CtW Investment Group

May 13, 2014
James A. Skinner
Chairman of the Board of Directors
Walgreen Co.

RE: May 8th 2014 letter from Lydia Mathas concerning proxy access

Dear Mr. Skinner:

We are deeply troubled to learn of the board's decision last month not to implement our "proxy access" reform proposal, especially in light of recent media reports that Walgreen may follow Alliance Boots and reincorporate in Switzerland as part of a "tax inversion" strategy. Re-domiciling overseas would likely be detrimental to the interests and rights of long-term shareholders, heralding a step backwards in the company's corporate governance. At the same time, the question of reincorporation is reportedly the result of pressure from several hedge funds and internal debate within Walgreen and Alliance Boots management, reinforcing the value to long-term shareholders from having the ability to nominate their own candidates on the company's proxy statement. As we have previously communicated, we believe greater shareholder accountability is essential as Walgreen pursues a potentially risky and ambitious transformation that simultaneously alters the company's governance profile.

Accordingly, we request that you immediately:

- Protect the interests' of long-term shareholders by ruling out a reincorporation overseas in connection with the Alliance Boots transaction; and
- Address the need for enhanced opportunities for input from long-term shareholders by implementing the proxy access proposal we introduced at the recent annual shareholder meeting, and which received support from 49.5% of independent shareholders.

The CtW Investment Group works with union-sponsored pension funds to enhance long-term shareholder value through active ownership. These funds invest over $250 billion in the global capital markets and are substantial investors in Walgreen.

Until recently, Walgreen management has denied that it would structure its proposed acquisition of Alliance Boots to reincorporate overseas in order to facilitate a tax inversion. However, following a meeting with a group of hedge funds in April, the company markedly changed its posture, saying "When we have something more definitive to announce about our future structure and strategies, we will do so."[1] Analysts report that Walgreen is seriously reviewing a potential inversion and may even be open to renegotiating the second step of its deal with Alliance Boots to ensure it meets U.S. tax law requirements for a 20% transfer of ownership to foreign holders.[2]

We believe that a reincorporation overseas would be decidedly against the interests of Walgreen shareholders, who are overwhelmingly U.S-based, and we strongly urge the company to commit to remaining in the U.S.

An inversion could negatively impact shareholder value:

[1] *Crain's Chicago Business*, "Is Wasson Losing Control of Walgreen?" April 14 2014. Available at: http://www.chicagobusiness.com/article/20140414/NEWS07/140419897/is-wasson-losing-control-of-walgreen; *Financial Times, "*Walgreens urged to leave US to gain tax benefit," April 14 2014. Available at: http://www.ft.com/intl/cms/s/0/55a76778-c294-11e3-9370-00144feabdc0.html#axzz30qkWa07x

[2] Deutsche Bank, "Walgreens Update," April 14 2014. Also see JP Morgan North America Equity Research, "Walgreen Company," April 15 2014; UBS, "Walgreen Co.," March 12 2014

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- Reincorporation carries risk of removal from the S&P 500 and other stock indices, which would likely have an adverse impact on share price, as in the cases of Ace Ltd and Transocean Ltd after they moved to Switzerland.[3] Many investors, including large pension funds, may be required to sell shares of companies that no longer qualify for membership in widely-held indices like the S&P 500.
- Reincorporation in Switzerland requires companies to declare and pay dividends in Swiss francs. Any currency fluctuations between the U.S. dollar and Swiss francs exposes investors to currency risk.[4]
- Reincorporation involves complex tax issues that could result in adverse tax consequences for shareholders.[5]

An inversion could impact shareholder rights and corporate governance:

- Swiss law differs from the laws in effect in the U.S. and may afford less protection to Walgreen shareholders seeking remedies through the courts for fraud or violation of board duties. For example, derivative lawsuits to enforce shareholder rights are highly restricted and unusual in Switzerland and civil court judgments obtained in the U.S. against a Swiss corporation may not be enforceable against the company or company directors residing outside the U.S.[6]
- Shareholders in Switzerland have relatively limited rights with respect to voting on non-routine measures.[7] While stock exchange rules may impose a higher duty on the company, the lack of shareholder protections under Swiss law may still be impactful.

In addition to the concerns outlined above, we fear that there could be political and reputational risks following an inversion, which would pose a clear contradiction with Walgreen's quintessentially American brand. <u>Accordingly, we strongly urge you to end the controversy over Walgreen's potential tax inversion by committing to stay in the United States.</u>

At the same time, the sudden emergence of this debate reinforces the case for proxy access. As Crain's Chicago Business reported, Walgreen's consideration of this move is not only a question of where the headquarters will technically be located, "it's ultimately a battle over control of the company" and "raises questions as to whether Walgreen, a company that grew organically for its first 90 years of existence, is in over its head with the Alliance Boots deal."[8] Indeed, Morgan Stanley argues that "strategically, re-domiciling could mean increased involvement from Alliance Boots Chairman Stefano Pessina, noting that under a "European structure, Stefano Pessina would likely be Executive Director, a role that typically encompasses setting company

[3] *Reuters*, "Companies warm to Irish and Swiss tax regimes," February 3, 2009. See also, for example, Tyco International Ltd's Form S-4 to reincorporate from Bermuda to Switzerland, amended version filed January 21, 2009, page 19. Available at http://www.secinfo.com/dVut2.s6k.htm#1stPage.

[4] See for example, Ace Ltd 424B3 to reincorporate from the Cayman Islands to Switzerland, filed May 30, 2008. Available at: http://secfilings.nyse.com/filing.php?ipage=5703759

[5] Ibid.

[6] See, for example, Pentair Inc. Def M14a, proxy statement/prospectus, filed on August 3, 2012, available at: http://www.sec.gov/Archives/edgar/data/1548223/000119312512333802/d338944d424b3.htm

[7] *Institutional Shareholder Services*, "Market IQ: Switzerland 2013."

[8] *Crain's Chicago Business*, "Is Wasson Losing Control of Walgreen?" April 14 2014. Available at: http://www.chicagobusiness.com/article/20140414/NEWS07/140419897/is-wasson-losing-control-of-walgreen

strategic direction." "This differs from a US structure, where as a board member or potentially Chairman, Pessina & the board would approve the CEO's strategy," the report notes.[9] As we have previously explained, proxy access provides long-term investors with a vital safety valve as Walgreen's pursues an ambitious and risky transformation that simultaneously concentrates ownership in the hands of Stefano Pessina.

Accordingly, we ask that you adopt the proxy access proposal we introduced in order to ensure that long-term Walgreen shareholders have a meaningful voice in the future of our company as major questions of control and governance continue to arise.

We look forward to hearing from you at your earliest convenience.

Sincerely,
Dieter Waizenegger
Executive Director, CtW Investment Group

[9] Morgan Stanley, "Walgreens: What if the corner of happy and healthy moved to Switzerland?" April 14 2014.