Item 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Centene Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Centene Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 19, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2005.

St. Louis, Missouri
February 19, 2019

CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except shares in thousands and per share data in dollars)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,342	$ 4,072
Premium and trade receivables	5,150	3,413
Short-term investments	722	531
Other current assets	784	687
Total current assets	11,998	8,703
Long-term investments	6,861	5,312
Restricted deposits	555	135
Property, software and equipment, net	1,706	1,104
Goodwill	7,015	4,749
Intangible assets, net	2,239	1,398
Other long-term assets	527	454
Total assets	$ 30,901	$ 21,855
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liability	$ 6,831	$ 4,286
Accounts payable and accrued expenses	4,051	4,165
Return of premium payable	666	549
Unearned revenue	385	328
Current portion of long-term debt	38	4
Total current liabilities	11,971	9,332
Long-term debt	6,648	4,695
Other long-term liabilities	1,259	952
Total liabilities	19,878	14,979
Commitments and contingencies		
Redeemable noncontrolling interests	10	12
Stockholders' equity:		
Preferred stock, $.001 par value; authorized 10,000 shares; no shares issued or outstanding at December 31, 2018 and December 31, 2017	—	—
Common stock, $.001 par value; authorized 800,000 shares; 417,695 issued and 412,478 outstanding at December 31, 2018, and 360,758 issued and 346,874 outstanding at December 31, 2017	—	—
Additional paid-in capital	7,449	4,349
Accumulated other comprehensive loss	(56)	(3)
Retained earnings	3,663	2,748
Treasury stock, at cost (5,217 and 13,884 shares, respectively)	(139)	(244)
Total Centene stockholders' equity	10,917	6,850
Noncontrolling interest	96	14
Total stockholders' equity	11,013	6,864
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$ 30,901	$ 21,855

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

CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data in dollars)

	Year Ended December 31,		
	2018	**2017**	**2016**
Revenues:			
Premium	$ 53,629	$ 43,353	$ 35,399
Service	2,806	2,267	2,180
Premium and service revenues	56,435	45,620	37,579
Premium tax and health insurer fee	3,681	2,762	3,028
Total revenues	60,116	48,382	40,607
Expenses:			
Medical costs	46,057	37,851	30,636
Cost of services	2,386	1,847	1,864
Selling, general and administrative expenses	6,043	4,446	3,673
Amortization of acquired intangible assets	211	156	147
Premium tax expense	3,252	2,883	2,563
Health insurer fee expense	709	—	461
Total operating expenses	58,658	47,183	39,344
Earnings from operations	1,458	1,199	1,263
Other income (expense):			
Investment and other income	253	190	114
Interest expense	(343)	(255)	(217)
Earnings from operations, before income tax expense	1,368	1,134	1,160
Income tax expense	474	326	599
Net earnings	894	808	561
Loss attributable to noncontrolling interests	6	20	1
Net earnings attributable to Centene Corporation	$ 900	$ 828	$ 562
Net earnings per common share attributable to Centene Corporation:			
Basic earnings per common share	$ 2.31	$ 2.40	$ 1.76
Diluted earnings per common share	$ 2.26	$ 2.34	$ 1.71

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

CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Net earnings	$ 894	$ 808	$ 561
Reclassification adjustment, net of tax	2	(2)	(2)
Change in unrealized (loss) gain on investments, net of tax	(52)	28	(22)
Defined benefit pension plan net gain arising during the period, net of tax	1	1	1
Foreign currency translation adjustments	(4)	6	(3)
Other comprehensive (loss) earnings	(53)	33	(26)
Comprehensive earnings	841	841	535
Comprehensive loss attributable to the noncontrolling interests	6	20	1
Comprehensive earnings attributable to Centene Corporation	$ 847	$ 861	$ 536

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

CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except shares in thousands and per share data in dollars)

	Centene Stockholders' Equity								
	Common Stock					Treasury Stock			
	$.001 Par Value Shares	Amt	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	$.001 Par Value Shares	Amt	Non controlling Interest	Total
Balance, December 31, 2015	253,710	$ —	$ 956	$ (10)	$ 1,358	13,024	$ (147)	$ 11	$ 2,168
Net earnings	—	—	—	—	562	—	—	1	563
Other comprehensive loss, net of ($14) tax	—	—	—	(26)	—	—	—	—	(26)
Common stock issued for acquisitions	96,436	—	3,074	—	—	(2,750)	31	—	3,105
Common stock issued for employee benefit plans	6,122	—	12	—	—	—	—	—	12
Common stock repurchases	—	—	—	—	—	2,156	(63)	—	(63)
Stock compensation expense	—	—	148	—	—	—	—	—	148
Contribution from noncontrolling interest	—	—	—	—	—	—	—	2	2
Balance, December 31, 2016	356,268	$ —	$ 4,190	$ (36)	$ 1,920	12,430	$ (179)	$ 14	$ 5,909
Net earnings	—	—	—	—	828	—	—	—	828
Other comprehensive earnings, net of $15 tax	—	—	—	33	—	—	—	—	33
Common stock issued for employee benefit plans	4,490	—	11	—	—	—	—	—	11
Common stock repurchases	—	—	—	—	—	1,454	(65)	—	(65)
Stock compensation expense	—	—	135	—	—	—	—	—	135
Purchase of noncontrolling interest	—	—	13	—	—	—	—	—	13
Balance, December 31, 2017	360,758	$ —	$ 4,349	$ (3)	$ 2,748	13,884	$ (244)	$ 14	$ 6,864
Net earnings	—	—	—	—	900	—	—	(2)	898
Other comprehensive loss, net of ($15) tax	—	—	—	(53)	—	—	—	—	(53)
Common stock issued for acquisitions	—	—	331	—	—	(9,787)	176	—	507
Common stock issued for stock offering	53,207	—	2,779	—	—	—	—	—	2,779
Common stock issued for employee benefit plans	3,730	—	17	—	—	—	—	—	17
Common stock repurchases	—	—	—	—	—	1,120	(71)	—	(71)
Stock compensation expense	—	—	145	—	—	—	—	—	145
Cumulative-effect of adopting new accounting guidance	—	—	—	—	15	—	—	—	15
Purchase of noncontrolling interest	—	—	(172)	—	—	—	—	(15)	(187)
Acquisition resulting in noncontrolling interest	—	—	—	—	—	—	—	99	99
Balance, December 31, 2018	417,695	$ —	$ 7,449	$ (56)	$ 3,663	5,217	$ (139)	$ 96	$ 11,013

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2018	**2017**	**2016**
Cash flows from operating activities:			
Net earnings	$ 894	$ 808	$ 561
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	495	361	278
Stock compensation expense	145	135	148
Debt extinguishment costs	—	—	(7)
Deferred income taxes	(129)	(108)	92
Changes in assets and liabilities			
Premium and trade receivables	(1,173)	(50)	74
Other assets	(38)	(146)	167
Medical claims liabilities	1,325	359	145
Unearned revenue	(52)	19	43
Accounts payable and accrued expenses	(533)	53	402
Other long-term liabilities	258	68	(61)
Other operating activities, net	42	(10)	9
Net cash provided by operating activities	1,234	1,489	1,851
Cash flows from investing activities:			
Capital expenditures	(675)	(422)	(306)
Purchases of investments	(3,846)	(2,656)	(2,432)
Sales and maturities of investments	1,991	1,862	1,566
Investments in acquisitions, net of cash acquired	(2,055)	(50)	(1,297)
Other investing activities, net	—	12	—
Net cash used in investing activities	(4,585)	(1,254)	(2,469)
Cash flows from financing activities:			
Proceeds from the issuance of common stock	2,779	—	—
Proceeds from borrowings	6,077	1,400	8,946
Payment of long-term debt	(4,083)	(1,353)	(6,076)
Common stock repurchases	(71)	(65)	(63)
Purchase of noncontrolling interest	(74)	(66)	(14)
Debt issuance costs	(25)	(3)	(76)
Other financing activities, net	9	5	—
Net cash provided by (used in) financing activities	4,612	(82)	2,717
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	(1)
Net increase in cash, cash equivalents and restricted cash	1,261	153	2,098
Cash, cash equivalents, and restricted cash and cash equivalents, beginning of period	4,089	3,936	1,838
Cash, cash equivalents, and restricted cash and cash equivalents, end of period	$ 5,350	$ 4,089	$ 3,936
Supplemental disclosures of cash flow information:			
Interest paid	$ 323	$ 237	$ 165
Income taxes paid	$ 448	$ 496	$ 556
Equity issued in connection with acquisitions	$ 507	$ —	$ 3,105

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

1. Organization and Operations

On December 12, 2018, the Board of Directors declared a two-for-one split of Centene's common stock in the form of a 100% stock dividend distributed on February 6, 2019 to stockholders of record as of December 24, 2018. All share and per share information presented in this Form 10-K has been adjusted for the two-for-one stock split.

Centene Corporation, or the Company, is a diversified, multi-national healthcare enterprise operating in two segments: Managed Care and Specialty Services. The Managed Care segment provides health plan coverage to individuals through government subsidized programs, including Medicaid, the State Children's Health Insurance Program (CHIP), Long-Term Services and Supports (LTSS), Foster Care, Medicare-Medicaid Plans (MMP), which cover beneficiaries who are dually eligible for Medicare and Medicaid, the Supplemental Security Income Program, also known as the Aged, Blind or Disabled Program (ABD), Medicare, and the Health Insurance Marketplace. The Company also offers a variety of individual, small group, and large group commercial healthcare products, both to employers and directly to members in the Managed Care segment. The Specialty Services segment consists of our specialty companies offering auxiliary healthcare services and products to state programs, correctional facilities, healthcare organizations, employer groups and other commercial organizations, as well as to our own subsidiaries. The Specialty Service segment also includes the Government Contracts business which includes the Company's government-sponsored managed care support contract with the U.S. Department of Defense (DoD) under the TRICARE program, the Military Family and Life Counseling (MFLC) contract with the DoD, and other healthcare related government contracts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Centene Corporation and all majority owned subsidiaries and subsidiaries over which the Company exercises the power and control to direct activities significantly impacting financial performance. All material intercompany balances and transactions have been eliminated.

In January 2017, the Company reclassified Cenpatico Behavioral Health of Arizona, LLC and the related Cenpatico Integrated Care health plan from the Specialty Services segment to the Managed Care segment due to a reorganization of the Arizona management structure following the Health Net integration. As a result, the financial results of Cenpatico Behavioral Health of Arizona, LLC and the related Cenpatico Integrated Care health plan have been reclassified from the Specialty Services segment to the Managed Care segment for all periods presented.

Certain amounts in the consolidated financial statements and notes have been reclassified to conform to the 2018 presentation. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. The Company evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in its evaluation, as considered necessary. Actual results could differ from those estimates.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The Company allocates the fair value of purchase consideration to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The excess of the fair value of consideration transferred over the fair value of the net assets acquired is recorded as goodwill. Goodwill is generally attributable to the value of the synergies between the combined companies and the value of the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset.

The Company uses its best estimates and assumptions to value assets acquired and liabilities assumed at the acquisition date; however, these estimates are sometimes preliminary and, in some instances, all information required to value the assets acquired and liabilities assumed may not be available or final as of the end of a reporting period subsequent to the business combination. If the accounting for the business combination is incomplete, provisional amounts are recorded. The provisional amounts are updated during the period determined, up to one year from the acquisition date. The Company includes the results of operations of acquired businesses in the Company's consolidated results prospectively from the date of acquisition.

Acquisition related expenses and post-acquisition restructuring costs are recognized separately from the business combination and are expensed as incurred.

Cash and Cash Equivalents

Investments with original maturities of three months or less are considered to be cash equivalents. Cash equivalents consist of money market funds, bank certificates of deposit and savings accounts.

The Company maintains amounts on deposit with various financial institutions, which may exceed federally insured limits. However, management periodically evaluates the credit-worthiness of those institutions, and the Company has not experienced any losses on such deposits.

Investments

Short-term investments include securities with maturities greater than three months to one year. Long-term investments include securities with maturities greater than one year.

Short-term and long-term investments are generally classified as available for sale and are carried at fair value. Certain equity investments are recorded using the fair value or equity method. Unrealized gains and losses on debt investments available for sale are excluded from earnings and reported in accumulated other comprehensive income, a separate component of stockholders' equity, net of income tax effects. Premiums and discounts are amortized or accreted over the life of the related security using the effective interest method. The Company monitors the difference between the cost and fair value of investments. Investments that experience a decline in value that is judged to be other than temporary are written down to fair value and a realized loss is recorded in investment and other income. To calculate realized gains and losses on the sale of investments, the Company uses the specific amortized cost of each investment sold. Realized gains and losses are recorded in investment and other income.

The Company uses the equity method to account for its investments in entities that it does not control but has the ability to exercise significant influence over operating and financial policies. These investments are recorded at the lower of their cost or fair value adjusted for the Company's proportionate share of earnings or losses.

Restricted Deposits

Restricted deposits consist of investments required by various state statutes to be deposited or pledged to state agencies. These investments are classified as long-term, regardless of the contractual maturity date, due to the nature of the states' requirements. The Company is required to annually adjust the amount of the deposit pledged to certain states.

Fair Value Measurements

In the normal course of business, the Company invests in various financial assets and incurs various financial liabilities. Fair values are disclosed for all financial instruments, whether or not such values are recognized in the Consolidated Balance Sheets. Management obtains quoted market prices and other observable inputs for these disclosures. The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, premium and trade receivables, medical claims liability, accounts payable and accrued expenses, unearned revenue, and certain other current assets and liabilities are carried at cost, which approximates fair value because of their short-term nature.

The following methods and assumptions were used to estimate the fair value of each financial instrument:

- Available for sale investments and restricted deposits: The carrying amount is stated at fair value, based on quoted market prices, where available. For securities not actively traded, fair values were estimated using values obtained from independent pricing services or quoted market prices of comparable instruments.
- Senior unsecured notes: Estimated based on third-party quoted market prices for the same or similar issues.

- Variable rate debt: The carrying amount of our floating rate debt approximates fair value since the interest rates adjust based on market rate adjustments.
- Interest rate swap: Estimated based on third-party market prices based on the forward 1-month or 3-month LIBOR curve.
- Contingent consideration: Estimated based on expected achievement of metrics included in the acquisition agreement considering circumstances that exist as of the acquisition date.

Property, Software and Equipment

Property, software and equipment are stated at cost less accumulated depreciation. Computer hardware and software includes certain costs incurred in the development of internal-use software, including external direct costs of materials and services and payroll costs of employees devoted to specific software development. Depreciation is calculated principally by the straight-line method over estimated useful lives. Leasehold improvements are depreciated using the straight-line method over the shorter of the expected useful life or the remaining term of the lease. Property, software and equipment are depreciated over the following periods:

Fixed Asset	Depreciation Period
Buildings and land improvements	5 - 40 years
Computer hardware and software	2 - 7 years
Furniture and equipment	3 - 10 years
Land improvements	3 - 20 years
Leasehold improvements	1 - 20 years

The carrying amounts of all long-lived assets are evaluated to determine if adjustment to the depreciation and amortization period or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets.

The Company retains fully depreciated assets in property and accumulated depreciation accounts until it removes them from service. In the case of sale, retirement, or disposal, the asset cost and related accumulated depreciation balance is removed from the respective account, and the resulting net amount, less any proceeds, is included as a component of earnings from operations in the Consolidated Statements of Operations.

Goodwill and Intangible Assets

Intangible assets represent assets acquired in purchase transactions and consist primarily of purchased contract rights, provider contracts, customer relationships, trade names, developed technologies and goodwill. Intangible assets are amortized using the straight-line method over the following periods:

Intangible Asset	Amortization Period
Purchased contract rights	5 - 15 years
Provider contracts	4 - 15 years
Customer relationships	3 - 15 years
Trade names	7 - 20 years
Developed technologies	2 - 7 years

The Company tests for impairment of intangible assets as well as long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset or asset group (hereinafter referred to as “asset group”) may not be recoverable by comparing the sum of the estimated undiscounted future cash flows expected to result from use of the asset group and its eventual disposition to the carrying value. Such factors include, but are not limited to, significant changes in membership, state funding, state contracts and provider networks and contracts. If the sum of the estimated undiscounted future cash flows is less than the carrying value, an impairment determination is required. The amount of impairment is calculated by subtracting the fair value of the asset group from the carrying value of the asset group. An impairment charge, if any, is recognized within earnings from operations.

The Company tests goodwill for impairment using a fair value approach. The Company is required to test for impairment at least annually, absent a triggering event, which could include a significant decline in operating performance that would require an impairment assessment. Absent any impairment indicators, the Company performs its goodwill impairment testing during the

fourth quarter of each year. The Company recognizes an impairment charge for any amount by which the carrying amount of goodwill exceeds its implied fair value.

The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company generally does not calculate the fair value of a reporting unit unless it determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. However, in certain circumstances, such as recent acquisitions, the Company may elect to perform a quantitative assessment without first assessing qualitative factors.

If the two-step quantitative test is deemed necessary, the Company determines an appropriate valuation technique to estimate a reporting unit's fair value as of the testing date. The Company utilizes either the income approach or the market approach, whichever is most appropriate for the respective reporting unit. The income approach is based on an internally developed discounted cash flow model that includes many assumptions related to future growth rates, discount factors, future tax rates, etc. The market approach is based on financial multiples of comparable companies derived from current market data. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. Changes in economic and operating conditions impacting assumptions used in our analyses could result in goodwill impairment in future periods.

Medical Claims Liability

Medical claims liability includes claims reported but not yet paid, or inventory, estimates for claims incurred but not reported, or IBNR, and estimates for the costs necessary to process unpaid claims at the end of each period. The Company estimates its medical claims liability using actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. These actuarial methods consider factors such as historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services and other relevant factors.

Actuarial Standards of Practice generally require that the medical claims liability estimates be adequate to cover obligations under moderately adverse conditions. Moderately adverse conditions are situations in which the actual claims are expected to be higher than the otherwise estimated value of such claims at the time of estimate. In many situations, the claims amounts ultimately settled will be different than the estimate that satisfies the Actuarial Standards of Practice. The Company includes in its IBNR an estimate for medical claims liability under moderately adverse conditions which represents the risk of adverse deviation of the estimates in its actuarial method of reserving.

The Company uses its judgment to determine the assumptions to be used in the calculation of the required estimates. The assumptions it considers when estimating IBNR include, without limitation, claims receipt and payment experience (and variations in that experience), changes in membership, provider billing practices, healthcare service utilization trends, cost trends, product mix, seasonality, prior authorization of medical services, benefit changes, known outbreaks of disease or increased incidence of illness such as influenza, provider contract changes, changes to fee schedules, and the incidence of high dollar or catastrophic claims.

The Company's development of the medical claims liability estimate is a continuous process which it monitors and refines on a monthly basis as additional claims receipts and payment information becomes available. As more complete claims information becomes available, the Company adjusts the amount of the estimates, and includes the changes in estimates in medical costs in the period in which the changes are identified. In every reporting period, the operating results include the effects of more completely developed medical claims liability estimates associated with previously reported periods. The Company consistently applies its reserving methodology from period to period. As additional information becomes known, it adjusts the actuarial model accordingly to establish medical claims liability estimates.

The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish medical costs. The Company establishes premium deficiency reserves if actual and anticipated experience indicates that existing policy liabilities together with the present value of future gross premiums will not be sufficient to cover the present value of future benefits, settlement and maintenance costs.

Revenue Recognition

The Company's health plans generate revenues primarily from premiums received from the states in which it operates health plans, premiums received from its members and CMS for its Medicare product, and premiums from members of its commercial health plans. In addition to member premium payments, its Marketplace contracts also generate revenues from subsidies received from CMS. The Company generally receives a fixed premium per member per month pursuant to its contracts and recognizes premium

revenues during the period in which it is obligated to provide services to its members at the amount reasonably estimable. In some instances, the Company's base premiums are subject to an adjustment, or risk score, based on the acuity of its membership. Generally, the risk score is determined by the State or CMS analyzing submissions of processed claims data to determine the acuity of the Company's membership relative to the entire state's membership. The Company estimates the amount of risk adjustment based upon the processed claims data submitted and expected to be submitted to Centers for Medicare and Medicaid Services (CMS) and records revenues on a risk adjusted basis. Some contracts allow for additional premiums related to certain supplemental services provided such as maternity deliveries.

The Company's contracts with states may require us to maintain a minimum health benefits ratio (HBR) or may require us to share profits in excess of certain levels. In certain circumstances, including commercial plans, its plans may be required to return premium to the state or policyholders in the event profits exceed established levels. The Company estimates the effect of these programs and recognizes reductions in revenue in the current period. Other states may require us to meet certain performance and quality metrics in order to receive additional or full contractual revenue. For performance-based contracts, the Company does not recognize revenue subject to refund until data is sufficient to measure performance.

Revenues are recorded based on membership and eligibility data provided by the states or CMS, which is adjusted on a monthly basis by the states or CMS for retroactive additions or deletions to membership data. These eligibility adjustments are estimated monthly and subsequent adjustments are made in the period known. The Company continuously reviews and updates those estimates as new information becomes available. It is possible that new information could require us to make additional adjustments, which could be significant, to these estimates.

The Company's Medicare Advantage contracts are with CMS. CMS deploys a risk adjustment model which apportions premiums paid to all health plans according to health severity and certain demographic factors. The CMS risk adjustment model pays more for members whose medical history would indicate that they are expected to have higher medical costs. Under this risk adjustment methodology, CMS calculates the risk adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient, physician treatment settings as well as prescription drug events. The Company and the healthcare providers collect, compile and submit the necessary and available diagnosis data to CMS within prescribed deadlines. The Company estimates risk adjustment revenues based upon the diagnosis data submitted and expected to be submitted to CMS and records revenues on a risk adjusted basis.

The Company's specialty services generate revenues under contracts with state and federal programs, healthcare organizations and other commercial organizations, as well as from our own subsidiaries. Revenues are recognized when the related services are provided or as ratably earned over the covered period of services. The Company recognizes revenue related to administrative services under the TRICARE government-sponsored managed care support contract for the DoD's TRICARE program on a straight-line basis over the option period, when the fees become fixed and determinable. The TRICARE contract includes various performance-based measures. For each of the measures, an estimate of the amount that has been earned is made at each interim date, and revenue is recognized accordingly.

Some states enact premium taxes, similar assessments and provider pass-through payments, collectively premium taxes, and these taxes are recorded as a separate component of both revenues and operating expenses. Additionally, the Company's insurance subsidiaries are subject to the Affordable Care Act annual health insurer fee (HIF), absent a HIF moratorium. The ACA imposed the HIF in 2014, 2015, 2016 and 2018. The HIF was suspended in 2017 and 2019. If the Company is able to negotiate reimbursement of portions of these premium taxes or the HIF, it recognizes revenue associated with the HIF on a straight-line basis when we have binding agreements for such reimbursements, including the “gross-up” to reflect the HIFs non-tax deductible nature. Collectively, this revenue is recorded as premium tax and health insurer fee revenue in the Consolidated Statements of Operations. For certain products, premium taxes, state assessments and the HIF are not pass-through payments and are recorded as premium revenue and premium tax expense or health insurer fee expense in the Consolidated Statements of Operations.

Affordable Care Act

The Affordable Care Act (ACA) established risk spreading premium stabilization programs effective January 1, 2014. These programs, commonly referred to as the “three Rs”, include a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridor program. Additionally, the ACA established a minimum annual medical loss ratio (MLR) and cost sharing reductions. Each of the three R programs are taken into consideration to determine if the Company's estimated annual medical costs are less than the minimum loss ratio and require an adjustment to premium revenues to meet the minimum MLR.

The Company’s accounting policies for the programs are as follows:

Risk Adjustment

The permanent risk adjustment program established by the ACA transfers funds from qualified individual and small group insurance plans with below average risk scores to those plans with above average risk scores within each state. The Company estimates the receivable or payable under the risk adjustment program based on its estimated risk score compared to the state average risk score. The Company may record a receivable or payable as an adjustment to premium revenues to reflect the year-to-date impact of the risk adjustment based on its best estimate. The Company refines its estimate as new information becomes available.

Reinsurance

The ACA established a transitional 2014 to 2016 three-year reinsurance program whereby the Company’s claims costs incurred for qualified members will be reimbursed when they exceed a specific threshold. For the 2016 benefit year, qualified member claims that exceeded $90,000 entitled the Company to reimbursement from the programs at 50% coinsurance. The Company accounts for reinsurance recoveries as a reduction of medical costs based on each individual case that exceeds the reinsurance threshold established by the program.

Risk Corridor

The temporary 2014 to 2016 three-year risk corridor program established by the ACA applied to qualified individual and small group health plans operating both inside and outside of the Health Insurance Marketplace. The risk corridor program limited the Company’s gains and losses in the Health Insurance Marketplace by comparing certain medical and administrative costs to a target amount and sharing the risk for allowable costs with the federal government. Allowable medical costs were adjusted for risk adjustment settlements, transitional reinsurance recoveries and cost sharing reductions received from the federal government. The Company recorded a risk corridor receivable or payable as an adjustment to premium revenues on a year-to-date basis based on where its estimated annual costs fall within the risk corridor range.

Minimum Medical Loss Ratio

Additionally, the ACA established a minimum annual MLR for the Health Insurance Marketplace. Each of the three R programs described above are taken into consideration to determine if the Company’s estimated annual medical costs are less than the minimum loss ratio and require an adjustment to premium revenues to meet the minimum MLR.

Cost Sharing Reductions (CSRs)

The ACA directs issuers to reduce the Company's members' cost sharing for essential health benefits for individuals with Federal Poverty Levels (FPLs) between 100% and 250% who are enrolled in a silver tier product; eliminate cost sharing for Indians/Alaska Natives with an FPL less than 300% and eliminate cost sharing for Indians/Alaska Natives regardless of FPL level when services are provided by an Indian Health Service. In order to compensate issuers for reduced cost sharing provided to enrollees, CMS pays an advance CSR payment to the Company each month based on the Company’s certification data provided at the time of the qualified health plan application. After the close of the benefit year, the Company is required to provide CMS with data on the value of the CSRs provided to enrollees based on either a ‘simplified’ or ‘standard’ approach. A reconciliation will occur in order to calculate the difference between the Company’s CSR advance payments received and the value of CSRs provided to enrollees. This reconciliation will produce either a payable or receivable to/from CMS. The Company has elected the standard methodology approach. In October 2017, the Trump Administration issued an executive order that immediately ceased payments of CSRs to issuers, and 2018 premium rates for Health Insurance Marketplace were set without factoring in the cost sharing subsidy payments from the federal government.

Premium and Trade Receivables and Unearned Revenue

Premium and service revenues collected in advance are recorded as unearned revenue. For performance-based contracts, the Company does not recognize revenue subject to refund until data is sufficient to measure performance. Premiums and service revenues due to the Company are recorded as premium and trade receivables and are recorded net of an allowance based on historical trends and management's judgment on the collectibility of these accounts. As the Company generally receives payments during the month in which services are provided, the allowance is typically not significant in comparison to total revenues and does not have a material impact on the presentation of the financial condition or results of operations. Amounts receivable under federal contracts are comprised primarily of contractually defined billings, accrued contract incentives under the terms of the contract and amounts related to change orders for services not originally specified in the contract.

Activity in the allowance for uncollectible accounts for the years ended December 31, is summarized below ($ in millions):

	2018	2017	2016
Allowances, beginning of year	$ 24	$ 29	$ 10
Amounts charged to expense	134	35	33
Write-offs of uncollectible receivables	(35)	(40)	(14)
Allowances, end of year	$ 123	$ 24	$ 29

The increase in the amounts charged to expense in 2018 primarily relates to costs associated with the expiration of the Company's contract to provide health care coordination services to the U.S. Department of Veterans Affairs under the Patient-Centered Community Care and Veterans Choice Programs.

Significant Customers

Centene receives the majority of its revenues under contracts or subcontracts with state Medicaid managed care programs. Customers where the aggregate annual contract revenues exceeded 10% of total annual revenues included the State of California, where the percentage of the Company's total revenue was 13%, 18% and 21% for the years ended December 31, 2018, 2017 and 2016, respectively; and the State of Texas, where the percentage of the Company's total revenue was 10%, 12% and 13% for the years ended December 31, 2018, 2017 and 2016, respectively.

Other Income (Expense)

Other income (expense) consists principally of investment income, interest expense and equity method earnings from investments. Investment income is derived from the Company's cash, cash equivalents, restricted deposits and investments. Interest expense relates to borrowings under the senior notes, interest rate swaps, credit facilities, and interest on capital leases.

Income Taxes

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax law or tax rates is recognized in income in the period that includes the enactment date.

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. In determining if a deductible temporary difference or net operating loss can be realized, the Company considers future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback periods and tax planning strategies.

Contingencies

The Company accrues for loss contingencies associated with outstanding litigation, claims and assessments for which it has determined it is probable that a loss contingency exists and the amount of loss can be reasonably estimated. The Company expenses professional fees associated with litigation claims and assessments as incurred.

Stock Based Compensation

The fair value of the Company's employee share options and similar instruments are estimated using the Black-Scholes option-pricing model. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits related to stock compensation are presented as a cash inflow from operating activities for the years ended December 31, 2018, 2017 and 2016. The Company accounts for forfeitures when they occur.

Foreign Currency Translation

The Company is exposed to foreign currency exchange risk through its international subsidiaries whose functional currencies include the Euro and British Pound. The assets and liabilities of the Company's subsidiaries are translated into United States dollars at the balance sheet date. The Company translates its proportionate share of earnings using average rates during the year. The

resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income.

Recently Adopted Accounting Guidance

In August 2018, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which modifies the disclosure requirements on fair value measurements. The amendments in this ASU remove the requirements to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. The amendments require public entities to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements for instruments held at the end of the reporting period, and the range and weighted average used to develop significant inputs for Level 3 fair value measurements. For investments in certain entities that calculate net asset value, the standard requires the disclosure of the period of time over which the underlying assets might be liquidated if the investee has announced the timing publicly. The Company adopted the new guidance in the third quarter of 2018. The new guidance did not have any impact on the Company’s consolidated financial position, results of operations or cash flows.

In June 2018, the FASB issued an ASU that simplifies the accounting for share-based payment arrangements with non-employees for goods and services. Under the ASU, the guidance on such payments to non-employees is aligned with the accounting for share-based payments granted to employees, including the measurement of equity-classified awards, which is fixed at the grant date under the new guidance. The Company adopted the new guidance in the second quarter of 2018 using the modified retrospective approach with an immaterial cumulative-effect adjustment to retained earnings.

In February 2018, the FASB issued an ASU which allows a reclassification from accumulated other comprehensive income (OCI) to retained earnings for stranded tax effects resulting from the Tax Cuts and Job Acts (TCJA). Consequently, the amendments eliminate the stranded tax effects resulting from the TCJA and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the TCJA, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this ASU also require certain disclosures about stranded tax effects. The Company adopted the new guidance in the first quarter of 2018 and elected to reclassify stranded tax effects as a result of the TCJA related to unrealized gains and losses on investments and defined benefit plan obligations. The Company uses the individual security approach to release income tax effects from accumulated OCI. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In November 2016, the FASB issued an ASU clarifying the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Therefore, amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted the new guidance in the first quarter of 2018. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. Cash, cash equivalents, and restricted cash and cash equivalents reported on the Consolidated Statements of Cash Flows includes restricted cash and cash equivalents of $78 million, $6 million, $17 million and $8 million as of December 31, 2015, December 31, 2016, December 31, 2017 and December 31, 2018, respectively.

In January 2016, the FASB issued an ASU which requires entities to measure equity investments at fair value and recognize any change in fair value in net income. The standard does not apply to accounting methods that result in consolidation of the investee and those accounted for under the equity method. The standard also requires entities to record changes in instrument-specific credit risk for financial liabilities measured under the fair value option in other comprehensive income. Companies are required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the guidance is adopted, with the exception of amendments related to equity investments without readily determinable fair values, which will be applied prospectively to all investments that exist as of the date of adoption. The Company adopted the new guidance in the first quarter of 2018. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued an ASU which supersedes existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the new guidance in the first quarter of 2018 using the modified retrospective approach with a cumulative-effect increase to retained

earnings of $16 million. The Company also elected the practical expedient of applying the new guidance only to contracts that are not completed as of the date of initial application. The majority of the Company's revenues are derived from insurance contracts and are excluded from the new standard.

Recent Accounting Guidance Not Yet Adopted

In August 2018, the FASB issued an ASU which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The amendments in this ASU require an entity that is the customer in a hosting arrangement to follow the guidance on internal-use software to determine which implementation costs to capitalize and which costs to expense. The standard also requires an entity that is the customer to expense the capitalized implementation costs of a hosting arrangement over the term of the hosting arrangement. The new guidance requires an entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The guidance is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The new guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In August 2017, the FASB issued an ASU which amends the hedge accounting model to enable entities to better align the economics of risk management activities and financial reporting. In addition, the new standard enhances the understandability of hedge results and simplifies the application of hedge accounting in certain situations. The Company adopted the new guidance in the first quarter of 2019. The new guidance did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In March 2017, the FASB issued an ASU which changes the period over which premiums on callable debt securities are amortized. The new standard requires the premiums on callable debt securities to be amortized to the earliest call date rather than to the contractual maturity date of the instrument. The new guidance more closely aligns the amortization period of premiums to expectations incorporated in the market pricing on the underlying securities. The Company adopted the new guidance in the first quarter of 2019. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In January 2017, the FASB issued an ASU simplifying the test for goodwill impairment. The amendments in this ASU eliminate Step 2 from the goodwill impairment test. Thus, an entity will no longer be required to compare the implied fair value of a reporting unit’s goodwill to its carrying amount. Instead, under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the fair value. The impairment charge should be limited to the total amount of goodwill allocated to that reporting unit. Under the new guidance, an entity still has the option to first perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new standard is effective for an entity’s annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The new guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued an ASU which introduces a lessee model that requires the majority of leases to be recognized on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in Accounting Standards Codification 606, the FASB's new revenue recognition standard, and addresses other concerns related to the current lessee model. The standard also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure. It is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company adopted the new guidance in the first quarter of 2019 using the modified retrospective transition approach and elected the transition option to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which allows an entity to not reassess lease classification for existing leases. Adoption of the new guidance resulted in the recognition of right-of-use (ROU) assets and lease liabilities of approximately $800 million for operating leases. The new guidance did not have a material impact on the Company's consolidated results of operations or cash flows.

The Company has determined that there are no other recently issued accounting pronouncements that will have a material impact on its consolidated financial position, results of operations or cash flows.

3. Fidelis Care Acquisition

On July 1, 2018, the Company acquired substantially all of the assets of Fidelis Care for approximately $3,604 million of cash consideration, which includes a working capital adjustment. The purchase price continues to be subject to adjustments related to changes in working capital through June 2019. The acquisition consideration was funded through the issuance of 53.2 million shares of Centene common stock as further discussed in Note 11. *Stockholders Equity* and the issuance of long-term debt as further discussed in Note 10. *Debt.* The Fidelis Care acquisition expanded the Company's scale and presence to New York State.

The acquisition of Fidelis Care was accounted for as a business combination using the acquisition method of accounting which requires assets acquired and liabilities assumed to be recognized at fair value as of the acquisition date. Any necessary adjustments from preliminary estimates will be finalized within one year from the date of acquisition. Measurement period adjustments will be recorded in the period in which they are determined, as if they had been completed at the acquisition date. The Company has completed its valuation procedures on cash and cash equivalents, restricted deposits, and property, software and equipment, but the valuation of all remaining assets and liabilities has not been finalized. The Company has performed preliminary valuation procedures on all assets acquired and liabilities assumed and accordingly has recorded provisional amounts which are subject to adjustment. The Company is waiting on additional information related to certain liabilities and performing a detailed analysis on the valuation of premium and related receivables.

The Company's preliminary allocation of the fair value of assets acquired and liabilities assumed as of the acquisition date of July 1, 2018 is as follows ($ in millions):

Assets acquired and liabilities assumed		
Cash and cash equivalents	$	2,001
Premium and related receivables		508
Other current assets		33
Restricted deposits		495
Property, software and equipment		48
Intangible assets [a]		922
Other long-term assets		1
Total assets acquired		4,008
Medical claims liability		1,204
Accounts payable and accrued expenses		289
Return of premium payable		124
Unearned revenue		115
Other long-term liabilities		299
Total liabilities assumed		2,031
Total identifiable net assets		1,977
Goodwill [b]		1,627
Total assets acquired and liabilities assumed	$	3,604

The Company has made the following preliminary fair value adjustments based on information reviewed through December 31, 2018. Significant fair value adjustments are noted as follows:

(a) The identifiable intangible assets acquired are to be measured at fair value as of the completion of the acquisition. The fair value of intangible assets is determined primarily using variations of the "income approach," which is based on the present value of the future after tax cash flows attributable to each identified intangible asset. Other valuation methods, including the market approach and cost approach, were also considered in estimating the fair value. The Company has estimated the fair value of intangible assets to be $922 million with a weighted average life of 13 years. The identifiable intangible assets include customer relationships, provider contracts, trade names and developed technology.

The fair values and weighted average useful lives for identifiable intangible assets acquired are as follows:

	Fair Value		Weighted Average Useful Life (in years)
Customer relationships	$	677	11
Trade name		196	20
Provider contracts		33	15
Developed technologies		16	2
Total intangible assets acquired	$	922	13

(b) The acquisition resulted in $1.6 billion of goodwill related primarily to synergies expected from the acquisition and the assembled workforce of Fidelis Care. All of the goodwill has been assigned to the Managed Care segment. The goodwill is deductible for income tax purposes.

Statement of Operations

From the acquisition date through December 31, 2018, the Company's Consolidated Statements of Operations include total Fidelis Care revenues of $5,628 million. It is impracticable to determine the effect on net income resulting from the Fidelis Care acquisition for the year ended December 31, 2018, as the Company began immediately integrating Fidelis Care into its ongoing operations.

Unaudited Pro Forma Financial Information

The unaudited pro forma total revenues for the year ended December 31, 2018 were $65,792 million. It is impracticable for the Company to determine the pro forma earnings information for the year ended December 31, 2018 due to the nature of obtaining that information as the Company began immediately integrating Fidelis Care into its ongoing operations. The following table presents supplemental pro forma information for the year ended December 31, 2017 ($ in millions, except per share data):

	Year Ended December 31, 2017	
Total revenues	$	58,275
Net earnings attributable to Centene Corporation	$	936
Diluted earnings per share	$	2.27

The pro forma results do not reflect any anticipated synergies, efficiencies, or other cost savings of the acquisition. Accordingly, the unaudited pro forma financial information is not indicative of the results if the acquisition had been completed on January 1, 2017 and is not a projection of future results.

The unaudited pro forma financial information reflects the historical results of Centene and Fidelis Care adjusted as if the acquisition had occurred on January 1, 2017, primarily for the following:

- Additional premium tax expense related to Fidelis Care no longer being a not-for-profit entity.
- Additional Health Insurer Fee revenue in 2018 related to Fidelis Care as some of those revenues will be subject to the Health Insurer Fee following the first year of the closing of the Fidelis Care acquisition, absent a Health Insurer Fee moratorium.
- Reduced Fidelis Care investment income to reflect lower investment balances and mix of investments associated with the acquired assets.
- Interest expense associated with debt incurred to finance the transaction.
- An adjustment to basic and diluted shares outstanding to reflect the shares issued by Centene to finance the transaction.
- An adjustment to income tax expense to reflect the tax impact of the acquisition and Fidelis Care becoming subject to income tax.
- Elimination of acquisition related costs.

Commitments

As part of the regulatory approval process, in connection with the acquisition Fidelis Care, the Company entered into certain undertakings with the New York State Department of Health. These undertakings contain various commitments by the Company

effective upon completion of the Fidelis Care acquisition. One of the undertakings includes a $340 million contribution by the Company to the State of New York to be paid over a five-year period for initiatives consistent with our mission of providing high quality healthcare to vulnerable populations within New York State. As a result of the closing of the Fidelis Care acquisition, the present value of the $340 million contribution to the State of New York, approximately $328 million, was expensed during 2018.

4. Short-term and Long-term Investments, Restricted Deposits

Short-term and long-term investments and restricted deposits by investment type consist of the following ($ in millions):

	December 31, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 362	$ 1	$ (2)	$ 361	$ 311	$ —	$ (2)	$ 309
Corporate securities	3,190	8	(52)	3,146	2,208	12	(10)	2,210
Restricted certificates of deposit	433	—	—	433	4	—	—	4
Restricted cash equivalents	8	—	—	8	17	—	—	17
Municipal securities	2,196	9	(18)	2,187	2,085	12	(10)	2,087
Asset-backed securities	686	1	(4)	683	437	1	(1)	437
Residential mortgage-backed securities	452	1	(9)	444	337	1	(6)	332
Commercial mortgage-backed securities	366	1	(6)	361	272	1	(2)	271
Private equity investments	387	—	—	387	176	—	—	176
Life insurance contracts	128	—	—	128	135	—	—	135
Total	$ 8,208	$ 21	$ (91)	$ 8,138	$ 5,982	$ 27	$ (31)	$ 5,978

The Company's investments are debt securities classified as available-for-sale with the exception of life insurance contracts and certain private equity investments. The Company's investment policies are designed to provide liquidity, preserve capital and maximize total return on invested assets with the focus on high credit quality securities. The Company limits the size of investment in any single issuer other than U.S. treasury securities and obligations of U.S. government corporations and agencies. As of December 31, 2018, 96% of the Company's investments in rated securities carry an investment grade rating by nationally recognized statistical rating organizations. At December 31, 2018, the Company held certificates of deposit, life insurance contracts and private equity investments which did not carry a credit rating.

The Company's residential mortgage-backed securities are primarily issued by the Federal National Mortgage Association, Government National Mortgage Association or Federal Home Loan Mortgage Corporation, which carry implicit or explicit guarantees of the U.S. government. The Company's commercial mortgage-backed securities are primarily senior tranches with a weighted average rating of AA+ and a weighted average duration of 3.7 years at December 31, 2018.

In March 2018, the Company completed a 25% investment in RxAdvance, a full-service pharmacy benefit manager. In May 2018, the Company made an additional investment, bringing the total ownership to 28%. The investment is being accounted for using the equity method of accounting. In September 2018, the Company made an additional investment in RxAdvance in the form of convertible preferred stock.

The fair value of available-for-sale debt securities with gross unrealized losses by investment type and length of time that individual securities have been in a continuous unrealized loss position were as follows ($ in millions):

	December 31, 2018				December 31, 2017			
	Less Than 12 Months		12 Months or More		Less Than 12 Months		12 Months or More	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ —	$ 59	$ (2)	$ 202	$ (1)	$ 222	$ (1)	$ 79
Corporate securities	(27)	1,389	(25)	871	(6)	1,044	(4)	185
Municipal securities	(4)	591	(14)	806	(7)	943	(3)	175
Asset-backed securities	(2)	318	(2)	168	(1)	228	—	28
Residential mortgage-backed securities	(1)	61	(8)	233	(1)	109	(5)	171
Commercial mortgage-backed securities	(2)	137	(4)	140	(1)	112	(1)	51
Total	$ (36)	$ 2,555	$ (55)	$ 2,420	$ (17)	$ 2,658	$ (14)	$ 689

As of December 31, 2018, the gross unrealized losses were generated from 3,096 positions out of a total of 4,190 positions. The change in fair value of fixed income securities is primarily a result of movement in interest rates subsequent to the purchase of the security.

For each security in an unrealized loss position, the Company assesses whether it intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If the security meets this criterion, the decline in fair value is other-than-temporary and is recorded in earnings. The Company does not intend to sell these securities prior to maturity and it is not likely that the Company will be required to sell these securities prior to maturity; therefore, there is no indication of other-than-temporary impairment for these securities.

The contractual maturities of short-term and long-term investments and restricted deposits are as follows ($ in millions):

	December 31, 2018				December 31, 2017			
	Investments		Restricted Deposits		Investments		Restricted Deposits	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 647	$ 646	$ 205	$ 205	$ 474	$ 474	$ 48	$ 47
One year through five years	3,026	2,998	351	350	2,424	2,420	88	88
Five years through ten years	2,387	2,362	—	—	1,773	1,779	—	—
Greater than ten years	88	89	—	—	129	130	—	—
Asset-backed securities	1,504	1,488	—	—	1,046	1,040	—	—
Total	$ 7,652	$ 7,583	$ 556	$ 555	$ 5,846	$ 5,843	$ 136	$ 135

Actual maturities may differ from contractual maturities due to call or prepayment options. Private equity investments and life insurance contracts are included in the five years through ten years category. The Company has an option to redeem at amortized cost substantially all of the securities included in the greater than ten years category listed above.

The Company continuously monitors investments for other-than-temporary impairment. Certain investments have experienced a decline in fair value due to changes in credit quality, market interest rates and/or general economic conditions. The Company recognizes an impairment loss for private equity investments when evidence demonstrates that it is other-than-temporarily impaired. Evidence of a loss in value that is other-than-temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment.

5. Fair Value Measurements

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are categorized based upon observable or unobservable inputs used to estimate fair value. Level inputs are as follows:

Level Input:	Input Definition:
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at December 31, 2018, for assets and liabilities measured at fair value on a recurring basis ($ in millions):

	Level I	Level II	Level III	Total
Assets				
Cash and cash equivalents	$ 5,342	$ —	$ —	$ 5,342
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 247	$ —	$ —	$ 247
Corporate securities	—	3,146	—	3,146
Municipal securities	—	2,187	—	2,187
Asset-backed securities	—	683	—	683
Residential mortgage-backed securities	—	444	—	444
Commercial mortgage-backed securities	—	361	—	361
Total investments	$ 247	$ 6,821	$ —	$ 7,068
Restricted deposits available for sale:				
Cash and cash equivalents	$ 8	$ —	$ —	$ 8
Certificates of deposit	—	433	—	433
U.S. Treasury securities and obligations of U.S. government corporations and agencies	114	—	—	114
Total restricted deposits	$ 122	$ 433	$ —	$ 555
Total assets at fair value	$ 5,711	$ 7,254	$ —	$ 12,965
Liabilities				
Other long-term liabilities:				
Interest rate swap agreements	$ —	$ 95	$ —	$ 95
Total liabilities at fair value	$ —	$ 95	$ —	$ 95

The following table summarizes fair value measurements by level at December 31, 2017, for assets and liabilities measured at fair value on a recurring basis ($ in millions):

	Level I	Level II	Level III	Total
Assets				
Cash and cash equivalents	$ 4,072	$ —	$ —	$ 4,072
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 195	$ —	$ —	$ 195
Corporate securities	—	2,210	—	2,210
Municipal securities	—	2,087	—	2,087
Asset-backed securities	—	437	—	437
Residential mortgage-backed securities	—	332	—	332
Commercial mortgage-backed securities	—	271	—	271
Total investments	$ 195	$ 5,337	$ —	$ 5,532
Restricted deposits available for sale:				
Cash and cash equivalents	$ 17	$ —	$ —	$ 17
Certificates of deposit	4	—	—	4
U.S. Treasury securities and obligations of U.S. government corporations and agencies	114	—	—	114
Total restricted deposits	$ 135	$ —	$ —	$ 135
Other long-term assets:				
Interest rate swap agreements	$ —	$ 1	$ —	$ 1
Total assets at fair value	$ 4,402	$ 5,338	$ —	$ 9,740
Liabilities				
Other long-term liabilities:				
Interest rate swap agreements	$ —	$ 72	$ —	$ 72
Total liabilities at fair value	$ —	$ 72	$ —	$ 72

The Company utilizes matrix pricing services to estimate fair value for securities which are not actively traded on the measurement date. The Company designates these securities as Level II fair value measurements. In addition, the aggregate carrying amount of the Company's life insurance contracts and other private equity investments, which approximates fair value, was $515 million and $311 million as of December 31, 2018, and December 31, 2017, respectively.

6. Property, Software and Equipment

Property, software and equipment consist of the following as of December 31 ($ in millions):

	2018	2017
Land	$ 201	$ 130
Building	614	367
Computer software	757	542
Computer hardware	308	248
Furniture and office equipment	335	186
Leasehold improvements	291	221
	2,506	1,694
Less accumulated depreciation	(800)	(590)
Property, software and equipment, net	$ 1,706	$ 1,104

Depreciation expense for the years ended December 31, 2018, 2017 and 2016 was $237 million, $161 million and $101 million, respectively.

7. Goodwill and Intangible Assets

The following table summarizes the changes in goodwill by operating segment ($ in millions):

	Managed Care	Specialty Services	Total
Balance as of December 31, 2016	$ 4,015	$ 697	$ 4,712
Acquisitions and purchase accounting adjustments	—	37	37
Balance as of December 31, 2017	4,015	734	4,749
Acquisitions and purchase accounting adjustments	1,671	595	2,266
Balance as of December 31, 2018	$ 5,686	$ 1,329	$ 7,015

The majority of the increase in the managed care segment goodwill was related to the acquisition and fair value allocations discussed in Note 3. *Fidelis Care Acquisition.* The majority of the increase in the specialty services segment goodwill related to other acquisitions discussed in Note 11. *Stockholders' Equity*.

Intangible assets at December 31, consist of the following ($ in millions):

			Weighted Average Life in Years	
	2018	2017	2018	2017
Purchased contract rights	$ 1,173	$ 1,173	12.6	12.6
Provider contracts	311	274	12.3	11.9
Customer relationships	769	22	10.9	8.2
Trade names	361	162	15.2	9.6
Developed technologies	180	109	5.2	5.0
Other Intangibles	5	7	2.7	2.8
Intangible assets	2,799	1,747	11.9	11.6
Less accumulated amortization:				
Purchased contract rights	(283)	(188)		
Provider contracts	(90)	(66)		
Customer relationships	(57)	(21)		
Trade names	(55)	(34)		
Developed technologies	(72)	(40)		
Other Intangibles	(3)	—		
Total accumulated amortization	(560)	(349)		
Intangible assets, net	$ 2,239	$ 1,398		

Amortization expense was $211 million, $156 million and $147 million for the years ended December 31, 2018, 2017 and 2016, respectively. Estimated total amortization expense related to intangible assets for each of the five succeeding fiscal years is as follows ($ in millions):

Year	Expense
2019	$ 252
2020	244
2021	223
2022	217
2023	214

8. Medical Claims Liability

In January 2017, the Company reclassified Cenpatico Behavioral Health of Arizona, LLC and the related Cenpatico Integrated Care health plan from the Specialty Services segment to the Managed Care segment due to a reorganization of the Arizona management structure following the Health Net integration. As a result, the financial results of Cenpatico Behavioral Health of Arizona, LLC and the related Cenpatico Integrated Care health plan have been reclassified from the Specialty Services segment to the Managed Care segment for all periods presented. Due to this change in segment reporting, the Specialty Services segment now has an insignificant amount of medical claims liability and, therefore, disclosures related to medical claims liabilities have been aggregated and are presented on a consolidated basis.

The following table summarizes the change in medical claims liability ($ in millions):

	Year Ended December 31,		
	2018	2017	2016
Balance, January 1	$ 4,286	$ 3,929	$ 2,298
Less: reinsurance recoverable	18	5	—
Balance, January 1, net	4,268	3,924	2,298
Acquisitions	1,204	—	1,482
Less: acquired reinsurance recoverable	8	—	—
Incurred related to:			
Current year	46,484	38,225	30,946
Prior years	(427)	(374)	(310)
Total incurred	46,057	37,851	30,636
Paid related to:			
Current year	41,161	34,196	28,532
Prior years	3,556	3,311	1,960
Total paid	44,717	37,507	30,492
Balance at December 31, net	6,804	4,268	3,924
Plus: reinsurance recoverable	27	18	5
Balance, December 31	$ 6,831	$ 4,286	$ 3,929

Reinsurance recoverables related to medical claims are included in premium and trade receivables. Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions. Additionally, as a result of minimum HBR and other return of premium programs, approximately $25 million, $1 million, and $39 million of the “Incurred related to: Prior years” was recorded as a reduction to premium revenues in 2018, 2017, and 2016, respectively. Further, claims processing initiatives yielded increased claim payment recoveries and coordination of benefits related to prior year dates of service. Changes in medical utilization and cost trends and the effect of medical management initiatives may also contribute to changes in medical claim liability estimates. While the Company has evidence that medical management initiatives are effective on a case by case basis, medical management initiatives primarily focus on events and behaviors prior to the incurrence of the medical event and generation of a claim. Accordingly, any change in behavior, leveling of care, or coordination of treatment occurs prior to claim generation and as a result, the costs prior to the medical management initiative are not known by the Company. Additionally, certain medical management initiatives are focused on member and provider education with the intent of influencing behavior to appropriately align the medical services provided with the member's acuity. In these cases, determining whether the medical management initiative changed the behavior cannot be determined. Because of the complexity of its business, the number of states in which it operates, and the volume of claims that it processes, the Company is unable to practically quantify the impact of these initiatives on its changes in estimates of IBNR.

The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish medical costs. The Company establishes premium deficiency reserves if actual and anticipated experience indicates that existing policy liabilities together with the present value of future gross premiums will not be sufficient to cover the present value of future benefits, settlement and maintenance costs.

Information about incurred and paid claims development as of December 31, 2018 is included in the table below and is inclusive of claims incurred and paid related to the Health Net and Fidelis Care businesses prior and subsequent to their respective acquisition dates. The claims development information for all periods preceding the most recent reporting period is considered required supplementary information. Incurred and paid claims development as of December 31, 2018 is as follows ($ in millions):

Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
	For the Years Ended December 31,		
Claim Year	2016 (unaudited)	2017 (unaudited)	2018
2016	$ 42,512	$ 41,947	$ 41,890
2017		47,310	46,738
2018			51,309
		Total incurred claims	$ 139,937

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
	For the Years Ended December 31,		
Claim Year	2016 (unaudited)	2017 (unaudited)	2018
2016	$ 37,876	$ 41,679	$ 41,803
2017		41,972	46,512
2018			44,818
		Total payment of incurred claims	$ 133,133
		Medical claims liability, net of reinsurance	$ 6,804

Incurred claims and allocated claim adjustment expenses, net of reinsurance, total IBNR plus expected development on reported claims and cumulative claims data as of December 31, 2018 are included in the following table and are inclusive of the acquired Health Net and Fidelis Care businesses. For claims frequency information summarized below, a claim is defined as the financial settlement of a single medical event in which remuneration was paid to the servicing provider. Total IBNR plus expected development on reported claims represents estimates for claims incurred but not reported, development on reported claims, and estimates for the costs necessary to process unpaid claims at the end of each period. We estimate our liability using actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. These actuarial methods consider factors such as historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services and other relevant factors. Information is summarized as follows (in millions):

	December 31, 2018		
	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance	Total IBNR Plus Expected Development on Reported Claims	Cumulative Paid Claims
2016	$ 41,890	$ 3	228.8
2017	46,738	60	256.7
2018	51,309	5,092	266.8

9. Affordable Care Act

The Affordable Care Act (ACA) established risk spreading premium stabilization programs effective January 1, 2014. These programs, commonly referred to as the “three Rs,” include a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridor program. Additionally, the ACA established a minimum annual MLR and cost sharing reductions. Each of the three R programs are taken into consideration to determine if the Company’s estimated annual medical costs are less than the minimum loss ratio and require an adjustment to premium revenues to meet the minimum MLR.

During 2018, the Company recognized a $79 million net pre-tax benefit related to the reconciliation of the 2017 risk adjustment program, compared to a $48 million net pre-tax benefit in 2017 related to the reconciliation of the 2016 risk adjustment and reinsurance programs.

The Company's receivables (payables) for each of these programs are as follows ($ in millions):

	December 31, 2018	December 31, 2017
Risk adjustment	$ (928)	$ (677)
Reinsurance	1	15
Risk corridor	4	6
Minimum MLR	(265)	(22)
Cost sharing reductions	(50)	(96)

10. Debt

Debt consists of the following ($ in millions):

	December 31, 2018	December 31, 2017
$1,400 million 5.625% Senior notes, due February 15, 2021	$ 1,400	$ 1,400
$1,000 million 4.75% Senior notes, due May 15, 2022	1,005	1,006
$1,000 million 6.125% Senior notes, due February 15, 2024	1,000	1,000
$1,200 million 4.75% Senior notes, due January 15, 2025	1,200	1,200
$1,800 million 5.375% Senior notes, due June 1, 2026	1,800	—
Fair value of interest rate swap agreements	(95)	(71)
Total senior notes	6,310	4,535
Revolving credit agreement	284	150
Mortgage notes payable	57	61
Construction loan payable	63	—
Capital leases and other	47	18
Debt issuance costs	(75)	(65)
Total debt	6,686	4,699
Less current portion	(38)	(4)
Long-term debt	$ 6,648	$ 4,695

Senior Notes

In May 2018, a wholly-owned unrestricted subsidiary of the Company (Escrow Issuer) issued $1,800 million in aggregate principal amount of 5.375% senior notes due 2026 at par. In connection with the closing of the Fidelis Care acquisition, the Escrow Issuer merged with and into the Company and the Company assumed the obligations of the Escrow Issuer under the 5.375% senior notes due 2026. The Company used the net proceeds of the offering to finance a portion of the cash consideration for the Fidelis Care acquisition, which closed in July 2018, to pay related fees and expenses, and for general corporate purposes, including the repayment of outstanding indebtedness.

The indentures governing the senior notes listed in the table above contain restrictive covenants of Centene Corporation. At December 31, 2018, the Company was in compliance with all covenants.

Interest Rate Swaps

The Company uses interest rate swap agreements to convert a portion of its interest rate exposure from fixed rates to floating rates to more closely align interest expense with interest income received on its cash equivalent and variable rate investment balances. The following is a summary of the notional amounts of the Company's interest rate swap agreements as of December 31, 2018 and 2017 ($ in millions):

Expiration Date	Notional Amount	
February 15, 2021	$	600
May 15, 2022		500
February 15, 2024		1,000
January 15, 2025		600
Total	$	2,700

The fair value of the swap agreements shown above are recorded in other long-term liabilities in the Consolidated Balance Sheets. Under the swap agreements, the Company receives a fixed rate of interest and pays an average variable rate of either the one or three month LIBOR plus 3.61% adjusted monthly or quarterly, based on the terms of the individual swap agreements. At December 31, 2018, the weighted average rate was 6.19%.

The swap agreements are formally designated and qualify as fair value hedges. Gains and losses due to changes in fair value of the interest rate swap agreements completely offset changes in the fair value of the hedged portion of the underlying debt. Therefore, no gain or loss has been recognized due to hedge ineffectiveness. Offsetting changes in fair value of both the interest rate swaps and the hedged portion of the underlying debt both were recognized in interest expense in the Consolidated Statements of Operations. The Company does not hold or issue any derivative instrument for trading or speculative purposes.

The fair value of the Swap Agreements excludes accrued interest and takes into consideration current interest rates and current likelihood of the swap counterparties' compliance with its contractual obligations.

Revolving Credit Agreement

The Company has an unsecured $1,500 million revolving credit facility. The agreement has a maturity date of December 14, 2022. Borrowings under the agreement bear interest based upon LIBOR, EURIBOR rates, the Federal Funds Rate or the Prime Rate. As of December 31, 2018, the Company had $284 million of borrowings outstanding under the agreement with a weighted average interest rate of 4.42%, and the Company was in compliance with all covenants.

The revolving credit facility contains non-financial and financial covenants, including requirements of minimum fixed charge coverage ratios and maximum debt-to-EBITDA ratios. The Company is required to not exceed a maximum debt-to-EBITDA ratio of 3.5 to 1.0. As of December 31, 2018, there were no limitations on the availability under the revolving credit agreement as a result of the debt-to-EBITDA ratio.

Mortgage Notes Payable

The Company has a non-recourse mortgage note of $57 million at December 31, 2018 collateralized by its corporate headquarters building. The mortgage note is due January 1, 2021 and bears a 5.14% interest rate. The collateralized property had a net book value of $162 million at December 31, 2018.

Construction Loan

The Company has a $200 million non-recourse construction loan to fund the expansion of the Company's corporate headquarters. The loan bears interest based on the one month LIBOR plus 2.70% and matures in April 2021 with an optional one-year extension. The agreement contains financial and non-financial covenants aligning with the Company's revolving credit agreement. The Company has guaranteed completion of the construction project associated with the loan. As of December 31, 2018, the Company had $63 million in borrowings outstanding under the loan.

Letters of Credit & Surety Bonds

The Company had outstanding letters of credit of $56 million as of December 31, 2018, which were not part of the revolving credit facility. The Company also had letters of credit for $27 million (valued at December 31, 2018 conversion rate), or €24 million,

representing its proportional share of the letters of credit issued to support Ribera Salud's outstanding debt, which are a part of the revolving credit facility. Collectively, the letters of credit bore interest at 0.99% as of December 31, 2018. The Company had outstanding surety bonds of $496 million as of December 31, 2018.

Aggregate maturities for the Company's debt are as follows ($ in millions):

2019	$	38
2020		4
2021		1,514
2022		1,293
2023		—
Thereafter		4,002
Total	$	6,851

The fair value of outstanding debt was approximately $6,619 million and $4,751 million at December 31, 2018 and 2017, respectively.

11. Stockholders' Equity

The Company has 10 million authorized shares of preferred stock at $.001 par value. At December 31, 2018, there were no preferred shares outstanding.

The Company's Board of Directors has authorized a stock repurchase program for up to 16 million shares of the Company's common stock from time to time on the open market or through privately negotiated transactions. No duration has been placed on the repurchase program. The Company has 7 million available shares remaining under the program for repurchases as of December 31, 2018. The Company reserves the right to discontinue the repurchase program at any time. During the year ended December 31, 2018, the Company did not repurchase any shares through this publicly announced program.

As a component of the employee stock compensation plan, employees can use shares of stock which have vested to satisfy statutory tax withholding obligations. As part of this plan, the Company repurchased 1 million shares at an aggregate cost of $71 million in 2018 and 1 million shares at an aggregate cost of $65 million in 2017. These shares are included in the Company's treasury stock.

In May 2018, the Company completed a registered offering of 53 million shares of Centene common stock with a fair value of $2,860 million. This included the 10% over allotment option to purchase additional shares from the Company which was exercised in full by the underwriters. Net proceeds after underwriting discounts and commissions was $2,779 million. The Company used the net proceeds of the offering to finance a portion of the cash consideration in connection with the Fidelis Care acquisition, to pay related fees and expenses, and for general corporate purposes, including the repayment of outstanding indebtedness.

In April 2018, the Company acquired MHM Services Inc. (MHM) and issued 3 million shares of Centene common stock to the selling shareholders, with a fair value of $183 million.

In March 2018, the Company acquired Community Medical Holdings Corp., d/b/a Community Medical Group (CMG) and issued 3 million shares of Centene common stock to the selling shareholders, with a fair value of $149 million.

In March 2018, the Company acquired an additional 61% of Interpreta Holdings, Inc. (Interpreta) and issued 3 million shares of Centene common stock to the selling shareholders, with a fair value of $175 million.

12. Statutory Capital Requirements and Dividend Restrictions

Various state laws require Centene's regulated subsidiaries to maintain minimum capital levels specified by each state and restrict the amount of dividends that may be paid without prior regulatory approval. At December 31, 2018 and 2017, Centene's subsidiaries had aggregate statutory capital and surplus of $7,259 million and $5,153 million, respectively, compared with the required minimum aggregate statutory capital and surplus of $3,279 million and $2,251 million, respectively. As of December 31, 2018, the amount of capital and surplus or net worth that was unavailable for the payment of dividends or return of capital to the Company was $3,279 million in the aggregate.

13. Income Taxes

The consolidated income tax expense consists of the following for the years ended December 31 ($ in millions):

	2018	2017	2016
Current provision			
Federal	$ 498	$ 421	$ 485
State and local	107	14	22
Total current provision	605	435	507
Deferred provision	(131)	(109)	92
Total income tax expense	$ 474	$ 326	$ 599

The reconciliation of the tax provision at the U.S. federal statutory rate to income tax expense for the years ended December 31 is as follows ($ in millions):

	2018	2017	2016
Earnings from operations, before income tax expense	$ 1,368	$ 1,134	$ 1,160
Loss (earnings) attributable to flow through noncontrolling interest	4	15	(8)
Earnings from operations, less noncontrolling interest, before income tax expense	1,372	1,149	1,152
Tax provision at the U.S. federal statutory rate	288	402	402
State income taxes, net of federal income tax benefit	52	11	10
Nondeductible compensation	33	58	23
ACA Health Insurer Fee	149	—	162
Income Tax Reform	—	(125)	—
Valuation Allowance	(28)	14	10
Other, net	(20)	(34)	(8)
Income tax expense	$ 474	$ 326	$ 599

The tax effects of temporary differences which give rise to deferred tax assets and liabilities are presented below for the years ended December 31 ($ in millions):

	2018	2017
Deferred tax assets:		
Medical claims liability	$ 78	$ 46
Nondeductible liabilities	128	41
Net operating loss and tax credit carryforwards	77	94
Compensation accruals	109	129
Premium and trade receivables	76	45
Other	61	11
Deferred tax assets	529	366
Valuation allowance	(53)	(81)
Net deferred tax assets	$ 476	$ 285
Deferred tax liabilities:		
Intangible assets	$ 343	$ 342
Prepaid assets	31	23
Fixed assets	132	84
Investments in joint ventures	27	20
Deferred revenue	19	26
Other	6	17
Deferred tax liabilities	558	512
Net deferred tax assets (liabilities)	$ (82)	$ (227)

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. The valuation allowances primarily relate to future tax benefits on certain federal, state and foreign net operating loss and tax credit carryforwards. The $28 million decrease in valuation allowance relates to an increase in current taxable income of a subsidiary whose annual net operating loss deduction is limited by law.

Federal net operating loss carryforwards of $19 million expire beginning in 2020 through 2038; state net operating loss and tax credit carryforwards of $44 million expire beginning in 2019 through 2038. Substantially all of the non-U.S. tax loss carryforwards have indefinite carryforward periods.

The Company maintains a reserve for uncertain tax positions that may be challenged by a tax authority. A rollforward of the beginning and ending amount of uncertain tax positions, exclusive of related interest and penalties, is as follows:

	Year Ended December 31,	
	2018	2017
Gross unrecognized tax benefits, beginning of period	$ 257	$ 102
Gross increases:		
Current year tax positions	7	43
Prior year tax positions	14	113
Gross decreases:		
Statute of limitation lapses	(1)	(1)
Gross unrecognized tax benefits, end of period	$ 277	$ 257

Uncertain tax positions increased $20 million due to various federal positions. As of December 31, 2018, $248 million of unrecognized tax benefits would impact the Company's effective tax rate in future periods, if recognized. The Company believes it is reasonably possible that its liability for unrecognized tax benefits will decrease in the next twelve months by $15 million as a result of the expiration of statutes of limitations and projected audit settlements in certain jurisdictions.

The table above excludes interest, net of related tax benefits, which is treated as income tax expense (benefit) under the Company's accounting policy. For the year ended December 31, 2018, the Company recognized net interest expense related to uncertain

positions of $5 million. The Company had $14 million and $9 million of accrued interest and penalties for uncertain tax positions as of December 31, 2018 and 2017, respectively.

The Company files tax returns for federal as well as numerous state tax jurisdictions. As of December 31, 2018, Health Net is under federal examination for tax years 2011 through its final return in 2016. Additionally, Centene's tax returns for years 2014 through 2017 are subject to federal examination.

The Company has completed its accounting of the effects of the TCJA on current and deferred income taxes. No material changes were made to the tax effects recorded in 2017.

14. Stock Incentive Plans

The Company's stock incentive plans allow for the granting of restricted stock or restricted stock unit awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. However, an immaterial amount of options were granted, exercised, or outstanding in 2018. The plans have 11 million shares available for future awards. Compensation expense for stock options and restricted stock unit awards is recognized on a straight-line basis over the vesting period, generally three to five years for stock options and one to three years for restricted stock or restricted stock unit awards. Vesting is accelerated by one year for individuals who qualify under the Company's retirement eligible provisions. Certain restricted stock unit awards contain performance-based as well as service-based provisions. Certain awards provide for accelerated vesting if there is a change in control as defined in the plans. The total compensation cost that has been charged against income for the stock incentive plans was $145 million, $135 million and $148 million for the years ended December 31, 2018, 2017 and 2016, respectively. The total income tax benefit recognized in the income statement for stock-based compensation arrangements was $34 million, $50 million and $67 million for the years ended December 31, 2018, 2017 and 2016, respectively.

A summary of the Company's non-vested restricted stock and restricted stock unit shares as of December 31, 2018, and changes during the year ended December 31, 2018, is presented below (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2017	8,338	$ 34.65
Granted	2,710	65.31
Vested	(3,299)	34.26
Forfeited	(384)	32.45
Non-vested balance as of December 31, 2018	7,365	$ 47.42

The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2018, 2017 and 2016, was $209 million, $174 million and $147 million, respectively.

As of December 31, 2018, there was $265 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a weighted-average period of 2.3 years.

The Company maintains an employee stock purchase plan and issued 256 thousand shares, 258 thousand shares, and 236 thousand shares in 2018, 2017 and 2016, respectively.

15. Retirement Plan

Centene has a defined contribution plan which covers substantially all employees who are at least twenty-one years of age. Under the plan, eligible employees may contribute a percentage of their base salary, subject to certain limitations. Centene may elect to match a portion of the employee's contribution. Company expense related to matching contributions to the plan was $53 million, $42 million and $37 million during the years ended December 31, 2018, 2017 and 2016, respectively.

16. Commitments

Centene and its subsidiaries lease office facilities and various equipment under non-cancelable operating leases which may contain escalation provisions. The rental expense related to these leases is recorded on a straight-line basis over the lease term, including rent holidays. Tenant improvement allowances are recorded as a liability and amortized against rent expense over the term of the lease. Rent expense was $207 million, $171 million and $137 million for the years ended December 31, 2018, 2017 and 2016, respectively. Annual non-cancelable minimum lease payments over the next five years and thereafter are as follows ($ in millions):

2019	$	174
2020		176
2021		145
2022		101
2023		71
Thereafter		200
	$	867

In connection with obtaining regulatory approval of the Fidelis Care acquisition, the Company entered into certain undertakings with the New York State Department of Health in 2018. See Note 3. *Fidelis Care Acquisition* for further details. The Company also committed to certain undertakings with the California Department of Insurance and the California Department of Managed Health Care in connection with obtaining regulatory approval of the Health Net acquisition in 2016 The Health Net commitments related to the undertakings are as follows:

- invest an additional $30 million through the California Organized Investment Network over the five years following completion of the acquisition;
- build a service center in an economically distressed community in California, investing $200 million over 10 years and employing at least 300 people, of which the Company has incurred $8 million through 2018;
- contribute $65 million to improve enrollee health outcomes ($10 million over five years), support locally-based consumer assistance programs ($5 million over five years) and strengthen the healthcare delivery system ($50 million over five years), of which the Company has contributed $13 million through 2018, and;
- invest $75 million of its investment portfolio in vehicles supporting California’s healthcare infrastructure, of which the Company has invested $12 million through 2018.

17. Contingencies

Overview

The Company records reserves and accrues costs for certain legal proceedings and regulatory matters to the extent that it determines an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. While such reserves and accrued costs reflect the Company's best estimate of the probable loss for such matters, the recorded amounts may differ materially from the actual amount of any such losses. In some cases, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made because of the inherently unpredictable nature of legal and regulatory proceedings, which may be exacerbated by various factors, including but not limited to, they may involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or legal uncertainties; involve disputed facts; represent a shift in regulatory policy; involve a large number of parties, claimants or regulatory bodies; are in the early stages of the proceedings; involve a number of separate proceedings and/or a wide range of potential outcomes; or result in a change of business practices.

As of the date of this report, amounts accrued for legal proceedings and regulatory matters were not material. However, it is possible that in a particular quarter or annual period the Company’s financial condition, results of operations, cash flow and/or liquidity could be materially adversely affected by an ultimate unfavorable resolution of or development in legal and/or regulatory proceedings, including as described below. Except for the proceedings discussed below, the Company believes that the ultimate outcome of any of the regulatory and legal proceedings that are currently pending against it should not have a material adverse effect on financial condition, results of operations, cash flow or liquidity.

California

On October 20, 2015, the Company's California subsidiary, Health Net of California, Inc. (Health Net California), was named as a defendant in a California taxpayer action filed in Los Angeles County Superior Court, captioned as Michael D. Myers v. State Board of Equalization, Dave Jones, Insurance Commissioner of the State of California, Betty T. Yee, Controller of the State of California, et al., Los Angeles Superior Court Case No. BS158655. This action is brought under a California statute that permits an individual taxpayer to sue a governmental agency when the taxpayer believes the agency has failed to enforce governing law. Plaintiff contends that Health Net California, a California licensed Health Care Service Plan (HCSP), is an "insurer" for purposes of taxation despite acknowledging it is not an "insurer" under regulatory law. Under California law, "insurers" must pay a gross premiums tax (GPT), calculated as 2.35% on gross premiums. As a licensed HCSP, Health Net California has paid the California Corporate Franchise Tax (CFT), the tax generally paid by California businesses. Plaintiff contends that Health Net California must pay the GPT rather than the CFT. Plaintiff seeks a writ of mandate directing the California taxing agencies to collect the GPT, and seeks an order requiring Health Net California to pay GPT, interest and penalties for a period dating to eight years prior to the October 2015 filing of the complaint. This lawsuit is being coordinated with similar lawsuits filed against other entities (collectively, "Related Actions"). In September 2017, the Company filed a demurrer seeking to dismiss the complaint, and a motion to strike the allegations seeking retroactive relief. In March 2018, the Court overruled the Company's demurrer and denied the motion to strike. In August 2018, the trial court stayed all the Related Actions pending determination of a writ of mandate by the California Court of Appeals in two of the Related Actions. The Company intends to vigorously defend itself against these claims; however, this matter is subject to many uncertainties, and an adverse outcome in this matter could potentially have a materially adverse impact on our financial position, results of operations and cash flows.

Federal Securities Class Action

On November 14, 2016, a putative federal securities class action, Israel Sanchez v. Centene Corp., et al., was filed against the Company and certain of its executives in the U.S. District Court for the Central District of California. In March 2017, the court entered an order transferring the matter to the U.S. District Court for the Eastern District of Missouri. The plaintiffs in the lawsuit allege that the Company's accounting and related disclosures for certain liabilities acquired in the acquisition of Health Net violated federal securities laws. In July 2017, the lead plaintiff filed a Consolidated Class Action Complaint. The Company filed a motion to dismiss this complaint in September 2017. In February 2018, the Court held a hearing on the motion to dismiss but has not yet issued a ruling.

The Company denies any wrongdoing and is vigorously defending itself against these claims. Nevertheless, this matter is subject to many uncertainties and the Company cannot predict how long this litigation will last or what the ultimate outcome will be, and an adverse outcome in this matter could potentially have a materially adverse impact on our financial position and results of operations.

Additionally, on January 24, 2018, a separate derivative action was filed by plaintiff Harkesh Parekh on behalf of Centene Corporation against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Missouri. Plaintiff purports to bring suit derivatively on behalf of the Company against certain officers and directors for violation of securities laws, breach of fiduciary duty, waste of corporate assets and unjust enrichment. The derivative complaint repeats many of the allegations in the federal securities class action described above and asserts that defendants made inaccurate or misleading statements, and/or failed to correct the alleged misstatements.

A second shareholder derivative action was filed on March 9, 2018, by plaintiffs Laura Wood and Peoria Police Pension Fund on behalf of Centene Corporation against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Missouri. This second derivative complaint repeats many of the allegations in the securities class action and the first derivative suit.

A third shareholder derivative action was filed on December 14, 2018, by plaintiffs Carpenter Pension Fund of Illinois and Iron Workers Local 11 Pension Fund on behalf of Centene Corporation against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Missouri. This third derivative action repeats many of the allegations in the securities class action and the other derivative suits and adds additional allegations asserting violations of securities laws, breach of fiduciary duty, insider trading and unjust enrichment. On January 9, 2019, the Court consolidated the three derivative suits and established a schedule for determining lead plaintiff and lead counsel.

Medicare Parts C and D Matter

In December 2016, a Civil Investigative Demand (CID) was issued to Health Net by the United States Department of Justice regarding Health Net's submission of risk adjustment claims to CMS under Parts C and D of Medicare. The CID may be related

to a federal qui tam lawsuit filed under seal in 2011 naming more than a dozen health insurers including Health Net. The lawsuit was unsealed in February 2017 when the Department of Justice intervened in the case with respect to one of the insurers (not Health Net). In subsequent pleadings, both the Department of Justice and the Relator excluded Health Net from the lawsuit. The Company is complying with the CID and will vigorously defend any lawsuits. At this point, it is not possible to determine what level of liability, if any, the Company may face as a result of this matter.

Veterans Administration Matter

In October 2017, a CID was issued to Health Net Federal Services, LLC (HNFS) by the United States Department of Justice. The CID seeks documents and interrogatory responses concerning whether HNFS submitted, or caused to be submitted, excessive, duplicative or otherwise improper claims to the U.S. Department of Veterans Affairs (VA) under a contract to provide health care coordination services for veterans. The contract began in late 2014 and ended September 30, 2018. In 2016, modifications to the contract were made to allow for possible duplicate billings with a reconciliation period at the end of the contract term. The Company is complying with the CID and believes it has been meeting its contractual obligations. At this point, it is not possible to determine what level of liability, if any, the Company may face as a result of this matter. This matter is separate from the negotiated settlements with the VA in connection with the contract expiration on September 30, 2018.

Ambetter Class Action

On January 11, 2018, a putative class action lawsuit was filed by Cynthia Harvey and Steven A. Milman against the Company and certain subsidiaries in the U.S. District Court for the Eastern District of Washington. The complaint alleges that the Company failed to meet federal and state requirements for provider networks and directories with regard to its Ambetter policies, denied coverage and/or refused to pay for covered benefits, and failed to address grievances adequately, causing some members to incur unexpected costs. In March 2018, the Company filed separate motions to dismiss each defendant. In July 2018, the plaintiff voluntarily filed a First Amended Complaint that removed Steven Milman as a plaintiff, dropped Centene Corporation and Superior Health Plan as defendants, abandoned certain claims, narrowed the putative class to Washington State only, and added Centene Management Company as a defendant. In August 2018, the Company moved to dismiss the First Amended Complaint. In response, the plaintiff voluntarily filed a Second Amended Complaint. In September 2018, the Company filed a motion to dismiss the Second Amended Complaint. On November 21, 2018, the Court granted in part and denied in part the Company’s motion to dismiss. Plaintiff Cynthia Harvey filed a Third Amended Complaint, on November 28, 2018, against Centene Management Company and Coordinated Care Corporation (“Defendants”), both subsidiaries of the Company. Defendants filed an answer on December 12, 2018 and the matter is expected to proceed. The Company intends to vigorously defend itself against these claims. Nevertheless, this matter is subject to many uncertainties and the Company cannot predict how long this litigation will last or what the ultimate outcome will be, and an adverse outcome in this matter could potentially have a materially adverse impact on our financial position and results of operations.

Miscellaneous Proceedings

Excluding the matters discussed above, the Company is also routinely subjected to legal and regulatory proceedings in the normal course of business. These matters can include, without limitation:

- periodic compliance and other reviews and investigations by various federal and state regulatory agencies with respect to requirements applicable to the Company's business, including, without limitation, those related to payment of out-of-network claims, submissions to CMS for risk adjustment payments or the False Claims Act, pre-authorization penalties, timely review of grievances and appeals, timely and accurate payment of claims, and the Health Insurance Portability and Accountability Act of 1996;

- litigation arising out of general business activities, such as tax matters, disputes related to healthcare benefits coverage or reimbursement, putative securities class actions and medical malpractice, privacy, real estate, intellectual property and employment-related claims;

- disputes regarding reinsurance arrangements, claims arising out of the acquisition or divestiture of various assets, class actions and claims relating to the performance of contractual and non-contractual obligations to providers, members, employer groups and others, including, but not limited to, the alleged failure to properly pay claims and challenges to the manner in which the Company processes claims and claims alleging that the Company has engaged in unfair business practices.

Among other things, these matters may result in awards of damages, fines or penalties, which could be substantial, and/or could require changes to the Company’s business. The Company intends to vigorously defend itself against the miscellaneous legal and

regulatory proceedings to which it is currently a party; however, these proceedings are subject to many uncertainties. In some of the cases pending against the Company, substantial non-economic or punitive damages are being sought.

18. Earnings Per Share

The following table sets forth the calculation of basic and diluted net earnings per common share for the years ended December 31 ($ in millions, except shares in thousands and per share data in dollars):

	2018	2017	2016
Earnings attributable to Centene Corporation	$ 900	$ 828	$ 562
Shares used in computing per share amounts:			
Weighted average number of common shares outstanding	390,248	344,853	319,135
Common stock equivalents (as determined by applying the treasury stock method)	8,258	8,551	8,816
Weighted average number of common shares and potential dilutive common shares outstanding	398,506	353,404	327,951
Net earnings per common share attributable to Centene Corporation:			
Basic earnings per common share	$ 2.31	$ 2.40	$ 1.76
Diluted earnings per common share	$ 2.26	$ 2.34	$ 1.71

The calculation of diluted earnings per common share for 2018, 2017 and 2016 excludes the impact of 58 thousand shares, 106 thousand shares and 252 thousand shares, respectively, related to anti-dilutive stock options, restricted stock and restricted stock units.

19. Segment Information

Centene operates in two segments: Managed Care and Specialty Services.

The Managed Care segment consists of Centene's health plans including all of the functions needed to operate them. The Specialty Services segment consists of Centene's specialty companies offering auxiliary healthcare services and products. Factors used in determining the reportable business segments include the nature of operating activities, the existence of separate senior management teams, and the type of information presented to the Company's chief operating decision-maker to evaluate all results of operations.

In January 2017, the Company reclassified Cenpatico Behavioral Health of Arizona, LLC and the related Cenpatico Integrated Care health plan from the Specialty Services segment to the Managed Care segment due to a reorganization of the Arizona management structure following the Health Net integration. As a result, the financial results of Cenpatico Behavioral Health of Arizona, LLC and the related Cenpatico Integrated Care health plan have been reclassified from the Specialty Services segment to the Managed Care segment for all periods presented.

Segment information as of and for the year ended December 31, 2018, follows ($ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	$ 56,999	$ 3,117	$ —	$ 60,116
Total revenues internal customers	100	9,389	(9,489)	—
Total revenues	$ 57,099	$ 12,506	(9,489)	$ 60,116
Earnings from operations	$ 1,310	$ 148	—	$ 1,458
Total assets	$ 27,627	$ 3,274	—	$ 30,901

Segment information as of and for the year ended December 31, 2017, follows ($ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	$ 45,798	$ 2,584	$ —	$ 48,382
Total revenues internal customers	44	9,471	(9,515)	—
Total revenues	$ 45,842	$ 12,055	$ (9,515)	$ 48,382
Earnings from operations	$ 917	$ 282	$ —	$ 1,199
Total assets	$ 19,959	$ 1,896	$ —	$ 21,855

Segment information as of and for the year ended December 31, 2016, follows ($ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	$ 38,182	$ 2,425	$ —	$ 40,607
Total revenues internal customers	200	5,952	(6,152)	—
Total revenues	$ 38,382	$ 8,377	$ (6,152)	$ 40,607
Earnings from operations	$ 1,080	$ 183	$ —	$ 1,263
Total assets	$ 18,423	$ 1,774	$ —	$ 20,197

20. Quarterly Selected Financial Information

Quarterly selected financial information for 2018 and 2017 is as follows:

(In millions, except per share data in dollars)
(Unaudited)

	For the Quarter Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Total revenues	$ 13,194	$ 14,181	$ 16,182	$ 16,559
Net earnings attributable to Centene Corporation	$ 340	$ 300	$ 19	$ 241
Net earnings per common share attributable to Centene Corporation:				
Basic earnings per common share	$ 0.98	$ 0.77	$ 0.05	$ 0.59
Diluted earnings per common share	$ 0.96	$ 0.75	$ 0.05	$ 0.57

	For the Quarter Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Total revenues	$ 11,724	$ 11,954	$ 11,898	$ 12,806
Net earnings attributable to Centene Corporation	$ 139	$ 254	$ 205	$ 230
Net earnings per common share attributable to Centene Corporation:				
Basic earnings per common share	$ 0.40	$ 0.74	$ 0.59	$ 0.67
Diluted earnings per common share	$ 0.39	$ 0.72	$ 0.58	$ 0.65

21. Condensed Financial Information of Registrant

Centene Corporation (Parent Company Only)
Condensed Balance Sheets
(In millions, except shares in thousands and per share data in dollars)

	December 31,	
	2018	**2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6	$ 6
Short-term investments, at fair value (amortized cost $2 and $2, respectively)	2	2
Other current assets	61	46
Total current assets	69	54
Long-term investments, at fair value (amortized cost $14 and $17, respectively)	14	17
Investment in subsidiaries	17,409	11,303
Other long-term assets	278	302
Total assets	$ 17,770	$ 11,676
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 109	$ 100
Long-term debt	6,521	4,624
Other long-term liabilities	117	76
Total liabilities	6,747	4,800
Redeemable noncontrolling interest	10	12
Stockholders' equity:		
Preferred stock, $.001 par value; authorized 10,000 shares; no shares issued or outstanding at December 31, 2018 and December 31, 2017	—	—
Common stock, $.001 par value; authorized 800,000 shares; 417,695 issued and 412,478 outstanding at December 31, 2018, and 360,758 issued and 346,874 outstanding at December 31, 2017	—	—
Additional paid-in capital	7,449	4,349
Accumulated other comprehensive loss	(56)	(3)
Retained earnings	3,663	2,748
Treasury stock, at cost (5,217 and 13,884 shares, respectively)	(139)	(244)
Total Centene stockholders' equity	10,917	6,850
Noncontrolling interest	96	14
Total stockholders' equity	11,013	6,864
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$ 17,770	$ 11,676

See notes to condensed financial information of registrant.

Centene Corporation (Parent Company Only)
Condensed Statements of Operations
(In millions, except per share data in dollars)

	Year Ended December 31,		
	2018	**2017**	**2016**
Expenses:			
Selling, general and administrative expenses	$ 24	$ 6	$ 5
Other income (expense):			
Investment and other income	3	2	2
Interest expense	(334)	(247)	(201)
Earnings (loss) before income taxes	(355)	(251)	(204)
Income tax benefit	(64)	(114)	(76)
Net earnings (loss) before equity in subsidiaries	(291)	(137)	(128)
Equity in earnings from subsidiaries	1,185	945	689
Net earnings	894	808	561
Loss attributable to noncontrolling interests	6	20	1
Net earnings attributable to Centene	$ 900	$ 828	$ 562
Net earnings per share:			
Basic earnings per common share	$ 2.31	$ 2.40	$ 1.76
Diluted earnings per common share	$ 2.26	$ 2.34	$ 1.71

See notes to condensed financial information of registrant.

Centene Corporation (Parent Company Only)
Condensed Statements of Cash Flows
(In millions)

	Year Ended December 31,		
	2018	**2017**	**2016**
Cash flows from operating activities:			
Dividends from subsidiaries, return on investment	$ 464	$ 292	$ 25
Other operating activities, net	(317)	(132)	(71)
Net cash (used in) provided by operating activities	147	160	(46)
Cash flows from investing activities:			
Capital contributions to subsidiaries	(681)	(339)	(691)
Purchases of investments	(23)	(38)	(112)
Sales and maturities of investments	7	4	169
Dividends from subsidiaries, return of investment	11	28	100
Investments in acquisitions	(4,226)	(59)	(2,248)
Intercompany activities	215	322	(575)
Other investing activities, net	—	(1)	—
Net cash used in investing activities	(4,697)	(83)	(3,357)
Cash flows from financing activities:			
Proceeds from the issuance of common stock	2,778	—	—
Proceeds from borrowings	6,014	1,400	8,934
Payment of long-term debt	(4,080)	(1,350)	(5,377)
Common stock repurchases	(71)	(65)	(63)
Debt issuance costs	(25)	—	(76)
Purchase of noncontrolling interest	(76)	(66)	(14)
Other financing activities, net	10	5	—
Net cash provided by (used in) financing activities	4,550	(76)	3,404
Net increase in cash and cash equivalents	—	1	1
Cash and cash equivalents, beginning of period	6	5	4
Cash and cash equivalents, end of period	$ 6	$ 6	$ 5

See notes to condensed financial information of registrant.

Notes to Condensed Financial Information of Registrant

Note A - Basis of Presentation and Significant Accounting Policies

The parent company only financial statements should be read in conjunction with Centene Corporation's audited consolidated financial statements and the notes to consolidated financial statements included in this Form 10-K.

The parent company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries. The parent company's share of net income of its unconsolidated subsidiaries is included in income using the equity method of accounting. Certain unrestricted subsidiaries receive monthly management fees from our restricted subsidiaries. The management and service fees received by our unrestricted subsidiaries are associated with all of the functions required to manage the restricted subsidiaries including but not limited to salaries and wages for all personnel, rent, utilities, medical management, provider contracting, compliance, member services, claims processing, information technology, cash management, finance and accounting, and other services. The management fees are based on a percentage of the restricted subsidiaries revenue.

Due to our centralized cash management function, cash flows generated by our unrestricted subsidiaries are utilized by the parent company to the extent required, primarily to repay borrowings on the parent company's revolving credit facility, make acquisitions, fund capital contributions to subsidiaries and fund its operations.

In August 2016, the FASB issued an ASU which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The Company early adopted the new guidance in the fourth quarter of 2017. Certain amounts in the 2016 parent company only financial statements have been reclassified to conform to the 2017 presentation, reflecting this adoption and a reclassification of intercompany activities from operating to investing cash flows. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

Certain amounts presented in the parent company only financial statements are eliminated in the consolidated financial statements of Centene Corporation.

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures - Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective at the reasonable assurance level as of December 31, 2018. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

We acquired the assets of Fidelis Care on July 1, 2018. Fidelis Care had total assets representing 19% of consolidated assets, and total revenues representing approximately 9% of consolidated revenues, as of and for the year ended December 31, 2018. We excluded from our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018 the internal controls over financial reporting associated with Fidelis Care.

Changes in Internal Control Over Financial Reporting - No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the year ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.