had a positive impact on gross margin (\$81 million). Pricing changes, including rebates (exclusive of the related volume impact), adversely impacted gross margin (\$211 million), driven in part by customer and product mix. The adverse impact of these pricing changes was offset by sourcing programs and other sources of margin. As a result of significant market softness, gross margin from our Nuclear Pharmacy Services division decreased by \$71 million in fiscal 2013.

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## Distribution, Selling, General and Administrative ("SG&A") Expenses

(in millions)	SG&A Expenses			Change	
	2014	2013	2012	2014	2013
SG&A expenses	\$ 3,028	\$ 2,875	\$ 2,677	5%	7%

SG&A expenses increased during fiscal 2014 over fiscal 2013 primarily due to acquisitions (\$129 million).

SG&A expenses increased during fiscal 2013 over fiscal 2012 primarily due to acquisitions (\$84 million) and investment spending (\$17 million).

## Segment Profit and Consolidated Operating Earnings

(in millions)	Segment Profit and Operating Earnings			Change	
	2014	2013	2012	2014	2013
Pharmaceutical	\$ 1,745	\$ 1,734	\$ 1,558	1%	11 %
Medical	444	372	332	19%	12 %
Total segment profit	2,189	2,106	1,890	4%	11 %
Corporate	(304)	(1,110)	(98)	N.M.	N.M.
Total operating earnings	\$ 1,885	\$ 996	\$ 1,792	89%	(44)%

### Segment Profit

We evaluate segment performance based upon segment profit, among other measures. See Note 15 of the "Notes to Consolidated Financial Statements" for additional information on segment profit.

### Pharmaceutical Segment Profit

The increase in fiscal 2014 over fiscal 2013 reflected the positive impact of sales growth, which primarily reflects growth from existing customers, and was largely offset by the impact of the Walgreens contract expiration. The impact of gross margin rate, apart from the impact of the Walgreens contract expiration, was flat for fiscal 2014. Gross margin rate was positively impacted by strong performance from generic programs, including the impact of generic pharmaceutical price appreciation, and was adversely impacted by customer pricing changes.

The principal drivers for the increase in fiscal 2013 over fiscal 2012 were strong performance in our generic pharmaceutical programs and increased margin from branded pharmaceutical distribution agreements. These benefits were partially offset by the unfavorable impact of pharmaceutical distribution pricing changes and significant market softness in our Nuclear Pharmacy Services division.

### Medical Segment Profit

The principal driver for the increase in fiscal 2014 over fiscal 2013 was the positive impact of acquisitions.

The principal drivers for the increase in fiscal 2013 over fiscal 2012 were the positive impact of acquisitions and decreased cost of commodities used in our self-manufactured products, partially offset by the unfavorable impact of pricing changes, driven in part by customer and product mix. Segment profit was also moderated by softness in procedural-based utilization. The 2.3 percent excise tax on certain manufactured or imported medical devices that became effective January 1, 2013 had a slightly unfavorable impact on segment profit.

### Corporate

As discussed further below, the principal driver for the change in Corporate in fiscal 2014 and fiscal 2013 was an \$829 million non-cash goodwill impairment charge recognized in fiscal 2013 related to our Nuclear Pharmacy Services division.

## Consolidated Operating Earnings

In addition to revenue, gross margin and SG&A expenses discussed above, operating earnings were impacted by the following:

(in millions)	2014	2013	2012
Restructuring and employee severance	\$ 31	\$ 71	\$ 21
Amortization and other acquisition-related costs	223	158	33
Impairments and loss on disposal of assets	15	859	21
Litigation (recoveries)/charges, net	(21)	(38)	(3)

### Restructuring and Employee Severance

In addition to other restructuring activities during fiscal 2014 and 2013, we recognized restructuring costs of \$10 million and \$40 million, respectively, related to the restructuring plan in our Medical segment. We also recognized \$11 million of employee-related costs related to a restructuring plan within our Nuclear Pharmacy Services division during the fourth quarter of fiscal 2013.

### Amortization and Other Acquisition-Related Costs

Amortization of acquisition-related intangible assets was \$187 million, \$118 million and \$78 million for fiscal 2014, 2013 and 2012, respectively. The increase in amortization during 2014 and 2013 was primarily due to intangible assets from the acquisition of AssuraMed. We also recognized transaction costs associated with the purchase of AssuraMed of \$20 million during fiscal 2013.

Amortization and other acquisition-related costs for fiscal 2012 included income recognized upon adjustment of the contingent consideration obligation incurred in connection with the Healthcare Solutions Holding, LLC ("P4 Healthcare") acquisition (\$71 million). In early fiscal 2013, we terminated and settled the remaining contingent consideration obligation for \$4 million.



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## Impairments and Loss on Disposal of Assets

During fiscal 2014, we recognized an \$8 million loss to write down property in Waukegan, Illinois in connection with our Medical segment restructuring plan.

Also in connection with our Medical segment restructuring plan, during fiscal 2013 we recognized an \$11 million loss to write down our gamma sterilization assets in El Paso, Texas.

During fiscal 2013, we recognized an \$829 million (\$799 million, net of tax) goodwill impairment charge related to our Nuclear Pharmacy Services division, as discussed further in the Overview section and in Note 5 of the "Notes to Consolidated Financial Statements". We also recognized an \$8 million loss during fiscal 2013 to write down commercial software under development within our Pharmaceutical segment.

During fiscal 2012, we recognized a \$16 million loss to write down an indefinite-life intangible asset related to the P4 Healthcare trade name.

## Litigation (Recoveries)/Charges, Net

We recognized income resulting from settlements of class action antitrust claims in which we were a class member of \$24 million and \$38 million during fiscal 2014 and 2013, respectively.

## Earnings Before Income Taxes and Discontinued Operations

In addition to the items discussed above, earnings before income taxes and discontinued operations were impacted by the following:

(in millions)	Earnings Before Income Taxes and Discontinued Operations			Change	
	2014	2013	2012	2014	2013
Other income, net	\$ (46)	\$ (15)	\$ (1)	N.M.	N.M.
Interest expense, net	133	123	95	8%	29%

## Other Income, Net

Other income, net for fiscal 2014 included a \$32 million pre-tax gain related to the sale of our minority equity interests in two investments.

## Interest Expense, Net

The increase in interest expense, net for fiscal 2014 and 2013 was primarily due to \$1.3 billion of notes issued in connection with the AssuraMed acquisition in fiscal 2013.

## Provision for Income Taxes

Generally, fluctuations in the effective tax rate are due to changes within international and U.S. state effective tax rates resulting from our business mix and discrete items. A reconciliation of the provision based on the federal statutory income tax rate to our effective income tax rate from continuing operations is as follows (see Note 8 of the "Notes to Consolidated Financial Statements" for a detailed disclosure of the effective tax rate reconciliation):

	2014	2013	2012
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	2.2	2.5	2.3
Foreign tax rate differential	(1.2)	(4.0)	(2.2)
Nondeductible/nontaxable items	(0.2)	(0.5)	—
Nondeductible goodwill impairment	—	33.2	—
Change in measurement of an uncertain tax position and impact of IRS settlements	(0.4)	(5.7)	0.9
Other	(0.1)	1.8	1.0
<b>Effective income tax rate</b>	<b>35.3%</b>	<b>62.3%</b>	<b>37.0%</b>

## Fiscal 2014 Compared to Fiscal 2013

The fiscal 2014 effective tax rate was impacted by net favorable discrete items of \$37 million, which reduced the rate by 2.1 percentage points. The discrete items include the favorable impact of the settlement of federal and state tax controversies (\$80 million) and release of valuation allowances (\$12 million) and the unfavorable impact of remeasurement of unrecognized tax benefits (\$65 million), primarily as a result of proposed assessments of additional tax.

## Fiscal 2013 Compared to Fiscal 2012

The fiscal 2013 effective tax rate was unfavorably impacted by 33.2 percentage points (\$295 million) due to the nondeductibility of substantially all of the goodwill impairment which was partially offset by the favorable impact of the revaluation of our deferred tax liability and related interest on unrepatriated foreign earnings as a result of an agreement with tax authorities (\$64 million or 7.2 percentage points).

## Ongoing Audits

During fiscal 2014, the U.S. Internal Revenue Service ("IRS") closed audits of fiscal years 2003 through 2005. The IRS is currently conducting audits of fiscal years 2006 through 2010.

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## Liquidity and Capital Resources

We currently believe that, based upon available capital resources (cash on hand and access to committed credit facilities) and projected operating cash flow, we have adequate capital resources to fund working capital needs; currently anticipated capital expenditures, business growth and expansion; contractual obligations; tax payments; and current and projected debt service requirements, dividends and share repurchases. If we decide to engage in one or more additional acquisitions, depending on the size and timing of such transactions, we may need to access capital in addition to cash on hand and our existing committed credit facilities.

## Cash and Equivalents

Our cash and equivalents balance was \$2.9 billion at June 30, 2014, compared to \$1.9 billion at June 30, 2013. At June 30, 2014, our cash and equivalents were held in cash depository accounts with major banks or invested in high quality, short-term liquid investments.

The increase in cash and equivalents during fiscal 2014 was driven by net cash provided by operating activities of \$2.5 billion, which was deployed for share repurchases (\$673 million), acquisitions (\$519 million) and dividends (\$415 million). As anticipated, net cash provided by operating activities benefited from a net working capital decrease in excess of \$500 million as a result of the Walgreens contract expiration.

During fiscal 2013, we deployed \$2.2 billion of cash on acquisitions, \$450 million on share repurchases and \$353 million on dividends. During fiscal 2013, we received net proceeds from long-term obligations of \$981 million.

During fiscal 2012, we deployed \$450 million of cash on share repurchases, \$300 million on dividends, \$260 million on capital expenditures and \$174 million on acquisitions. During fiscal 2012, we received net proceeds from long-term obligations of \$290 million.

Our working capital can vary significantly depending on factors such as customer payments of accounts receivable, the timing of inventory purchases and payments to vendors in the regular course of business. The decrease in net working capital at June 30, 2014 compared to June 30, 2013 is primarily a result of the Walgreens contract expiration.

The cash and equivalents balance at June 30, 2014 included \$420 million of cash held by subsidiaries outside of the United States. Although the vast majority of this cash is available for repatriation, permanently bringing the money into the United States could trigger U.S. federal, state and local income tax obligations. As a U.S. parent company, we may temporarily access cash held by our foreign subsidiaries without becoming subject to U.S. federal income tax through intercompany loans.

## Credit Facilities and Commercial Paper

On October 15, 2013, we reduced our committed receivables sales facility program through Cardinal Health Funding, LLC from \$950 million to \$700 million in light of the Walgreens contract expiration. In addition to our committed receivables sales facility program, our sources of liquidity include a \$1.5 billion revolving credit facility and a commercial paper program of up to \$1.5 billion, backed by the revolving credit facility.

We had no outstanding balance under the revolving credit facility at June 30, 2014 and 2013, except for standby letters of credit of zero and \$43 million at June 30, 2014 and 2013, respectively. We had no outstanding borrowings from the commercial paper program at June 30, 2014 and 2013. We had no outstanding balance under the committed receivables sales facility program at June 30, 2014 and 2013, except for standby letters of credit of \$41 million and zero at June 30, 2014 and 2013, respectively. Our revolving credit facility and committed receivables sales facility program require us to maintain a consolidated interest coverage ratio, as of any fiscal quarter end, of at least 4-to-1 and a consolidated leverage ratio of no more than 3.25-to-1. As of June 30, 2014, we were in compliance with these financial covenants.

## Available-for-Sale Securities

During fiscal 2014, we purchased \$100 million of marketable securities, which are classified as available-for-sale.

## Long-Term Obligations and Other Short-Term Borrowings

At June 30, 2014, we had total long-term obligations and other short-term borrowings of \$4.0 billion compared to \$3.9 billion at June 30, 2013.

## Capital Expenditures

Capital expenditures during fiscal 2014, 2013 and 2012 were \$249 million, \$195 million and \$260 million, respectively.

We expect capital expenditures in fiscal 2015 to be between \$335 million to \$365 million primarily for growth projects in our core businesses as well as information technology projects.

## Dividends

During fiscal 2014, we paid quarterly dividends totaling \$1.21 per share, an increase of 18 percent from fiscal 2013. On May 7, 2014, our Board of Directors approved a 13 percent increase in our quarterly dividend to \$0.3425 per share, or \$1.37 per share on an annualized basis, which was paid on July 15, 2014 to shareholders of record on July 1, 2014.

On August 6, 2014, our Board of Directors approved a quarterly dividend of \$0.3425 per share, or \$1.37 per share on an annualized basis, payable on October 15, 2014 to shareholders of record on October 1, 2014.

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## Share Repurchases

During fiscal 2014, we repurchased \$673 million of our common shares. We funded the repurchases with cash on hand. At June 30, 2014, we had \$727 million remaining under our current repurchase authorization which expires December 31, 2016. On August 6, 2014, our Board of Directors authorized an additional \$1.0 billion under this share repurchase program.

## Interest Rate and Currency Risk Management

We use interest rate swaps, foreign currency contracts and commodity contracts to manage our exposure to cash flow variability. We also use interest rate swaps to protect the value of our debt and foreign currency forward contracts to protect the value of our existing foreign currency assets and liabilities. See "Quantitative and Qualitative Disclosures About Market Risk" below as well as Notes 1 and 12 of the "Notes to Consolidated Financial Statements" for information regarding the use of financial instruments and derivatives as well as foreign currency, interest rate and commodity exposures.

## Off-Balance Sheet Arrangements

We had no significant off-balance sheet arrangements at June 30, 2014.

## Contractual Obligations

At June 30, 2014, our contractual obligations, including estimated payments due by period, are as follows:

(in millions)	2015	2016 to 2017	2018 to 2019	Thereafter	Total
Long-term debt and short-term borrowings (1)	\$ 800	\$ 787	\$ 560	\$ 1,796	\$ 3,943
Interest on long-term debt	155	236	151	562	1,104
Capital lease obligations (2)	1	23	2	3	29
Other liabilities (3)	3	2	—	—	5
Operating leases (4)	97	140	76	74	387
Purchase obligations and other payments (5)	275	293	236	513	1,317
<b>Total contractual obligations</b>	<b>\$ 1,331</b>	<b>\$ 1,481</b>	<b>\$ 1,025</b>	<b>\$ 2,948</b>	<b>\$ 6,785</b>

- (1) Represents maturities of our long-term debt obligations and other short-term borrowings excluding capital lease obligations described below. See Note 7 of the "Notes to Consolidated Financial Statements" for further information.
- (2) Represents maturities of our capital lease obligations included within long-term debt in our consolidated balance sheets.
- (3) Represents cash outflows by period for certain of our liabilities in which cash outflows could be reasonably estimated. Long-term liabilities, such as unrecognized tax benefits and deferred taxes, have been excluded from the table above because of the inherent uncertainty of the underlying tax positions or because of the inability to reasonably estimate the timing of any cash outflows. See Note 8 of the "Notes to Consolidated Financial Statements" for further discussion of income taxes.
- (4) Represents minimum rental payments and the related estimated future interest payments for operating leases having initial or remaining non-cancelable lease terms as described in Note 9 of the "Notes to Consolidated Financial Statements."

- (5) A purchase obligation is defined as an agreement to purchase goods or services that is legally enforceable and specifies all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and approximate timing of the transaction. The purchase obligation amounts disclosed above represent estimates of the minimum for which we are obligated and the time period in which cash outflows will occur. Purchase orders and authorizations to purchase that involve no firm commitment from either party are excluded from the above table. In addition, contracts that can be unilaterally canceled with no termination fee or with proper notice are excluded from our total purchase obligations except for the amount of the termination fee or the minimum amount of goods that must be purchased during the requisite notice period. Purchase obligations and other payments also includes 39 quarterly payments of \$25.6 million that we are required to pay CVS commencing in October 2014 in connection with the establishment of Red Oak Sourcing, but does not include contingent payments that may become payable under the joint venture. See Note 1 of the "Notes to Consolidated Financial Statements" for additional information.

## Recent Financial Accounting Standards

See Note 1 of the "Notes to Consolidated Financial Statements" for a discussion of recent financial accounting standards.

## Critical Accounting Policies and Sensitive Accounting Estimates

Critical accounting policies are those accounting policies that (i) can have a significant impact on our financial condition and results of operations and (ii) require use of complex and subjective estimates based upon past experience and management's judgment. Other people applying reasonable judgment to the same facts and circumstances could develop different estimates. Because estimates are inherently uncertain, actual results may differ. In this section, we describe the significant policies applied in preparing our consolidated financial statements that management believes are the most dependent on estimates and assumptions. For additional accounting policies, see Note 1 of the "Notes to Consolidated Financial Statements."

## Allowance for Doubtful Accounts

Trade receivables are primarily comprised of amounts owed to us through our distribution businesses and are presented net of an allowance for doubtful accounts of \$137 million and \$134 million at June 30, 2014 and 2013, respectively. We also provide financing to various customers. Such financing arrangements range from 270 days to 5 years, at interest rates that are generally subject to fluctuation. Interest income on these arrangements is recognized as it is earned. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and related accrued interest are reported net of an allowance for doubtful accounts of \$18 million and \$17 million at June 30, 2014 and 2013, respectively, and are included in other assets (current portion is included in prepaid expenses and other) in the consolidated balance sheets. We must use judgment when deciding whether to extend credit and when estimating the required allowance for doubtful accounts.

The allowance for doubtful accounts includes portfolio and specific reserves. We determine the appropriate allowance by

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reviewing accounts receivable aging, industry trends, customer financial strength and credit standing, historical write-off trends and payment history. We also regularly evaluate how changes in economic conditions may affect credit risks.

Our methodology for estimating the allowance for doubtful accounts is assessed annually based on historical losses and economic, business and market trends. In addition, the allowance is reviewed quarterly and updated if appropriate. We may adjust the allowance for doubtful accounts if changes in customers' financial condition or general economic conditions make defaults more frequent or severe.

The following table gives information regarding the allowance for doubtful accounts over the past three fiscal years:

(in millions, except percentages)	2014	2013	2012
Allowance for doubtful accounts	\$ 156	\$ 152	\$ 143
Reduction to allowance for customer deductions and write-offs	51	34	30
Charged to costs and expenses	51	41	22
Allowance as a percentage of customer receivables	2.8%	2.3%	2.2%
Allowance as a percentage of revenue	0.17%	0.15%	0.13%

A hypothetical 0.1 percent increase or decrease in the reserve as a percentage of trade receivables and finance notes receivables at June 30, 2014, would result in an increase or decrease in bad debt expense of \$6 million.

We believe the reserve maintained and expenses recorded in fiscal 2014 are appropriate. At this time, we are not aware of any analytical findings or customer issues that might lead to a significant future increase in the allowance for doubtful accounts as a percentage of revenue.

### Inventories

A substantial portion of our inventories (61 percent and 65 percent at June 30, 2014 and 2013, respectively) are valued at the lower of cost, using the last-in, first-out ("LIFO") method, or market. These are primarily merchandise inventories at the core pharmaceutical distribution facilities within our Pharmaceutical segment. The LIFO impact on the consolidated statements of earnings in a given year depends on pharmaceutical price appreciation and the level of inventory. Prices for branded pharmaceuticals generally tend to rise, which results in an increase in cost of products sold, whereas prices for generic pharmaceuticals generally tend to decline, which results in a decrease in cost of products sold.

The LIFO method presumes that the most recent inventory purchases are the first items sold, so LIFO helps us better match current costs and revenue. Using LIFO, if there is a decrease in inventory levels that have experienced pharmaceutical price appreciation, the result generally will be a decrease in future cost of products sold as our older inventory is held at a lower cost. Conversely, if there is a decrease in inventory levels that

have experienced a pharmaceutical price decline, the result generally will be an increase in future cost of products sold as our older inventory is held at a higher cost. We believe that the average cost method of inventory valuation reasonably approximates the current cost of replacing inventory within the core pharmaceutical distribution facilities. Accordingly, the LIFO reserve is the difference between (a) inventory at the lower of LIFO cost or market and (b) inventory at replacement cost determined using the average cost method of inventory valuation.

The remaining inventory is stated at the lower of cost, using the first in, first out method, or market. If we had used the average cost method of inventory valuation for all inventory within the Pharmaceutical distribution facilities, the value of our inventories would not have changed in fiscal 2014 or 2013. Primarily because prices for our generic pharmaceutical inventories have declined over time, inventories valued at LIFO were \$98 million and \$97 million higher than the average cost value at June 30, 2014 and 2013, respectively. We do not record inventories in excess of replacement cost. As such, we did not record any changes in our LIFO reserve in fiscal 2014 and 2013.

Inventories presented in the consolidated balance sheets are net of reserves for excess and obsolete inventory which were \$44 million and \$40 million at June 30, 2014 and 2013, respectively. We reserve for inventory obsolescence using estimates based on historical experience, sales trends, specific categories of inventory and age of on-hand inventory. If actual conditions are less favorable than our assumptions, additional inventory reserves may be required.

### Business Combinations

The assets acquired and liabilities assumed in a business combination, including identifiable intangible assets, are based on their estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. We base the fair values of identifiable intangible assets on detailed valuations that require management to make significant judgments, estimates and assumptions. Critical estimates and assumptions include: expected future cash flows for customer relationships, trademarks, trade names, developed technology and other identifiable intangible assets; discount rates that reflect the risk factors associated with future cash flows; and estimates of useful lives. When an acquisition involves contingent consideration, we recognize a liability equal to the fair value of the contingent consideration obligation at the acquisition date. The estimate of fair value of a contingent consideration obligation requires subjective assumptions to be made regarding future business results, discount rates and probabilities assigned to various potential business result scenarios. Subsequent revisions to these assumptions could materially change the estimate of the fair value of contingent consideration obligations and therefore could materially affect

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our financial position or results of operations. See Note 2 of the "Notes to Consolidated Financial Statements" for additional information regarding our acquisitions.

### Goodwill and Other Intangible Assets

Purchased goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually or when indicators of impairment exist. Intangible assets with finite lives, primarily customer relationships, trademarks and patents, and non-compete agreements, are amortized over their useful lives.

Goodwill impairment testing involves a comparison of the estimated fair value of reporting units to the respective carrying amount, which may be performed utilizing either a qualitative or quantitative assessment. A reporting unit is defined as an operating segment or one level below an operating segment (also known as a component). If the estimated fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the estimated fair value, then a second step is performed to determine the amount of impairment, if any. An impairment charge is the amount by which the carrying amount of goodwill exceeds the estimated implied fair value of goodwill. We estimate the implied fair value of goodwill as the excess of the estimated fair value of the reporting unit over the estimated fair value of its net tangible and identifiable intangible assets. This is the same manner we use to recognize goodwill from a business combination. Goodwill impairment testing involves judgment, including the identification of reporting units, the estimation of the fair value of each reporting unit and, if necessary, the estimation of the implied fair value of goodwill.

We have two operating segments, which are the same as our reportable segments: Pharmaceutical and Medical. These operating segments are comprised of divisions (components), for which discrete financial information is available. Components are aggregated into reporting units for purposes of goodwill impairment testing to the extent that they share similar economic characteristics. Our reporting units are: Pharmaceutical operating segment (excluding our Nuclear Pharmacy Services division and Cardinal Health China - Pharmaceutical division); Nuclear Pharmacy Services division; Cardinal Health China - Pharmaceutical division; Medical operating segment (excluding our Home division); and Home division.

Fair value can be determined using market, income or cost-based approaches. Our determination of estimated fair value of the reporting units is based on a combination of the income-based and market-based approaches. Under the income-based approach, we use a discounted cash flow model in which cash flows anticipated over several future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate risk-adjusted rate of return. We use our internal forecasts to estimate future cash flows and include an estimate of long-term growth rates based on our most recent views of the long-term outlook for each reporting unit. Actual results may differ materially from those

used in our forecasts. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective reporting units and in our internally-developed forecasts. Discount rates used in our reporting unit valuations ranged from 9 to 12 percent. Under the market-based approach, we determine fair value by comparing our reporting units to similar businesses or guideline companies whose securities are actively traded in public markets. To further confirm fair value, we compare the aggregate fair value of our reporting units to our total market capitalization. Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. The use of alternate estimates and assumptions or changes in the industry or peer groups could materially affect the determination of fair value for each reporting unit and potentially result in goodwill impairment.

We performed annual impairment testing in fiscal 2014, 2013 and 2012 and, with the exception of our Nuclear Pharmacy Services division in fiscal 2013, concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. For our fiscal 2014, 2013 and 2012 testing, we elected to bypass the optional qualitative assessment. With the exception of our Nuclear Pharmacy Services division in fiscal 2013, if we were to alter our impairment testing by increasing the discount rate in the discounted cash flow analysis by 1 percent, there still would not be any impairment indicated for any of these reporting units for fiscal 2014, 2013 or 2012. As discussed further in Note 5 of the "Notes to Consolidated Financial Statements", during the fourth quarter of fiscal 2013 we recognized an \$829 million (\$799 million, net of tax) non-cash goodwill impairment charge related to our Nuclear Pharmacy Services division, which is included in impairments and loss on disposal of assets in our consolidated statements of earnings.

We review intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires a comparison of the carrying amount to the sum of the undiscounted cash flows expected to be generated by the asset.

### Vendor Reserves

In the ordinary course of business, our vendors may dispute deductions taken against payments otherwise due to them or assert other billing disputes. These disputed transactions are researched and resolved based upon our policy and findings of the research performed. At any given time, there are outstanding items in various stages of research and resolution. In determining appropriate reserves for areas of exposure with our vendors, we assess historical experience and current outstanding claims. We have established various levels of reserves based on the type of claim and status of review. Though the transaction types are relatively consistent, we periodically refine our methodology by updating the reserve estimate

## Management's Discussion and Analysis of Financial Condition and Results of Operations

percentages to reflect actual historical experience. Changes to the estimate percentages affect the cost of products sold in the period in which the change was made.

Vendor reserves were \$82 million and \$66 million at June 30, 2014 and 2013, respectively. Approximately 68 percent of the vendor reserve at the end of fiscal 2014 pertained to the Pharmaceutical segment compared to 60 percent at the end of fiscal 2013. The reserve balance will fluctuate due to variations of outstanding claims from period-to-period, timing of settlements, and specific vendor issues, such as bankruptcies.

The ultimate outcome of specific claims may be different than our original estimate and may require adjustment. We believe, however, that reserves recorded for such disputes are adequate based upon current facts and circumstances.

### Loss Contingencies

We accrue for contingencies related to disputes, litigation and regulatory matters if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because these matters are inherently unpredictable and unfavorable developments or resolutions can occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review contingencies to determine whether our accruals and related disclosures are adequate. The amount of ultimate loss may differ from these estimates. See Note 9 of the "Notes to Consolidated Financial Statements" for additional information regarding loss contingencies.

### Provision for Income Taxes

Our income tax expense, deferred income tax assets and liabilities, and unrecognized tax benefits reflect management's assessment of estimated future taxes to be paid on items in the consolidated financial statements.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, as well as net operating loss and tax credit carryforwards for tax purposes. The following table presents information about our tax position at June 30:

(in millions)	2014	2013
Net deferred income tax assets	\$ 444	\$ 510
Net deferred income tax liabilities	1,653	1,638
Loss and credit carryforwards included in net deferred income tax assets	191	158
Net valuation allowance against deferred income tax assets (1)	94	88

(1) This valuation allowance primarily relates to federal, state and international loss carryforwards for which the ultimate realization of future benefits is uncertain.

Expiring loss and credit carryforwards and the required valuation allowances are adjusted annually. After applying the valuation allowances, we do not anticipate any limitations on our use of any of the other net deferred income tax assets described above.

We believe that our estimates for the valuation allowances against deferred tax assets and unrecognized tax benefits are appropriate based on current facts and circumstances. However, others applying reasonable judgment to the same facts and circumstances could develop different estimates. The amount we ultimately pay when matters are resolved may differ from the amounts accrued.

Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination of the technical merits of the position, including resolutions of any related appeals or litigation processes. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement. See Note 8 of the "Notes to Consolidated Financial Statements" for additional information regarding unrecognized tax benefits.

If any of our assumptions or estimates were to change, an increase or decrease in our effective income tax rate by 1 percent would have caused income tax expense to increase or decrease \$18 million for fiscal 2014.

### Share-Based Compensation

Share-based compensation to employees is recognized in the consolidated statements of earnings based on the grant date fair value of the awards. The fair value of restricted share units and performance share units is determined by the grant date market price of our common shares. The compensation expense associated with nonvested performance share units is dependent on our periodic assessment of the probability of the targets being achieved and our estimate, which may vary over time, of the number of shares that ultimately will be issued. The fair value of stock options is determined using a lattice valuation model. We believe the lattice model provides reasonable estimates because it has the ability to take into account employee exercise patterns based on changes in our stock price and other variables and it provides for a range of input assumptions.

We analyze historical data to estimate option exercise behaviors and employee terminations to be used within the lattice model. The expected life of the options granted is calculated from the option valuation model and represents the length of time in years that the options granted are expected to be outstanding. Expected volatilities are based on implied volatility from traded options on our common shares and historical volatility over a period of time commensurate with the contractual term of the option grant (up to ten years). As required, the forfeiture estimates are adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be higher or lower than our current estimates. See Note 16 of the "Notes to Consolidated Financial Statements" for additional information regarding share-based compensation.



## Quantitative and Qualitative Disclosures About Market Risk

We are exposed to cash flow and earnings fluctuations as a result of certain market risks. These market risks primarily relate to foreign exchange, interest rate and commodity price-related changes. We maintain a hedging program to manage volatility related to these market exposures which employs operational, economic and derivative financial instruments in order to mitigate risk. See Notes 1 and 12 of the "Notes to Consolidated Financial Statements" for further discussion regarding our use of derivative instruments.

### Foreign Exchange Rate Sensitivity

By nature of our global operations, we are exposed to cash flow and earnings fluctuations resulting from foreign exchange rate variation. These exposures are transactional and translational in nature. Principal drivers of this foreign exchange exposure include the Canadian dollar, Thai baht, Mexican peso, Chinese renminbi, European euro, Japanese yen, Singapore dollar, and Malaysian ringgit.

### Transactional Exposure

Transactional exposure arises from the purchase and sale of goods and services in currencies other than our functional currency or the functional currency of our subsidiaries. As part of our risk management program, at the end of each fiscal year we perform a sensitivity analysis on our forecasted transactional exposure for the upcoming fiscal year. These analyses include the estimated impact of our hedging program, which mitigates transactional exposure. At June 30, 2014 and 2013, we had hedged approximately 48 and 45 percent of transactional exposures, respectively. The following table summarizes the analysis as it relates to transactional exposure and the impact of a hypothetical 10 percent increase or decrease at June 30:

(in millions)	2014	2013
Net estimated transactional exposure	\$ 378	\$ 368
Sensitivity gain/loss	\$ 38	\$ 37
Estimated offsetting impact of hedges	(18)	(17)
<b>Estimated net gain/loss</b>	<b>\$ 20</b>	<b>\$ 20</b>

### Translational Exposure

We have exposure related to the translation of financial statements of our foreign operations into U.S. dollars, our functional currency. We perform a similar analysis to that described above related to this translational exposure. We do not typically hedge any of our translational exposure and no hedging impact was included in our analysis at June 30, 2014 and 2013. The following table summarizes translational exposure and the impact of a hypothetical 10 percent strengthening or weakening in the U.S. dollar at June 30:

(in millions)	2014	2013
Net estimated translational exposure	\$ 62	\$ 53
Sensitivity gain/loss	6	5

### Interest Rate Sensitivity

We are exposed to changes in interest rates primarily as a result of our borrowing and investing activities to maintain liquidity and fund operations. The nature and amount of our long-term and short-term debt can be expected to fluctuate as a result of business requirements, market conditions and other factors. Our policy is to manage exposures to interest rates using a mix of fixed and floating rate debt as deemed appropriate by management. We utilize interest rate swap instruments to mitigate our exposure to interest rate movements.

As part of our risk management program, we perform an annual sensitivity analysis on our forecasted exposure to interest rates for the following fiscal year. This analysis assumes a hypothetical 10 percent change in interest rates. At June 30, 2014 and 2013, the potential increase or decrease in annual interest expense under this analysis as a result of this hypothetical change was \$4 million and \$2 million, respectively.

During fiscal 2014, we purchased marketable securities, which are classified as available-for-sale and are carried at fair value in the consolidated balance sheets. The fair value is subject to change primarily as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. At June 30, 2014, a hypothetical increase or decrease of 100 basis points in interest rates would cause a potential decrease of up to \$1 million in the estimated fair value.

### Commodity Price Sensitivity

We are exposed to market price changes for commodities, including oil-based resins, cotton, latex, and diesel fuel. We typically purchase raw materials at market prices and some finished goods at prices based in part on a commodity price index. As part of our risk management program, we perform sensitivity analysis on our forecasted commodity exposure for the following fiscal year. Our forecasted commodity exposure at June 30, 2014 decreased from the prior year primarily as a result of commodity prices and changes in purchasing volumes.

At June 30, 2014 and 2013, we had hedged a portion of these commodity exposures (see Note 12 of the "Notes to Consolidated Financial Statements" for further discussion). The table below summarizes our analysis of these forecasted commodity exposures and a hypothetical 10 percent fluctuation in commodity prices at June 30:

(in millions)	2014	2013
Estimated commodity exposure	\$ 321	\$ 369
Sensitivity gain/loss	\$ 32	\$ 37
Estimated offsetting impact of hedges	(1)	(1)
<b>Estimated net gain/loss</b>	<b>\$ 31</b>	<b>\$ 36</b>

We also are exposed to fluctuations in commodities' prices through the purchase of finished goods and various other energy-related commodities, including natural gas and electricity, through our normal course of business where our

## Quantitative and Qualitative Disclosures About Market Risk

contracts are not directly tied to a commodity index. We believe our total gross range of exposure to commodities, including the items listed in the table above, is \$400 million to \$500 million at June 30, 2014.

## Report of Independent Registered Public Accounting Firm

### The Board of Directors and Shareholders of Cardinal Health, Inc.

We have audited the accompanying consolidated balance sheets of Cardinal Health, Inc. and subsidiaries as of June 30, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cardinal Health, Inc. and subsidiaries at June 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cardinal Health, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated August 13, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Columbus, Ohio

August 13, 2014

## Consolidated Statements of Earnings

(in millions, except per common share amounts)

	2014	2013	2012
Revenue	\$ 91,084	\$ 101,093	\$ 107,552
Cost of products sold	85,923	96,172	103,011
Gross margin	5,161	4,921	4,541
<b>Operating expenses:</b>			
Distribution, selling, general and administrative expenses	3,028	2,875	2,677
Restructuring and employee severance	31	71	21
Amortization and other acquisition-related costs	223	158	33
Impairments and loss on disposal of assets	15	859	21
Litigation (recoveries)/charges, net	(21)	(38)	(3)
Operating earnings	1,885	996	1,792
Other income, net	(46)	(15)	(1)
Interest expense, net	133	123	95
Earnings before income taxes and discontinued operations	1,798	888	1,698
Provision for income taxes	635	553	628
Earnings from continuing operations	1,163	335	1,070
Earnings/(loss) from discontinued operations, net of tax	3	(1)	(1)
<b>Net earnings</b>	<b>\$ 1,166</b>	<b>\$ 334</b>	<b>\$ 1,069</b>
<b>Basic earnings per common share:</b>			
Continuing operations	\$ 3.41	\$ 0.98	\$ 3.10
Discontinued operations	0.01	—	—
<b>Net basic earnings per common share</b>	<b>\$ 3.42</b>	<b>\$ 0.98</b>	<b>\$ 3.10</b>
<b>Diluted earnings per common share:</b>			
Continuing operations	\$ 3.37	\$ 0.97	\$ 3.06
Discontinued operations	0.01	—	—
<b>Net diluted earnings per common share</b>	<b>\$ 3.38</b>	<b>\$ 0.97</b>	<b>\$ 3.06</b>
<b>Weighted-average number of common shares outstanding:</b>			
Basic	341	341	345
Diluted	345	344	349

The accompanying notes are an integral part of these consolidated statements.

## Consolidated Statements of Comprehensive Income

(in millions)	2014	2013	2012
Net earnings	\$ 1,166	\$ 334	\$ 1,069
<b>Other comprehensive income/(loss):</b>			
Net change in foreign currency translation adjustments	9	18	(34)
Net unrealized gain/(loss) on derivative instruments, net of tax	(7)	13	(6)
Total other comprehensive income/(loss), net of tax	2	31	(40)
<b>Total comprehensive income</b>	<b>\$ 1,168</b>	<b>\$ 365</b>	<b>\$ 1,029</b>

The accompanying notes are an integral part of these consolidated statements.

## Consolidated Balance Sheets

(in millions)	June 30	
	2014	2013
<b>Assets</b>		
<b>Current assets:</b>		
Cash and equivalents	\$ 2,865	\$ 1,901
Trade receivables, net	5,380	6,304
Inventories, net	8,266	8,373
Prepaid expenses and other	1,428	1,192
Total current assets	17,939	17,770
Property and equipment, net	1,459	1,489
Goodwill and other intangibles, net	5,870	5,574
Other assets	765	986
<b>Total assets</b>	<b>\$ 26,033</b>	<b>\$ 25,819</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 12,149	\$ 12,295
Current portion of long-term obligations and other short-term borrowings	801	168
Other accrued liabilities	2,165	2,127
Total current liabilities	15,115	14,590
Long-term obligations, less current portion	3,171	3,686
Deferred income taxes and other liabilities	1,346	1,568
<b>Shareholders' equity:</b>		
Preferred shares, without par value:		
Authorized—500 thousand shares, Issued—none	—	—
Common shares, without par value:		
Authorized—755 million shares, Issued—364 million shares at June 30, 2014 and 2013	2,980	2,953
Retained earnings	4,774	4,038
Common shares in treasury, at cost: 27 million shares and 25 million shares at June 30, 2014 and 2013, respectively	(1,423)	(1,084)
Accumulated other comprehensive income	70	68
<b>Total shareholders' equity</b>	<b>6,401</b>	<b>5,975</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 26,033</b>	<b>\$ 25,819</b>

The accompanying notes are an integral part of these consolidated statements.



## Consolidated Statements of Shareholders' Equity

(in millions)	Common Shares		Retained Earnings	Treasury Shares		Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
	Shares Issued	Amount		Shares	Amount		
Balance at June 30, 2011	364	\$ 2,898	\$ 3,331	(12)	\$ (457)	\$ 77	\$ 5,849
Net earnings			1,069				1,069
Other comprehensive loss, net of tax						(40)	(40)
Employee stock plans activity, including tax impact of \$4 million	—	32		1	91		123
Treasury shares acquired				(10)	(450)		(450)
Dividends declared			(307)				(307)
Balance at June 30, 2012	364	2,930	4,093	(21)	(816)	37	6,244
Net earnings			334				334
Other comprehensive income, net of tax						31	31
Employee stock plans activity, including tax impact of \$19 million	—	23		6	182		205
Treasury shares acquired				(10)	(450)		(450)
Dividends declared			(374)				(374)
Other			(15)				(15)
Balance at June 30, 2013	364	2,953	4,038	(25)	(1,084)	68	5,975
Net earnings			1,166				1,166
Other comprehensive income, net of tax						2	2
Employee stock plans activity, including tax impact of \$39 million	—	27		8	334		361
Treasury shares acquired				(10)	(673)		(673)
Dividends declared			(430)				(430)
Balance at June 30, 2014	364	\$ 2,980	\$ 4,774	(27)	\$ (1,423)	\$ 70	\$ 6,401

The accompanying notes are an integral part of these consolidated statements.

## Consolidated Statements of Cash Flows

(in millions)	2014	2013	2012
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 1,166	\$ 334	\$ 1,069
(Earnings)/loss from discontinued operations, net of tax	(3)	1	1
Earnings from continuing operations	1,163	335	1,070
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	459	397	325
Gain on sale of investments	(32)	—	—
Impairments and loss on disposal of assets	15	859	21
Share-based compensation	96	93	85
Provision for deferred income taxes	26	21	158
Provision for bad debts	42	31	22
Change in fair value of contingent consideration obligation	—	—	(71)
Change in operating assets and liabilities, net of effects from acquisitions:			
Decrease/(increase) in trade receivables	925	216	(129)
Decrease/(increase) in inventories	142	(370)	(495)
Increase/(decrease) in accounts payable	(196)	426	319
Other accrued liabilities and operating items, net	(116)	(281)	(129)
Net cash provided by operating activities	2,524	1,727	1,176
<b>Cash flows from investing activities:</b>			
Acquisition of subsidiaries, net of cash acquired	(519)	(2,239)	(174)
Additions to property and equipment	(249)	(195)	(260)
Purchase of available-for-sale securities, held-to-maturity securities and other investments	(129)	(12)	(35)
Proceeds from sale of investments	47	—	—
Proceeds from maturities of held-to-maturity securities	—	71	92
Net cash used in investing activities	(850)	(2,375)	(377)
<b>Cash flows from financing activities:</b>			
Payment of contingent consideration obligation	—	(4)	—
Net change in short-term borrowings	114	(1)	13
Reduction of long-term obligations	(2)	(305)	(251)
Proceeds from long-term obligations, net of issuance costs	—	1,286	496
Net proceeds from issuance of common shares	227	121	42
Tax proceeds/(disbursements) from share-based compensation	39	(19)	(4)
Dividends on common shares	(415)	(353)	(300)
Purchase of treasury shares	(673)	(450)	(450)
Net cash provided by/(used in) financing activities	(710)	275	(454)
Net increase/(decrease) in cash and equivalents	964	(373)	345
Cash and equivalents at beginning of period	1,901	2,274	1,929
<b>Cash and equivalents at end of period</b>	<b>\$ 2,865</b>	<b>\$ 1,901</b>	<b>\$ 2,274</b>
<b>Supplemental information:</b>			
Cash payments for interest	\$ 152	\$ 128	\$ 118
Cash payments for income taxes	632	899	513

The accompanying notes are an integral part of these consolidated statements.

## Notes to Consolidated Financial Statements

### 1. Basis of Presentation, Summary of Significant Accounting Policies and Other

Cardinal Health, Inc. is a healthcare services company providing pharmaceutical and medical products and services that help pharmacies, hospitals and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality. Cardinal Health, Inc. also provides medical products to patients in the home. References to “we”, “our” and similar pronouns in these consolidated financial statements are to Cardinal Health, Inc. and its majority-owned or controlled subsidiaries unless the context otherwise requires.

Our fiscal year ends on June 30. References to fiscal 2014, 2013 and 2012 in these consolidated financial statements are to the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

#### Basis of Presentation

Our consolidated financial statements include the accounts of all majority-owned or controlled subsidiaries, and all significant intercompany transactions and amounts have been eliminated. To conform to the current year presentation, certain prior year amounts have been reclassified. The results of businesses acquired or disposed of are included in the consolidated financial statements from the date of the acquisition or up to the date of disposal, respectively.

#### Use of Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements in accordance with GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates, judgments and assumptions are used in the accounting and disclosure related to, among other items, allowance for doubtful accounts, inventory valuation, business combinations, goodwill and other intangible asset impairment, vendor reserves, loss contingencies, income taxes and share-based compensation. Actual amounts could ultimately differ from these estimated amounts.

#### Joint Venture With CVS Caremark

In July 2014, we established Red Oak Sourcing, LLC (“Red Oak Sourcing”), a U.S.-based generic pharmaceutical sourcing entity with CVS Caremark Corporation (“CVS”) with an initial term of 10 years. Both companies have contributed sourcing and supply chain expertise to the 50/50 joint venture and have committed to source generic pharmaceuticals through arrangements negotiated by it. Red Oak Sourcing will negotiate generic pharmaceutical supply contracts on behalf of both companies, but will not own products or hold inventory on behalf of either company. We are required to pay 39 quarterly payments of \$25.6 million to CVS commencing in October 2014 and, only if certain milestones are achieved, to pay additional

predetermined amounts to CVS beginning in fiscal 2016. The fixed payments of \$25.6 million will be expensed evenly commencing with the ramp-up of the venture, which we expect to begin by the end of the first quarter of fiscal 2015. No physical assets were contributed by either company to Red Oak Sourcing, and minimal funding has been provided to capitalize the entity.

#### Cash Equivalents

We consider liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying value of cash equivalents approximates fair value.

#### Receivables

Trade receivables are primarily comprised of amounts owed to us through our distribution businesses and are presented net of an allowance for doubtful accounts of \$137 million and \$134 million at June 30, 2014 and 2013, respectively. An account is considered past due on the first day after its due date. In accordance with contract terms, we generally have the ability to charge customers service fees or higher prices if an account is considered past due. We continuously monitor past due accounts and establish appropriate reserves to cover potential losses, which are based primarily on historical collection rates and the credit worthiness of the customer. We write off any amounts deemed uncollectible against the established allowance for doubtful accounts.

We provide financing to various customers. Such financing arrangements range from 270 days to 5 years, at interest rates that are generally subject to fluctuation. Interest income on these arrangements is recognized as it is earned. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and related accrued interest were \$158 million (current portion \$51 million) and \$161 million (current portion \$29 million) at June 30, 2014 and 2013, respectively, and are included in other assets (current portion is included in prepaid expenses and other) in the consolidated balance sheets. Finance notes receivable are reported net of an allowance for doubtful accounts of \$18 million and \$17 million at June 30, 2014 and 2013, respectively. We estimate an allowance for these financing receivables based on historical collection rates and the credit worthiness of the customer. We write off any amounts deemed uncollectible against the established allowance for doubtful accounts.

#### Concentrations of Credit Risk

We maintain cash depository accounts with major banks, and we invest in high quality, short-term liquid instruments and in marketable securities. Our short-term liquid instruments mature within three months and we have not historically incurred any related losses. Investments in marketable securities consist of a portfolio of high-grade instruments. Such investments are made only in instruments issued by highly-rated institutions, whose financial condition we monitor.

## Notes to Consolidated Financial Statements

Our trade receivables and finance notes and related accrued interest are exposed to a concentration of credit risk with customers in the retail and healthcare sectors. Credit risk can be affected by changes in reimbursement and other economic pressures impacting the healthcare industry. Such credit risk is limited due to supporting collateral and the diversity of the customer base, including its wide geographic dispersion. We perform ongoing credit evaluations of our customers' financial conditions and maintain reserves for credit losses. Historically, such losses have been within our expectations.

### Major Customers

The following table summarizes all of our customers that individually account for at least 10 percent of revenue and their corresponding percent of gross trade receivables. The customers in the table below are primarily serviced through our Pharmaceutical segment.

	Percent of Revenue			Percent of Gross Trade Receivables at June 30	
	2014	2013	2012	2014	2013
CVS	28%	23%	22%	22%	19%
Walgreen Co.	4%	20%	21%	—%	24%

Our pharmaceutical distribution contract with Walgreen Co. ("Walgreens") expired on August 31, 2013.

We have entered into agreements with group purchasing organizations ("GPOs") which act as purchasing agents that negotiate vendor contracts on behalf of their members. Novation, LLC and Premier Purchasing Partners, L.P. are our two largest GPO member relationships in terms of revenue. Sales to members of these two GPOs collectively accounted for 17 percent, 13 percent and 13 percent of revenue for fiscal 2014, 2013 and 2012, respectively. Our trade receivable balances are with individual members of the GPO, and therefore no significant concentration of credit risk exists with these types of arrangements.

### Inventories

A substantial portion of our inventories (61 percent and 65 percent at June 30, 2014 and 2013, respectively) are valued at the lower of cost, using the last-in, first-out ("LIFO") method, or market. These inventories are included within the core pharmaceutical distribution facilities of our Pharmaceutical segment ("distribution facilities") and are primarily merchandise inventories. The LIFO method presumes that the most recent inventory purchases are the first items sold, so LIFO helps us better match current costs and revenue. We believe that the average cost method of inventory valuation provides a reasonable approximation of the current cost of replacing inventory within these distribution facilities. As such, the LIFO

reserve is the difference between (a) inventory at the lower of LIFO cost or market and (b) inventory at replacement cost determined using the average cost method of inventory valuation.

If we had used the average cost method of inventory valuation for all inventory within the distribution facilities, the value of our inventories would not have changed in fiscal 2014 or 2013. Inventories valued at LIFO were \$98 million and \$97 million higher than the average cost value at June 30, 2014 and 2013, respectively. We do not record inventories in excess of replacement cost. As such, we did not record any changes in our LIFO reserve in fiscal 2014 and 2013. Our remaining inventory is primarily stated at the lower of cost, using the first-in, first-out method, or market.

Inventories presented in the consolidated balance sheets are net of reserves for excess and obsolete inventory which were \$44 million and \$40 million at June 30, 2014 and 2013, respectively. We reserve for inventory obsolescence using estimates based on historical experience, sales trends, specific categories of inventory and age of on-hand inventory.

### Cash Discounts

Manufacturer cash discounts are recorded as a component of inventory cost and recognized as a reduction of cost of products sold when the related inventory is sold.

### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Property and equipment held for sale are recorded at the lower of cost or fair value less cost to sell. When certain events or changes in operating conditions occur, an impairment assessment may be performed on the recoverability of the carrying amounts.

During fiscal 2013, as a result of the reductions in the anticipated future cash flows in our Nuclear Pharmacy Services division as discussed in Note 5, we also performed recoverability testing for the long-lived assets of this division, which consist primarily of leasehold improvements, machinery and equipment. Based on the assessment performed, we determined that the carrying amounts of the long-lived assets are recoverable.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, including capital lease assets which are depreciated over the terms of their respective leases. We generally use the following range of useful lives for our property and equipment categories: buildings and improvements—3 to 39 years; machinery and equipment—3 to 20 years; and furniture and fixtures—3 to 7 years. We recorded depreciation expense of \$265 million, \$269 million and \$243 million, for fiscal 2014, 2013 and 2012, respectively.

## Notes to Consolidated Financial Statements

The following table presents the components of property and equipment, net at June 30:

(in millions)	2014	2013
Land, building and improvements	\$ 1,419	\$ 1,398
Machinery and equipment	2,326	2,149
Furniture and fixtures	125	122
Total property and equipment, at cost	3,870	3,669
Accumulated depreciation and amortization	(2,411)	(2,180)
<b>Property and equipment, net</b>	<b>\$ 1,459</b>	<b>\$ 1,489</b>

Repairs and maintenance expenditures are expensed as incurred. Interest on long-term projects is capitalized using a rate that approximates the weighted-average interest rate on long-term obligations, which was 3.68 percent at June 30, 2014. The amount of capitalized interest was immaterial for all periods presented.

### Business Combinations

The assets acquired and liabilities assumed in a business combination, including identifiable intangible assets, are based on their estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. We base the fair values of identifiable intangible assets on detailed valuations that require management to make significant judgments, estimates and assumptions. Critical estimates and assumptions include: expected future cash flows for customer relationships, trade names and other identifiable intangible assets; discount rates that reflect the risk factors associated with future cash flows; and estimates of useful lives. When an acquisition involves contingent consideration, we recognize a liability equal to the fair value of the contingent consideration obligation at the acquisition date. The estimate of fair value of a contingent consideration obligation requires subjective assumptions to be made regarding future business results, discount rates and probabilities assigned to various potential business result scenarios. Subsequent revisions to these assumptions could materially change the estimate of the fair value of contingent consideration obligations and therefore could materially affect our financial position or results of operations. See Note 2 for additional information regarding our acquisitions.

### Goodwill and Other Intangible Assets

Purchased goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually or when indicators of impairment exist. Intangible assets with finite lives, primarily customer relationships; trademarks, trade names and patents; and non-compete agreements, are amortized over their useful lives.

Goodwill impairment testing involves a comparison of the estimated fair value of reporting units to the respective carrying amount, which may be performed utilizing either a qualitative or quantitative assessment. A reporting unit is defined as an

operating segment or one level below an operating segment (also known as a component). If the estimated fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the estimated fair value, then a second step is performed to determine the amount of impairment, if any. An impairment charge is the amount by which the carrying amount of goodwill exceeds the estimated implied fair value of goodwill. We estimate the implied fair value of goodwill as the excess of the estimated fair value of the reporting unit over the estimated fair value of its net tangible and identifiable intangible assets. This is the same manner we use to recognize goodwill from a business combination. Goodwill impairment testing involves judgment, including the identification of reporting units, the estimation of the fair value of each reporting unit and, if necessary, the estimation of the implied fair value of goodwill.

We have two operating segments, which are the same as our reportable segments: Pharmaceutical and Medical. These operating segments are comprised of divisions (components), for which discrete financial information is available. Components are aggregated into reporting units for purposes of goodwill impairment testing to the extent that they share similar economic characteristics. Our reporting units are: Pharmaceutical operating segment (excluding our Nuclear Pharmacy Services division and Cardinal Health China - Pharmaceutical division); Nuclear Pharmacy Services division; Cardinal Health China - Pharmaceutical division; Medical operating segment (excluding our Cardinal Health at Home division ("Home division")); and Home division.

Fair value can be determined using market, income or cost-based approaches. Our determination of estimated fair value of the reporting units is based on a combination of the income-based and market-based approaches. Under the income-based approach, we use a discounted cash flow model in which cash flows anticipated over several future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate risk-adjusted rate of return. We use our internal forecasts to estimate future cash flows and include an estimate of long-term growth rates based on our most recent views of the long-term outlook for each reporting unit. Actual results may differ materially from those used in our forecasts. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective reporting units and in our internally-developed forecasts. Discount rates used in our reporting unit valuations ranged from 9 to 12 percent. Under the market-based approach, we determine fair value by comparing our reporting units to similar businesses or guideline companies whose securities are actively traded in public markets. To further confirm fair value, we compare the aggregate fair value of our reporting units to our total market capitalization. Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. The use of alternate estimates and

## Notes to Consolidated Financial Statements

assumptions or changes in the industry or peer groups could materially affect the determination of fair value for each reporting unit and potentially result in goodwill impairment.

We performed annual impairment testing in fiscal 2014, 2013 and 2012 and, with the exception of our Nuclear Pharmacy Services division in fiscal 2013, concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. For our fiscal 2014, 2013 and 2012 testing, we elected to bypass the optional qualitative assessment. As discussed further in Note 5, during the fourth quarter of fiscal 2013 we recognized an \$829 million (\$799 million, net of tax) goodwill impairment charge related to our Nuclear Pharmacy Services division, which is included in impairments and loss on disposal of assets in our consolidated statements of earnings.

We review intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires a comparison of the carrying amount to the sum of the undiscounted cash flows expected to be generated by the asset.

### Investments

Investments in non-marketable equity securities are accounted for under either the cost or equity method of accounting and are included in other assets in the consolidated balance sheets. For investments in which we can exercise significant influence, we use the equity method of accounting and our share of the earnings and losses, which was immaterial, both individually and in the aggregate, for all periods presented, is recorded in other income, net in the consolidated statements of the earnings. We monitor investments for other-than-temporary impairment by considering factors such as the operating performance of the investment and current economic and market conditions.

During fiscal 2014, we sold our minority equity interests in two investments for proceeds of \$47 million, which resulted in a pre-tax gain of \$32 million (\$20 million, net of tax) included in other income, net in the consolidated statements of earnings.

Also during fiscal 2014, we purchased marketable securities, which are classified as available-for-sale and are carried at fair value in the consolidated balance sheets. Unrealized gains and losses on available-for-sale securities, net of applicable taxes, are included within shareholders' equity in accumulated other comprehensive income ("AOCI"). We monitor these securities for other-than-temporary impairment by considering factors such as the duration that, and the extent to which, the fair value is below cost, the operating performance and credit worthiness of the issuer of the securities and current economic and market conditions. See Note 6 for additional information regarding available-for-sale securities.

We previously held \$72 million of investments in fixed income corporate debt securities, which were classified as held-to-maturity and matured during fiscal 2013.

### Vendor Reserves

In the ordinary course of business, our vendors may dispute deductions taken against payments otherwise due to them or assert other billing disputes. These disputed transactions are researched and resolved based upon our policy and findings of the research performed. At any given time, there are outstanding items in various stages of research and resolution. In determining appropriate reserves for areas of exposure with our vendors, we assess historical experience and current outstanding claims. We have established various levels of reserves based on the type of claim and status of review. Though the claim types are relatively consistent, we periodically refine our methodology by updating the reserve estimate percentages to reflect actual historical experience. The ultimate outcome of certain claims may be different than our original estimate and may require an adjustment. All adjustments to vendor reserves are included in cost of products sold. In addition, the reserve balance will fluctuate due to variations of outstanding claims from period-to-period, timing of settlements and specific vendor issues, such as bankruptcies. Vendor reserves were \$82 million and \$66 million at June 30, 2014 and 2013, respectively, excluding third-party returns. See separate section in Note 1 for a description of third-party returns.

### Vendor Incentives

Fees for services and other incentives received from vendors relating to the purchase or distribution of inventory represent product discounts and are recorded as a reduction of cost of products sold in the consolidated statements of earnings upon sale of the related inventory.

### Loss Contingencies

We accrue for contingencies related to disputes, litigation and regulatory matters if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because these matters are inherently unpredictable and unfavorable developments or resolutions can occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review contingencies to determine whether our accruals and related disclosures are adequate. The amount of ultimate loss may differ from these estimates. See Note 9 for additional information regarding loss contingencies.

### Income Taxes

We account for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist

## Notes to Consolidated Financial Statements

between the tax bases and financial reporting bases of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which we operate. Deferred taxes are not provided on the unremitted earnings of subsidiaries outside of the United States when it is expected that these earnings are permanently reinvested.

Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination of the technical merits of the position, including resolutions of any related appeals or litigation processes. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement. See Note 8 for additional information regarding income taxes.

### Other Accrued Liabilities

Other accrued liabilities represent various current obligations, including certain accrued operating expenses and taxes payable.

### Share-Based Compensation

Share-based compensation to employees is recognized in the consolidated statements of earnings based on the grant date fair value of the awards. The fair value of stock options is determined on the grant date using a lattice valuation model. The fair value of restricted share units and performance share units is determined by the grant date market price of our common shares. The compensation expense associated with nonvested performance share units is dependent on our periodic assessment of the probability of the targets being achieved and our estimate, which may vary over time, of the number of shares that ultimately will be issued. The compensation expense recognized for share-based awards is net of estimated forfeitures and is recognized ratably over the service period of the awards. We classify share-based compensation expense in distribution, selling, general and administrative ("SG&A") expenses to correspond with the same line item as the majority of the cash compensation paid to employees. If awards are modified in connection with a restructuring activity, the incremental share-based compensation expense is classified in restructuring and employee severance. See Note 16 for additional information regarding share-based compensation.

### Dividends

We paid cash dividends per common share of \$1.21, \$1.025 and \$0.86 in fiscal 2014, 2013 and 2012, respectively.

### Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, product delivery has occurred or the services have been rendered, the price is fixed or determinable, and collectability is reasonably assured.

### Pharmaceutical Segment

The Pharmaceutical segment recognizes distribution revenue when title transfers to its customers and we have no further obligation to provide services related to such merchandise.

Revenue for deliveries that are directly shipped to customer warehouses from the manufacturer when we act as an intermediary in the ordering and delivery of products is recorded gross. This is in accordance with accounting standards addressing reporting revenue on a gross basis as a principal versus on a net basis as an agent. This revenue is recorded on a gross basis since we incur credit risk from the customer, bear the risk of loss for incomplete shipments and do not receive a separate fee or commission for the transaction and, as such, are the primary obligor. Revenue from these sales is recognized when title transfers to the customer and we have no further obligation to provide services related to such merchandise.

Radiopharmaceutical revenue is recognized upon delivery of the product to the customer and we have no further obligation to provide services related to such merchandise.

### Medical Segment

The Medical segment recognizes revenue when title transfers to its customers and we have no further obligation to provide services related to such merchandise.

### Sales Returns and Allowances

Revenue is recorded net of sales returns and allowances. Our customer return policies generally require that the product be physically returned, subject to restocking fees, in a condition suitable to be added back to inventory and resold at full value, or returned to vendors for credit ("merchantable product"). Product returns are generally consistent throughout the year and typically are not specific to any particular product or customer.

Effective June 30, 2013, we updated our policy to accrue for estimated sales returns and allowances at the time of sale based upon historical customer return trends, margin rates and processing costs. This prospective change did not have a material effect on consolidated revenue, cost of products sold or operating earnings. At June 30, 2014 and 2013, the accrual for estimated sales returns and allowances was \$273 million and \$291 million, respectively, the impact of which is reflected in trade receivables, net and inventories, net in the consolidated balance sheets. Prior to this change in policy, we recognized sales returns as a reduction of revenue and cost of products sold for the sales price and cost, respectively, when products were returned. Amounts recorded in revenue and cost of products sold under our prior accounting policy closely approximated what would have been recorded had we accrued for estimated sales returns and allowances at the time of the sale transaction. As such, retrospective adoption of our new

## Notes to Consolidated Financial Statements

policy to accrue for estimated sales returns and allowances would not have materially changed our results of operations and financial position in fiscal 2012. Sales returns and allowances were \$1.7 billion, \$2.3 billion and \$1.9 billion, for fiscal 2014, 2013 and 2012, respectively.

### Third-Party Returns

Since we generally do not accept non-merchantable product returns from our customers, many of our customers return non-merchantable pharmaceutical products to our vendors through third parties. Since our customers generally do not have a direct relationship with our vendors, our vendors pass the value of the returns to us (usually in the form of an accounts payable deduction). We in turn pass the value received, less an administrative fee, to our customer. In certain instances, we pass the estimated value of the return to our customer prior to processing the deduction with our vendors. Although we believe we have satisfactory protections, we could be subject to claims from customers or vendors if our administration of this overall process was deficient in some respect or our contractual terms with vendors are in conflict with our contractual terms with our customers. We have maintained reserves for some of these situations based on their nature and our historical experience with their resolution.

### Distribution Service Agreement and Other Vendor Fees

Our Pharmaceutical segment recognizes fees received from its distribution service agreements and other fees received from vendors related to the purchase or distribution of the vendors' inventory when those fees have been earned and we are entitled to payment. Since the benefit provided to a vendor is related to the purchase and distribution of the vendor's inventory, we recognize the fees as a reduction in the carrying value of the inventory that generated the fees, and as such, a reduction of cost of products sold in our consolidated statements of earnings when the inventory is sold.

### Shipping and Handling

Shipping and handling costs are primarily included in SG&A expenses in our consolidated statements of earnings. Shipping and handling costs include all delivery expenses as well as all costs to prepare the product for shipment to the end customer. Shipping and handling costs were \$430 million, \$419 million and \$389 million, for fiscal 2014, 2013 and 2012, respectively. Revenue received for shipping and handling was immaterial for all periods presented.

### Restructuring and Employee Severance

We consider restructuring activities to be programs by which we fundamentally change our operations, such as closing and consolidating facilities, moving manufacturing of a product to another location, production or business process sourcing, employee severance (including rationalizing headcount or other significant changes in personnel) and realigning operations

(including realignment of the management structure of a business unit in response to changing market conditions). See Note 3 for additional information regarding our restructuring activities.

### Amortization and Other Acquisition-Related Costs

We classify costs incurred in connection with acquisitions as amortization and other acquisition-related costs in our consolidated statements of earnings. These costs consist primarily of amortization of acquisition-related intangible assets, transaction costs, integration costs and changes in the fair value of contingent consideration obligations. Transaction costs are incurred during the initial evaluation of a potential acquisition and primarily relate to costs to analyze, negotiate and consummate the transaction as well as due diligence activities. Integration costs relate to activities required to combine the operations of an acquired enterprise into our operations. We record changes in the fair value of contingent consideration obligations relating to acquisitions as income or expense in amortization and other acquisition-related costs. See Note 5 for additional information regarding amortization of acquisition-related intangible assets.

In fiscal 2011, we completed the acquisition of privately-held Healthcare Solutions Holding, LLC ("P4 Healthcare") for cash and certain contingent consideration. In connection with this acquisition, the former owners of P4 Healthcare had the right to receive certain contingent payments based on earnings before interest, taxes, depreciation and amortization. As a result of changes in our estimate of performance in future periods, coupled with the progress of discussions with the former owners regarding an early termination and settlement, we recorded a \$71 million decrease in fair value of the obligation during fiscal 2012; and settled and terminated the remaining contingent consideration obligation for \$4 million in fiscal 2013.

### Translation of Foreign Currencies

Financial statements of our subsidiaries outside the United States are generally measured using the local currency as the functional currency. Adjustments to translate the assets and liabilities of these foreign subsidiaries into U.S. dollars are accumulated in shareholders' equity through AOCI utilizing period-end exchange rates. Revenues and expenses of these foreign subsidiaries are translated using average exchange rates during the year.

The foreign currency translation gains/(losses) included in AOCI at June 30, 2014 and 2013 are presented in Note 13. Foreign currency transaction gains and losses for the period are included in the consolidated statements of earnings in other income, net, and were immaterial for all periods presented.

### Interest Rate, Currency and Commodity Risk

All derivative instruments are recognized at fair value on the consolidated balance sheets and all changes in fair value are



## Notes to Consolidated Financial Statements

recognized in net earnings or shareholders' equity through AOCI, net of tax.

For contracts that qualify for hedge accounting treatment, our policy requires that the hedge contracts must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Hedge effectiveness is assessed periodically. Any contract not designated as a hedge, or so designated but ineffective, is adjusted to fair value and recognized immediately in net earnings. If a fair value or cash flow hedge ceases to qualify for hedge accounting treatment, the contract continues to be carried on the balance sheet at fair value until settled and future adjustments to the contract's fair value are recognized immediately in net earnings. If a forecasted transaction is no longer considered probable of occurring, amounts previously deferred in AOCI are recognized immediately in net earnings. See Note 12 for additional information regarding our derivative instruments, including the accounting treatment for instruments designated as fair value, cash flow and economic hedges.

### Earnings per Common Share

Basic earnings per share ("EPS") is computed by dividing net earnings (the numerator) by the weighted-average number of common shares outstanding during each period (the denominator). Diluted EPS is similar to the computation for basic EPS, except that the denominator is increased by the dilutive effect of vested and nonvested stock options, restricted shares, restricted share units and performance share units, computed using the treasury stock method. The total number of common shares issued, less the common shares held in treasury, is used to determine the common shares outstanding. See Note 14 for additional information regarding EPS.

### Fair Value Measurements

Fair value is defined as the price that would be received upon selling an asset or the price paid to transfer a liability on the measurement date. It focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are:

- Level 1 - Observable prices in active markets for identical assets and liabilities.
- Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

See Note 11 for additional information regarding fair value measurements.

### Recent Financial Accounting Standards

In June 2014, the Financial Accounting Standards Board ("FASB") issued guidance on accounting for share-based payments with performance targets. This guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This guidance will be effective for us in the first quarter of fiscal 2017, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

In May 2014, the FASB issued amended accounting guidance related to revenue recognition. This guidance is based on the principle that revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services to customers. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This amendment will be effective for us in the first quarter of fiscal 2018. We are currently evaluating the options for adoption and the impact on our financial position and results of operations.

In April 2014, the FASB issued amended accounting guidance related to the reporting of discontinued operations and disclosures of disposals of components of an entity. The amended guidance changes the thresholds for disposals to qualify as discontinued operations and requires additional disclosures. This amendment will be effective for us in the first quarter of fiscal 2016, with early adoption permitted. We will adopt this guidance on a prospective basis, and we do not expect the adoption to impact our financial position or results of operations.

In July 2013, the FASB issued amended accounting guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless certain conditions exist. This guidance will be effective for us in the first quarter of fiscal 2015. We do not expect the adoption of this guidance to impact our financial position or results of operations.

In March 2013, the FASB issued amended accounting guidance related to a parent company's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or group of assets within a foreign entity or of an

## Notes to Consolidated Financial Statements

investment in a foreign entity. The amended guidance requires the release of any cumulative translation adjustment into net income only upon complete or substantially complete liquidation of a controlling interest in a subsidiary or a group of assets within a foreign entity. Also, it requires the release of all or a pro rata portion of the cumulative translation adjustment to net income in the case of sale of an equity method investment that is a foreign entity. This amendment will be effective for us in the first quarter of fiscal 2015. We do not expect the adoption of this guidance to impact our financial position or results of operations.

In February 2013, the FASB issued amended accounting guidance related to reclassifications out of AOCI. An entity is required to present, either parenthetically on the face of the statement where net income is presented or in the notes, the significant amounts, by component, reclassified out of AOCI by the respective line items of net income and to report changes in its AOCI balances by component. We adopted this amended guidance on a prospective basis in the first quarter of fiscal 2014 and have elected to report reclassifications out of AOCI in Note 13. The adoption of this guidance did not impact our financial position or results of operations.

In January 2013, the FASB issued updated guidance to limit the scope of the balance sheet offsetting disclosures to derivatives, repurchase agreements and securities lending transactions to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar arrangement. We adopted this amended guidance on a retrospective basis in the first quarter of fiscal 2014. The adoption of this guidance did not impact our financial position or results of operations. See Note 11 for additional information regarding fair value measurements of our derivative instruments.

In July 2012, the FASB issued amended accounting guidance related to testing indefinite-lived intangible assets for impairment. Under this guidance, a company is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the company determines, based on a qualitative assessment, that it is more likely than not that its estimated fair value is less than its carrying amount. We adopted this amended guidance in the first quarter of fiscal 2014. The adoption of this guidance did not impact our financial position or results of operations.

## 2. Acquisitions

We have completed several acquisitions since July 1, 2011, including the acquisitions within our Medical segment described below. The pro forma results of operations and the results of operations for acquisitions since the acquisition dates have not been separately disclosed because the effects were not significant compared to the consolidated financial statements, individually or in the aggregate.

### AccessClosure

On May 9, 2014, we completed the acquisition of Access Closure, Inc. ("AccessClosure") for \$320 million in an all-cash transaction. We funded the acquisition with cash on hand. The acquisition of AccessClosure, a manufacturer and distributor of extravascular closure devices, expands the Medical segment's portfolio of self-manufactured products.

### AssuraMed

On March 18, 2013, we completed the acquisition of AssuraMed, Inc. ("AssuraMed") for \$2.07 billion, net of cash acquired, in an all-cash transaction. We funded the acquisition through the issuance of \$1.3 billion in fixed rate notes, as discussed in Note 7, and cash on hand. The acquisition of AssuraMed, a provider of medical supplies to homecare providers and patients in the home, expands the Medical segment's ability to serve this patient base. AssuraMed is now known as our Home division. We recognized \$20 million of transaction costs associated with the purchase of AssuraMed during fiscal 2013, which are included in amortization and other acquisition-related costs in the consolidated statements of earnings.

### Fair Value of Assets Acquired and Liabilities Assumed

The estimation of the fair value of assets acquired and liabilities assumed for AccessClosure resulted in goodwill of \$159 million and identifiable intangible assets, primarily developed technology, of \$133 million with a weighted-average useful life of 9 years. The assessment of fair value for AccessClosure is preliminary and is based on information that was available at the time the consolidated financial statements were prepared.

The estimation of the fair value of assets acquired and liabilities assumed for AssuraMed was completed during fiscal 2014. The

## Notes to Consolidated Financial Statements

following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date for AssuraMed:

(in millions)	Amount	Weighted-Average Useful Lives of Identifiable Intangible Assets
<b>Identifiable intangible assets:</b>		
Customer relationships	\$ 460	9
Trade names	160	11
Other	7	3
<b>Total identifiable intangible assets</b>	<b>627</b>	<b>9</b>
Cash and equivalents	25	
Trade receivables	103	
Inventories	69	
Prepaid expenses and other	102	
Property and equipment	40	
Accounts payable	(71)	
Other accrued liabilities	(24)	
Deferred income taxes and other liabilities	(180)	
<b>Total identifiable net assets acquired</b>	<b>691</b>	
Goodwill	1,404	
<b>Total net assets acquired</b>	<b>\$ 2,095</b>	

Our fair value estimates utilize significant unobservable inputs and thus represent Level 3 fair value measurements. The estimated fair value of the identifiable intangible assets was determined primarily using an income-based approach, which includes market participant expectations of the cash flows that an asset could generate over its remaining useful life, discounted back to present value using an appropriate rate of return. The useful lives were determined primarily using inputs such as projected customer retention rates, expected trade name utilization periods, and projected technology obsolescence rates. For AccessClosure and AssuraMed, the discount rates used to arrive at the present value of identifiable intangible assets were 10 and 9.5 percent, respectively, to reflect the internal rate of return and uncertainty in the cash flow projections.

### 3. Restructuring and Employee Severance

The following table summarizes restructuring and employee severance costs related to our restructuring activities:

(in millions)	2014 (3)	2013 (4)	2012
Employee-related costs (1)	\$ 13	\$ 59	\$ 20
Facility exit and other costs (2)	18	12	1
<b>Total restructuring and employee severance</b>	<b>\$ 31</b>	<b>\$ 71</b>	<b>\$ 21</b>

- (1) Employee-related costs primarily consist of termination benefits provided to employees who have been involuntarily terminated and duplicate payroll costs during transition periods.

- (2) Facility exit and other costs primarily consist of lease termination costs, accelerated depreciation, equipment relocation costs, project consulting fees and costs associated with restructuring our delivery of information technology infrastructure services.
- (3) Includes \$10 million of primarily facility exit and other costs related to the restructuring within our Medical segment described further below.
- (4) Includes \$30 million of employee-related costs and \$10 million of facility exit and other costs related to the restructuring within our Medical segment described further below.

On January 30, 2013, we announced a restructuring plan within our Medical segment. Under this restructuring plan, among other things, we have reorganized our Medical segment, moved production of procedure kits from our facility in Waukegan, Illinois to other facilities, and consolidated office space in Waukegan, Illinois. In addition, we are selling property in Waukegan, Illinois and are exiting our gamma sterilization business in El Paso, Texas.

We currently estimate the total costs associated with this restructuring plan to be approximately \$74 million on a pre-tax basis, of which \$18 million was recognized in fiscal 2014, including the loss to write down the property in Waukegan, Illinois as discussed in Note 4. Costs of \$51 million associated with this restructuring plan were recognized in fiscal 2013, including the loss to write down our gamma sterilization assets as discussed in Note 4. The estimated \$5 million remaining costs to be recognized in fiscal 2015 consist of facility exit and other costs.

During the fourth quarter of fiscal 2013, we recognized \$11 million of employee-related costs related to a restructuring plan within our Nuclear Pharmacy Services division.

The following table summarizes activity related to liabilities associated with restructuring and employee severance:

(in millions)	Employee-Related Costs	Facility Exit and Other Costs	Total
Balance at June 30, 2011	\$ 6	\$ 4	\$ 10
Additions	22	1	23
Payments and other adjustments	(12)	(3)	(15)
Balance at June 30, 2012	\$ 16	\$ 2	\$ 18
Additions	63	2	65
Payments and other adjustments	(24)	(2)	(26)
Balance at June 30, 2013	\$ 55	\$ 2	\$ 57
Additions	23	1	24
Payments and other adjustments	(54)	(3)	(57)
<b>Balance at June 30, 2014</b>	<b>\$ 24</b>	<b>\$ —</b>	<b>\$ 24</b>

### 4. Impairments and Loss on Disposal of Assets

In connection with our Medical segment restructuring plan discussed in Note 3, the property in Waukegan, Illinois meets the criteria for classification as held for sale. As a result, during fiscal 2014, we recognized an \$8 million loss to write down this

## Notes to Consolidated Financial Statements

property to the estimated fair value, less costs to sell, of \$24 million, which is included in prepaid expenses and other in the consolidated balance sheets. The fair value was estimated using inputs such as broker listings and sales agreements and thus represents a Level 2 nonrecurring fair value measurement.

Also in connection with our Medical segment restructuring plan, during fiscal 2013 we recognized an \$11 million loss to write down our gamma sterilization assets in El Paso, Texas.

During fiscal 2013, we recognized an \$829 million (\$799 million, net of tax) goodwill impairment charge related to our Nuclear Pharmacy Services division, as discussed further in Note 5. We also recognized an \$8 million loss during fiscal 2013 to write down commercial software under development within our Pharmaceutical segment in connection with our decision to discontinue this project.

During fiscal 2012, we recognized a \$16 million loss to write down an indefinite-life intangible asset related to the P4 Healthcare trade name, an asset within our Pharmaceutical segment. We rebranded P4 Healthcare under the Cardinal Health Specialty Solutions name.

### 5. Goodwill and Other Intangible Assets

#### Goodwill

The following table summarizes the changes in the carrying amount of goodwill, by segment and in total:

(in millions)	Pharmaceutical (1)	Medical	Total
Balance at June 30, 2012	\$ 2,876	\$ 1,102	\$ 3,978
Goodwill acquired, net of purchase price adjustments	40	1,409	1,449
Foreign currency translation adjustments and other	7	(4)	3
Impairment	(829)	—	(829)
Balance at June 30, 2013	\$ 2,094	\$ 2,507	\$ 4,601
Goodwill acquired, net of purchase price adjustments	68	216	284
Foreign currency translation adjustments and other	(4)	(3)	(7)
Balance at June 30, 2014	\$ 2,158	\$ 2,720	\$ 4,878

(1) At June 30, 2014 and 2013, the accumulated goodwill impairment loss was \$829 million.

#### Fiscal 2014

The increase in the Medical segment goodwill during fiscal 2014 is primarily due to the AccessClosure acquisition. Goodwill recognized in connection with this acquisition primarily represents the expected benefits from synergies of integrating this business, the existing workforce of the acquired entity, and expected growth from new customers, new products, and

improvements to existing technologies. See Note 2 for further discussion of this acquisition.

#### Fiscal 2013

The increase in the Medical segment goodwill during fiscal 2013 is primarily due to the AssuraMed acquisition. Goodwill recognized in connection with this acquisition primarily represents the expected benefits from synergies of integrating this business, the existing workforce of the acquired entity, expected growth from new customers and long-term brand value. See Note 2 for further discussion of this acquisition.

The decrease in the Pharmaceutical segment goodwill during fiscal 2013 is primarily due to an \$829 million (\$799 million, net of tax) non-cash goodwill impairment charge related to our Nuclear Pharmacy Services division, which is included in impairments and loss on disposal of assets in our consolidated statements of earnings. This impairment charge did not impact our liquidity, cash flows from operations, or compliance with debt covenants.

As a result of significant softness in the low-energy diagnostics market, we performed interim goodwill impairment testing for our Nuclear Pharmacy Services division during the three months ended December 31, 2012 and determined that there was no impairment, as the fair value of the reporting unit was estimated to be in excess of its carrying amount. During the second half of fiscal 2013, we experienced sustained volume declines and price erosion for the core, low-energy products provided by this division. In addition, we experienced reduced sales for some existing high-energy diagnostic products, slower-than-expected adoption of new high-energy diagnostic products, and reimbursement developments that could have adversely impacted the future growth of these products. Using this information, we adjusted our outlook and long-term business plans for this division during our annual budgeting process. This update resulted in significant reductions in the anticipated future cash flows and estimated fair value for this reporting unit.

We completed our annual goodwill impairment test for fiscal 2013, which we perform annually in the fourth quarter, in conjunction with the preparation of our fiscal 2013 consolidated financial statements. Using a combination of the income-based approach (using a discount rate of 10 percent) and the market-based approach, the fair value of this reporting unit was estimated to be below the carrying amount and therefore indicated impairment. The second step of the impairment test resulted in the impairment of the entire \$829 million carrying amount of goodwill for this reporting unit. Our fair value estimates utilize significant unobservable inputs and thus represent Level 3 fair value measurements.

## Notes to Consolidated Financial Statements

### Other Intangible Assets

Other intangible assets are amortized over periods ranging from one to twenty years. The following tables summarize other intangible assets by class at June 30:

(in millions)	2014		
	Gross Intangible	Accumulated Amortization	Net Intangible
<b>Indefinite-life intangibles:</b>			
Trademarks and other	\$ 14	\$ —	\$ 14
Total indefinite-life intangibles	14	—	14
<b>Definite-life intangibles:</b>			
Customer relationships	1,043	388	655
Trademarks, trade names and patents	213	69	144
Non-compete agreements	15	11	4
Developed technology and other	243	68	175
Total definite-life intangibles	1,514	536	978
<b>Total other intangible assets</b>	<b>\$ 1,528</b>	<b>\$ 536</b>	<b>\$ 992</b>

(in millions)	2013		
	Gross Intangible	Accumulated Amortization	Net Intangible
<b>Indefinite-life intangibles:</b>			
Trademarks and other	\$ 11	\$ —	\$ 11
Total indefinite-life intangibles	11	—	11
<b>Definite-life intangibles:</b>			
Customer relationships	982	230	752
Trademarks, trade names and patents	209	49	160
Non-compete agreements	15	10	5
Developed technology and other	101	56	45
Total definite-life intangibles	1,307	345	962
<b>Total other intangible assets</b>	<b>\$ 1,318</b>	<b>\$ 345</b>	<b>\$ 973</b>

Total amortization of intangible assets was \$188 million, \$121 million and \$79 million for fiscal 2014, 2013 and 2012, respectively. Estimated annual amortization of intangible assets for fiscal 2015 through 2019 is as follows: \$177 million, \$165 million, \$153 million, \$116 million and \$65 million.

The increase in amortization during fiscal 2014 and 2013 is primarily due to the acquisition of AssuraMed. See Note 2 for further discussion of this acquisition.

### 6. Available-for-Sale Securities

During fiscal 2014, we purchased marketable securities, which are classified as available-for-sale and are carried at fair value in the consolidated balance sheets. We held the following investments in marketable securities at fair value at June 30:

(in millions)	2014
<b>Current available-for-sale securities:</b>	
Commercial paper	\$ 4
Treasury bills	85
International bonds	1
Corporate bonds	3
Total current available-for-sale securities	93
<b>Long-term available-for-sale securities:</b>	
Corporate bonds	5
U.S. agency bonds	2
Total long-term available-for-sale securities	7
<b>Total available-for-sale securities</b>	<b>\$ 100</b>

Gross unrealized gains and losses were immaterial at June 30, 2014. We did not recognize any other-than-temporary impairments during fiscal 2014. At June 30, 2014, the weighted-average effective maturity of our current and long-term investments was approximately 11 months and 21 months, respectively.

### 7. Long-Term Obligations and Other Short-Term Borrowings

The following table summarizes long-term obligations and other short-term borrowings at June 30:

(in millions)	2014	2013
1.7% Notes due 2018	\$ 401	\$ 399
1.9% Notes due 2017	251	250
3.2% Notes due 2022	248	247
3.2% Notes due 2023	549	549
4.0% Notes due 2015	513	524
4.6% Notes due 2043	349	349
4.625% Notes due 2020	525	527
5.8% Notes due 2016	301	301
5.85% Notes due 2017	158	157
6.0% Notes due 2017	197	200
7.0% Debentures due 2026	124	124
7.8% Debentures due 2016	37	37
Other obligations	319	190
Total	\$ 3,972	\$ 3,854
Less: current portion of long-term obligations and other short-term borrowings	801	168
<b>Long-term obligations, less current portion</b>	<b>\$ 3,171</b>	<b>\$ 3,686</b>

## Notes to Consolidated Financial Statements

Maturities of long-term obligations and other short-term borrowings for fiscal 2015 through 2019 and thereafter are as follows: \$801 million, \$22 million, \$788 million, \$561 million, \$1 million and \$1,799 million.

### Long-Term Debt

The 1.7%, 1.9%, 3.2%, 4.0%, 4.6%, 4.625%, 5.8%, 5.85% and 6.0% Notes represent unsecured obligations of Cardinal Health, Inc. The 7.0% and 7.8% Debentures represent unsecured obligations of Allegiance Corporation (a wholly-owned subsidiary), which Cardinal Health, Inc. has guaranteed. None of these obligations are subject to a sinking fund and the Allegiance obligations are not redeemable prior to maturity. Interest is paid pursuant to the terms of the obligations. These notes are effectively subordinated to the liabilities of our subsidiaries, including trade payables of \$12.1 billion.

In June 2013, we used cash on hand to repay \$300 million of our 5.5% Notes that were due on June 15, 2013.

In February 2013, we sold in a registered offering \$400 million aggregate principal amount of 1.7% Notes that mature on March 15, 2018, \$550 million aggregate principal amount of 3.2% Notes that mature on March 15, 2023 and \$350 million aggregate principal amount of 4.6% Notes that mature on March 15, 2043. These notes are unsecured obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. We used the proceeds to fund a portion of the purchase price of AssuraMed as discussed in Note 2.

In May 2012, we sold in a registered offering \$250 million aggregate principal amount of 1.9% Notes that mature on June 15, 2017 and \$250 million aggregate principal amount of 3.2% Notes that mature on June 15, 2022. These notes are unsecured and unsubordinated obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness.

The 6.0% Notes due 2017, 1.9% Notes due 2017, 1.7% Notes due 2018, 4.625% Notes due 2020, 3.2% Notes due 2022, 3.2% Notes due 2023 and 4.6% Notes due 2043 require us to offer to purchase the notes at 101% of the principal amount plus accrued and unpaid interest, if we have a defined change of control and specified ratings below investment grade by Standard & Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch Ratings.

### Other Financing Arrangements

In addition to cash and equivalents, at June 30, 2014 and 2013, our sources of liquidity include a \$1.5 billion revolving credit facility and a commercial paper program of up to \$1.5 billion, backed by the revolving credit facility. The revolving credit facility exists largely to support issuances of commercial paper as well as other short-term borrowings for general corporate purposes.

On November 6, 2012, we renewed our \$950 million committed receivables sales facility program through Cardinal Health Funding, LLC ("CHF") until November 6, 2014. On October 15, 2013, we reduced our committed receivables sales facility program from \$950 million to \$700 million in light of the Walgreens contract expiration. CHF was organized for the sole purpose of buying receivables and selling undivided interests in those receivables to third-party purchasers. Although consolidated in accordance with GAAP, CHF is a separate legal entity from Cardinal Health and from our subsidiary that sells the receivables to CHF. CHF is designed to be a special purpose, bankruptcy-remote entity whose assets are available solely to satisfy the claims of its creditors.

We had no outstanding balance under the revolving credit facility at June 30, 2014 and 2013, except for standby letters of credit of zero and \$43 million at June 30, 2014 and 2013, respectively. We had no outstanding borrowings from the commercial paper program at June 30, 2014 and 2013. We had no outstanding balance under the committed receivables sales facility program at June 30, 2014 and 2013, except for standby letters of credit of \$41 million and zero at June 30, 2014 and 2013, respectively. Our revolving credit facility and committed receivables sales facility program require us to maintain a consolidated interest coverage ratio, as of any fiscal quarter end, of at least 4-to-1 and a consolidated leverage ratio of no more than 3.25-to-1. As of June 30, 2014, we were in compliance with these financial covenants.

We also maintain other short-term credit facilities and an unsecured line of credit that allowed for borrowings up to \$369 million and \$304 million at June 30, 2014 and 2013, respectively. The \$319 million and \$190 million balance of other obligations at June 30, 2014 and 2013, respectively, consisted of short-term borrowings and capital leases.

## Notes to Consolidated Financial Statements

### 8. Income Taxes

Earnings before income taxes and discontinued operations are:

(in millions)	2014	2013	2012
U.S. Operations	\$ 1,665	\$ 651	\$ 1,514
Non-U.S. Operations	133	237	184
<b>Earnings before income taxes and discontinued operations</b>	<b>\$ 1,798</b>	<b>\$ 888</b>	<b>\$ 1,698</b>

The provision for income taxes from continuing operations consists of the following:

(in millions)	2014	2013	2012
<b>Current:</b>			
Federal	\$ 521	\$ 451	\$ 430
State and local	51	62	27
Non-U.S.	37	19	13
<b>Total current</b>	<b>\$ 609</b>	<b>\$ 532</b>	<b>\$ 470</b>
<b>Deferred:</b>			
Federal	\$ 24	\$ 28	\$ 124
State and local	3	(5)	28
Non-U.S.	(1)	(2)	6
<b>Total deferred</b>	<b>26</b>	<b>21</b>	<b>158</b>
<b>Provision for income taxes</b>	<b>\$ 635</b>	<b>\$ 553</b>	<b>\$ 628</b>

The following table presents a reconciliation of the provision based on the federal statutory income tax rate to our effective income tax rate from continuing operations:

	2014	2013	2012
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	2.2	2.5	2.3
Foreign tax rate differential	(1.2)	(4.0)	(2.2)
Nondeductible/nontaxable items	(0.2)	(0.5)	—
Nondeductible goodwill impairment	—	33.2	—
Change in measurement of an uncertain tax position and impact of IRS settlements	(0.4)	(5.7)	0.9
Other	(0.1)	1.8	1.0
<b>Effective income tax rate</b>	<b>35.3%</b>	<b>62.3%</b>	<b>37.0%</b>

The fiscal 2014 effective tax rate was impacted by net favorable discrete items of \$37 million, which reduced the rate by 2.1 percentage points. The discrete items include the favorable impact of the settlement of federal and state tax controversies (\$80 million) and release of valuation allowances (\$12 million) and the unfavorable impact of remeasurement of unrecognized tax benefits (\$65 million), primarily as a result of proposed assessments of additional tax.

The fiscal 2013 effective tax rate was unfavorably impacted by 33.2 percentage points (\$295 million) due to the nondeductibility of substantially all of the goodwill impairment which was partially offset by the favorable impact of the revaluation of our deferred tax liability and related interest on unrepatriated foreign earnings as a result of an agreement with tax authorities (\$64 million or 7.2 percentage points). During the fourth quarter of fiscal 2013, we recorded an out-of-period increase in income tax expense of \$14 million (of which generally less than \$1 million pertained to each of the first three quarters of fiscal 2013 and each of the quarters in fiscal 2012 through 2008), which related to uncertain tax benefits, and a decrease in retained earnings of \$15 million, which related to the adoption of accounting guidance for uncertain tax benefits in 2008. The amounts were not material individually or in the aggregate to current or prior periods.

At June 30, 2014, we had \$1.7 billion of undistributed earnings from non-U.S. subsidiaries that are intended to be permanently reinvested in non-U.S. operations. Because these earnings are considered permanently reinvested, no U.S. tax provision has been accrued related to the repatriation of these earnings. It is not practicable to estimate the amount of U.S. tax that might be payable on the eventual remittance of such earnings.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities and operating loss and tax credit carryforwards for tax purposes. The following table presents the components of the deferred income tax assets and liabilities at June 30:

(in millions)	2014	2013
<b>Deferred income tax assets:</b>		
Receivable basis difference	\$ 59	\$ 50
Accrued liabilities	111	115
Share-based compensation	51	66
Loss and tax credit carryforwards	191	158
Deferred tax assets related to uncertain tax positions	84	127
Other	42	82
<b>Total deferred income tax assets</b>	<b>538</b>	<b>598</b>
Valuation allowance for deferred income tax assets	(94)	(88)
<b>Net deferred income tax assets</b>	<b>\$ 444</b>	<b>\$ 510</b>
<b>Deferred income tax liabilities:</b>		
Inventory basis differences	\$ (1,164)	\$ (1,160)
Property-related	(142)	(173)
Goodwill and other intangibles	(340)	(299)
Other	(7)	(6)
<b>Total deferred income tax liabilities</b>	<b>(1,653)</b>	<b>(1,638)</b>
<b>Net deferred income tax liability</b>	<b>\$ (1,209)</b>	<b>\$ (1,128)</b>

## Notes to Consolidated Financial Statements

Deferred income tax assets and liabilities in the preceding table, after netting by taxing jurisdiction, are in the following captions in the consolidated balance sheets at June 30:

(in millions)	2014	2013
Current deferred income tax asset (1)	\$ 18	\$ 15
Noncurrent deferred income tax asset (2)	15	17
Current deferred income tax liability (3)	(918)	(908)
Noncurrent deferred income tax liability (4)	(324)	(252)
<b>Net deferred income tax liability</b>	<b>\$ (1,209)</b>	<b>\$ (1,128)</b>

- (1) Included in prepaid expenses and other in the consolidated balance sheets.
- (2) Included in other assets in the consolidated balance sheets.
- (3) Included in other accrued liabilities in the consolidated balance sheets.
- (4) Included in deferred income taxes and other liabilities in the consolidated balance sheets.

At June 30, 2014, we had gross federal, state and international loss and credit carryforwards of \$210 million, \$1.3 billion and \$85 million, respectively, the tax effect of which is an aggregate deferred tax asset of \$191 million. Substantially all of these carryforwards are available for at least three years. Approximately \$92 million of the valuation allowance at June 30, 2014 applies to certain federal, state and international loss carryforwards that, in our opinion, are more likely than not to expire unutilized. However, to the extent that tax benefits related to these carryforwards are realized in the future, the reduction in the valuation allowance would reduce income tax expense.

We had \$510 million, \$650 million and \$654 million of unrecognized tax benefits at June 30, 2014, 2013 and 2012, respectively. The June 30, 2014, 2013 and 2012 balances include \$322 million, \$371 million and \$337 million, respectively, of unrecognized tax benefits that, if recognized, would have an impact on the effective tax rate. The remaining unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits would not affect our effective tax rate. We include the full amount of unrecognized tax benefits in deferred income taxes and other liabilities in the consolidated balance sheets. The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

(in millions)	2014	2013	2012
Balance at beginning of fiscal year	\$ 650	\$ 654	\$ 747
Additions for tax positions of the current year	16	22	16
Additions for tax positions of prior years	94	97	68
Reductions for tax positions of prior years	(40)	(30)	(3)
Settlements with tax authorities	(210)	(93)	(172)
Expiration of the statute of limitations	—	—	(2)
<b>Balance at end of fiscal year</b>	<b>\$ 510</b>	<b>\$ 650</b>	<b>\$ 654</b>

It is reasonably possible that there could be a change in the amount of unrecognized tax benefits within the next 12 months due to activities of the U.S. Internal Revenue Service ("IRS") or other taxing authorities, including proposed assessments of additional tax, possible settlement of audit issues, reassessment of existing unrecognized tax benefits or the expiration of applicable statutes of limitations. We estimate that the range of the possible change in unrecognized tax benefits within the next 12 months is a decrease of approximately \$25 million to an increase of approximately \$10 million, exclusive of penalties and interest.

We recognize accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. At June 30, 2014, 2013 and 2012 we had \$143 million, \$198 million and \$209 million, respectively, accrued for the payment of interest and penalties. These balances are gross amounts before any tax benefits and are included in deferred income taxes and other liabilities in the consolidated balance sheets. During fiscal 2014 and 2012, we recognized \$46 million and \$28 million of benefit for interest and penalties in income tax expense, respectively. During fiscal 2013, we recognized \$24 million of interest and penalties in income tax expense.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. We are subject to audit by the IRS for fiscal years 2006 through the current fiscal year. We are generally subject to audit by taxing authorities in various U.S. state and foreign jurisdictions for fiscal years 2003 through the current fiscal year.

During fiscal 2014, the IRS closed audits of fiscal years 2003 through 2005. The IRS is currently conducting audits of fiscal years 2006 through 2010, and our transfer pricing arrangements continue to be under consideration as part of these audits. While the IRS has made and could make proposed adjustments to our transfer pricing arrangements, or other matters, we are defending our reported tax positions, and have accounted for the unrecognized tax benefits associated with our tax positions.

We are a party to a tax matters agreement with CareFusion Corporation ("CareFusion"), under which CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to our fiscal 2010 spin-off of CareFusion. The indemnification receivable was \$210 million and \$186 million at June 30, 2014 and 2013, respectively, and is included in other assets in the consolidated balance sheets.

## 9. Commitments, Contingent Liabilities and Litigation

### Commitments

The future minimum rental payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2014 for fiscal 2015 through 2019 and thereafter are as follows: \$97 million, \$80 million, \$60 million, \$45 million, \$31 million and \$74 million. Rental expense



## Notes to Consolidated Financial Statements

relating to operating leases was \$107 million, \$92 million and \$86 million in fiscal 2014, 2013 and 2012, respectively. Sublease rental income was immaterial for all periods presented.

### Legal Proceedings

We become involved from time to time in disputes, litigation and regulatory matters incidental to our business, including governmental investigations and enforcement actions, personal injury claims, employment matters, commercial disputes, intellectual property matters, government contract compliance matters, disputes regarding environmental clean-up costs, claims in connection with acquisitions and divestitures, and other matters arising out of the normal conduct of our business. We intend to vigorously defend ourselves in such matters.

We may be named from time to time in *qui tam* actions, which are cases initiated by private parties purporting to act on behalf of federal or state governments that allege that false claims have been submitted or have been caused to be submitted for payment by the government. After a private party has filed a *qui tam* action, the government must investigate the private party's claim and determine whether to intervene in the matter. These actions may remain under seal while the government makes this determination.

In addition, we occasionally may suspect that products we manufacture, market or distribute do not meet product specifications, published standards or regulatory requirements. In such circumstances, we investigate and take appropriate corrective action. Such actions can lead to product recalls, costs to repair or replace affected products, temporary interruptions in product sales and action by regulators.

We accrue for contingencies related to disputes, litigation and regulatory matters if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because these matters are inherently unpredictable and unfavorable developments or resolutions can occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review contingencies to determine whether our accruals and related disclosures are adequate. The amount of ultimate loss may differ from these estimates.

We are unable to estimate a range of reasonably possible loss for matters described below, since damages or fines have not been specified or the proceedings are at stages where significant uncertainty exists as to legal or factual issues and as to whether such matters will proceed to trial. We do not believe, based on currently available information, that the outcomes of these matters will have a material adverse effect on our financial position, results of operations or cash flows, though the outcome of one or more of these matters could be material to our results of operations for a particular period.

We recognize income from the favorable outcome of litigation when we receive the associated cash or assets.

We recognize estimated loss contingencies for litigation and regulatory matters and income from favorable resolution of litigation in litigation (recoveries)/charges, net in our consolidated statements of earnings.

### Lakeland, Florida Distribution Center DEA Investigation and Related Matters

In February 2012, the U.S. Drug Enforcement Administration (the "DEA") issued an order to show cause and immediate suspension of our Lakeland, Florida distribution center's registration to distribute controlled substances, asserting that we failed to maintain required controls against the diversion of controlled substances. In May 2012, we entered into a settlement agreement with the DEA that resolved the administrative aspects of the DEA's action, but did not foreclose the possibility of the U.S. Department of Justice (the "DOJ") seeking civil fines for conduct covered by the settlement agreement. In that regard, we are continuing to provide information to and engage in discussions, including preliminary discussions regarding the feasibility of a settlement, with the DEA and the DOJ.

### State of West Virginia vs. Cardinal Health, Inc.

In June 2012, the West Virginia Attorney General filed, and in January 2014 amended, complaints against 13 pharmaceutical wholesale distributors, including us, in the Circuit Court of Boone County, West Virginia alleging, among other things, that the distributors failed to maintain effective controls to guard against diversion of controlled substances in West Virginia, failed to report suspicious orders of controlled substances in accordance with the West Virginia Uniform Controlled Substances Act and were negligent in distributing controlled substances to pharmacies that serve individuals who abuse controlled substances. In addition to injunctive and other equitable relief, the complaints seek monetary damages and the creation of a court-supervised fund, to be financed by the defendants in these actions, for a medical monitoring program focused on prescription drug abuse.

### Federal False Claims Investigation

The DOJ has requested information in connection with an investigation of possible violations of the federal False Claims Act with respect to our Medical segment's administration of a prime vendor agreement with the federal government. We are cooperating with the DOJ in this matter.

### Antitrust Litigation Proceeds

We recognized income resulting from settlements of class action antitrust claims in which we were a class member of \$24 million and \$38 million during fiscal 2014 and 2013, respectively.

## 10. Guarantees

In the ordinary course of business, we agree to indemnify certain other parties under acquisition and disposition agreements, customer agreements, intellectual property licensing agreements, and other agreements. Such indemnification

## Notes to Consolidated Financial Statements

obligations vary in scope and, when defined, in duration. In many cases, a maximum obligation is not explicitly stated, and therefore the overall maximum amount of the liability under such indemnification obligations cannot be reasonably estimated. Where appropriate, such indemnification obligations are recorded as a liability. Historically, we have not, individually or in the aggregate, made payments under these indemnification obligations in any material amounts. In certain circumstances, we believe that existing insurance arrangements, subject to the general deduction and exclusion provisions, would cover portions of the liability that may arise from these indemnification obligations. In addition, we believe that the likelihood of a material liability being triggered under these indemnification obligations is not significant.

From time to time we enter into agreements that obligate us to make fixed payments upon the occurrence of certain events. Such obligations primarily relate to obligations arising under acquisition transactions, where we have agreed to make payments based upon the achievement of certain financial performance measures by the acquired business. Generally, the obligation is capped at an explicit amount.

### 11. Fair Value Measurements

The following tables present the fair values for those assets measured on a recurring basis at June 30:

	2014			
(in millions)	Level 1	Level 2	Level 3	Total
Cash equivalents (1)	\$ 740	\$ —	\$ —	\$ 740
Forward contracts (2)	—	10	—	10
Available-for-sale securities (3)	—	100	—	100
Other investments (4)	106	—	—	106
<b>Total</b>	<b>\$ 846</b>	<b>\$ 110</b>	<b>\$ —</b>	<b>\$ 956</b>

	2013			
(in millions)	Level 1	Level 2	Level 3	Total
Cash equivalents (1)	\$ 348	\$ —	\$ —	\$ 348
Forward contracts (2)	—	12	—	12
Other investments (4)	89	—	—	89
<b>Total</b>	<b>\$ 437</b>	<b>\$ 12</b>	<b>\$ —</b>	<b>\$ 449</b>

- (1) Cash equivalents are comprised of highly liquid investments purchased with a maturity of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.
- (2) The fair value of interest rate swaps, foreign currency contracts and commodity contracts is determined based on the present value of expected future cash flows considering the risks involved, including non-performance risk, and using discount rates appropriate for the respective maturities. Observable level 2 inputs are used to determine the present value of expected future cash flows. The fair value of these derivative contracts, which are subject to master netting arrangements under certain circumstances, is presented on a gross basis in the consolidated balance sheets.
- (3) During fiscal 2014, we purchased marketable securities, which are classified as available-for-sale and are carried at fair value in the consolidated balance sheets. Observable level 2 inputs such as quoted prices for similar securities, interest rate spreads, yield curves and credit

risk are used to determine the fair value. See Note 6 for additional information regarding available-for-sale securities.

- (4) The other investments balance includes investments in mutual funds, which are used to offset fluctuations in deferred compensation liabilities. These mutual funds primarily invest in the equity securities of companies with large market capitalization and high quality fixed income debt securities. The fair value of these investments is determined using quoted market prices.

### 12. Financial Instruments

We utilize derivative financial instruments to manage exposure to certain risks related to our ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, currency exchange risk and commodity price risk. We do not use derivative instruments for trading or speculative purposes. While the majority of our derivative instruments are designated as hedging instruments, we also enter into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments. These derivative instruments are adjusted to current fair value through earnings at the end of each period.

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintain strict counterparty credit guidelines and enter into derivative instruments only with major financial institutions that are investment grade or better. We do not have significant exposure to any one counterparty and we believe the risk of loss is remote. Additionally, we do not require collateral under these agreements.

#### Interest Rate Risk Management

We are exposed to the impact of interest rate changes. Our objective is to manage the impact of interest rate changes on cash flows and the market value of our borrowings. We utilize a mix of debt maturities along with both fixed-rate and variable-rate debt to manage changes in interest rates. In addition, we enter into interest rate swaps to further manage our exposure to interest rate variations related to our borrowings and to lower our overall borrowing costs.

#### Currency Exchange Risk Management

We conduct business in several major international currencies and are subject to risks associated with changing foreign exchange rates. Our objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on business operations. Accordingly, we enter into various contracts that change in value as foreign exchange rates change to protect the value of existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenue and expenses.

#### Commodity Price Risk Management

We are exposed to changes in the price of certain commodities. Our objective is to reduce earnings and cash flow volatility associated with forecasted purchases of these commodities to allow management to focus its attention on business operations.

## Notes to Consolidated Financial Statements

Accordingly, we enter into derivative contracts to manage the price risk associated with these forecasted purchases.

The following table summarizes the fair value of our assets and liabilities related to derivatives designated as hedging instruments and the respective line items in which they were recorded in the consolidated balance sheets at June 30:

(in millions)	2014		2013	
<b>Assets:</b>				
Foreign currency contracts (1)	\$	1	\$	4
Forward interest rate swaps (1)		10		—
Forward interest rate swaps (2)		—		20
Pay-floating interest rate swaps (2)		5		—
Commodity contracts (2)		1		—
<b>Total assets</b>	<b>\$</b>	<b>17</b>	<b>\$</b>	<b>24</b>
<b>Liabilities:</b>				
Foreign currency contracts (3)	\$	1	\$	1
Forward interest rate swaps (4)		1		—
Pay-floating interest rate swaps (4)		5		11
<b>Total liabilities</b>	<b>\$</b>	<b>7</b>	<b>\$</b>	<b>12</b>

- (1) Included in prepaid expenses and other in the consolidated balance sheets.
- (2) Included in other assets in the consolidated balance sheets.
- (3) Included in other accrued liabilities in the consolidated balance sheets.
- (4) Included in deferred income taxes and other liabilities in the consolidated balance sheets.

### Fair Value Hedges

We enter into pay-floating interest rate swaps to hedge the changes in the fair value of fixed-rate debt resulting from fluctuations in interest rates. These contracts are designated and qualify as fair value hedges. Accordingly, the gain or loss recorded on the pay-floating interest rate swaps is directly offset by the change in fair value of the underlying debt. Both the derivative instrument and the underlying debt are adjusted to market value at the end of each period with any resulting gain or loss recorded in interest expense, net in the consolidated statements of earnings.

During fiscal 2014 and 2013, we entered into pay-floating interest rate swaps with total notional amounts of \$300 million and \$775 million, respectively. These swaps have been designated as fair value hedges of our fixed rate debt.

During fiscal 2013, we terminated notional amounts of \$350 million of pay-floating interest rate swaps and received net settlement proceeds of \$43 million. These swaps were previously designated as fair value hedges. There was no immediate impact to earnings; however, the fair value adjustment to debt is being amortized over the life of the underlying debt as a reduction to interest expense, net in the consolidated statements of earnings.

The following tables summarize the outstanding interest rate swaps designated as fair value hedges at June 30:

(in millions)	2014	
	Notional Amount	Maturity Date
Pay-floating interest rate swaps	\$ 1,438	Jun 2015 - Jun 2022

(in millions)	2013	
	Notional Amount	Maturity Date
Pay-floating interest rate swaps	\$ 1,138	Jun 2015 - Jun 2022

The following table summarizes the gain/(loss) recognized in earnings for interest rate swaps designated as fair value hedges:

(in millions)	2014	2013	2012
Pay-floating interest rate swaps (1)	\$ 23	\$ 28	\$ 38
Fixed-rate debt (1)	(23)	(28)	(38)

- (1) Included in interest expense, net in the consolidated statements of earnings.

There was no ineffectiveness associated with these derivative instruments.

### Cash Flow Hedges

We enter into derivative instruments to hedge our exposure to changes in cash flows attributable to interest rate, foreign currency and commodity price fluctuations associated with certain forecasted transactions. These derivative instruments are designated and qualify as cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in earnings immediately.

We enter into forward interest rate swaps to manage variability of expected future cash flows from changing interest rates. During fiscal 2014 and 2013, we entered into forward interest rate swaps with total notional amounts of \$50 million and \$250 million, respectively, to hedge probable, but not firmly committed, future transactions associated with our debt.

We enter into foreign currency contracts to protect the value of anticipated foreign currency revenues and expenses. At June 30, 2014 and 2013, we held contracts to hedge probable, but not firmly committed, revenue and expenses. The principal currencies hedged are the Canadian dollar, Mexican peso, European euro and Thai baht.

We enter into commodity contracts to manage the price risk associated with forecasted purchases of certain commodities used in our Medical segment.

## Notes to Consolidated Financial Statements

The following tables summarize the outstanding cash flow hedges at June 30:

(in millions)	2014		
	Notional Amount	Maturity Date	
Forward interest rate swaps	\$ 300	Jun 2025	- Oct 2026
Foreign currency contracts	182	Jul 2014	- Jun 2015
Commodity contracts	24	Jul 2014	- Mar 2017

(in millions)	2013		
	Notional Amount	Maturity Date	
Forward interest rate swaps	\$ 250	Jun 2025	
Foreign currency contracts	164	Jul 2013	- Jun 2014
Commodity contracts	24	Jul 2013	- Mar 2016

The following table summarizes the gain/(loss) included in AOCI for derivative instruments designated as cash flow hedges at June 30:

(in millions)	2014	2013
Forward interest rate swaps	\$ 9	\$ 20
Commodity contracts	1	—
Foreign currency contracts	(1)	3

The following table summarizes the gain/(loss) reclassified from AOCI into earnings for derivative instruments designated as cash flow hedges:

(in millions)	2014	2013	2012
Foreign currency contracts (1)	\$ —	\$ 1	\$ 1
Foreign currency contracts (2)	2	1	(1)
Foreign currency contracts (3)	1	1	(1)
Commodity contracts (3)	—	1	2
Forward interest rate swaps (4)	—	1	—

(1) Included in revenue in the consolidated statements of earnings.

(2) Included in cost of products sold in the consolidated statements of earnings.

(3) Included in SG&A expenses in the consolidated statements of earnings.

(4) Included in interest expense, net in the consolidated statements of earnings.

The amount of ineffectiveness associated with these derivative instruments was immaterial for all periods presented.

### Economic (Non-Designated) Hedges

We enter into foreign currency contracts to manage our foreign exchange exposure related to intercompany financing transactions and other balance sheet items subject to revaluation that do not meet the requirements for hedge accounting treatment. Accordingly, these derivative instruments

are adjusted to current market value at the end of each period through earnings. The gain or loss recorded on these instruments is substantially offset by the remeasurement adjustment on the foreign currency denominated asset or liability. The settlement of the derivative instrument and the remeasurement adjustment on the foreign currency denominated asset or liability are both recorded in other (income)/expense, net at the end of each period.

The following tables summarize the outstanding economic (non-designated) derivative instruments at June 30:

(in millions)	2014		
	Notional Amount	Maturity Date	
Foreign currency contracts	\$ 461	Jul 2014	- Sep 2014

(in millions)	2013		
	Notional Amount	Maturity Date	
Foreign currency contracts	\$ 479	Jul 2013	- Sep 2013

The following table summarizes the gain/(loss) recognized in earnings for economic (non-designated) derivative instruments:

(in millions)	2014	2013	2012
Foreign currency contracts (1)	\$ 12	\$ 6	\$ (39)
Commodity contracts (1)	—	—	(1)

(1) Included in other income, net in the consolidated statements of earnings.

### Fair Value of Financial Instruments

The carrying amounts of cash and equivalents, trade receivables, net, accounts payable and other accrued liabilities at June 30, 2014 and June 30, 2013 approximate fair value due to their short-term maturities.

Cash balances are invested in accordance with our investment policy. These investments are exposed to market risk from interest rate fluctuations and credit risk from the underlying issuers, although this is mitigated through diversification.

The following table summarizes the estimated fair value of our long-term obligations and other short-term borrowings compared to the respective carrying amounts at June 30:

(in millions)	2014	2013
Estimated fair value	\$ 4,115	\$ 3,899
Carrying amount	3,972	3,854

The estimated fair value of our long-term obligations and other short-term borrowings is estimated based on either the quoted market prices for the same or similar issues or other inputs derived from available market information, which represents a Level 2 measurement.

## Notes to Consolidated Financial Statements

The following table is a summary of the fair value gain/(loss) of our derivative instruments, based upon the estimated amount that we would receive (or pay) to terminate the contracts at June 30:

(in millions)	2014		2013	
	Notional Amount	Fair Value Gain/(Loss)	Notional Amount	Fair Value Gain/(Loss)
Pay-floating interest rate swaps	\$ 1,438	\$ —	\$ 1,138	\$ (11)
Foreign currency contracts	643	—	643	3
Forward interest rate swaps	300	9	250	20
Commodity contracts	24	1	24	—

The fair values are based on quoted market prices for the same or similar instruments, which represents a Level 2 measurement.

### 13. Shareholders' Equity

At June 30, 2014 and 2013, authorized capital shares consisted of the following: 750 million Class A common shares, without par value; 5 million Class B common shares, without par value; and 500 thousand non-voting preferred shares, without par value. The Class A common shares and Class B common shares are collectively referred to below as "common shares". Holders of common shares are entitled to share equally in any dividends declared by the Board of Directors and to participate equally in all distributions of assets upon liquidation. Generally, the holders of Class A common shares are entitled to one vote per share, and the holders of Class B common shares are entitled to one-fifth of one vote per share on proposals presented to shareholders for vote. Under certain circumstances, the holders of Class B common shares are entitled to vote as a separate class. Only Class A common shares were outstanding at June 30, 2014 and 2013.

We repurchased \$1.6 billion of our common shares, in the aggregate, through share repurchase programs during fiscal 2014, 2013 and 2012, as described below. We funded the repurchases with available cash. The common shares repurchased are held in treasury to be used for general corporate purposes.

During fiscal 2014, we repurchased 9.9 million common shares having an aggregate cost of \$673 million. The average price paid per common share was \$67.85.

During fiscal 2013, we repurchased 10.2 million common shares having an aggregate cost of \$450 million. The average price paid per common share was \$44.11.

During fiscal 2012, we repurchased 10.3 million common shares having an aggregate cost of \$450 million. The average price paid per common share was \$43.64.

### Accumulated Other Comprehensive Income

The following table summarizes the changes in the balance of AOCI by component and in total:

(in millions)	Foreign Currency Translation Adjustments	Unrealized Gain on Derivatives, net of tax	Accumulated Other Comprehensive Income
Balance at June 30, 2012	\$ 36	\$ 1	\$ 37
Other comprehensive income/(loss), net of tax before reclassifications	18	8	26
Amounts reclassified to earnings	—	5	5
Total other comprehensive income, net of tax of \$9 million	18	13	31
Balance at June 30, 2013	\$ 54	\$ 14	\$ 68
Other comprehensive income/(loss), net of tax before reclassifications	9	(10)	(1)
Amounts reclassified to earnings	—	3	3
Total other comprehensive income/(loss), net of tax of \$5 million	9	(7)	2
Balance at June 30, 2014	\$ 63	\$ 7	\$ 70

Activity related to unrealized gains and losses on available-for-sale securities as described in Note 6, was immaterial during fiscal 2014.

### 14. Earnings Per Share

The following table reconciles the number of common shares used to compute basic and diluted earnings per share:

(in millions)	2014	2013	2012
Weighted-average common shares—basic	341	341	345
<b>Effect of dilutive securities:</b>			
Employee stock options, restricted shares, restricted share units and performance share units	4	3	4
<b>Weighted-average common shares—diluted</b>	<b>345</b>	<b>344</b>	<b>349</b>

The potentially dilutive employee stock options, restricted shares, restricted share units and performance share units that were antidilutive for fiscal 2014, 2013 and 2012 were zero, 9 million and 10 million, respectively.

### 15. Segment Information

Our operations are principally managed on a products and services basis and are comprised of two operating segments, which are the same as our reportable segments: Pharmaceutical and Medical. The factors for determining the reportable segments include the manner in which management

## Notes to Consolidated Financial Statements

evaluates our performance combined with the nature of the individual business activities.

The Pharmaceutical segment distributes branded and generic pharmaceutical, specialty pharmaceutical, over-the-counter healthcare and consumer products in the United States. This segment also operates nuclear pharmacies and cyclotron facilities, provides pharmacy services to hospitals and other healthcare facilities, and provides services to healthcare companies supporting the marketing, distribution and payment for specialty pharmaceutical products. Through our Cardinal Health China division, this segment imports and distributes pharmaceuticals, over-the-counter healthcare and consumer products as well as provides specialty pharmacy and other services in China.

The Medical segment distributes a broad range of medical, surgical and laboratory products to hospitals, ambulatory surgery centers, clinical laboratories, physician offices and other healthcare providers in the United States, Canada and China and to patients in the home in the United States. This segment also manufactures, sources and develops its own line of private brand medical and surgical products. Our medical and surgical products are sold directly or through third-party distributors in the United States, Canada, Europe and other regions internationally.

The following table presents revenue for each reportable segment and Corporate:

(in millions)	2014	2013	2012
Pharmaceutical (1)	\$ 80,110	\$ 91,097	\$ 97,925
Medical	10,962	10,060	9,642
Total segment revenue	91,072	101,157	107,567
Corporate (2)	12	(64)	(15)
<b>Total revenue</b>	<b>\$ 91,084</b>	<b>\$ 101,093</b>	<b>\$ 107,552</b>

(1) Our pharmaceutical distribution contract with Walgreens expired on August 31, 2013. Our pharmaceutical distribution contract with Express Scripts, Inc. expired on September 30, 2012.

(2) Corporate revenue consists of the elimination of inter-segment revenue and other revenue not allocated to the segments.

We evaluate segment performance based upon segment profit, among other measures. Segment profit is segment revenue, less segment cost of products sold, less segment SG&A expenses. Segment SG&A expenses include share-based compensation expense as well as allocated corporate expenses for shared functions, including corporate management, corporate finance, financial and customer care shared services, human resources, information technology and legal. Corporate expenses are allocated to the segments based upon headcount, level of benefit provided and other ratable allocation methodologies. Other income, net, interest expense, net and provision for income taxes are not allocated to the segments.

Restructuring and employee severance, amortization and other acquisition-related costs, impairments and loss on disposal of assets and litigation (recoveries)/charges, net are not allocated to the segments. In addition, certain investment and other spending are not allocated to the segments. Investment spending generally includes the first-year spend for certain projects that require incremental investments in the form of additional operating expenses. We encourage our segments and corporate functions to identify investment projects that will promote innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are often retained at Corporate. Investment spending within Corporate was \$33 million, \$37 million and \$21 million for fiscal 2014, 2013 and 2012, respectively.

The following table presents segment profit by reportable segment and Corporate:

(in millions)	2014	2013	2012
Pharmaceutical	\$ 1,745	\$ 1,734	\$ 1,558
Medical	444	372	332
Total segment profit	2,189	2,106	1,890
Corporate	(304)	(1,110)	(98)
<b>Total operating earnings</b>	<b>\$ 1,885</b>	<b>\$ 996</b>	<b>\$ 1,792</b>

The following tables present depreciation and amortization and additions to property and equipment by reportable segment and at Corporate:

(in millions)	2014	2013	2012
Pharmaceutical	\$ 128	\$ 125	\$ 114
Medical	130	137	119
Corporate	201	135	92
<b>Total depreciation and amortization</b>	<b>\$ 459</b>	<b>\$ 397</b>	<b>\$ 325</b>

(in millions)	2014	2013	2012
Pharmaceutical	\$ 72	\$ 46	\$ 44
Medical	72	48	100
Corporate	105	101	116
<b>Total additions to property and equipment</b>	<b>\$ 249</b>	<b>\$ 195</b>	<b>\$ 260</b>

The following table presents total assets for each reportable segment and Corporate at June 30:

(in millions)	2014	2013	2012
Pharmaceutical	\$ 15,361	\$ 16,258	\$ 16,642
Medical	6,768	6,521	4,399
Corporate	3,904	3,040	3,219
<b>Total assets</b>	<b>\$ 26,033</b>	<b>\$ 25,819</b>	<b>\$ 24,260</b>

## Notes to Consolidated Financial Statements

The following tables present revenue and property and equipment, net by geographic area:

(in millions)	2014	2013	2012
United States	\$ 87,449	\$ 97,994	\$ 105,205
International	3,635	3,099	2,347
<b>Total revenue</b>	<b>\$ 91,084</b>	<b>\$ 101,093</b>	<b>\$ 107,552</b>

(in millions)	2014	2013	2012
United States	\$ 1,301	\$ 1,355	\$ 1,425
International	158	134	126
<b>Property and equipment, net</b>	<b>\$ 1,459</b>	<b>\$ 1,489</b>	<b>\$ 1,551</b>

### 16. Share-Based Compensation and Savings Plans

#### Share-Based Compensation Plans

We maintain stock incentive plans (collectively, the "Plans") for the benefit of certain of our officers, directors and employees. At June 30, 2014, 26 million shares remain available for future issuances under the Cardinal Health, Inc. 2011 Long-Term Incentive Plan ("2011 LTIP"). Under the 2011 LTIP's fungible share counting provisions, stock options are counted against the plan as one share for every share issued; awards other than stock options are counted against the plan as two and one-half shares for every share issued. This means that only 10 million shares could be issued under awards other than stock options while 26 million shares could be issued under stock options. Shares are issued out of treasury shares when stock options are exercised and when restricted share units and performance share units vest.

The following table provides total share-based compensation expense by type of award:

(in millions)	2014	2013	2012
Restricted shares and share unit expense	\$ 62	\$ 60	\$ 55
Employee stock option expense	21	23	25
Performance share unit expense	13	10	6
Stock appreciation right income	—	—	(1)
<b>Total share-based compensation</b>	<b>\$ 96</b>	<b>\$ 93</b>	<b>\$ 85</b>

The total tax benefit related to share-based compensation was \$33 million, \$32 million and \$31 million for fiscal 2014, 2013 and 2012, respectively.

#### Stock Options

Employee stock options granted under the Plans generally vest in equal annual installments over three years and are exercisable for periods ranging from seven to ten years from the grant date. All stock options are exercisable at a price equal to the market value of the common shares underlying the option on the grant date.

The following table summarizes all stock option transactions under the Plans:

(in millions, except per share amounts)	Stock Options	Weighted-Average Exercise Price per Common Share
Outstanding at June 30, 2012	21	\$ 37.29
Granted	3	39.81
Exercised	(6)	33.19
Canceled and forfeited	(3)	46.91
Outstanding at June 30, 2013	15	\$ 36.97
Granted	2	51.77
Exercised	(7)	38.29
Canceled and forfeited	—	—
<b>Outstanding at June 30, 2014</b>	<b>10</b>	<b>\$ 39.16</b>
<b>Exercisable at June 30, 2014</b>	<b>5</b>	<b>\$ 33.62</b>

The following tables provide additional data related to stock option activity:

(in millions, except per share amounts)	2014	2013	2012
Aggregate intrinsic value of outstanding options at period end	\$ 282	\$ 156	\$ 137
Aggregate intrinsic value of exercisable options at period end	185	113	84
Aggregate intrinsic value of exercised options	155	64	27
Cash received upon exercise	227	121	42
Cash tax proceeds/(disbursements) realized related to exercise	39	(19)	(4)
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	24	22	25
Total fair value of shares vested during the year	20	28	26
Weighted-average grant date fair value per stock option	10.32	8.15	9.26

(in years)	2014	2013	2012
Weighted-average remaining contractual life of outstanding options	6	4	3
Weighted-average remaining contractual life of exercisable options	4	3	2
Weighted-average period over which stock option compensation cost is expected to be recognized	2	2	2

Stock options are granted to our officers and certain employees. The fair values were estimated on the grant date using a lattice valuation model. We believe the lattice model provides reasonable estimates because it has the ability to take into account individual exercise patterns based on changes in our stock price and other variables, and it provides for a range of input assumptions, which are disclosed in the table below. The risk-free rate is based on the U.S. Treasury yield curve at the time of the grant. We analyzed historical data to estimate option exercise behaviors and employee terminations to be used within the lattice model. The expected life of the options granted was calculated from the option valuation model and represents the

## Notes to Consolidated Financial Statements

length of time in years that the options granted are expected to be outstanding. Expected volatilities are based on implied volatility from traded options on our common shares and historical volatility over a period of time commensurate with the contractual term of the option grant (up to ten years). The following table provides the range of assumptions used to estimate the fair value of stock options:

	2014	2013	2012
Risk-free interest rate	1.9% - 2.0%	1.1% - 1.3%	1.2% - 1.3%
Expected volatility	27%	29%	29%
Dividend yield	1.8% - 2.4%	2.1% - 2.5%	2.0% - 2.1%
Expected life in years	6	6	6

### Restricted Shares and Restricted Share Units

Restricted shares and restricted share units granted under the Plans generally vest in equal annual installments over three years. Restricted shares and restricted share units accrue cash dividend equivalents that are payable upon vesting of the awards.

The following table summarizes all transactions related to restricted shares and restricted share units under the Plans:

(in millions, except per share amounts)	Shares	Weighted-Average Grant Date Fair Value per Share
Nonvested at June 30, 2012	4	\$ 35.46
Granted	2	40.02
Vested	(2)	33.41
Canceled and forfeited	(1)	38.84
Nonvested at June 30, 2013	3	\$ 38.74
Granted	1	52.40
Vested	(1)	37.59
Canceled and forfeited	—	—
<b>Nonvested at June 30, 2014</b>	<b>3</b>	<b>\$ 45.65</b>

The following table provides additional data related to restricted share and restricted share unit activity:

(in millions)	2014	2013	2012
Total compensation cost, net of estimated forfeitures, related to nonvested restricted share and share unit awards not yet recognized, pre-tax	\$ 75	\$ 67	\$ 67
Weighted-average period over which restricted share and share unit cost is expected to be recognized (in years)	2	2	2
Total fair value of shares vested during the year	\$ 55	\$ 60	\$ 54

### Performance Share Units

Performance share units vest over a three-year performance period based on achievement of specific performance goals. Based on the extent to which the targets are achieved, vested shares may range from zero to 200 percent of the target award amount. Performance share units accrue cash dividend equivalents that are payable upon vesting of the awards.

The following table summarizes all transactions related to performance share units under the Plans (based on target award amounts):

(in millions, except per share amounts)	Performance Share Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at June 30, 2012	0.5	\$ 42.60
Granted	0.3	39.81
Vested	—	—
Canceled and forfeited	—	—
Nonvested at June 30, 2013	0.8	\$ 41.37
Granted	0.3	51.49
Vested (1)	(0.2)	41.60
Canceled and forfeited	—	—
<b>Nonvested at June 30, 2014</b>	<b>0.9</b>	<b>\$ 44.41</b>

(1) Vested based on achievement of 143 percent of the target performance goal.

The following table provides additional data related to performance share unit activity:

(in millions)	2014	2013	2012
Total compensation cost, net of estimated forfeitures, related to nonvested performance share units not yet recognized, pre-tax	\$ 15	\$ 12	\$ 12
Weighted-average period over which performance share unit cost is expected to be recognized (in years)	2	2	2
Total fair value of shares vested during the year	\$ 7	\$ —	\$ —

### Employee Retirement Savings Plans

Substantially all of our domestic non-union employees are eligible to be enrolled in our company-sponsored contributory retirement savings plans, which include features under Section 401(k) of the Internal Revenue Code of 1986, as amended, and provide for matching and profit sharing contributions by us. Our contributions to the plans are determined by the Board of Directors subject to certain minimum requirements as specified in the plans. The total expense for our employee retirement savings plans was \$75 million, \$68 million and \$53 million for fiscal 2014, 2013 and 2012, respectively.



## Notes to Consolidated Financial Statements

### 17. Selected Quarterly Financial Data (Unaudited)

The following is selected quarterly financial data for fiscal 2014 and 2013. The sum of the quarters may not equal year-to-date due to rounding.

<u>(in millions, except per common share amounts)</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter (1)</u>
<b>Fiscal 2014</b>				
Revenue	\$ 24,523	\$ 22,240	\$ 21,427	\$ 22,894
Gross margin	1,264	1,345	1,297	1,256
Distribution, selling, general and administrative expenses	732	766	736	795
Earnings from continuing operations	340	275	315	234
Earnings/(loss) from discontinued operations	(1)	3	—	—
Net earnings	339	278	315	234
<b>Earnings from continuing operations per common share:</b>				
Basic	\$ 1.00	\$ 0.80	\$ 0.92	\$ 0.69
Diluted	0.99	0.79	0.91	0.68

<u>(in millions, except per common share amounts)</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter (2)</u>
<b>Fiscal 2013</b>				
Revenue	\$ 25,889	\$ 25,232	\$ 24,552	\$ 25,420
Gross margin	1,159	1,224	1,291	1,247
Distribution, selling, general and administrative expenses	690	699	712	775
Earnings/(loss) from continuing operations	272	303	346	(586)
Loss from discontinued operations, net of tax	(1)	—	(1)	—
Net earnings/(loss)	271	303	345	(586)
<b>Earnings/(loss) from continuing operations per common share:</b>				
Basic	\$ 0.80	\$ 0.89	\$ 1.01	\$ (1.72)
Diluted (3)	0.79	0.88	1.00	(1.72)

- (1) During the fourth quarter of fiscal 2014, we recorded an out-of-period decrease in revenue of \$14 million related to customer pricing adjustments, of which \$1 million pertained to each of the first three quarters of fiscal 2014 and each quarter of fiscal 2013. The amounts were not material individually or in the aggregate to current or prior periods.
- (2) During the fourth quarter of fiscal 2013, we recorded an out-of-period increase in income tax expense of \$14 million related to uncertain tax benefits, of which generally less than \$1 million pertained to the each of the first three quarters of fiscal 2013. The amounts were not material individually or in the aggregate to current or prior periods.
- (3) Due to the loss from continuing operations incurred during the fourth quarter of fiscal 2013, potential dilutive common shares have not been included in the denominator of the diluted per share computation for this period due to their antidilutive effect.

## Report of Management on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also controls deemed effective now may become inadequate in the future because of changes in conditions, or because compliance with the policies or procedures has deteriorated or been circumvented.

Management assessed the effectiveness of our internal control

over financial reporting as of June 30, 2014. In making this assessment, management used the criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the "COSO criteria"). Based on management's assessment and the COSO criteria, management believes that our internal control over financial reporting was effective as of June 30, 2014.

Our independent registered public accounting firm, Ernst & Young LLP, has issued a report on our internal control over financial reporting. Ernst & Young LLP's report appears below and expresses an unqualified opinion on the effectiveness of our internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

### The Board of Directors and Shareholders of Cardinal Health, Inc.

We have audited Cardinal Health, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Cardinal Health, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide

reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Cardinal Health, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cardinal Health, Inc. and subsidiaries as of June 30, 2014 and 2013 and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2014 of Cardinal Health, Inc. and subsidiaries and our report dated August 13, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Columbus, Ohio

August 13, 2014

## Shareholder and Company Information and Performance Graph

### Shareholder and Company Information

Our common shares are listed on the New York Stock Exchange under the symbol "CAH." The following table reflects the range of the reported high and low closing prices of our common shares as reported on the New York Stock Exchange Composite Tape and the per share dividends declared for the fiscal years ended June 30, 2014 and 2013. It also reflects the range of the reported high and low closing prices of our common shares from July 1, 2014 through the period ended on July 31, 2014 and the per share dividends declared from July 1, 2014 through the period ended on August 6, 2014:

		High	Low	Dividends
<b>Fiscal 2013</b>				
Quarter Ended:				
September 30, 2012	\$	43.50	\$ 37.75	\$ 0.2375
December 31, 2012		42.65	39.29	0.2750
March 31, 2013		47.09	41.62	0.2750
June 30, 2013		48.76	41.85	0.3025
<b>Fiscal 2014</b>				
Quarter Ended:				
September 30, 2013	\$	53.57	\$ 47.02	\$ 0.3025
December 31, 2013		67.48	52.95	0.3025
March 31, 2014		73.54	65.26	0.3025
June 30, 2014		71.31	63.80	0.3425
<b>Fiscal 2015</b>	\$	72.75	\$ 69.59	\$ 0.3425

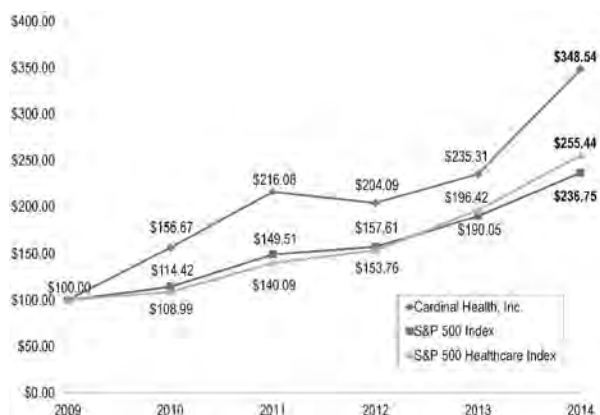
At July 31, 2014 there were 10,241 shareholders of record of our common shares.

We anticipate that we will continue to pay quarterly cash dividends in the future. The payment and amount of future dividends remain, however, within the discretion of our Board of Directors and will depend upon our future earnings, financial condition, capital requirements and other factors.

### Performance Graph

#### Five Year Performance Graph

The following line graph compares the cumulative total return of our common shares with the cumulative total return of the Standard & Poor's Composite—500 Stock Index (the "S&P 500 Index") and the Standard & Poor's Composite—500 Healthcare Index (the "S&P 500 Healthcare Index"). The line graph assumes, in each case, an initial investment of \$100 on June 30, 2009, based on the market prices at the end of each fiscal year through and including June 30, 2014, and reinvestment of dividends. The S&P 500 Index and S&P 500 Healthcare Index investments are weighted on the basis of market capitalization at the beginning of each period. We have adjusted the market price of our common shares prior to August 31, 2009 to reflect the CareFusion spin-off on August 31, 2009.



	June 30					
	2009	2010	2011	2012	2013	2014
Cardinal Health, Inc.	\$ 100.00	\$ 156.67	\$ 216.08	\$ 204.09	\$ 235.31	\$ 348.54
S&P 500 Index	100.00	114.42	149.51	157.61	190.05	236.75
S&P 500 Healthcare Index	100.00	108.99	140.09	153.76	196.42	255.44

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# Corporate and investor information

## Corporate offices

Cardinal Health  
7000 Cardinal Place  
Dublin, Ohio 43017  
614.757.5000  
[www.cardinalhealth.com](http://www.cardinalhealth.com)  
Twitter: @CardinalHealth

## Common shares

Cardinal Health common shares are listed on the New York Stock Exchange under the ticker symbol "CAH" and are a component of the Standard & Poor's 500 Index. As of August 8, 2014, Cardinal Health had approximately 10,200 shareholders of record.

## Annual meeting

The 2014 Annual Meeting of Shareholders will be held at 8 a.m. local time on November 5, 2014, at Cardinal Health headquarters in Dublin, Ohio. Shareholders are cordially invited to attend.

## Auditors

Ernst & Young LLP

Fiscal 2014 cash dividend declarations			
Fiscal quarter	Record date	Payment date	Per common share amount
1st	October 1, 2013	October 15, 2013	\$0.3025
2nd	January 2, 2014	January 15, 2014	\$0.3025
3rd	April 1, 2014	April 15, 2014	\$0.3025
4th	July 1, 2014	July 15, 2014	\$0.3425

## Financial information

Comprehensive financial and other information about Cardinal Health can be obtained by visiting the Investors page at [www.cardinalhealth.com](http://www.cardinalhealth.com).

Available information includes historical stock information, research analyst coverage, past and present financial statements, recent company presentations, SEC filings, corporate governance guidelines and board committee charters. This information — including the Cardinal Health Annual Report, Forms 10-K, 10-Q, 8-K and other published corporate literature — is also available without charge upon written request to the Investor Relations department at the corporate office, or by calling Investor Relations at 614.757.4757.

Cardinal Health uses its website as a channel of distribution for material company information. Important information, including news releases, earnings and analyst presentations, and financial information regarding Cardinal Health is routinely posted and accessible on the Investors page at [www.cardinalhealth.com](http://www.cardinalhealth.com). In addition, the Cardinal Health website allows investors and other interested persons to sign up to automatically receive email alerts when the company posts news releases, SEC filings and certain other information on its website.

For non-investor related inquiries, please call the company's main telephone number at 614.757.5000.

## Transfer agent and registrar

Shareholders with inquiries regarding address corrections, dividend payments, lost certificates or changes in registered ownership should contact the Cardinal Health stock transfer agent:

Computershare Trust Company, N.A.  
211 Quality Circle  
Suite 210  
College Station, TX 77845  
877.498.8861  
[www.computershare.com/investor](http://www.computershare.com/investor)

