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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, 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, 2017, 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 20, 2018 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 20, 2018

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

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,072	$ 3,930
Premium and trade receivables	3,413	3,215
Short-term investments	531	505
Other current assets	687	715
Total current assets	8,703	8,365
Long-term investments	5,312	4,545
Restricted deposits	135	138
Property, software and equipment, net	1,104	797
Goodwill	4,749	4,712
Intangible assets, net	1,398	1,545
Other long-term assets	454	95
Total assets	$ 21,855	$ 20,197
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liability	$ 4,286	$ 3,929
Accounts payable and accrued expenses	4,165	3,763
Return of premium payable	549	614
Unearned revenue	328	313
Current portion of long-term debt	4	4
Total current liabilities	9,332	8,623
Long-term debt	4,695	4,651
Other long-term liabilities	952	869
Total liabilities	14,979	14,143
Commitments and contingencies		
Redeemable noncontrolling interests	12	145
Stockholders' equity:		
Preferred stock, $.001 par value; authorized 10,000 shares; no shares issued or outstanding at December 31, 2017 and December 31, 2016	—	—
Common stock, $.001 par value; authorized 400,000 shares; 180,379 issued and 173,437 outstanding at December 31, 2017, and 178,134 issued and 171,919 outstanding at December 31, 2016	—	—
Additional paid-in capital	4,349	4,190
Accumulated other comprehensive loss	(3)	(36)
Retained earnings	2,748	1,920
Treasury stock, at cost (6,942 and 6,215 shares, respectively)	(244)	(179)
Total Centene stockholders' equity	6,850	5,895
Noncontrolling interest	14	14
Total stockholders' equity	6,864	5,909
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$ 21,855	$ 20,197

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,		
	2017	**2016**	**2015**
Revenues:			
Premium	$ 43,353	$ 35,399	$ 19,389
Service	2,267	2,180	1,876
Premium and service revenues	45,620	37,579	21,265
Premium tax and health insurer fee	2,762	3,028	1,495
Total revenues	48,382	40,607	22,760
Expenses:			
Medical costs	37,851	30,636	17,242
Cost of services	1,847	1,864	1,621
Selling, general and administrative expenses	4,446	3,676	1,802
Amortization of acquired intangible assets	156	147	24
Premium tax expense	2,883	2,563	1,151
Health insurer fee expense	—	461	215
Total operating expenses	47,183	39,347	22,055
Earnings from operations	1,199	1,260	705
Other income (expense):			
Investment and other income	190	114	35
Interest expense	(255)	(217)	(43)
Earnings from continuing operations, before income tax expense	1,134	1,157	697
Income tax expense	326	599	339
Earnings from continuing operations, net of income tax expense	808	558	358
Discontinued operations, net of income tax expense (benefit)	—	3	(1)
Net earnings	808	561	357
(Earnings) loss attributable to noncontrolling interests	20	1	(2)
Net earnings attributable to Centene Corporation	$ 828	$ 562	$ 355
Amounts attributable to Centene Corporation common shareholders:			
Earnings from continuing operations, net of income tax expense	$ 828	$ 559	$ 356
Discontinued operations, net of income tax expense (benefit)	—	3	(1)
Net earnings	$ 828	$ 562	$ 355
Net earnings (loss) per common share attributable to Centene Corporation:			
Basic:			
Continuing operations	$ 4.80	$ 3.50	$ 2.99
Discontinued operations	—	0.02	(0.01)
Basic earnings per common share	$ 4.80	$ 3.52	$ 2.98
Diluted:			
Continuing operations	$ 4.69	$ 3.41	$ 2.89
Discontinued operations	—	0.02	(0.01)
Diluted earnings per common share	$ 4.69	$ 3.43	$ 2.88

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,		
	2017	**2016**	**2015**
Net earnings	$ 808	$ 561	$ 357
Reclassification adjustment, net of tax	(2)	(2)	—
Change in unrealized gain (loss) on investments, net of tax	28	(22)	(4)
Defined benefit pension plan net gain arising during the period, net of tax	1	1	—
Foreign currency translation adjustments	6	(3)	(5)
Other comprehensive earnings (loss)	33	(26)	(9)
Comprehensive earnings	841	535	348
Comprehensive (earnings) loss attributable to the noncontrolling interests	20	1	(2)
Comprehensive earnings attributable to Centene Corporation	$ 861	$ 536	$ 346

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, 2014	124,275	$ —	$ 840	$ (1)	$ 1,003	5,841	$ (98)	$ (1)	$ 1,743
Net earnings	—	—	—	—	355	—	—	—	355
Other comprehensive earnings (loss), net of ($3) tax	—	—	—	(9)	—	—	—	—	(9)
Common stock issued for acquisitions	—	—	8	—	—	(248)	4	—	12
Common stock issued for employee benefit plans	2,580	—	12	—	—	—	—	—	12
Common stock repurchases	—	—	—	—	—	919	(53)	—	(53)
Stock compensation expense	—	—	71	—	—	—	—	—	71
Excess tax benefits from stock compensation	—	—	25	—	—	—	—	—	25
Contribution from noncontrolling interest	—	—	—	—	—	—	—	11	11
Reclassification to redeemable noncontrolling interest	—	—	—	—	—	—	—	1	1
Balance, December 31, 2015	126,855	$ —	$ 956	$ (10)	$ 1,358	6,512	$ (147)	$ 11	$ 2,168
Net earnings	—	—	—	—	562	—	—	1	563
Other comprehensive earnings (loss), net of ($14) tax	—	—	—	(26)	—	—	—	—	(26)
Common stock issued for acquisitions	48,218	—	3,074	—	—	(1,375)	31	—	3,105
Common stock issued for employee benefit plans	3,061	—	12	—	—	—	—	—	12
Common stock repurchases	—	—	—	—	—	1,078	(63)	—	(63)
Stock compensation expense	—	—	148	—	—	—	—	—	148
Contribution from noncontrolling interest	—	—	—	—	—	—	—	2	2
Balance, December 31, 2016	178,134	$ —	$ 4,190	$ (36)	$ 1,920	6,215	$ (179)	$ 14	$ 5,909
Net earnings	—	—	—	—	828	—	—	—	828
Other comprehensive earnings, net of $15 tax	—	—	—	33	—	—	—	—	33
Common stock issued for employee benefit plans	2,245	—	11	—	—	—	—	—	11
Common stock repurchases	—	—	—	—	—	727	(65)	—	(65)
Stock compensation expense	—	—	135	—	—	—	—	—	135
Purchase of noncontrolling interest	—	—	13	—	—	—	—	—	13
Balance, December 31, 2017	180,379	$ —	$ 4,349	$ (3)	$ 2,748	6,942	$ (244)	$ 14	$ 6,864

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,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net earnings	$ 808	$ 561	$ 357
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	361	278	111
Stock compensation expense	135	148	71
Debt extinguishment costs	—	(7)	—
Deferred income taxes	(108)	92	(17)
Gain on contingent consideration	(1)	(5)	(44)
Goodwill and intangible adjustment	—	—	38
Changes in assets and liabilities			
Premium and trade receivables	(50)	74	(360)
Other assets	(146)	167	(102)
Medical claims liabilities	359	145	536
Unearned revenue	19	43	(27)
Accounts payable and accrued expenses	53	402	39
Other long-term liabilities	68	(61)	51
Other operating activities, net	(9)	14	5
Net cash provided by operating activities	1,489	1,851	658
Cash flows from investing activities:			
Capital expenditures	(422)	(306)	(150)
Purchases of investments	(2,704)	(2,450)	(1,321)
Sales and maturities of investments	1,899	1,656	669
Investments in acquisitions, net of cash acquired	(50)	(1,297)	(18)
Other investing activities, net	12	—	7
Net cash used in investing activities	(1,265)	(2,397)	(813)
Cash flows from financing activities:			
Proceeds from borrowings	1,400	8,946	1,925
Payment of long-term debt	(1,353)	(6,076)	(1,583)
Common stock repurchases	(65)	(63)	(53)
Purchase of noncontrolling interest	(66)	(14)	—
Debt issuance costs	(3)	(76)	(4)
Other financing activities, net	5	—	20
Net cash (used in) provided by financing activities	(82)	2,717	305
Effect of exchange rate changes on cash and cash equivalents	—	(1)	—
Net increase in cash and cash equivalents	142	2,170	150
Cash and cash equivalents, beginning of period	3,930	1,760	1,610
Cash and cash equivalents, end of period	$ 4,072	$ 3,930	$ 1,760
Supplemental disclosures of cash flow information:			
Interest paid	$ 237	$ 165	$ 55
Income taxes paid	$ 496	$ 556	$ 328
Equity issued in connection with acquisitions	$ —	$ 3,105	$ 12

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

CENTENE CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

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, and 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, including the Patient Centered Community Care (PC3) contract with the U.S. Department of Veterans Affairs (VA).

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. The assets, liabilities and results of operations of Kentucky Spirit Health Plan (Kentucky Spirit) are classified as discontinued operations for all periods presented.

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 2017 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 cost or equity method. Unrealized gains and losses on 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 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. Capitalized 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	5 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. 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. The Company generally receives a fixed premium per member per month pursuant to its state 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 analyzing submissions of processed claims data to determine the acuity of the Company's membership relative to the entire state's Medicaid 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, our plans may be required to return premium to the state in the event profits exceed established levels. We estimate the effect of these programs and recognize 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, we do 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, which is adjusted on a monthly basis by the states 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 incentives and penalties. For each of the incentives or penalties, the Company adjusts revenue accordingly based on the amount that it has earned or incurred at each interim date and are legally entitled to in the event of a contract termination.

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. 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.

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 expects to refine 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 applies to qualified individual and small group health plans operating both inside and outside of the Health Insurance Marketplace. The risk corridor program limits 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 are adjusted for risk adjustment settlements, transitional reinsurance recoveries, and cost sharing reductions received from the federal government. The Company records 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.

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):

	2017	2016	2015
Allowances, beginning of year	$ 29	$ 10	$ 5
Amounts charged to expense	35	33	12
Write-offs of uncollectible receivables	(40)	(14)	(7)
Allowances, end of year	$ 24	$ 29	$ 10

Significant Customers

Centene receives the majority of its revenues under contracts or subcontracts with state Medicaid managed care programs. The current contracts expire on various dates between February 28, 2018 and December 31, 2022. 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 18%, 21% and 3% for the years ended December 31, 2017, 2016 and 2015, respectively; the State

of Florida, where the percentage of the Company's total revenue was 14% for the year ended December 31, 2015; and the State of Texas, where the percentage of the Company's total revenue was 12%, 13% and 22% for the years ended December 31, 2017, 2016 and 2015, 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, interest on capital leases and credit facility fees.

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 financing activities for the year ended December 31, 2015 and as a cash inflow from operating activities for the years ended December 31, 2017 and 2016 due to the prospective adoption of employee share-based payment guidance in 2016. The Company accounts for forfeitures when they occur.

Foreign Currency Translation

The Company is exposed to foreign currency exchange risk through its equity method investment in Ribera Salud S.A. (Ribera Salud), a Spanish health management group whose functional currency is the Euro. The assets and liabilities of the Company's investment 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 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (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. The new guidance did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

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 new guidance is effective for annual and interim

periods beginning after December 15, 2018. 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 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 new guidance is effective for annual and interim periods beginning after December 15, 2018. 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 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 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 new standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual reporting periods. 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 March 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 equity 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, early adoption is permitted for this component of the new standard. 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 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 new standard presently requires a modified retrospective transition approach, with application, including disclosures, in all comparative periods presented. The FASB has proposed an amendment to the new guidance that allows companies the option of using the effective date of the new standard as the date of initial application. The Company is currently evaluating the effect of the new lease guidance.

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 guidance is effective for annual and interim periods beginning after December 15, 2017. 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 approximately $17 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. The new guidance did not have a material impact on the Company's consolidated financial position, 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. Health Net

On March 24, 2016, the Company acquired all of the issued and outstanding shares of Health Net, a publicly traded managed care organization that delivers healthcare services through health plans and government-sponsored managed care plans. The transaction was valued at approximately $5,990 million, including the assumption of $703 million of outstanding debt. The acquisition allows the Company to offer a more comprehensive and scalable portfolio of solutions and provides opportunity for additional growth across the combined company's markets.

The total consideration for the acquisition was $5,287 million, consisting of Centene common shares valued at $3,038 million (based on Centene's stock price of $62.70), $2,247 million in cash, and $2 million related to the fair value adjustment to stock based compensation associated with pre-combination service. Each Health Net share was converted into 0.622 of a validly issued, fully paid, non-assessable share of Centene common stock and $28.25 in cash. In total, 48,449 thousand shares of Centene common stock were issued in connection with the transaction. The cash portion of the acquisition consideration was funded through the issuance of long-term debt as further discussed in Note 11, *Debt*. For the years ended December 31, 2017, 2016 and 2015, the Company also recognized acquisition related expenses of $7 million, $234 million, $27 million respectively, related to the Health Net acquisition, which were recorded in selling, general and administrative (SG&A) expense in the Consolidated Statements of Operations.

The acquisition of Health Net has been 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. The valuation of all the assets acquired and liabilities assumed was finalized in the fourth quarter of 2016.

The Company's allocation of the fair value of assets acquired and liabilities assumed as of the acquisition date of March 24, 2016, is as follows ($ in millions):

Assets Acquired and Liabilities Assumed		
Cash and cash equivalents	$	956
Premium and trade receivables [(a)]		1,890
Short-term investments		74
Other current assets		524
Long-term investments		2,037
Restricted deposits		30
Property, software and equipment, net		41
Intangible assets [(b)]		1,530
Other long-term assets		136
Total assets acquired		7,218
Medical claims liability [(c)]		1,482
Borrowings under revolving credit facility		285
Accounts payable and accrued expenses [(c) (d)]		2,297
Return of premium payable		435
Unearned revenue		130
Long-term deferred tax liabilities [(e)]		311
Long-term debt [(f)]		418
Other long-term liabilities		432
Total liabilities assumed		5,790
Total identifiable net assets		1,428
Goodwill [(g)]		3,859
Total assets acquired and liabilities assumed	$	5,287

Significant fair value adjustments are noted as follows:

(a) The fair value of premium and trade receivables approximated their historical cost, with the exception of the risk corridor receivable associated with the Health Insurance Marketplace. The fair value of the risk corridor receivable was estimated at $9 million.

(b) 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 utilized in estimating the fair value of certain intangible assets. The Company determined the fair value of intangibles to be $1,530 million with a weighted average life of 12 years. Intangible assets include purchased contract rights, provider contracts, trade names and developed technologies.

(c) Medical claims liability and accounts payable and accrued expenses include $160 million of reserves associated with substance abuse rehabilitation claims primarily related to periods prior to the acquisition date.

(d) Accounts payable and accrued expenses include approximately $253 million related to premium deficiency reserves based on cost trends existing prior to the acquisition date. The premium deficiency reserves are primarily associated with losses in the individual commercial business, largely in California, unfavorable performance in the Arizona commercial business as well as unfavorable performance in the Medicare business primarily in Oregon and Arizona.

(e) The deferred tax liabilities are presented net of $365 million of deferred tax assets.

(f) Debt is required to be measured at fair value under the acquisition method of accounting. The fair value of Health Net's $400 million Senior Notes assumed in the acquisition was $418 million. The $18 million increase was initially being amortized as a reduction to interest expense over the remaining life of the debt; however, in November 2016, this debt was redeemed. See further discussion in Note 11, *Debt.*

(g) The acquisition resulted in $3,859 million of goodwill related primarily to buyer specific synergies expected from the acquisition and the assembled workforce of Health Net. This goodwill is not deductible for income tax purposes. The Company assigned $3,643 million of goodwill to the Managed Care segment and $216 million of goodwill to the Specialty Services segment.

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

	Fair Value	Weighted Average Useful Life (in years)
Purchased contract rights	$ 1,095	13
Provider contracts	181	11
Trade names	150	10
Developed technologies	104	5
Total intangible assets acquired	$ 1,530	12

Statement of Operations

From the acquisition date through December 31, 2016, the Company's Consolidated Statements of Operations include total Health Net revenues of $13,454 million. It is impracticable to determine the effect on net income resulting from the Health Net acquisition for the year ended December 31, 2016, as the Company immediately integrated Health Net into its ongoing operations.

Unaudited Pro Forma Financial Information

The unaudited pro forma total revenues for the year ended December 31, 2016 were $44,280 million. The following table presents supplemental pro forma information for the year ended December 31, 2015 ($ in millions, except per share data).

	December 31, 2015	
Total revenues	$	38,826
Net earnings attributable to Centene Corporation	$	245
Diluted earnings per share	$	1.43

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, 2015 and is not a projection of future results. It is impracticable for the Company to determine the pro forma earnings information for the year ended December 31, 2016 due to the nature of obtaining that information as the Company immediately integrated Health Net into its ongoing operations.

The unaudited pro forma financial information reflects the historical results of Centene and Health Net adjusted as if the acquisition had occurred on January 1, 2015, primarily for the following:

- additional interest income associated with adjusting the amortized cost of Health Net's investment portfolio to fair value;
- elimination of historical Health Net intangible asset amortization expense and addition of amortization expense based on the current values of identifiable intangible assets;
- adjustments to premium revenues related to the risk corridor receivables associated with the Health Insurance Marketplace to align with Centene's accounting policies;
- interest expense associated with financing the acquisition and amortization of the fair value adjustment to Health Net's debt;
- additional stock compensation expense related to the amortization of the fair value increase to Health Net rollover stock awards.
- increased tax expense due to the assumption that Centene would be subject to the IRS Regulation 162(m)(6) beginning in 2015; and
- elimination of acquisition related costs.

Restructuring Related Charges

In connection with the Health Net acquisition, the Company undertook a restructuring plan as a result of the integration of Health Net's operations into its business, resulting in a reduction in workforce beginning in 2016 and expected to continue through early 2017. The restructuring related costs are classified as SG&A expenses in the Consolidated Statements of Operations. Changes in the restructuring liability for the years ended December 31, 2016 and 2017 were as follows ($ in millions):

	Employee Termination Costs		Stock Based Compensation		Total	
Total accrued restructuring costs as of December 31, 2015	$	—	$	—	$	—
Charges incurred		46		43		89
Paid/settled		(28)		(43)		(71)
Total accrued restructuring costs as of December 31, 2016	$	18	$	—	$	18
Charges incurred		4		3		7
Paid/Settled		(20)	$	(3)		(23)
Total accrued restructuring costs as of December 31, 2017	$	2	$	—	$	2

The Company recorded employee termination costs of $46 million and $4 million for the years ended December 31, 2016 and 2017, respectively, and stock based compensation of $43 million and $3 million for the years ended December 31, 2016 and 2017, respectively, in the Managed Care Segment. The Company does not expect to incur any further material employee termination or stock based compensation costs related to the acquisition.

Commitments

In connection with obtaining regulatory approval of the Health Net acquisition from the California Department of Insurance and the California Department of Managed Health Care, the Company committed to certain undertakings (the Undertakings). The Undertakings included, among other items, operational commitments around premiums, dividend restrictions, minimum Risk Based Capital (RBC) levels, local offices, growth, accreditation, HEDIS scores and other quality measures, network adequacy, certifications, investments and capital expenditures. Specifically, the Company agreed to, among other things:

- 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;
- 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 present value of $61 million was expensed in the year ended December 31, 2016, and classified as SG&A expenses in the Consolidated Statements of Operations; and
- invest $75 million of its investment portfolio in vehicles supporting California’s healthcare infrastructure.

4. Acquisitions and Noncontrolling Interest

Acquisitions

Fidelis Care Transaction. In September 2017, the Company signed a definitive agreement under which New York State Catholic Health Plan, Inc., d/b/a Fidelis Care New York (Fidelis Care), (Proposed Fidelis Acquisition or Fidelis Care Transaction) will become the Company's health plan in New York State. Under the terms of the agreement, the Company will acquire substantially all of the assets of Fidelis Care for $3.75 billion, subject to certain adjustments.

Foundation Care. On October 1, 2017, the Company acquired 80% of a national, full-service specialty pharmacy, providing service to patients with certain chronic respiratory and digestive conditions for $59 million. The fair value of consideration consists of initial cash consideration of $53 million, the present value of deferred consideration of $2 million to be paid out over a two year period, and the fair value of estimated contingent consideration of $4 million. The contingent consideration is based upon meeting certain one-year performance metrics and will not exceed $32 million.

The Company's preliminary allocation of fair value resulted in goodwill of $37 million (which is deductible for income tax purposes) and other identifiable intangible assets of $16 million. The Company has not finalized the allocation of the fair value of assets and liabilities. The acquisition is recorded in the Specialty Services segment.

USMM. In August 2017, the Company acquired the remaining 32% interest of U.S. Medical Management (USMM), a management services organization and provider of home-based primary care services for high acuity populations, for $86 million in total consideration. The transaction consideration consisted of $33 million of cash, $33 million of deferred consideration and $20 million related to the settlement of a receivable from the former noncontrolling interest holder.

Health Net. On March 24, 2016, the Company acquired all of the issued and outstanding shares of Health Net, a publicly traded managed care organization that delivers healthcare services through health plans and government-sponsored managed care plans. See Note 3, *Health Net*, for further discussion.

Noncontrolling Interest

The Company has consolidated subsidiaries where it maintains less than 100% ownership. The Company's ownership interest for each subsidiary as of December 31, are as follows:

	2017	2016	2015
Arkansas Total Care	74%	—%	—%
Celtic Insurance Company	100%	100%	75%
Cenpatico Integrated Care	80%	80%	80%
Centurion	51%	51%	51%
Foundation Care (1)	80%	—%	—%
Home State Health Plan	95%	95%	95%
The Practice (Group) Limited (TPG) (2)	75%	75%	49%
U.S. Medical Management (3)	100%	68%	68%

(1) In 2017, the Company purchased a controlling interest in Foundation Care for $59 million.
(2) In 2016, the Company purchased a controlling interest in TPG for $8 million.
(3) In 2017, the Company purchased the remaining interest in USMM for $86 million.

Redeemable Noncontrolling Interest

As a result of put option agreements, noncontrolling interest is considered redeemable and is classified in the Redeemable Noncontrolling Interest section of the Consolidated Balance Sheets. Noncontrolling interest is initially measured at fair value using the binomial lattice model as of the acquisition date. The Company has elected to accrete changes in the redemption value through additional paid-in capital over the period from the date of issuance to the earliest redemption date following the effective interest method.

A reconciliation of the changes in the Redeemable Noncontrolling Interest is as follows ($ in millions):

Balance, December 31, 2016	$	145
Noncontrolling interest purchased related to USMM		(115)
Contribution from noncontrolling interest		2
Net losses attributable to noncontrolling interests		(20)
Balance, December 31, 2017	$	12

Pro forma disclosures related to the acquisitions other than Health Net (see Note 3, *Health Net*) have been excluded as they were deemed to be immaterial.

5. 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, 2017				December 31, 2016			
	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	$ 311	$ —	$ (2)	$ 309	$ 364	$ —	$ (1)	$ 363
Corporate securities	2,208	12	(10)	2,210	1,933	12	(13)	1,932
Restricted certificates of deposit	4	—	—	4	5	—	—	5
Restricted cash equivalents	17	—	—	17	6	—	—	6
Municipal securities	2,085	12	(10)	2,087	1,767	1	(35)	1,733
Asset-backed securities	437	1	(1)	437	317	1	(1)	317
Residential mortgage-backed securities	337	1	(6)	332	219	1	(5)	215
Commercial mortgage-backed securities	272	1	(2)	271	343	—	(5)	338
Equity method investments	176	—	—	176	163	—	—	163
Life insurance contracts	135	—	—	135	116	—	—	116
Total	$ 5,982	$ 27	$ (31)	$ 5,978	$ 5,233	$ 15	$ (60)	$ 5,188

The Company’s investments are classified as available-for-sale with the exception of life insurance contracts and certain equity method 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, 2017, 96% of the Company’s investments in rated securities carry an investment grade rating by nationally recognized statistical rating organizations. At December 31, 2017, the Company held certificates of deposit, life insurance contracts and equity method 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 4.0 years at December 31, 2017.

In January 2016, the Company completed a 19% investment in a data analytics business, and as a result, issued the selling stockholders 1.1 million shares of Centene common stock, valued at $68 million. The investment is being accounted for using the equity method of accounting due to the Company's significant influence of the business.

The fair value of available-for-sale investments 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, 2017				December 31, 2016			
	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	$ (1)	$ 222	$ (1)	$ 79	$ (1)	$ 215	$ —	$ 2
Corporate securities	(6)	1,044	(4)	185	(12)	1,020	(1)	39
Municipal securities	(7)	943	(3)	175	(35)	1,423	—	30
Asset-backed securities	(1)	228	—	28	(1)	101	—	18
Residential mortgage-backed securities	(1)	109	(5)	171	(5)	188	—	—
Commercial mortgage-backed securities	(1)	112	(1)	51	(5)	271	—	—
Total	$ (17)	$ 2,658	$ (14)	$ 689	$ (59)	$ 3,218	$ (1)	$ 89

As of December 31, 2017, the gross unrealized losses were generated from 1,979 positions out of a total of 3,475 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.

During the years ended December 31, 2017, 2016 and 2015, the Company recognized $3 million, $5 million and $8 million, respectively, of income from equity method investments.

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

	December 31, 2017				December 31, 2016			
	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	$ 474	$ 474	$ 48	$ 47	$ 500	$ 500	$ 91	$ 91
One year through five years	2,424	2,420	88	88	1,982	1,974	47	47
Five years through ten years	1,773	1,779	—	—	1,101	1,089	—	—
Greater than ten years	129	130	—	—	633	617	—	—
Asset-backed securities	1,046	1,040	—	—	879	870	—	—
Total	$ 5,846	$ 5,843	$ 136	$ 135	$ 5,095	$ 5,050	$ 138	$ 138

Actual maturities may differ from contractual maturities due to call or prepayment options. Equity method 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 equity method 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.

6. 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, 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 following table summarizes fair value measurements by level at December 31, 2016, 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	$ 3,930	$ —	$ —	$ 3,930
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 221	$ 15	$ —	$ 236
Corporate securities	—	1,932	—	1,932
Municipal securities	—	1,733	—	1,733
Asset-backed securities	—	317	—	317
Residential mortgage-backed securities	—	215	—	215
Commercial mortgage-backed securities	—	338	—	338
Total investments	$ 221	$ 4,550	$ —	$ 4,771
Restricted deposits available for sale:				
Cash and cash equivalents	$ 6	$ —	$ —	$ 6
Certificates of deposit	5	—	—	5
U.S. Treasury securities and obligations of U.S. government corporations and agencies	127	—	—	127
Total restricted deposits	$ 138	$ —	$ —	$ 138
Other long-term assets:				
Interest rate swap agreements	$ —	$ 4	$ —	$ 4
Total assets at fair value	$ 4,289	$ 4,554	$ —	$ 8,843
Liabilities				
Other long-term liabilities:				
Interest rate swap agreements	$ —	$ 62	$ —	$ 62
Total liabilities at fair value	$ —	$ 62	$ —	$ 62

The Company periodically transfers U.S. Treasury securities and obligations of U.S. government corporations and agencies between Level I and Level II fair value measurements dependent upon the level of trading activity for the specific securities at the measurement date. The Company's policy regarding the timing of transfers between Level I and Level II is to measure and record the transfers at the end of the reporting period. At December 31, 2017, there were no transfers from Level I to Level II and $14 million of transfers from Level II to Level I. 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. The aggregate carrying amount of the Company's life insurance contracts and other non-majority owned investments, which approximates fair value, was $311 million and $279 million as of December 31, 2017, and December 31, 2016, respectively.

7. Property, Software and Equipment

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

	2017	2016
Land	$ 130	$ 113
Building	367	271
Computer software	542	377
Computer hardware	248	179
Furniture and office equipment	186	126
Leasehold improvements	221	173
	1,694	1,239
Less accumulated depreciation	(590)	(442)
Property, software and equipment, net	$ 1,104	$ 797

As of December 31, 2017 and 2016, the Company had assets acquired under capital leases included above of $5 million and $5 million, net of accumulated amortization of $5 million and $4 million, respectively. Amortization on assets under capital leases charged to expense is included in depreciation expense. Depreciation expense for the years ended December 31, 2017, 2016 and 2015 was $161 million, $101 million and $78 million, respectively.

8. 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, 2015	$ 361	$ 481	$ 842
Acquisitions and purchase accounting adjustments	3,657	216	3,873
Translation impact	(3)	—	(3)
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

Goodwill was related to the acquisitions and fair value allocations discussed in Note 3, *Health Net* and Note 4, *Acquisitions and Noncontrolling Interest*.

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

			Weighted Average Life in Years	
	2017	2016	2017	2016
Purchased contract rights	$ 1,173	$ 1,171	12.6	12.6
Provider contracts	274	285	11.9	10.7
Customer relationships	22	22	8.2	8.2
Trade names	162	163	9.6	9.6
Developed technologies	109	110	5.0	5.0
Other Intangibles	7	—	2.8	—
Intangible assets	1,747	1,751	11.6	11.5
Less accumulated amortization:				
Purchased contract rights	(188)	(95)		
Provider contracts	(66)	(55)		
Customer relationships	(21)	(21)		
Trade names	(34)	(17)		
Developed technologies	(40)	(18)		
Total accumulated amortization	(349)	(206)		
Intangible assets, net	$ 1,398	$ 1,545		

Amortization expense was $156 million, $147 million and $24 million for the years ended December 31, 2017, 2016 and 2015, respectively. Estimated total amortization expense related to intangible assets for each of the five succeeding fiscal years is as follows ($ in millions):

Year	Expense
2018	$ 156
2019	156
2020	154
2021	134
2022	128

9. 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,		
	2017	2016	2015
Balance, January 1	$ 3,929	$ 2,298	$ 1,723
Less: reinsurance recoverable	5	—	—
Balance, January 1, net	3,924	2,298	1,723
Acquisitions	—	1,482	79
Incurred related to:			
Current year	38,225	30,946	17,471
Prior years	(374)	(310)	(229)
Total incurred	37,851	30,636	17,242
Paid related to:			
Current year	34,196	28,532	15,279
Prior years	3,311	1,960	1,467
Total paid	37,507	30,492	16,746
Balance at December 31, net	4,268	3,924	2,298
Reinsurance recoverable	18	5	—
Balance, December 31	$ 4,286	$ 3,929	$ 2,298

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 $1 million, $39 million, and $47 million of the "Incurred related to: Prior years" was recorded as a reduction to premium revenues in 2017, 2016, and 2015, 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, 2017 is included in the table below and is inclusive of claims incurred and paid related to the Health Net business prior and subsequent to the acquisition date. 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, 2017 is as follows ($ in millions):

Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
	For the Years Ended December 31,		
Claim Year	2015 (unaudited)	2016 (unaudited)	2017
2015	$ 30,619	$ 30,325	$ 30,310
2016		34,655	34,296
2017			38,225
		Total incurred claims	$ 102,831

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
	For the Years Ended December 31,		
Claim Year	2015 (unaudited)	2016 (unaudited)	2017
2015	$ 27,664	$ 30,031	$ 30,297
2016		31,043	34,070
2017			34,196
		Total payment of incurred claims	$ 98,563
		Medical claims liability, net of reinsurance	$ 4,268

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, 2017 are included in the following table and are inclusive of the acquired Health Net business. 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, 2017		
	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance	Total IBNR Plus Expected Development on Reported Claims	Cumulative Paid Claims
2015	$ 30,310	$ —	156.7
2016	34,296	48	179.1
2017	38,225	3,330	192.0

10. 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 2017, the Company recognized a $48 million net pre-tax benefit related to the reconciliation of the 2016 risk adjustment program, compared to a $51 million net pre-tax benefit in 2016 related to the reconciliation of the 2015 risk adjustment and reinsurance programs.

In October 2017, the Trump Administration issued an executive order that immediately ceased payments of CSRs to issuers. As a result of the executive order, the Company recorded a charge of $22 million in 2017 to reflect the uncertainty associated with the collectability of the CSR receivables.

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

	December 31, 2017	December 31, 2016
Risk adjustment	$ (677)	$ (425)
Reinsurance	15	122
Risk corridor	6	(3)
Minimum MLR	(22)	(18)
Cost sharing reductions	(96)	(147)

11. Debt

Debt consists of the following ($ in millions):

	December 31, 2017	December 31, 2016
$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	1,006	1,008
$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
Fair value of interest rate swap agreements	(71)	(58)
Total senior notes	4,535	4,550
Revolving credit agreement	150	100
Mortgage notes payable	61	64
Capital leases and other	18	18
Debt issuance costs	(65)	(77)
Total debt	4,699	4,655
Less current portion	(4)	(4)
Long-term debt	$ 4,695	$ 4,651

Senior Notes

In December 2016, the Company redeemed the outstanding principal balance on the $400 million 6.375% Senior Notes, due June 1, 2017, plus applicable premium for early redemption and accrued and unpaid interest to the redemption date, for cash totaling $411 million. The Company recognized a loss on extinguishment of debt of $3 million on the redemption of these notes.

In November 2016, the Company redeemed the outstanding principal balance on the $425 million 5.75% Senior Notes due June 1, 2017, plus applicable premium for early redemption and accrued and unpaid interest to the redemption date, for cash totaling $447 million. The Company recognized a loss on extinguishment of debt of $10 million on the redemption of these notes. The Company also recognized a gain of $2 million on the termination of the $250 million interest rate swap agreement associated with these notes.

In November 2016, the Company issued $1,200 million in aggregate principal amount of 4.75% Senior Notes due 2025 ($1,200 Million Notes). The Company used the net proceeds of the offering to redeem its 5.75% Senior Notes due 2017 and Health Net Inc.'s 6.375% Senior Notes due 2017, to repay amounts outstanding under its Revolving Credit Facility, to pay related fees and expenses and for general corporate purposes.

In June 2016, the Company issued an additional $500 million in aggregate principal amount of 4.75% Senior Notes due 2022

($500 Million Add-on Notes) at a premium to yield of 4.41%. The $500 Million Add-on Notes were offered as additional debt securities under the indenture governing the $500 million in aggregate principal amount of 4.75% Senior Notes issued in April 2014. The Company used the net proceeds of the offering to repay amounts outstanding under its Revolving Credit Facility and to pay offering related fees and expenses.

In February 2016, a wholly owned unrestricted subsidiary of the Company (Escrow Issuer) issued $1,400 million in aggregate principal amount of 5.625% Senior Notes ($1,400 Million Notes) at par due 2021 and $1,000 million in aggregate principal amount of 6.125% Senior Notes ($1,000 Million Notes) at par due 2024. In July 2016, the Company completed an exchange offer, whereby it offered to exchange all of the outstanding $1,400 Million Notes and the $1,000 Million Notes for identical securities that have been registered under the Securities Act of 1933. The Company used the net proceeds of the offering, together with borrowings under the Company's new $1,000 million revolving credit facility and cash on hand, primarily to fund the cash consideration for the Health Net acquisition, and to pay acquisition and offering related fees and expenses.

In connection with the February 2016 issuance, the Company entered into interest rate swap agreements for notional amounts of $600 million and $1,000 million, at floating rates of interest based on the three month LIBOR plus 4.22% and the three month LIBOR plus 4.44%, respectively. Gains and losses due to changes in the fair value of the interest rate swaps completely offset changes in the fair value of the hedged portion of the underlying debt and are recorded as an adjustment to the $1,400 Million Notes and $1,000 Million Notes.

In connection with the closing of the Health Net acquisition, the Company assumed the $400 million in aggregate principal amount of Health Net's 6.375% Senior Notes due 2017, recorded at acquisition date fair value of $418 million. These Senior Notes were redeemed in December 2016.

The indentures governing the $1,400 Million Notes, the $1,000 million of 4.75% Senior Notes due 2022, the $1,000 Million Notes and the $1,200 Million Notes contain restrictive covenants of Centene Corporation. At December 31, 2017, the Company was in compliance with all covenants.

Interest Rate Swaps

In February 2017 and in connection with the November 2016 issuance of the $1,200 Million Notes, the Company entered into interest rate swap agreements for a notional amount of $600 million, at floating rates of interest based on the one month LIBOR plus 2.53%. Gains and losses due to the changes in the fair value of the interest rate swaps completely offset changes in the fair value of the hedged portion of the underlying debt and are recorded as an adjustment to the $1,200 Million Notes.

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 and estimated fair values of the Company's interest rate swap agreements as of December 31, 2017 and 2016 ($ 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 assets and other long-term liabilities, respectively 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. At December 31, 2017, the weighted average rate was 4.99%.

The swap agreements are formally designated and qualify as fair value hedges and are recorded at fair value in the Consolidated Balance Sheets in other assets and/or other liabilities. 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

In December 2017, the Company amended and increased its unsecured $1,000 million revolving credit facility to $1,500 million. The agreement has a maturity date of December 14, 2022. Borrowings under the agreement bear interest based upon LIBOR rates, the Federal Funds Rate or the Prime Rate. As of December 31, 2017, the Company had $150 million of borrowings outstanding under the agreement with a weighted average interest rate of 4.75%, and the Company was in compliance with all covenants.

The revolving credit facility contains both 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 on and subsequent to December 31, 2017. As of December 31, 2017, there were no limitations on the availability under the revolving credit agreement as a result of the debt-to-EBITDA ratio.

In connection with the closing of the Health Net acquisition in March 2016, the Company's existing unsecured $500 million revolving credit facility was terminated and simultaneously replaced with a new $1,000 million unsecured revolving credit facility.

Also, upon the closing of the Health Net acquisition in 2016, the Company assumed, fully repaid $285 million in outstanding borrowings under, and terminated the existing Health Net revolving credit facility.

Construction Loan

In October 2017, the Company executed 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, 2017, the Company had no borrowings outstanding under the loan.

Mortgage Notes Payable

The Company has a non-recourse mortgage note of $61 million at December 31, 2017 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 $170 million at December 31, 2017.

Letters of Credit & Surety Bonds

The Company had outstanding letters of credit of $77 million as of December 31, 2017, which were not part of the revolving credit facility. The Company also had letters of credit for $45 million (valued at December 31, 2017 conversion rate), or €38 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 1.31% as of December 31, 2017. The Company had outstanding surety bonds of $404 million as of December 31, 2017.

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

2018	$ 4
2019	16
2020	4
2021	1,451
2022	1,151
Thereafter	2,203
Total	$ 4,829

The fair value of outstanding debt was approximately $4,751 million and $4,676 million at December 31, 2017 and 2016, respectively.

12. Stockholders' Equity

The Company has 10,000 thousand authorized shares of preferred stock at $.001 par value. At December 31, 2017, there were no preferred shares outstanding.

The Company's Board of Directors has authorized a stock repurchase program for up to 8,000 thousand 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 3,335 thousand available shares remaining under the program for repurchases as of December 31, 2017. The Company reserves the right to discontinue the repurchase program at any time. During the year ended December 31, 2017, 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 727 thousand shares at an aggregate cost of $65 million in 2017 and 1,078 thousand shares at an aggregate cost of $63 million in 2016. These shares are included in the Company's treasury stock.

In March 2016, the Company issued 48,449 thousand shares of Centene stock, with a fair value of approximately $3,038 million in connection with the Health Net acquisition.

In January 2016, the Company completed a 19% investment in a data analytics business and issued 1,144 thousand shares of Centene common stock to the selling stockholders. The investment is being accounted for using the equity method of accounting, due to the Company's significant influence on the business.

13. 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, 2017 and 2016, Centene's subsidiaries had aggregate statutory capital and surplus of $5,153 million and $4,529 million, respectively, compared with the required minimum aggregate statutory capital and surplus of $2,251 million and $2,259 million, respectively. As of December 31, 2017, 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 $2,251 million in the aggregate.

14. Income Taxes

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

	2017	2016	2015
Current provision			
Federal	$ 421	$ 485	$ 332
State and local	14	22	26
Total current provision	435	507	358
Deferred provision	(109)	92	(19)
Total income tax expense	$ 326	$ 599	$ 339

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):

	2017	2016	2015
Earnings from continuing operations, before income tax expense	$ 1,134	$ 1,157	$ 697
(Earnings) loss attributable to flow through noncontrolling interest	15	(8)	1
Earnings from continuing operations, less noncontrolling interest, before income tax expense	1,149	1,149	698
Tax provision at the U.S. federal statutory rate	402	402	244
State income taxes, net of federal income tax benefit	11	10	15
Nondeductible compensation	58	23	2
ACA Health Insurer Fee	—	162	75
Income Tax Reform	(125)	—	—
Other, net	(20)	2	3
Income tax expense	$ 326	$ 599	$ 339

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):

	2017	2016
Deferred tax assets:		
Medical claims liability	$ 46	$ 66
Nondeductible liabilities	41	39
Net operating loss and tax credit carryforwards	94	101
Compensation accruals	129	156
Premium and trade receivables	45	79
Other	11	14
Deferred tax assets	366	455
Valuation allowance	(81)	(86)
Net deferred tax assets	$ 285	$ 369
Deferred tax liabilities:		
Intangible assets	$ 342	$ 577
Prepaid assets	23	17
Fixed assets	84	65
Investments in joint ventures	20	11
Deferred revenue	26	—
Other	17	2
Deferred tax liabilities	512	672
Net deferred tax assets (liabilities)	$ (227)	$ (303)

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 $5 million decrease in valuation allowance primarily relates to the effect of the tax rate change due to The Tax Cuts and Jobs Act (Income Tax Reform), which was passed in December 2017, offset partially by an increase due to losses from entities that file nonconsolidated federal tax returns.

Federal net operating loss carryforwards of $44 million expire beginning in 2020 through 2037; state net operating loss and tax credit carryforwards of $42 million expire beginning in 2018 through 2037. 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,	
	2017	2016
Gross unrecognized tax benefits, beginning of period	$ 102	$ 5
Gross increases:		
Current year tax positions	43	6
Prior year tax positions	113	93
Gross decreases:		
Prior year tax positions	—	(1)
Statute of limitation lapses	(1)	(1)
Gross unrecognized tax benefits, end of period	$ 257	$ 102

Uncertain tax positions increased $143 million to reflect the impact of a multi-year reserve for deductions related to domestic production activities. As of December 31, 2017, $225 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 $8 million as a result of the expiration of statutes of limitations 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, 2017, the Company recognized net interest expense and penalties related to uncertain positions of $4 million. The Company had $9 million and $5 million of accrued interest and penalties for uncertain tax positions as of December 31, 2017 and 2016, respectively.

The Company files tax returns for federal as well as numerous state tax jurisdictions. As of December 31, 2017, 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 2016 are subject to federal examination.

Income Tax Reform

Income Tax Reform was enacted on December 22, 2017. Income Tax Reform reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax-deferred, and creates new taxes on foreign sourced earnings. As of December 31, 2017, the Company has not completed its accounting for the tax effects of enactment of Income Tax Reform; however, as described below, the Company has made a reasonable estimate of the effects on its existing deferred tax balances and the one-time transition tax. As a result of the enactment, the Company recognized a provisional tax benefit of $125 million, which is included as a component of income tax expense from continuing operations.

The Company remeasured deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is now 21% for federal tax purposes. However, the Company is still analyzing certain aspects of Income Tax Reform and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional tax benefit recorded related to the remeasurement of the Company's net deferred tax liability balance was $126 million.

The one-time transition tax is based on the Company's total post-1986 earnings and profits (E&P) for which the Company had previously deferred from U.S. income taxes. The Company recorded a provisional amount for the one-time transition tax liability for its foreign subsidiaries, resulting in an increase in income tax expense of $1 million.

15. 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. No option will be exercisable for longer than ten years after the date of grant. The plans have 6,586 thousand 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. 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. In addition, the Company incorporated retirement provisions in our stock-based compensation agreements beginning in 2016. The total compensation cost that has been charged against income for the stock incentive plans was $135 million, $148 million and $71 million for the years ended December 31, 2017, 2016 and 2015, respectively. The total income tax benefit recognized in the income statement for stock-based compensation arrangements was $50 million, $67 million and $24 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Option activity for the year ended December 31, 2017 is summarized below (shares in thousands):

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value ($ in millions)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2016	320	$ 17.44		
Granted	1	68.60		
Exercised	(178)	13.47		
Forfeited	(13)	62.86		
Outstanding as of December 31, 2017	130	$ 18.82	$ 11	2.7
Exercisable as of December 31, 2017	115	$ 13.75	$ 10	1.9

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2017	2016	2015 (1)
Expected life (in years)	4.8	4.8	—
Risk-free interest rate	1.9%	1.6%	—
Expected volatility	37.5%	39.0%	—
Expected dividend yield	—	—	—

(1) No options were awarded in the year ended December 31, 2015.

For options granted in the year ended December 31, 2017, the Company used a projected expected life for each award granted based on historical experience of employees' exercise behavior. The expected volatility is primarily based on historical volatility levels. The risk-free interest rates are based on the implied yield currently available on U.S. Treasury instruments with a remaining term equal to the expected life.

Other information pertaining to option activity is as follows:

	Year Ended December 31,		
	2017	2016	2015 (1)
Weighted-average fair value of options granted	$ 68.60	$ 59.94	$ —
Total intrinsic value of stock options exercised ($ in millions)	$ 12	$ 19	$ 28

(1) No options were awarded in the year ended December 31, 2015.

A summary of the Company's non-vested restricted stock and restricted stock unit shares as of December 31, 2017, and changes during the year ended December 31, 2017, is presented below (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2016	4,790	$ 55.75
Granted	1,412	95.13
Vested	(1,883)	58.10
Forfeited	(150)	20.40
Non-vested balance as of December 31, 2017	4,169	$ 69.30

The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2017, 2016 and 2015, was $174 million, $147 million and $112 million, respectively.

As of December 31, 2017, there was $254 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 2.2 years.

The Company maintains an employee stock purchase plan and issued 129 thousand shares, 118 thousand shares, and 87 thousand shares in 2017, 2016 and 2015, respectively.

16. 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 $42 million, $37 million and $19 million during the years ended December 31, 2017, 2016 and 2015, respectively.

17. 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 $171 million, $137 million and $64 million for the years ended December 31, 2017, 2016 and 2015, respectively. Annual non-cancelable minimum lease payments over the next five years and thereafter are as follows ($ in millions):

2018	$ 146
2019	153
2020	138
2021	116
2022	73
Thereafter	167
	$ 793

In connection with obtaining regulatory approval of the Health Net acquisition from the California Department of Insurance and the California Department of Managed Health Care, the Company committed to certain undertakings. See Note 3, *Health Net* for further details.

18. 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

The Company's California subsidiary, Health Net of California, Inc. (Health Net California), has been 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, 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. In September 2017, the Company filed a demurrer seeking to dismiss the complaint, and a motion to strike the allegations seeking retroactive relief. In January 2018, the Court held a hearing on the Company's demurrer. No decision has been issued yet. 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

In November 2016, a putative federal securities class action 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. 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, in January 2018, a separate derivative action was filed 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.

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 under a contract to arrange healthcare services for veterans. The contract began in late 2014. 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.

Guaranty Fund Assessment

Under state guaranty association laws, certain insurance companies can be assessed for certain obligations to the policyholders and claimants of impaired or insolvent insurance companies that write the same line or similar lines of business. In 2009, the Pennsylvania Insurance Commissioner placed long-term care insurer Penn Treaty Network America Insurance Company and its subsidiary (Penn Treaty), neither of which is affiliated with the Company, in rehabilitation and petitioned a state court for approval to liquidate Penn Treaty. In March 2017, the court issued the final liquidation order, and as a result, during the twelve months ended December 31, 2017, the Company recognized $56 million representing its undiscounted estimated share of the guaranty association assessment as selling, general and administrative expenses.

Ambetter Class Action

In January 2018, a putative class action lawsuit was filed 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. 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.

19. Earnings Per Share

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

	2017	2016	2015
Earnings (loss) attributable to Centene Corporation:			
Earnings from continuing operations, net of tax	$ 828	$ 559	$ 356
Discontinued operations, net of tax	—	3	(1)
Net earnings	$ 828	$ 562	$ 355
Shares used in computing per share amounts:			
Weighted average number of common shares outstanding	172,427	159,568	119,101
Common stock equivalents (as determined by applying the treasury stock method)	4,275	4,407	3,965
Weighted average number of common shares and potential dilutive common shares outstanding	176,702	163,975	123,066
Net earnings (loss) per common share attributable to Centene Corporation:			
Basic:			
Continuing operations	$ 4.80	$ 3.50	$ 2.99
Discontinued operations	—	0.02	(0.01)
Basic earnings per common share	$ 4.80	$ 3.52	$ 2.98
Diluted:			
Continuing operations	$ 4.69	$ 3.41	$ 2.89
Discontinued operations	—	0.02	(0.01)
Diluted earnings per common share	$ 4.69	$ 3.43	$ 2.88

The calculation of diluted earnings (loss) per common share for 2017, 2016 and 2015 excludes the impact of 53 thousand shares, 126 thousand shares and 7 thousand shares, respectively, related to anti-dilutive stock options, restricted stock and restricted stock units.

20. 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, 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	$ 1,077	$ 183	$ —	$ 1,260
Total assets	$ 18,423	$ 1,774	$ —	$ 20,197

Segment information as of and for the year ended December 31, 2015, follows ($ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	$ 20,865	$ 1,895	$ —	$ 22,760
Total revenues internal customers	101	4,862	(4,963)	—
Total revenues	$ 20,966	$ 6,757	$ (4,963)	$ 22,760
Earnings from operations	$ 531	$ 174	$ —	$ 705
Total assets	$ 6,327	$ 1,012	$ —	$ 7,339

21. Quarterly Selected Financial Information

Quarterly selected financial information for 2017 and 2016 is as follows:

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

	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
Amounts attributable to Centene Corporation common shareholders:				
Earnings from continuing operations, net of income tax expense	139	254	205	230
Discontinued operations, net of income tax expense	—	—	—	—
Net earnings	$ 139	$ 254	$ 205	$ 230
Net earnings per common share attributable to Centene Corporation:				
Basic:				
Continuing operations	$ 0.81	$ 1.47	$ 1.19	$ 1.33
Discontinued operations	—	—	—	—
Basic earnings per common share	$ 0.81	$ 1.47	$ 1.19	$ 1.33
Diluted:				
Continuing operations	$ 0.79	$ 1.44	$ 1.16	$ 1.30
Discontinued operations	—	—	—	—
Diluted earnings per common share	$ 0.79	$ 1.44	$ 1.16	$ 1.30

	For the Quarter Ended [(1)]			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Total revenues	$ 6,953	$ 10,897	$ 10,846	$ 11,911
Amounts attributable to Centene Corporation common shareholders:				
Earnings (loss) from continuing operations, net of income tax expense	(15)	171	148	255
Discontinued operations, net of income tax expense (benefit)	(1)	(1)	(1)	6
Net earnings (loss)	$ (16)	$ 170	$ 147	$ 261
Net earnings (loss) per common share attributable to Centene Corporation:				
Basic:				
Continuing operations	$ (0.12)	$ 1.00	$ 0.87	$ 1.49
Discontinued operations	(0.01)	—	(0.01)	0.04
Basic earnings (loss) per common share	$ (0.13)	$ 1.00	$ 0.86	$ 1.53
Diluted:				
Continuing operations	$ (0.12)	$ 0.98	$ 0.84	$ 1.45
Discontinued operations	(0.01)	(0.01)	—	0.04
Diluted earnings (loss) per common share	$ (0.13)	$ 0.97	$ 0.84	$ 1.49

(1) The Company early adopted ASU 2016-09 during the fourth quarter of 2016. The ASU requires adjustments be reflected as of the beginning of the fiscal year of adoption and as a result, prior periods have been restated accordingly.

22. 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,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6	$ 5
Short-term investments, at fair value (amortized cost $2 and $1, respectively)	2	1
Other current assets	331	29
Total current assets	339	35
Long-term investments, at fair value (amortized cost $17 and $19, respectively)	17	19
Investment in subsidiaries	11,018	10,674
Other long-term assets	302	52
Total assets	$ 11,676	$ 10,780
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 100	$ 78
Long-term debt	4,624	4,573
Other long-term liabilities	76	75
Total liabilities	4,800	4,726
Redeemable noncontrolling interest	12	145
Stockholders' equity:		
Preferred stock, $.001 par value; authorized 10,000 shares; no shares issued or outstanding at December 31, 2017 and December 31, 2016	—	—
Common stock, $.001 par value; authorized 400,000 shares; 180,379 issued and 173,437 outstanding at December 31, 2017, and 178,134 issued and 171,919 outstanding at December 31, 2016	—	—
Additional paid-in capital	4,349	4,190
Accumulated other comprehensive loss	(3)	(36)
Retained earnings	2,748	1,920
Treasury stock, at cost (6,942 and 6,215 shares, respectively)	(244)	(179)
Total Centene stockholders' equity	6,850	5,895
Noncontrolling interest	14	14
Total stockholders' equity	6,864	5,909
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$ 11,676	$ 10,780

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,		
	2017	**2016**	**2015**
Expenses:			
Selling, general and administrative expenses	$ 7	$ 10	$ 9
Gain on contingent consideration	(1)	(5)	(44)
Other income (expense):			
Investment and other income	2	2	(5)
Interest expense	(247)	(201)	(39)
Earnings (loss) before income taxes	(251)	(204)	(9)
Income tax benefit	(114)	(76)	(26)
Net earnings (loss) before equity in subsidiaries	(137)	(128)	17
Equity in earnings from subsidiaries	945	686	341
Net earnings	808	558	358
(Earnings) loss attributable to noncontrolling interests	20	1	(2)
Net earnings attributable to Centene	$ 828	$ 559	$ 356
Net earnings per share from continuing operations:			
Basic earnings per common share	$ 4.80	$ 3.50	$ 2.99
Diluted earnings per common share	$ 4.69	$ 3.41	$ 2.89

See notes to condensed financial information of registrant.

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

	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Dividends from subsidiaries, return on investment	$ 292	$ 25	$ 11
Other operating activities, net	(132)	(71)	(29)
Net cash provided by (used in) operating activities	160	(46)	(18)
Cash flows from investing activities:			
Capital contributions to subsidiaries	(339)	(691)	(646)
Purchases of investments	(38)	(112)	(17)
Sales and maturities of investments	4	169	9
Dividends from subsidiaries, return of investment	28	100	3
Investments in acquisitions	(59)	(2,248)	(113)
Intercompany activities	322	(575)	463
Other investing activities, net	(1)	—	7
Net cash used in investing activities	(83)	(3,357)	(294)
Cash flows from financing activities:			
Proceeds from borrowings	1,400	8,934	1,925
Payment of long-term debt	(1,350)	(5,377)	(1,575)
Common stock repurchases	(65)	(63)	(53)
Debt issuance costs	—	(76)	(4)
Purchase of noncontrolling interest	(66)	(14)	—
Other financing activities, net	5	—	20
Net cash (used in) provided by financing activities	(76)	3,404	313
Net increase in cash and cash equivalents	1	1	1
Cash and cash equivalents, beginning of period	5	4	3
Cash and cash equivalents, end of period	$ 6	$ 5	$ 4

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 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, 2017. 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, 2017, 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, 2017. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2017, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.