UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-11239

HCA Healthcare, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-3865930**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Park Plaza Nashville, Tennessee	**37203**
(Address of principal executive offices)	**(Zip Code)**

(615) 344-9551

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

Class of Common Stock	**Outstanding at July 31, 2018**
Voting common stock, $.01 par value	346,046,000 shares

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HCA HEALTHCARE, INC.

Form 10-Q

June 30, 2018

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Unaudited

(Dollars in millions, except per share amounts)

	Quarter		Six Months	
	2018	2017	2018	2017
Revenues	**$ 11,529**	$ 10,733	**$ 22,952**	$ 21,356
Salaries and benefits	**5,274**	4,896	**10,563**	9,797
Supplies	**1,917**	1,795	**3,832**	3,592
Other operating expenses	**2,118**	1,965	**4,228**	3,895
Equity in earnings of affiliates	**(7)**	(13)	**(16)**	(23)
Depreciation and amortization	**562**	521	**1,115**	1,042
Interest expense	**436**	411	**867**	830
Gains on sales of facilities	**(9)**	(2)	**(414)**	(3)
	10,291	9,573	**20,175**	19,130
Income before income taxes	**1,238**	1,160	**2,777**	2,226
Provision for income taxes	**272**	365	**529**	654
Net income	**966**	795	**2,248**	1,572
Net income attributable to noncontrolling interests	**146**	138	**284**	256
Net income attributable to HCA Healthcare, Inc.	**$ 820**	$ 657	**$ 1,964**	$ 1,316
Per share data:				
Basic earnings	**$ 2.35**	$ 1.79	**$ 5.62**	$ 3.58
Diluted earnings	**$ 2.31**	$ 1.75	**$ 5.50**	$ 3.48
Cash dividends declared	**$ 0.35**	$	**$ 0.70**	$
Shares used in earnings per share calculations (in millions):				
Basic	**348.615**	365.847	**349.726**	368.056
Diluted	**355.039**	375.338	**357.388**	377.647

See accompanying notes.

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Unaudited

(Dollars in millions)

	Quarter		Six Months	
	2018	**2017**	**2018**	**2017**
Net income	**$ 966**	$ 795	**$ 2,248**	$ 1,572
Other comprehensive income (loss) before taxes:				
Foreign currency translation	**(76)**	45	**(22)**	55
Unrealized (losses) gains on available-for-sale securities	**(1)**	2	**(6)**	5
Defined benefit plans				
Pension costs included in salaries and benefits	**5**	4	**10**	9
	5	4	**10**	9
Change in fair value of derivative financial instruments	**15**	(11)	**50**	(8)
Interest (benefits) costs included in interest expense	**(2)**	6	**(2)**	13
	13	(5)	**48**	5
Other comprehensive (loss) income before taxes	**(59)**	46	**30**	74
Income taxes related to other comprehensive income items	**5**	19	**13**	29
Other comprehensive (loss) income	**(64)**	27	**17**	45
Comprehensive income	**902**	822	**2,265**	1,617
Comprehensive income attributable to noncontrolling interests	**146**	138	**284**	256
Comprehensive income attributable to HCA Healthcare, Inc.	**$ 756**	$ 684	**$ 1,981**	$ 1,361

See accompanying notes.

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in millions)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 868**	$ 732
Accounts receivable	**6,592**	6,501
Inventories	**1,636**	1,573
Other	**1,298**	1,171
	10,394	9,977
Property and equipment, at cost	**41,142**	40,084
Accumulated depreciation	**(22,598)**	(22,189)
	18,544	17,895
Investments of insurance subsidiaries	**414**	418
Investments in and advances to affiliates	**234**	199
Goodwill and other intangible assets	**7,459**	7,394
Other	**697**	710
	$ 37,742	$ 36,593
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	**$ 2,457**	$ 2,606
Accrued salaries	**1,315**	1,369
Other accrued expenses	**2,161**	1,983
Long-term debt due within one year	**1,692**	200
	7,625	6,158
Long-term debt, less net debt issuance costs of $151 and $164	**31,500**	32,858
Professional liability risks	**1,283**	1,198
Income taxes and other liabilities	**1,459**	1,374
Stockholders deficit:		
Common stock $0.01 par; authorized 1,800,000,000 shares; outstanding 346,760,200 shares in 2018 and 350,091,600 shares in 2017	**3**	4
Accumulated other comprehensive loss	**(261)**	(278)
Retained deficit	**(5,731)**	(6,532)
Stockholders deficit attributable to HCA Healthcare, Inc.	**(5,989)**	(6,806)
Noncontrolling interests	**1,864**	1,811
	(4,125)	(4,995)

	$ 37,742	$ 36,593

See accompanying notes.

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Unaudited

(Dollars in millions)

	2018	2017
Cash flows from operating activities:		
Net income	**$ 2,248**	$ 1,572
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase (decrease) in cash from operating assets and liabilities:		
Accounts receivable	**(233)**	81
Inventories and other assets	**(200)**	(178)
Accounts payable and accrued expenses	**31**	(298)
Depreciation and amortization	**1,115**	1,042
Income taxes	**118**	267
Gains on sales of facilities	**(414)**	(3)
Amortization of debt issuance costs	**15**	16
Share-based compensation	**134**	140
Other	**51**	45
Net cash provided by operating activities	**2,865**	2,684
Cash flows from investing activities:		
Purchase of property and equipment	**(1,574)**	(1,304)
Acquisition of hospitals and health care entities	**(538)**	(295)
Disposal of hospitals and health care entities	**799**	14
Change in investments	**23**	(11)
Other	**(25)**	5
Net cash used in investing activities	**(1,315)**	(1,591)
Cash flows from financing activities:		
Issuances of long-term debt		1,502
Net change in revolving bank credit facilities	**210**	(1,160)
Repayment of long-term debt	**(101)**	(95)
Distributions to noncontrolling interests	**(185)**	(248)
Payment of debt issuance costs	**(2)**	(25)
Payment of cash dividends	**(245)**	
Repurchases of common stock	**(893)**	(966)
Other	**(192)**	(42)
Net cash used in financing activities	**(1,408)**	(1,034)
Effect of exchange rate changes on cash and cash equivalents	**(6)**	
Change in cash and cash equivalents	**136**	59
Cash and cash equivalents at beginning of period	**732**	646

Cash and cash equivalents at end of period	**$**	**868**	$	705
Interest payments	**$**	**873**	$	834
Income tax payments, net	**$**	**411**	$	387

See accompanying notes.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

HCA Healthcare, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term affiliates includes direct and indirect subsidiaries of HCA Healthcare, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At June 30, 2018, these affiliates owned and operated 178 hospitals, 122 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Healthcare, Inc. s facilities are located in 20 states and England. The terms Company, HCA, we, our or us, as used and unless otherwise stated or indicated by context, refer to HCA Healthcare, Inc. and its affiliates. The terms facilities or hospitals refer to entities owned and operated by affiliates of HCA and the term employees refers to employees of affiliates of HCA.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature.

The majority of our expenses are costs of revenues items. Costs that could be classified as general and administrative would include our corporate office costs, which were $83 million and $82 million for the quarters ended June 30, 2018 and 2017, respectively, and $164 million each for the six months ended June 30, 2018 and 2017. Operating results for the quarter and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2017.

Revenues

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard related to revenue recognition. We adopted the new standard effective January 1, 2018, using the full retrospective method. The adoption of the new standard did not have an impact on our recognition of net revenues for any periods prior to adoption. The most significant impact of adopting the new standard is to the presentation of our consolidated income statements, where we no longer present the Provision for doubtful accounts as a separate line item and our Revenues are presented net of estimated implicit price concession revenue deductions. We also have eliminated the related presentation of allowances for doubtful accounts on our consolidated balance sheets as a result of the adoption of the new standard.

Our revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period our obligations to provide health care services are satisfied. Our performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Our performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

insurance companies) the third-party payers. The payment arrangements with third-party payers for the services we provide to the related patients typically specify payments at amounts less than our standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

Our revenues are based upon the estimated amounts we expect to be entitled to receive from patients and third-party payers. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect. Our revenues from third-party payers and others (including uninsured patients) for the quarters and six months ended June 30, 2018 and 2017 are summarized in the following table (dollars in millions):

	Quarter			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 2,425**	**21.0%**	$ 2,272	21.2%
Managed Medicare	**1,345**	**11.7**	1,158	10.8
Medicaid	**357**	**3.1**	376	3.5
Managed Medicaid	**586**	**5.1**	527	4.9
Managed care and insurers	**5,993**	**51.9**	5,729	53.4
International (managed care and insurers)	**295**	**2.6**	269	2.5
Other	**528**	**4.6**	402	3.7
Revenues	**$ 11,529**	**100.0%**	$ 10,733	100.0%

	Six Months			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 4,949**	**21.6%**	$ 4,633	21.7%
Managed Medicare	**2,744**	**12.0**	2,341	11.0
Medicaid	**638**	**2.8**	670	3.1
Managed Medicaid	**1,147**	**5.0**	1,116	5.2
Managed care and insurers	**12,055**	**52.5**	11,352	53.2
International (managed care and insurers)	**600**	**2.6**	538	2.5
Other	**819**	**3.5**	706	3.3
Revenues	**$ 22,952**	**100.0%**	$ 21,356	100.0%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility recorded estimates will change by a material

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

amount. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the cost report filing and settlement process).

The Emergency Medical Treatment and Labor Act (EMTALA) requires any hospital participating in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital s emergency room for treatment and, if the individual is suffering from an emergency medical condition, to either stabilize the condition or make an appropriate transfer of the individual to a facility able to handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of an individual s ability to pay for treatment. Federal and state laws and regulations require, and our commitment to providing quality patient care encourages, us to provide services to patients who are financially unable to pay for the health care services they receive. Prior to November 2017, patients treated at hospitals for non-elective care, who have income at or below 200% of the federal poverty level, were eligible for charity care. During November 2017, we expanded our charity policy to include patients who have income above 200%, but at or below 400%, of the federal poverty level and we will limit the patient responsibility amounts for these patients to a percentage of their annual household income, computed on a sliding scale based upon their annual income and the applicable percentage of the federal poverty level. The federal poverty level is established by the federal government and is based on income and family size. Because we do not pursue collection of amounts determined to qualify as charity care, they are not reported in revenues. We provide discounts to uninsured patients who do not qualify for Medicaid or charity care. In implementing the uninsured discount policy, we may first attempt to provide assistance to uninsured patients to help determine whether they may qualify for Medicaid, other federal or state assistance, or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

The collection of outstanding receivables for Medicare, Medicaid, managed care payers, other third-party payers and patients is our primary source of cash and is critical to our operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management s assessment of historical writeoffs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical writeoffs and collections at facilities that represent a majority of our revenues and accounts receivable (the hindsight analysis) as a primary source of information in estimating the collectability of our accounts receivable. We perform the hindsight analysis quarterly, utilizing rolling twelve-months accounts receivable collection and writeoff data. We believe our quarterly updates to the estimated implicit price concession amounts at each of our hospital facilities provide reasonable estimates of our revenues and valuations of our accounts receivable. These routine, quarterly changes in estimates have not resulted in material adjustments to the valuations of our accounts receivable or period-to-period comparisons of our results of operations. At June 30, 2018 and December 31, 2017, estimated implicit price concessions of $5.736 billion and $5.488 billion, respectively, had been recorded as reductions to our accounts receivable balances to enable us to record our revenues and accounts receivable at the estimated amounts we expect to collect.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

To quantify the total impact of the trends related to uninsured accounts, we believe it is beneficial to view total uncompensated care, which is comprised of charity care, uninsured discounts and implicit price concessions. A summary of the estimated cost of total uncompensated care for the quarters and six months ended June 30, 2018 and 2017 follows (dollars in millions):

	Quarter		Six Months	
	2018	**2017**	**2018**	**2017**
Patient care costs (salaries and benefits, supplies, other operating expenses and depreciation and amortization)	**$ 9,871**	$ 9,177	**$ 19,738**	$ 18,326
Cost-to-charges ratio (patient care costs as percentage of gross patient charges)	**12.6%**	13.0%	**12.5%**	12.9%
Total uncompensated care	**$ 6,486**	$ 5,721	**$ 12,738**	$ 11,048
Multiply by the cost-to-charges ratio	**12.6%**	13.0%	**12.5%**	12.9%
Estimated cost of total uncompensated care	**$ 817**	$ 743	**$ 1,592**	$ 1,425

Total uncompensated care as a percentage of the sum of revenues and total uncompensated care was 36.0% and 34.8% for the quarters ended June 30, 2018 and 2017, respectively, and 35.7% and 34.1% for the six months ended June 30, 2018 and 2017, respectively. The total uncompensated care amounts include charity care of $1.977 billion and $1.173 billion, and the related estimated costs of charity care were $249 million and $152 million for the quarters ended June 30, 2018 and 2017, respectively, and charity care of $3.856 billion and $2.259 billion, and the related estimated costs of charity care were $482 million and $291 million for the six months ended June 30, 2018 and 2017, respectively.

Recent Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (ASU 2016-02), which requires lessees to recognize assets and liabilities for most leases. ASU 2016-02 is effective for public business entities for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. We are continuing to evaluate the provisions of ASU 2016-02 (and related developments) to determine how our financial statements will be affected, and we believe the primary effect of adopting the new standard will be to record right-of-use assets and obligations for our leases currently classified as operating leases.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2018, we paid $360 million to acquire a hospital facility and $178 million to acquire other nonhospital health care entities. During the six months ended June 30, 2017, we paid $189 million to acquire three hospital facilities and $106 million to acquire other nonhospital health care entities.

During the six months ended June 30, 2018, we received proceeds of $758 million and recognized a net pretax gain of $372 million related to the sale of the two hospital facilities in our Oklahoma market. During the

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 ACQUISITIONS AND DISPOSITIONS (continued)

six months ended June 30, 2018, we also received proceeds of $41 million and recognized a net pretax gain of $42 million related to sales of real estate and other investments. During the six months ended June 30, 2017, we received proceeds of $14 million and recognized a net pretax gain of $3 million related to sales of real estate and other investments.

NOTE 3 INCOME TAXES

Our provision for income taxes for the quarters ended June 30, 2018 and 2017, was $272 million and $365 million, respectively, and the effective tax rates were 24.9% and 35.8%, respectively. Our provision for income taxes for the six months ended June 30, 2018 and 2017, was $529 million and $654 million, respectively, and the effective tax rates were 21.2% and 33.2%, respectively. The reductions in the effective tax rates were primarily related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act (the Tax Act). Our provision for income taxes for the quarter and six months ended June 30, 2018 included tax benefits, of $122 million and $245 million, respectively, related to the reduction in our effective tax rate related to the impact of the Tax Act. Our provision for income taxes also included tax benefits related to the settlement of employee equity awards of $4 million and $9 million for the quarters ended June 30, 2018 and 2017, respectively, and $96 million and $76 million for the six months ended June 30, 2018 and 2017, respectively. The Tax Act was enacted on December 22, 2017, and it significantly revised U.S. corporate income taxes, including lowering the federal statutory corporate tax rate from 35% to 21% beginning in 2018. Due to the complexity and uncertainty regarding numerous provisions of the Tax Act, we have not completed our accounting for its effects. However, we have made reasonable estimates and recorded provisional amounts in our financial statements as of June 30, 2018.

As we complete our analysis of the Tax Act, we may make adjustments to the provisional amounts and record additional amounts for those federal, state, and foreign tax assets and liabilities for which we were unable to make reasonable estimates as of June 30, 2018. Any adjustments or additional amounts recorded may materially impact our provision for income taxes and effective tax rate in the periods in which they are made.

Our liability for unrecognized tax benefits was $461 million, including accrued interest of $54 million, as of June 30, 2018 ($439 million and $44 million, respectively, as of December 31, 2017). Unrecognized tax benefits of $159 million ($145 million as of December 31, 2017) would affect the effective rate, if recognized.

We are subject to examination by federal, state and foreign taxing authorities. Depending on the resolution of any federal, state and foreign tax disputes, the completion of examinations by federal, state or foreign taxing authorities, or the expiration of statutes of limitation for specific taxing jurisdictions, we believe it is reasonably possible that our liability for unrecognized tax benefits may significantly increase or decrease within the next 12 months. However, we are currently unable to estimate the range of any possible change.

NOTE 4 EARNINGS PER SHARE

We compute basic earnings per share using the weighted average number of common shares outstanding. We compute diluted earnings per share using the weighted average number of common shares outstanding, plus the dilutive effect of outstanding equity awards and potential shares, computed using the treasury stock method.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 EARNINGS PER SHARE (continued)

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2018 and 2017 (dollars and shares in millions, except per share amounts):

	Quarter		Six Months	
	2018	**2017**	**2018**	**2017**
Net income attributable to HCA Healthcare, Inc.	**$ 820**	$ 657	**$ 1,964**	$ 1,316
Weighted average common shares outstanding	**348.615**	365.847	**349.726**	368.056
Effect of dilutive incremental shares	**6.424**	9.491	**7.662**	9.591
Shares used for diluted earnings per share	**355.039**	375.338	**357.388**	377.647
Earnings per share:				
Basic earnings	**$ 2.35**	$ 1.79	**$ 5.62**	$ 3.58
Diluted earnings	**$ 2.31**	$ 1.75	**$ 5.50**	$ 3.48

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES

A summary of our insurance subsidiaries investments at June 30, 2018 and December 31, 2017 follows (dollars in millions):

	June 30, 2018			
		Unrealized Amounts		
	Amortized Cost	**Gains**	**Losses**	**Fair Value**
Debt securities	**$ 337**	**$ 5**	**$ (1)**	**$ 341**
Money market funds and other	**118**			**118**
	$ 455	**$ 5**	**$ (1)**	**459**
Amounts classified as current assets				**(45)**
Investment carrying value				**$ 414**

	December 31, 2017			
		Unrealized Amounts		
	Amortized Cost	**Gains**	**Losses**	**Fair Value**
Debt securities	$ 361	$ 10	$	$ 371
Money market funds and other	101			101
	$ 462	$ 10	$	472

Amounts classified as current assets	(54)
Investment carrying value	$ 418

At June 30, 2018 and December 31, 2017, the investments of our insurance subsidiaries were classified as available-for-sale. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income (loss).

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES (continued)

Scheduled maturities of investments in debt securities at June 30, 2018 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 24	$ 25
Due after one year through five years	50	50
Due after five years through ten years	218	221
Due after ten years	45	45
	$ 337	$ 341

The average expected maturity of the investments in debt securities at June 30, 2018 was 6.5 years, compared to the average scheduled maturity of 8.4 years. Expected and scheduled maturities may differ because the issuers of certain securities have the right to call, prepay or otherwise redeem such obligations prior to their scheduled maturity date.

NOTE 6 FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. These swap agreements involve the exchange of fixed and variable rate interest payments between two parties based on common notional principal amounts and maturity dates. Pay-fixed interest rate swaps effectively convert variable rate obligations to fixed interest rate obligations. The interest payments under these agreements are settled on a net basis. The net interest payments, based on the notional amounts in these agreements, generally match the timing of the related liabilities for the interest rate swap agreements which have been designated as cash flow hedges. The notional amounts of the swap agreements represent amounts used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions.

The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at June 30, 2018 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	$ 2,000	December 2021	$ 83
Pay-fixed interest rate swaps	500	December 2022	15

During the next 12 months, we estimate $20 million will be reclassified from other comprehensive income (OCI) and will reduce interest expense.

Derivatives Results of Operations

The following table presents the effect of our interest rate swaps on our results of operations for the six months ended June 30, 2018 (dollars in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives, Net of Tax	Location of Gain Reclassified from Accumulated OCI into Operations	Amount of Gain Reclassified from Accumulated OCI into Operations
Interest rate swaps	$ 39	Interest expense	$ 2

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (ASC 820) emphasizes fair value is a market-based measurement, and fair value measurements should be determined based on the assumptions market participants would use in pricing assets or liabilities. ASC 820 utilizes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

Cash Traded Investments

Our cash traded investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Derivative Financial Instruments

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. We incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements of these instruments.

Although we determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. We assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions, and at June 30, 2018 and December 31, 2017, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

The following tables summarize our assets measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

		June 30, 2018 Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Investments of insurance subsidiaries:				
Debt securities	**$ 341**	**$**	**$ 341**	**$**
Money market funds and other	**118**	**118**		
Investments of insurance subsidiaries	**459**	**118**	**341**	
Less amounts classified as current assets	**(45)**	**(45)**		
	$ 414	**73**	**$ 341**	**$**
Interest rate swaps (Other)	**$ 98**	**$**	**$ 98**	**$**

		December 31, 2017 Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Investments of insurance subsidiaries:				
Debt securities	$ 371	$	$ 371	$
Money market funds and other	101	101		
Investments of insurance subsidiaries	472	101	371	
Less amounts classified as current assets	(54)	(54)		
	$ 418	$ 47	$ 371	$
Interest rate swaps (Other)	$ 50	$	$ 50	$

The estimated fair value of our long-term debt was $33.649 billion and $34.689 billion at June 30, 2018 and December 31, 2017, respectively, compared to carrying amounts, excluding net debt issuance costs, aggregating $33.343 billion and $33.222 billion, respectively. The estimates of fair value are generally based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities.

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 LONG-TERM DEBT

A summary of long-term debt at June 30, 2018 and December 31, 2017, including related interest rates at June 30, 2018, follows (dollars in millions):

	June 30, 2018	December 31, 2017
Senior secured asset-based revolving credit facility (effective interest rate of 3.6%)	**$ 3,750**	$ 3,680
Senior secured revolving credit facility (effective interest rate of 3.6%)	**140**	
Senior secured term loan facilities (effective interest rate of 3.5%)	**3,849**	3,891
Senior secured notes (effective interest rate of 5.4%)	**15,300**	15,300
Other senior secured debt (effective interest rate of 5.8%)	**552**	599
Senior secured debt	**23,591**	23,470
Senior unsecured notes (effective interest rate of 6.4%)	**9,752**	9,752
Net debt issuance costs	**(151)**	(164)
Total debt (average life of 6.4 years, rates averaging 5.3%)	**33,192**	33,058
Less amounts due within one year	**1,692**	200
	$ 31,500	$ 32,858

NOTE 9 CONTINGENCIES

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians staff privileges. In certain of these actions the claimants may seek punitive damages against us which may not be covered by insurance. We are also subject to claims by various taxing authorities for additional taxes and related interest and penalties. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations, financial position or liquidity.

Health care companies are subject to numerous investigations by various governmental agencies. Under the federal False Claims Act, private parties have the right to bring *qui tam*, or whistleblower, suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Some states have adopted similar state whistleblower and false claims provisions. Certain of our individual facilities have received, and from time to time, other facilities may receive, government inquiries from, and may be subject to investigation by, federal and state agencies. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material, adverse effect on our results of operations, financial position or liquidity.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 CAPITAL STRUCTURE

The changes in stockholders deficit, including changes in stockholders deficit attributable to HCA Healthcare, Inc. and changes in equity attributable to noncontrolling interests, are as follows (dollars and shares in millions):

	Equity (Deficit) Attributable to HCA Healthcare, Inc.					
	Common Stock		Accumulated Other Comprehensive Loss	Retained Deficit	Equity Attributable to Noncontrolling Interests	Total
	Shares	Par Value				
Balances at December 31, 2017	350.092	$ 4	$ (278)	$ (6,532)	$ 1,811	$ (4,995)
Comprehensive income			17	1,964	284	2,265
Repurchase of common stock	(9.040)	(1)		(892)		(893)
Dividends and distributions				(250)	(185)	(435)
Share-based benefit plans	5.708			(18)		(18)
Dispositions of entities with noncontrolling interests					(53)	(53)
Other				(3)	7	4
Balances at June 30, 2018	346.760	$ 3	$ (261)	$ (5,731)	$ 1,864	$ (4,125)

During the six months ended June 30, 2018, we repurchased 9.040 million shares of our common stock at an average price of $98.73 per share through market purchases pursuant to the $2.0 billion share repurchase program authorized during October 2017. At June 30, 2018, we had $910 million of repurchase authorization available under the October 2017 authorization.

The components of accumulated other comprehensive loss are as follows (dollars in millions):

	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Change in Fair Value of Derivative Instruments	Total
Balances at December 31, 2017	$ 7	$ (149)	$ (168)	$ 32	$ (278)
Unrealized losses on available-for-sale securities, net of $1 income tax benefit	(5)				(5)
Foreign currency translation adjustments		(22)			(22)
Change in fair value of derivative instruments, net of $11 of income taxes				39	39
Expense (income) reclassified into operations from other comprehensive income, net of $3 income tax benefit and $- income taxes, respectively			7	(2)	5
Balances at June 30, 2018	$ 2	$ (171)	$ (161)	$ 69	$ (261)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. We operate in two geographically organized groups: the National and American Groups. The National Group includes 88 hospitals located in Alaska, California, Florida, southern Georgia, Idaho, Indiana, northern Kentucky, Nevada, New Hampshire, South Carolina, Utah and Virginia, and the American Group includes 84 hospitals located in

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (continued)

Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Tennessee and Texas. We also operate six hospitals in England, and these facilities are included in the Corporate and other group.

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, gains on sales of facilities, income taxes and net income attributable to noncontrolling interests. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA and depreciation and amortization for the quarters and six months ended June 30, 2018 and 2017 are summarized in the following table (dollars in millions):

	Quarter		Six Months	
	2018	**2017**	**2018**	**2017**
Revenues:				
National Group	**$ 5,609**	$ 5,160	**$ 11,177**	$ 10,308
American Group	**5,390**	5,093	**10,717**	10,088
Corporate and other	**530**	480	**1,058**	960
	$ 11,529	$ 10,733	**$ 22,952**	$ 21,356
Equity in earnings of affiliates:				
National Group	**$ (2)**	$ (4)	**$ (4)**	$ (9)
American Group	**(10)**	(10)	**(19)**	(18)
Corporate and other	**5**	1	**7**	4
	$ (7)	$ (13)	**$ (16)**	$ (23)
Adjusted segment EBITDA:				
National Group	**$ 1,284**	$ 1,162	**$ 2,466**	$ 2,293
American Group	**1,147**	1,040	**2,178**	2,047
Corporate and other	**(204)**	(112)	**(299)**	(245)
	$ 2,227	$ 2,090	**$ 4,345**	$ 4,095
Depreciation and amortization:				
National Group	**$ 232**	$ 217	**$ 457**	$ 431
American Group	**255**	238	**507**	476
Corporate and other	**75**	66	**151**	135
	$ 562	$ 521	**$ 1,115**	$ 1,042
Adjusted segment EBITDA	**$ 2,227**	$ 2,090	**$ 4,345**	$ 4,095

Depreciation and amortization	**562**	521	**1,115**	1,042
Interest expense	**436**	411	**867**	830
Gains on sales of facilities	**(9)**	(2)	**(414)**	(3)
Income before income taxes	**$ 1,238**	$ 1,160	**$ 2,777**	$ 2,226

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

During December 2012, HCA Healthcare, Inc. issued $1.000 billion aggregate principal amount of 6.250% senior unsecured notes due 2021. These notes are senior unsecured obligations and are not guaranteed by any of our subsidiaries.

HCA Inc., a direct wholly-owned subsidiary of HCA Healthcare, Inc., is the obligor under a significant portion of our other indebtedness, including our senior secured credit facilities, senior secured notes and senior unsecured notes (other than the senior unsecured notes issued by HCA Healthcare, Inc.). The senior secured notes and senior unsecured notes issued by HCA Inc. are fully and unconditionally guaranteed by HCA Healthcare, Inc. The senior secured credit facilities and senior secured notes are fully and unconditionally guaranteed by substantially all existing and future, direct and indirect, 100% owned material domestic subsidiaries that are Unrestricted Subsidiaries under our Indenture dated December 16, 1993 (except for certain special purpose subsidiaries that only guarantee and pledge their assets under our senior secured asset-based revolving credit facility).

Our summarized condensed consolidating comprehensive income statements for the quarters and six months ended June 30, 2018 and 2017, condensed consolidating balance sheets at June 30, 2018 and December 31, 2017 and condensed consolidating statements of cash flows for the six months ended June 30, 2018 and 2017, segregating HCA Healthcare, Inc. issuer, HCA Inc. issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations, follow:

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE QUARTER ENDED JUNE 30, 2018

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$	$ 6,774	$ 4,755	$	$ 11,529
Salaries and benefits			3,025	2,249		5,274
Supplies			1,127	790		1,917
Other operating expenses	4		1,122	992		2,118
Equity in earnings of affiliates	(852)		(1)	(6)	852	(7)
Depreciation and amortization			329	233		562
Interest expense	16	867	(389)	(58)		436
Losses (gains) on sales of facilities			23	(32)		(9)
Management fees			(157)	157		
	(832)	867	5,079	4,325	852	10,291
Income (loss) before income taxes	832	(867)	1,695	430	(852)	1,238
Provision (benefit) for income taxes	12	(201)	389	72		272
Net income (loss)	820	(666)	1,306	358	(852)	966
Net income attributable to noncontrolling interests			22	124		146

Net income (loss) attributable to HCA Healthcare, Inc.	$	820	$	(666)	$	1,284	$	234	$	(852)	$	820
Comprehensive income (loss) attributable to HCA Healthcare, Inc.	$	756	$	(656)	$	1,287	$	157	$	(788)	$	756

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE QUARTER ENDED JUNE 30, 2017

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors (as adjusted)	Subsidiary Non-Guarantors (as adjusted)	Eliminations	Condensed Consolidated
Revenues	$	$	$ 6,369	$ 4,364	$	$ 10,733
Salaries and benefits			2,870	2,026		4,896
Supplies			1,055	740		1,795
Other operating expenses	4		1,064	897		1,965
Equity in earnings of affiliates	(658)		(1)	(12)	658	(13)
Depreciation and amortization			302	219		521
Interest expense	16	755	(315)	(45)		411
Losses (gains) on sales of facilities			(4)	2		(2)
Management fees			(160)	160		
	(638)	755	4,811	3,987	658	9,573
Income (loss) before income taxes	638	(755)	1,558	377	(658)	1,160
Provision (benefit) for income taxes	(19)	(279)	565	98		365
Net income (loss)	657	(476)	993	279	(658)	795
Net income attributable to noncontrolling interests			27	111		138
Net income (loss) attributable to HCA Healthcare, Inc.	$ 657	$ (476)	$ 966	$ 168	$ (658)	$ 657
Comprehensive income (loss) attributable to HCA Healthcare, Inc.	$ 684	$ (480)	$ 969	$ 196	$ (685)	$ 684

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2018

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$	$ 13,550	$ 9,402	$	$ 22,952
Salaries and benefits			6,094	4,469		10,563
Supplies			2,268	1,564		3,832
Other operating expenses	5		2,250	1,973		4,228
Equity in earnings of affiliates	(1,942)		(3)	(13)	1,942	(16)
Depreciation and amortization			652	463		1,115
Interest expense	32	1,704	(756)	(113)		867
Gains on sales of facilities			(372)	(42)		(414)
Management fees			(315)	315		
	(1,905)	1,704	9,818	8,616	1,942	20,175
Income (loss) before income taxes	1,905	(1,704)	3,732	786	(1,942)	2,777
Provision (benefit) for income taxes	(59)	(396)	856	128		529
Net income (loss)	1,964	(1,308)	2,876	658	(1,942)	2,248
Net income attributable to noncontrolling interests			50	234		284
Net income (loss) attributable to HCA Healthcare, Inc.	$ 1,964	$ (1,308)	$ 2,826	$ 424	$ (1,942)	$ 1,964
Comprehensive income (loss) attributable to HCA Healthcare, Inc.	$ 1,981	$ (1,271)	$ 2,833	$ 397	$ (1,959)	$ 1,981

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2017

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors (as adjusted)	Subsidiary Non-Guarantors (as adjusted)	Eliminations	Condensed Consolidated
Revenues	$	$	$ 12,705	$ 8,651	$	$ 21,356
Salaries and benefits			5,774	4,023		9,797
Supplies			2,130	1,462		3,592
Other operating expenses	5		2,114	1,776		3,895
Equity in earnings of affiliates	(1,266)		(3)	(20)	1,266	(23)
Depreciation and amortization			612	430		1,042
Interest expense	32	1,488	(605)	(85)		830
Gains on sales of facilities			(3)			(3)
Management fees			(320)	320		
	(1,229)	1,488	9,699	7,906	1,266	19,130
Income (loss) before income taxes	1,229	(1,488)	3,006	745	(1,266)	2,226
Provision (benefit) for income taxes	(87)	(549)	1,091	199		654
Net income (loss)	1,316	(939)	1,915	546	(1,266)	1,572
Net income attributable to noncontrolling interests			50	206		256
Net income (loss) attributable to HCA Healthcare, Inc.	$ 1,316	$ (939)	$ 1,865	$ 340	$ (1,266)	$ 1,316
Comprehensive income (loss) attributable to HCA Healthcare, Inc.	$ 1,361	$ (936)	$ 1,871	$ 376	$ (1,311)	$ 1,361

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

JUNE 30, 2018

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 197	$ 671	$	$ 868
Accounts receivable			3,873	2,719		6,592
Inventories			1,093	543		1,636
Other			743	555		1,298
			5,906	4,488		10,394
Property and equipment, net			11,842	6,702		18,544
Investments of insurance subsidiaries				414		414
Investments in and advances to affiliates	31,540		28	206	(31,540)	234
Goodwill and other intangible assets			5,429	2,030		7,459
Other	450	98	29	120		697
	$ 31,990	$ 98	$ 23,234	$ 13,960	$ (31,540)	$ 37,742
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
Current liabilities:						
Accounts payable	$ 1	$	$ 1,683	$ 773	$	$ 2,457
Accrued salaries			836	479		1,315
Other accrued expenses	101	382	670	1,008		2,161
Long-term debt due within one year		1,597	61	34		1,692
	102	1,979	3,250	2,294		7,625
Long-term debt, net	995	30,048	282	175		31,500
Intercompany balances	36,325	(8,608)	(26,352)	(1,365)		
Professional liability risks				1,283		1,283
Income taxes and other liabilities	557		388	514		1,459

	37,979	23,419	(22,432)	2,901		41,867
Stockholders (deficit) equity attributable to HCA Healthcare, Inc.	(5,989)	(23,321)	45,588	9,273	(31,540)	(5,989)
Noncontrolling interests			78	1,786		1,864
	(5,989)	(23,321)	45,666	11,059	(31,540)	(4,125)
	$ 31,990	$ 98	$ 23,234	$ 13,960	$ (31,540)	$ 37,742

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2017

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 1	$	$ 112	$ 619	$	$ 732
Accounts receivable			3,693	2,808		6,501
Inventories			1,030	543		1,573
Other			663	508		1,171
	1		5,498	4,478		9,977
Property and equipment, net			11,110	6,785		17,895
Investments of insurance subsidiaries				418		418
Investments in and advances to affiliates	29,581		22	177	(29,581)	199
Goodwill and other intangible assets			4,893	2,501		7,394
Other	510	50	47	103		710
	$ 30,092	$ 50	$ 21,570	$ 14,462	$ (29,581)	$ 36,593
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
Current liabilities:						
Accounts payable	$	$	$ 1,793	$ 813	$	$ 2,606
Accrued salaries			862	507		1,369
Other accrued expenses	29	378	536	1,040		1,983
Long-term debt due within one year		97	64	39		200
	29	475	3,255	2,399		6,158
Long-term debt, net	995	31,367	307	189		32,858
Intercompany balances	35,322	(9,742)	(25,228)	(352)		
Professional liability risks				1,198		1,198
Income taxes and other liabilities	552		357	465		1,374
	36,898	22,100	(21,309)	3,899		41,588
	(6,806)	(22,050)	42,755	8,876	(29,581)	(6,806)

Stockholders (deficit) equity attributable to HCA Healthcare, Inc.						
Noncontrolling interests			124	1,687		1,811
	(6,806)	(22,050)	42,879	10,563	(29,581)	(4,995)
	$ 30,092	$ 50	$ 21,570	$ 14,462	$ (29,581)	$ 36,593

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 1,964	$ (1,308)	$ 2,876	$ 658	$ (1,942)	$ 2,248
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Changes in operating assets and liabilities		2	(352)	(52)		(402)
Depreciation and amortization			652	463		1,115
Income taxes	118					118
Gains on sales of facilities			(372)	(42)		(414)
Amortization of debt issuance costs		15				15
Share-based compensation			134			134
Equity in earnings of affiliates	(1,942)				1,942	
Other	43			8		51
Net cash provided by (used in) operating activities	183	(1,291)	2,938	1,035		2,865
Cash flows from investing activities:						
Purchase of property and equipment			(900)	(674)		(1,574)
Acquisition of hospitals and health care entities			(438)	(100)		(538)
Disposition of hospitals and health care entities			767	32		799
Change in investments			17	6		23
Other			(30)	5		(25)
Net cash used in investing activities			(584)	(731)		(1,315)
Cash flows from financing activities:						
Net change in revolving credit facilities		210				210
Repayment of long-term debt		(41)	(38)	(22)		(101)
Distributions to noncontrolling interests			(43)	(142)		(185)
Payment of debt issuance costs		(2)				(2)
Payment of cash dividends	(245)					(245)
Repurchases of common stock	(893)					(893)

Changes in intercompany balances with affiliates, net	1,150	1,124	(2,188)	(86)		
Other	(196)			4		(192)
Net cash (used in) provided by financing activities	(184)	1,291	(2,269)	(246)		(1,408)
Effect on exchange rate changes on cash and cash equivalents				(6)		(6)
Change in cash and cash equivalents	(1)		85	52		136
Cash and cash equivalents at beginning of period	1		112	619		732
Cash and cash equivalents at end of period	$	$	$ 197	$ 671	$	$ 868

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors (as adjusted)	Subsidiary Non-Guarantors (as adjusted)	Eliminations	Condensed Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 1,316	$ (939)	$ 1,915	$ 546	$ (1,266)	$ 1,572
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Changes in operating assets and liabilities	1	(189)	(196)	(11)		(395)
Depreciation and amortization			612	430		1,042
Income taxes	267					267
Gains on sales of facilities			(3)			(3)
Amortization of debt issuance costs		16				16
Share-based compensation			140			140
Equity in earnings of affiliates	(1,266)				1,266	
Other	39		1	5		45
Net cash provided by (used in) operating activities	357	(1,112)	2,469	970		2,684
Cash flows from investing activities:						
Purchase of property and equipment			(729)	(575)		(1,304)
Acquisition of hospitals and health care entities			(6)	(289)		(295)
Disposition of hospitals and health care entities			10	4		14
Change in investments				(11)		(11)
Other			2	3		5
Net cash used in investing activities			(723)	(868)		(1,591)
Cash flows from financing activities:						
Issuance of long-term debt		1,500		2		1,502
Net change in revolving credit facilities		(1,160)				(1,160)
Repayment of long-term debt		(42)	(33)	(20)		(95)
Distributions to noncontrolling interests			(79)	(169)		(248)
Payment of debt issuance costs		(25)				(25)
Repurchases of common stock	(966)					(966)
Changes in intercompany balances with affiliates, net	671	839	(1,589)	79		
Other	(62)			20		(42)

Net cash (used in) provided by financing activities	(357)	1,112	(1,701)	(88)		(1,034)
Change in cash and cash equivalents			45	14		59
Cash and cash equivalents at beginning of period			113	533		646
Cash and cash equivalents at end of period	$	$	$ 158	$ 547	$	$ 705

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

The above supplemental condensed consolidating financial information for the quarter and six months ended June 30, 2017 has been adjusted to properly record the impact of certain subsidiaries that were non-guarantors becoming guarantors, primarily related to the Company acquiring previous noncontrolling interests of non-guarantor subsidiaries that then became guarantor subsidiaries. The impact of these adjustments was immaterial as they had no impact to our consolidated income statements, balance sheets or statements of cash flows, had no impact on any liquidity measures of the Company, nor did they impact any financial ratios based on our consolidated balance sheets or income statements. There was also no impact to our loan covenant reporting or compliance. The impact of the adjustments was limited to reclassifications between the Subsidiary Guarantors and Subsidiary Non-Guarantors columns of the condensed consolidating financial statements. The application of these adjustments to the consolidating information for the quarter and six months ended June 30, 2017 is summarized as follows (dollars in millions):

	As Previously Reported	Adjustment	As Adjusted
Quarter ended June 30, 2017			
Net income (loss) attributable to HCA Healthcare, Inc.:			
HCA Healthcare, Inc. Issuer	$ 657	$	$ 657
HCA Inc. Issuer	(476)		(476)
Subsidiary Guarantors	862	104	966
Subsidiary Non-Guarantors	272	(104)	168
Eliminations	(658)		(658)
Condensed Consolidated	$ 657	$	$ 657

	As Previously Reported	Adjustment	As Adjusted
Six months ended June 30, 2017			
Net income (loss) attributable to HCA Healthcare, Inc.:			
HCA Healthcare, Inc. Issuer	$ 1,316	$	$ 1,316
HCA Inc. Issuer	(939)		(939)
Subsidiary Guarantors	1,680	185	1,865
Subsidiary Non-Guarantors	525	(185)	340
Eliminations	(1,266)		(1,266)
Condensed Consolidated	$ 1,316	$	$ 1,316

	As Previously Reported	Adjustment	As Adjusted
Six months ended June 30, 2017			
Net cash provided (used in) operating activities:			

HCA Healthcare, Inc. Issuer	$ 357	$	$ 357
HCA Inc. Issuer	(1,112)		(1,112)
Subsidiary Guarantors	2,191	278	2,469
Subsidiary Non-Guarantors	1,248	(278)	970
Eliminations			
Condensed Consolidated	$ 2,684	$	$ 2,684

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This quarterly report on Form 10-Q includes certain disclosures which contain forward-looking statements. Forward-looking statements include statements regarding expected share-based compensation expense, expected capital expenditures and expected net claim payments and all other statements that do not relate solely to historical or current facts, and can be identified by the use of words like may, believe, will, expect, proj estimate, anticipate, plan, initiative or continue. These forward-looking statements are based on our current plans and expectations an subject to a number of known and unknown uncertainties and risks, many of which are beyond our control, which could significantly affect current plans and expectations and our future financial position and results of operations. These factors include, but are not limited to, (1) the impact of our substantial indebtedness and the ability to refinance such indebtedness on acceptable terms, (2) the impact of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Reform Law), including the effects of any repeal of, or changes to, the Health Reform Law or changes to its implementation, the possible enactment of additional federal or state health care reforms and possible changes to other federal, state or local laws or regulations affecting the health care industry, (3) the effects related to the continued implementation of the sequestration spending reductions required under the Budget Control Act of 2011, and related legislation extending these reductions, and the potential for future deficit reduction legislation that may alter these spending reductions, which include cuts to Medicare payments, or create additional spending reductions, (4) increases in the amount and risk of collectability of uninsured accounts and deductibles and copayment amounts for insured accounts, (5) the ability to achieve operating and financial targets, and attain expected levels of patient volumes and control the costs of providing services, (6) possible changes in Medicare, Medicaid and other state programs, including Medicaid supplemental payment programs or Medicaid waiver programs, that may impact reimbursements to health care providers and insurers and the size of the uninsured or underinsured population, (7) the highly competitive nature of the health care business, (8) changes in service mix, revenue mix and surgical volumes, including potential declines in the population covered under third-party payer agreements, the ability to enter into and renew third-party payer provider agreements on acceptable terms and the impact of consumer-driven health plans and physician utilization trends and practices, (9) the efforts of health insurers, health care providers, large employer groups and others to contain health care costs, (10) the outcome of our continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures, (11) increases in wages and the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical and technical support personnel, (12) the availability and terms of capital to fund the expansion of our business and improvements to our existing facilities, (13) changes in accounting practices, (14) changes in general economic conditions nationally and regionally in our markets, (15) the emergence and effects related to infectious diseases, (16) future divestitures which may result in charges and possible impairments of long-lived assets, (17) changes in business strategy or development plans, (18) delays in receiving payments for services provided, (19) the outcome of pending and any future tax audits, disputes and litigation associated with our tax positions, (20) potential adverse impact of known and unknown government investigations, litigation and other claims that may be made against us, (21) the impact of potential cybersecurity incidents or security breaches, (22) our ongoing ability to demonstrate meaningful use of certified electronic health record (EHR) technology, (23) the impact of natural disasters, such as hurricanes and floods, or similar events beyond our control, (24) changes in interpretations, assumptions and expectations regarding the 2017 Tax Cuts and Jobs Act, including additional guidance that may be issued by federal and state taxing authorities or other standard-setting bodies, and (25) other risk factors described in our annual report on Form 10-K for the year ended December 31, 2017 and our other filings with the Securities and Exchange Commission. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of HCA. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report, which forward-looking statements reflect management s views only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Second Quarter 2018 Operations Summary

Revenues increased to $11.529 billion in the second quarter of 2018 from $10.733 billion in the second quarter of 2017. Net income attributable to HCA Healthcare, Inc. totaled $820 million, or $2.31 per diluted share, for the quarter ended June 30, 2018, compared to $657 million, or $1.75 per diluted share, for the quarter ended June 30, 2017. Second quarter 2018 results included net gains on sales of facilities of $9 million, or $0.02 per diluted share. Second quarter 2018 results also included our recognition of a reduction to the provision for income taxes of $0.34 per diluted share related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act which, along with other revisions, lowered the federal statutory corporate tax rate from 35% to 21% beginning in 2018. Cash flows from operating activities increased $178 million from $1.404 billion for the second quarter of 2017 to $1.582 billion for the second quarter of 2018. The increase in cash provided by operating activities was primarily related to the increase in net income of $171 million. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 355.039 million shares for the quarter ended June 30, 2018 and 375.338 million shares for the quarter ended June 30, 2017. During 2017 and the first six months of 2018, we repurchased 25.092 million shares and 9.040 million shares of our common stock, respectively.

Revenues increased 7.4% on a consolidated basis and increased 6.5% on a same facility basis for the quarter ended June 30, 2018, compared to the quarter ended June 30, 2017. The increase in consolidated revenues can be primarily attributed to the combined impact of a 2.1% increase in revenue per equivalent admission and a 5.1% increase in equivalent admissions. The same facility revenues increase primarily resulted from the combined impact of a 3.6% increase in same facility revenue per equivalent admission and a 2.8% increase in same facility equivalent admissions.

During the quarter ended June 30, 2018, consolidated admissions and same facility admissions increased 4.5% and 2.7%, respectively, compared to the quarter ended June 30, 2017. Surgeries increased 4.0% on a consolidated basis and 2.3% on a same facility basis during the quarter ended June 30, 2018, compared to the quarter ended June 30, 2017. Emergency department visits increased 1.5% on a consolidated basis and declined 0.8% on a same facility basis during the quarter ended June 30, 2018, compared to the quarter ended June 30, 2017. Same facility uninsured admissions increased 7.8% for the quarter ended June 30, 2018, compared to the quarter ended June 30, 2017.

Results of Operations

Revenue/Volume Trends

Our revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period our obligations to provide health care services are satisfied. Our performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Our performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payers. The payment arrangements with third-party payers for the services we provide to the related patients typically specify payments at amounts less than our standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Revenue/Volume Trends (continued)

insurance carriers, managed care and preferred provider organizations generally provide for payments based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

Revenues increased 7.4% from $10.733 billion in the second quarter of 2017 to $11.529 billion in the second quarter of 2018. Our revenues are based upon the estimated amounts we expect to be entitled to receive from patients and third-party payers. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect. Our revenues from third-party payers and others (including uninsured patients) for the quarters and six months ended June 30, 2018 and 2017 are summarized in the following table (dollars in millions):

	Quarter			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 2,425**	**21.0%**	$ 2,272	21.2%
Managed Medicare	**1,345**	**11.7**	1,158	10.8
Medicaid	**357**	**3.1**	376	3.5