UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2018

☐ **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 001-01011



CVS HEALTH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	05-0494040
(State of Incorporation)	*(I.R.S. Employer Identification Number)*

One CVS Drive, Woonsocket, Rhode Island 02895
(Address of principal executive offices)

Registrant's telephone number, including area code: (401) 765-1500

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 (§232.405 of this chapter) 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 ☒

Common Stock, $0.01 par value, issued and outstanding at April 25, 2018:
1,016,646,347 shares

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CVS Health Corporation
Condensed Consolidated Statements of Income
(Unaudited)

In millions, except per share amounts	Three Months Ended March 31, 2018	2017
Net revenues	$ 45,693	$ 44,514
Cost of revenues	38,834	37,943
Gross profit	6,859	6,571
Operating expenses	4,913	4,778
Operating profit	1,946	1,793
Interest expense, net	473	252
Other expense	3	7
Income before income tax provision	1,470	1,534
Income tax provision	472	572
Income from continuing operations	998	962
Loss from discontinued operations, net of tax	—	(9)
Net income	998	953
Net income attributable to noncontrolling interest	—	(1)
Net income attributable to CVS Health	$ 998	$ 952
Basic earnings per share:		
Income from continuing operations attributable to CVS Health	$ 0.98	$ 0.93
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)
Net income attributable to CVS Health	$ 0.98	$ 0.92
Weighted average shares outstanding	1,016	1,030
Diluted earnings per share:		
Income from continuing operations attributable to CVS Health	$ 0.98	$ 0.92
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)
Net income attributable to CVS Health	$ 0.98	$ 0.92
Weighted average shares outstanding	1,019	1,035
Dividends declared per share	$ 0.50	$ 0.50

See accompanying notes to condensed consolidated financial statements.

CVS Health Corporation
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

In millions	**Three Months Ended March 31, 2018**	**2017**
Net income	$ 998	$ 953
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	1	8
Net cash flow hedges, net of tax	343	1
Total other comprehensive income	344	9
Comprehensive income	1,342	962
Comprehensive income attributable to noncontrolling interest	—	(1)
Comprehensive income attributable to CVS Health	$ 1,342	$ 961

See accompanying notes to condensed consolidated financial statements.

CVS Health Corporation
Condensed Consolidated Balance Sheets
(Unaudited)

In millions, except per share amounts	**March 31, 2018**	**December 31, 2017**
Assets:		
Cash and cash equivalents	$ 42,023	$ 1,696
Short-term investments	119	111
Accounts receivable, net	13,964	13,181
Inventories	14,824	15,296
Other current assets	868	945
Total current assets	71,798	31,229
Property and equipment, net	10,144	10,292
Goodwill	38,115	38,451
Intangible assets, net	13,388	13,630
Other assets	1,694	1,529
Total assets	$ 135,139	$ 95,131
Liabilities:		
Accounts payable	$ 7,741	$ 8,863
Claims and discounts payable	11,241	10,355
Accrued expenses	7,724	6,609
Short-term debt	—	1,276
Current portion of long-term debt	3,542	3,545
Total current liabilities	30,248	30,648
Long-term debt	61,552	22,181
Deferred income taxes	3,058	2,996
Other long-term liabilities	1,604	1,611
Total liabilities	96,462	57,436
Shareholders' equity:		
CVS Health shareholders' equity:		
Preferred stock, par value $0.01: 0.1 shares authorized; none issued or outstanding	—	—
Common stock, par value $0.01: 3,200 shares authorized; 1,714 shares issued and 1,016 shares outstanding at March 31, 2018 and 1,712 shares issued and 1,014 shares outstanding at December 31, 2017	17	17
Capital surplus	32,191	32,079
Treasury stock, at cost: 697 shares at March 31, 2018 and December 31, 2017	(37,716)	(37,765)
Shares held in trust: 1 share at March 31, 2018 and December 31, 2017	(31)	(31)
Retained earnings	44,040	43,556
Accumulated other comprehensive income (loss)	172	(165)
Total CVS Health shareholders' equity	38,673	37,691
Noncontrolling interest	4	4
Total shareholders' equity	38,677	37,695
Total liabilities and shareholders' equity	$ 135,139	$ 95,131

See accompanying notes to condensed consolidated financial statements.

CVS Health Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

In millions	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Cash receipts from customers	$ 43,369	$ 43,913
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	(36,195)	(36,178)
Cash paid to other suppliers and employees	(4,271)	(3,823)
Interest received	50	6
Interest paid	(545)	(328)
Income taxes paid	(53)	(57)
Net cash provided by operating activities	2,355	3,533
Cash flows from investing activities:		
Purchases of property and equipment	(482)	(457)
Proceeds from sale of property and equipment and other assets	2	5
Acquisitions (net of cash acquired) and other investments	(368)	(93)
Purchase of available-for-sale investments	(18)	—
Maturities of available-for-sale investments	10	8
Proceeds from sale of subsidiary	725	—
Net cash used in investing activities	(131)	(537)
Cash flows from financing activities:		
Decrease in short-term debt	(1,276)	(106)
Proceeds from issuance of long-term debt	39,376	—
Repayments of long-term debt	(1)	—
Derivative settlements	446	—
Repurchase of common stock	—	(3,621)
Dividends paid	(508)	(516)
Proceeds from exercise of stock options	107	121
Payments for taxes related to net share settlement of equity awards	(4)	(11)
Net cash provided by (used in) financing activities	38,140	(4,133)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—
Net increase (decrease) in cash, cash equivalents and restricted cash	40,364	(1,137)
Cash, cash equivalents and restricted cash at the beginning of the period	1,900	3,520
Cash, cash equivalents and restricted cash at the end of the period	$ 42,264	$ 2,383
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 998	$ 953
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	644	619
Stock-based compensation	55	55
Deferred income taxes and other noncash items	62	14
Change in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(857)	48
Inventories	464	456
Other current assets	56	(74)
Other assets	(113)	(1)
Accounts payable and claims and discounts payable	(178)	(539)
Accrued expenses	1,231	1,848
Other long-term liabilities	(7)	154
Net cash provided by operating activities	$ 2,355	$ 3,533

See accompanying notes to condensed consolidated financial statements.

CVS Health Corporation
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Accounting Policies

Description of business

CVS Health Corporation and its subsidiaries (collectively, "CVS Health" or the "Company") together comprise the largest integrated pharmacy health care provider in the United States based upon revenues and prescriptions filled. The Company currently has three reportable business segments, Pharmacy Services, Retail/LTC and Corporate, which are described below.

Pharmacy Services Segment (the "PSS") - The PSS provides a full range of pharmacy benefit management services including plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management. The Company's clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D, Managed Medicaid plans, plans offered on the public and private exchanges, and other sponsors of health benefit plans and individuals throughout the United States.

As a pharmacy benefits manager, the PSS manages the dispensing of pharmaceuticals through the Company's mail order pharmacies and national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies and 27,000 independent pharmacies, to eligible members in the benefits plans maintained by the Company's clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

The PSS' specialty pharmacies support individuals that require complex and expensive drug therapies. The specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark ®, CarePlus CVS Pharmacy ®, Navarro ® Health Services and Advanced Care Scripts ("ACS Pharmacy") names. The Company also provides specialty infusion services and enteral nutrition services through Coram LLC and its subsidiaries (collectively, "Coram").

The PSS also provides health management programs, which include integrated disease management for 18 conditions, through the Company's AccordantCare ™ rare disease management offering.

In addition, through the Company's SilverScript Insurance Company ("SilverScript") subsidiary, the PSS is a national provider of prescription drug benefits to eligible beneficiaries under the federal government's Medicare Part D program.

The PSS generates net revenues primarily by contracting with clients to provide prescription drugs to plan members. Prescription drugs are dispensed by the mail order pharmacies, specialty pharmacies and national network of retail pharmacies. Net revenues are also generated by providing additional services to clients, including administrative services such as claims processing and formulary management, as well as health care related services such as disease management.

The PSS operates under the CVS Caremark ® Pharmacy Services, Caremark ®, CVS Caremark ®, CVS Specialty ®, AccordantCare ™, SilverScript®, Wellpartner ®, Coram ®, CVS Specialty ®, NovoLogix ®, Navarro ® Health Services and ACS Pharmacy names. As of March 31, 2018, the PSS operated 25 retail specialty pharmacy stores, 18 specialty mail order pharmacies, four mail order dispensing pharmacies, and 86 branches for infusion and enteral services, including approximately 74 ambulatory infusion suites and three centers of excellence, located in 43 states, Puerto Rico and the District of Columbia.

Retail/LTC Segment (the "RLS") - The RLS sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, seasonal merchandise, greeting cards, and photo finishing services, through the Company's CVS Pharmacy ®, CVS ®, CVS Pharmacy y más ®, Longs Drugs ®, Navarro Discount Pharmacy ® and Drogaria Onofre ™ retail stores and online through CVS.com ®, Navarro.com ™ and Onofre.com.br ™.

The RLS also provides health care services through its MinuteClinic ® health care clinics. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations.

The RLS also has long-term care ("LTC") operations, which is comprised of providing the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Prior to January 2, 2018, the RLS also provided commercialization services under the name RxCrossroads ®("RxC"). See "Note 3 – Goodwill" for a discussion of the divestiture of RxC.

As of March 31, 2018, the RLS included 9,847 retail stores (of which 8,099 were our stores that operated a pharmacy and 1,699 were our pharmacies located within Target stores) located in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy ®, CVS ®, CVS Pharmacy y más ®, Longs Drugs ®, Navarro Discount Pharmacy ®and Drogaria Onofre ™names, 37 onsite pharmacies primarily operating under the CarePlus CVS Pharmacy ™, CarePlus ®and CVS Pharmacy ®names, and 1,111 retail health care clinics operating under the MinuteClinic ®name (of which 1,107 were located in our retail pharmacy stores or Target stores), and our online retail websites, CVS.com ®, Navarro.com ™and Onofre.com.br ™. LTC operations are comprised of 163 spoke pharmacies that primarily handle new prescription orders, of which 30 are also hub pharmacies that use proprietary automation to support spoke pharmacies with refill prescriptions. LTC operates primarily under the Omnicare ®and NeighborCare ®names.

Corporate Segment - The Corporate Segment provides management and administrative services to support the Company. The Corporate Segment consists of certain aspects of the Company's executive management, corporate relations, legal, compliance, human resources, information technology and finance departments.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of CVS Health Corporation and its subsidiaries have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. In accordance with such rules and regulations, certain information and accompanying note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted, although the Company believes the disclosures included herein are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, which are included in Exhibit 13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K").

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Because of the influence of various factors on the Company's operations, including business combinations, certain holidays and other seasonal influences, net income for any interim period may not be comparable to the same interim period in previous years or necessarily indicative of income for the full year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All material intercompany balances and transactions have been eliminated.

The Company continually evaluates its investments to determine if they represent variable interests in a VIE. If the Company determines that it has a variable interest in a VIE, the Company then evaluates if it is the primary beneficiary of the VIE. The evaluation is a qualitative assessment as to whether the Company has the ability to direct the activities of a VIE that most significantly impact the entity's economic performance. The Company consolidates a VIE if it is considered to be the primary beneficiary.

Assets and liabilities of VIEs for which the Company is the primary beneficiary were not significant to the Company's condensed consolidated financial statements. VIE creditors do not have recourse against the general credit of the Company.

Fair Value of Financial Instruments

The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 – Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.
- Level 3 – Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions about risk.

As of March 31, 2018, the carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and the contingent consideration liability included in accrued expenses approximated their fair value due to the nature of these financial instruments. The Company invests in money market funds, commercial paper, time deposits and debt securities that are classified as cash and cash equivalents within the accompanying condensed consolidated balance sheets, as these funds are highly liquid and readily convertible to known amounts of cash. These investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's short-term investments of $119 million at March 31, 2018 consist of certificates of deposit with initial maturities of greater than three months when purchased that mature within one year from the balance sheet date. These investments, which are classified within Level 1 of the fair value hierarchy, are carried at fair value, which approximated historical cost at March 31, 2018. The carrying amount and estimated fair value of the Company's total long-term debt was $65.1 billion and $65.9 billion, respectively, as of March 31, 2018. The fair value of the Company's long-term debt was estimated based on quoted prices currently offered in active markets for the Company's debt, which is considered Level 1 of the fair value hierarchy.

Related Party Transactions

The Company has an equity method investment in SureScripts, LLC ("SureScripts"), which operates a clinical health information network. The PSS and RLS utilize this clinical health information network in providing services to its client plan members and retail customers. The Company expensed fees for the use of this network of approximately $22 million and $17 million in the three months ended March 31, 2018 and 2017, respectively. The Company's investment in and equity in earnings of SureScripts for all periods presented is immaterial.

The Company has an equity method investment in Heartland Healthcare Services ("Heartland"). Heartland operates several long-term care pharmacies in four states. Heartland paid the Company approximately $35 million and $40 million for pharmaceutical inventory purchases during the three months ended March 31, 2018 and 2017, respectively. Additionally, the Company performs certain collection functions for Heartland and then passes those customer cash collections back to Heartland. The Company's investment in and equity in earnings of Heartland for all periods presented is immaterial.

Discontinued Operations

In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Bob's Stores and Linens 'n Things, both of which subsequently filed for bankruptcy. See "Note 10 – Commitments and Contingencies" to the condensed consolidated financial statements. The Company's discontinued operations include lease-related costs which the Company believes it will likely be required to satisfy pursuant to its lease guarantees.

Adoption of New Revenue Recognition Standard

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In March 2016, the FASB issued ASU 2016-08, *"Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net),"* which amends the principal-versus-agent implementation guidance and in April 2016 the FASB issued ASU 2016-10, *"Identifying Performance Obligations and Licensing,"* which amends the guidance in those areas in the new revenue recognition standard.

The Company adopted the new revenue recognition standard as of January 1, 2018 using the modified retrospective method and applying the new standard to all contracts. Therefore, the comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods. One difference was identified between the previous accounting guidance and the new accounting guidance in the RLS related to the accounting for the Company's ExtraBucks ® Rewards customer loyalty program, which was previously accounted for under a cost deferral method. Under the new standard, this program is accounted for under a revenue deferral method. The Company recognized the cumulative effect of initially applying the new revenue recognition standard as an adjustment to beginning retained earnings. On January 1, 2018, the Company recorded an after-tax transition adjustment to reduce retained earnings by approximately $13 million ($17 million prior to tax effect). The Company expects the impact of the adoption of the new standard to be immaterial to its net revenue and net income on an ongoing basis.

The following is a discussion of the Company's revenue recognition policies by segment under the new revenue recognition accounting standard:

Pharmacy Services Segment

The PSS sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network. The Company's pharmacy benefit arrangements are accounted for in a manner consistent with a master supply arrangement as there are no contractual minimum volumes and each prescription is considered a separate purchasing decision and distinct performance obligation transferred at a point in time. Pharmacy benefit management services performed in connection with each prescription claim are considered part of a single performance obligation which culminates in the dispensing of prescription drugs.

The Company recognizes revenue using the gross method at the contract price negotiated with its clients when the Company has concluded it controls the prescription drug before it is transferred to the client plan members. The Company controls prescriptions dispensed indirectly through its retail pharmacy network because it has separate contractual arrangements with those pharmacies, has discretion in setting the price for the transaction and assumes primary responsibility for fulfilling the promise to provide prescription drugs to its client plan members while also performing the related pharmacy benefit management services.

Net revenues include (i) the portion of the price the client pays directly to the PSS, net of any variable consideration, including volume-related or other discounts paid back to the client (see "Drug Discounts" and "Guarantees" below), (ii) the price paid to the PSS by client plan members for mail order prescriptions ("Mail Co-Payments") and the price paid to retail network pharmacies by client plan members for retail prescriptions ("Retail Co-Payments"), and (iii) claims based administrative fees for retail pharmacy network contracts. Sales taxes are not included in revenue.

The PSS recognizes revenue when control of the prescription drugs are transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those prescription drugs. The following revenue recognition policies have been established for the PSS:

- Revenues generated from prescription drugs sold by mail service dispensing pharmacies are recognized when the prescription drug is delivered to the client plan member. At the time of delivery, the PSS has performed substantially all of its performance obligations under its client contracts and does not experience a significant level of returns or reshipments.

- Revenues generated from prescription drugs sold by third party pharmacies in the PSS' retail pharmacy network and associated administrative fees are recognized at the PSS' point-of-sale, which is when the claim is adjudicated by the PSS' online claims processing system and the Company has transferred control of the prescription drug and performed all of its performance obligations.

For contracts under which the PSS acts as an agent or does not control the prescription drugs prior to transfer to the client, revenue is recognized using the net method.

Drug discounts – The PSS records revenue net of manufacturers' rebates, earned by its clients based on their plan members' utilization of brand-name formulary drugs. The PSS estimates these rebates at period-end based on actual and estimated claims data and its estimates of the manufacturers' rebates earned by its clients. The estimates are based on the best available data at period-end and recent history for the various factors that can affect the amount of rebates due to the client. The PSS adjusts its rebates payable to clients to the actual amounts paid when these rebates are paid or as significant events occur. Any cumulative effect of these adjustments is recorded against revenues as identified. Adjustments generally result from contract changes with clients or manufacturers that have retroactive rebate adjustments, differences between the estimated and actual product mix subject to rebates, or whether the product was included in the applicable formulary. The effect of adjustments between estimated and actual amounts have not been material to the Company's results of operations or financial position.

Guarantees – The PSS also adjusts revenues for refunds owed to the client resulting from pricing guarantees and performance against defined service and performance metrics. The inputs to these estimates are not subject to a high degree of subjectivity or volatility. The effect of adjustments between estimated and actual amounts have not been material to the Company's results of operations or financial position.

Medicare Part D – The PSS participates in the federal government's Medicare Part D program as a prescription drug plan ("PDP") through its SilverScript subsidiary. Net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with the United States Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a beneficiary premium, which is the responsibility of the PDP member, which is subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums collected in advance are initially recorded within accrued expenses and other current liabilities and are then recognized ratably as revenue over the period in which members are entitled to receive benefits.

In addition to these premiums, net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and the PSS is paid an estimated prospective Member Co-Payment subsidy, each month. If the prospective Member Co-Payment subsidies received differ from the amounts earned from actual prescriptions transferred, the difference is recorded in either accounts receivable or accrued expenses. The PSS accounts for Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with revenue recognition policies for Mail Co-Payments and Retail Co-Payments. The Company estimates variable consideration in the form of amounts payable, or receivable from CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor, and adjusts revenue based on calculations of additional subsidies to be received or owed to CMS at the end of the reporting year. The Company also estimates cost of revenues for claims that have been reported and are in the process of being paid or contested and for its estimate of claims that have been incurred but have not yet been reported. Historically, the effect of these adjustments has not been material to the Company's results of operations or financial position.

Retail/LTC Segment

Retail Pharmacy - The retail drugstores recognize revenue at the time the customer takes possession of the merchandise. For pharmacy sales, each prescription claim is its own arrangement with the customer and is a performance obligation, separate and distinct from other prescription claims under other retail network arrangements. Revenues are adjusted for refunds owed to the third party payer for pricing guarantees and performance against defined value-based service and performance metrics. The inputs to most of these estimates are not subject to a high degree of subjectivity or volatility. The effect of adjustments between estimated and actual amounts have not been material to the Company's results of operations or financial position.

Revenue from CVS Health gift cards purchased by customers is deferred as a contract liability until goods or services are transferred. Any amounts not expected to be redeemed by customers (i.e., breakage) are recognized based on historical redemption patterns.

Customer returns are not material to the Company's results of operations or financial position.

Loyalty Program - The Company's customer loyalty program, ExtraCare ®, is comprised of two components, ExtraSavings ™ and ExtraBucks ® Rewards. ExtraSavings are coupons that are recorded as a reduction of revenue when redeemed as the Company concluded that they do not represent a promise to the customer to deliver additional goods or services at the time of issuance because they are not tied to a specific transaction or spending level.

ExtraBucks Rewards are accumulated by customers based on their historical spending levels. Thus, the Company has determined that there is an additional performance obligation to those customers at the time of the initial transaction. The Company allocates the transaction price to the initial transaction and the ExtraBucks Rewards transaction based upon the relative standalone selling price, which considers historical redemption patterns for the rewards. Revenue allocated to ExtraBucks Rewards is recognized as those rewards are redeemed. At the end of each period, unredeemed rewards are reflected as a contract liability.

Long-term Care - Revenue is recognized when control of the promised goods or services are transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Each prescription claim represents a separate performance obligation of the Company, separate and distinct from other prescription claims under customer arrangements. A significant portion of the revenue from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. The Company monitors its revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and reduces revenue at the revenue recognition date, to properly account for the variable consideration due to anticipated differences between billed and reimbursed amounts. Accordingly, the total net revenues and receivables reported in the Company's financial statements are recorded at the amount expected to be ultimately received from these payors.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors are typically not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of normal billing procedures and subject to normal accounts receivable collections procedures.

Health Care Clinics - For services provided by the Company's health care clinics, revenue recognition occurs for completed services provided to patients, with adjustments taken for third party payor contractual obligations and patient direct bill historical collection rates.

Disaggregation of Revenue

The following table disaggregates the Company's revenue by major source in each segment for the three months ended March 31, 2018:

In millions	**Pharmacy Services**	**Retail/LTC**	**Intersegment Eliminations**	**Consolidated Totals**
Major goods/services lines:				
Pharmacy	$ 30,762	$ 15,500	$ (6,957)	$ 39,305
Front Store	—	4,726	—	4,726
Other	1,456	206	—	1,662
Total	$ 32,218	$ 20,432	$ (6,957)	$ 45,693
Pharmacy Services distribution channel:				
Mail choice [(1)]	$ 11,208			
Retail network [(2)]	19,554			
Other	1,456			
Total	$ 32,218			

(1) Pharmacy Services mail choice is defined as claims filled at a Pharmacy Services mail facility, which includes specialty mail claims inclusive of Specialty Connect ® claims picked up at retail, as well as prescriptions filled at our retail pharmacies under the Maintenance Choice program.
(2) Pharmacy Services retail network net revenues do not include Maintenance Choice ® activity, which is included within the mail choice category. Retail network is defined as claims filled at retail and specialty retail pharmacies, including our retail pharmacies and long-term care pharmacies, but excluding Maintenance Choice activity.

Contract Balances

Contract liabilities primarily represent the Company's obligation to transfer additional goods or services to a customer for which the Company has received consideration, for example ExtraBucks ® Rewards and unredeemed CVS Health gift cards. The consideration received remains a contract liability until goods or services have been provided to the retail customer. In addition, the Company recognizes breakage on CVS Health gift cards based on historical redemption patterns.

The following table provides information about receivables and contract liabilities from contracts with customers:

In millions	**March 31, 2018**	**December 31, 2017**
Receivables (included in accounts receivable, net)	$ 6,875	$ 7,873
Contract liabilities (included in accrued expenses)	71	53

During the three months ended March 31, 2018, the contract liabilities balance includes increases related to customers' earnings in ExtraBucks Rewards or issuances of CVS Health gift cards and decreases for revenues recognized during the period as a result of the redemption of ExtraBucks Rewards or CVS Health gift cards and breakage of CVS Health gift cards. Below is a summary of the changes:

In millions	
Balance, December 31, 2017	$ 53
Adoption of ASU 2014-09	17
Loyalty program earnings and gift card issuances	79
Redemption and breakage	(78)
Balance, March 31, 2018	$ 71

Impact of New Revenue Recognition Standard on Financial Statement Line Items

The Company adopted ASU 2014-09 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts was recorded as an adjustment to retained earnings as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to accounts on the condensed consolidated balance sheet as of January 1, 2018:

		Impact of Change in Accounting Policy	
In millions	**As Reported December 31, 2017**	**Adjustments**	**Adjusted January 1, 2018**
Condensed Consolidated Balance Sheet:			
Accrued expenses	$ 6,609	$ 17	$ 6,626
Deferred income taxes	2,996	(4)	2,992
Total liabilities	57,436	13	57,449
Retained earnings	43,556	(13)	43,543
Total CVS Health shareholders' equity	37,691	(13)	37,678
Total shareholders' equity	37,695	(13)	37,682

The following table compares the reported condensed consolidated balance sheet, income statement, and statement of cash flows, as of and for the three months ended March 31, 2018, to the pro forma amounts had the previous revenue accounting guidance remained in effect:

		Impact of Change in Accounting Policy	
In millions	**As Reported As of/For the Three Months Ended March 31, 2018**	**Adjustments**	**Balances Without Adoption of Topic 606**
Condensed Consolidated Statement of Income:			
Net revenues	$ 45,693	$ 7	$ 45,700
Cost of revenues	38,834	4	38,838
Gross profit	6,859	3	6,862
Operating profit	1,946	3	1,949
Income before income tax provision	1,470	3	1,473
Income tax provision	472	1	473
Income from continuing operations	998	2	1,000
Net income	998	2	1,000
Net income attributable to CVS Health	998	2	1,000
Condensed Consolidated Balance Sheet:			
Accrued expenses	7,724	(20)	7,704
Deferred income taxes	3,058	5	3,063
Total liabilities	96,462	(15)	96,447
Retained earnings	44,040	15	44,055
Total CVS Health shareholders' equity	38,673	15	38,688
Total shareholders' equity	38,677	15	38,692
Total liabilities and shareholders' equity	135,139	—	135,139
Condensed Consolidated Statement of Cash Flow:			
Reconciliation of net income to net cash provided by operating activities:			
Net income	998	2	1,000
Deferred income taxes and other noncash items	62	1	63
Accrued expenses	1,231	(3)	1,228

Other Accounting Pronouncements Recently Adopted

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* . This ASU requires equity investments, except those under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. This simplifies the impairment assessment of equity investments previously held at cost. Entities are required to apply the guidance retrospectively, with the exception of the amendments related to equity investments without readily determinable fair values, which must be applied on a prospective basis. Effective January 1, 2018, the Company adopted this new accounting guidance. The adoption of this new guidance did not have a material impact on the Company's financial position or results of operations.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* . ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. Effective January 1, 2018, the Company adopted this new accounting guidance. The adoption of this new guidance did not have a material impact on the Company's financial position or results of operations.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* , which amends Accounting Standard Codification ("ASC") Topic 230. This ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities are no longer required to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances. The guidance is required to be applied retrospectively. Effective January 1, 2018, the Company adopted this new accounting guidance. The following represents a reconciliation of cash and cash equivalents in the condensed consolidated balance sheet to total cash, cash equivalents and restricted cash in the condensed consolidated statement of cash flows:

In millions	**March 31, 2018**	**December 31, 2017**
Cash and cash equivalents	$ 42,023	$ 1,696
Restricted cash (included in other current assets)	14	14
Restricted cash (included in other assets)	227	190
Total cash, cash equivalents and restricted cash in the statement of cash flows	$ 42,264	$ 1,900

Restricted cash included in other current assets in the condensed consolidated balance sheets represents amounts held in escrow accounts in connection with certain recent acquisitions. Restricted cash included in other assets in the condensed consolidated balance sheets represents amounts held in a trust in the Company's insurance captive to satisfy collateral requirements associated with the assignment of certain insurance policies. All restricted cash is invested in time deposits, money markets, and commercial paper, which are classified within Level 1 of the fair value hierarchy.

Restricted cash activity was previously reported in "acquisitions (net of cash acquired) and other investments" within investing cash flows on the Company's condensed consolidated statement of cash flows. The following is a reconciliation of the effect on the relevant line items on the statement of cash flows for the three months ended March 31, 2017 as a result of adopting this new accounting guidance:

In millions	As Previously Reported	Adjustments	As Revised
Three Months Ended March 31, 2017			
Acquisitions (net of cash acquired) and other investments	$ (110)	$ 17	$ (93)
Net cash used in investing activities	(554)	17	(537)
Net decrease in cash, cash equivalents and restricted cash [(1)]	(1,154)	17	(1,137)
Cash, cash equivalents, and restricted cash at the beginning of the period [(1)]	3,371	149	3,520
Cash, cash equivalents, and restricted cash at the end of the period [(1)]	2,217	166	2,383

(1) Prior to the adoption of ASU 2016-18, these financial statement captions excluded restricted cash. The financial statement captions have been renamed to reflect the inclusion of restricted cash subsequent to the adoption of ASU 2016-18 on January 1, 2018.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). ASU 2018-02 permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act ("TCJA") to retained earnings. The guidance states that because the adjustment of deferred income taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate was required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income ("stranded tax effects") are not reflected at the appropriate tax rate. During the first quarter of 2018, the Company elected to early adopt this new standard and decreased accumulated other comprehensive income and increased retained earnings in the period of adoption by $7 million due to the change in the U.S. federal corporate income tax rate in December 2017. See "Note 6 – Accumulated Other Comprehensive Income" to the condensed consolidated financial statements for the impact of the adoption of this standard on accumulated other comprehensive income for the three months ended March 31, 2018.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Lessees will be required to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance leases. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company believes that the new standard will have a material impact on its consolidated balance sheet. The Company is currently evaluating the effect that implementation of this standard will have on the Company's consolidated results of operations, cash flows, financial position and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326). The new standard requires the use of a forward-looking expected loss impairment model for trade and other receivables, held-to-maturity debt securities, loans and other instruments. The new standard also requires impairments and recoveries for available-for-sale debt securities to be recorded through an allowance account and revises certain disclosure requirements. The Company is currently evaluating the effect that implementation of this standard will have on the Company's consolidated results of operations, cash flows, financial position and related disclosures.

Note 2 – Proposed Aetna Acquisition

On December 3, 2017, the Company entered into a definitive merger agreement to acquire all of the outstanding shares of Aetna Inc. ("Aetna") for a combination of cash and stock. Under the terms of the merger agreement, Aetna shareholders will receive $145.00 per share in cash and 0.8378 CVS Health shares for each Aetna share. The transaction values Aetna at approximately $207 per share or approximately $69 billion based on the Company's 5-day volume weighted average price ending December 1, 2017 of $74.21 per share. Including the assumption of Aetna's debt, the total value of the transaction is approximately $77 billion. The final purchase price will be determined based on the Company's stock price on the date of closing of the transaction.

The proposed acquisition remains subject to customary closing conditions, including the expiration of the waiting period under the federal Hart-Scott-Rodino Antitrust Improvements Act of 1976 and approvals of state departments of insurance and U.S. and international regulators.

If the transaction is not completed, the Company could be liable to Aetna for a termination fee of $2.1 billion in connection with the merger agreement, depending on the reasons leading to such termination.

On February 1, 2018, CVS Health and Aetna each received a request for additional information (also known as a "second request") from the U.S. Department of Justice (the "DOJ") in connection with the DOJ's review of the transactions contemplated by the definitive merger agreement.

Note 3 – Goodwill

Goodwill is not amortized, but is subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate there may be impairment.

Below is a summary of the changes in the carrying value of goodwill by segment for the three months ended March 31, 2018:

In millions	**Pharmacy Services**	**Retail/LTC**	**Total**
Balance, December 31, 2017	$ 21,819	$ 16,632	$ 38,451
Acquisitions	26	36	62
Divestiture of RxCrossroads subsidiary	—	(398)	(398)
Balance, March 31, 2018	$ 21,845	$ 16,270	$ 38,115

On January 2, 2018, the Company sold RxCrossroads ("RxC") to McKesson Corporation for $725 million, at which time the remaining goodwill of this reporting unit was removed from the condensed consolidated balance sheet. This transaction is subject to a working capital adjustment.

Note 4 – Borrowings and Credit Agreements

In millions	March 31, 2018	December 31, 2017
Short-term debt		
Commercial paper	$ —	$ 1,276
Long-term debt		
3.25% senior exchange debentures due 2035	—	1
1.9% senior notes due 2018	2,250	2,250
2.25% senior notes due 2018	1,250	1,250
2.25% senior notes due 2019	850	850
2.8% senior notes due 2020	2,750	2,750
3.125% senior notes due 2020	2,000	—
Floating rate notes due 2020	1,000	—
2.125% senior notes due 2021	1,750	1,750
4.125% senior notes due 2021	550	550
3.35% senior notes due 2021	3,000	—
Floating rate notes due 2021	1,000	—
2.75% senior notes due 2022	1,250	1,250
3.5% senior notes due 2022	1,500	1,500
4.75% senior notes due 2022	399	399
4% senior notes due 2023	1,250	1,250
3.7% senior notes due 2023	6,000	—
3.375% senior notes due 2024	650	650
5% senior notes due 2024	299	299
3.875% senior notes due 2025	2,828	2,828
4.1% senior notes due 2025	5,000	—
2.875% senior notes due 2026	1,750	1,750
6.25% senior notes due 2027	372	372
4.3% senior notes due 2028	9,000	—
4.875% senior notes due 2035	652	652
4.78% senior notes due 2038	5,000	—
6.125% senior notes due 2039	447	447
5.75% senior notes due 2041	133	133
5.3% senior notes due 2043	750	750
5.125% senior notes due 2045	3,500	3,500
5.05% senior notes due 2048	8,000	—
Capital lease obligations	672	670
Other	23	43
Total debt principal	65,875	27,170
Debt premiums	27	28
Debt discounts and deferred financing costs	(808)	(196)
	65,094	27,002
Less:		
Short-term debt (commercial paper)	—	(1,276)
Current portion of long-term debt	(3,542)	(3,545)
Long-term debt	$ 61,552	$ 22,181

The Company did not have any commercial paper outstanding as of March 31, 2018. In connection with its commercial paper program, the Company maintains a $1.0 billion 364-day unsecured back-up credit facility, which expires on May 17, 2018, a $1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019, a $1.25 billion, five-year unsecured back-up credit facility, which expires on July 1, 2020, and a $1.0 billion, five-year unsecured back-up credit facility, which expires on May 18, 2022. The Company intends to renew its 364-day unsecured back-up credit facility prior to its expiration. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of

approximately 0.02%, regardless of usage. As of March 31, 2018 and December 31, 2017, there were no borrowings outstanding under the back-up credit facilities.

On March 9, 2018, the Company issued an aggregate of $40.0 billion of floating rate notes and unsecured senior notes, collectively the "Notes", for total proceeds of approximately $39.4 billion, net of discounts and underwriting fees, comprised of the following:

In millions	
3.125% senior notes due 2020	$ 2,000
Floating rate notes due 2020	1,000
3.35% senior notes due 2021	3,000
Floating rate notes due 2021	1,000
3.7% senior notes due 2023	6,000
4.1% senior notes due 2025	5,000
4.3% senior notes due 2028	9,000
4.78% senior notes due 2038	5,000
5.05% senior notes due 2048	8,000
Total debt principal	$ 40,000

The Notes pay interest semi-annually and contain redemption terms which allow or require the Company to redeem the Notes at a defined redemption price plus accrued and unpaid interest at the redemption date. The net proceeds of the Notes will be used to fund the proposed acquisition of Aetna.

If the Aetna acquisition has not been completed by September 3, 2019 (the "Outside Date") or if, prior to such date, the merger agreement is terminated or the Company otherwise publicly announces that the merger will not be consummated, then the Company will be required to redeem all outstanding 2020 Floating Rate Notes, 2021 Floating Rate Notes, 2020 Notes, 2021 Notes, 2023 Notes, 2025 Notes, 2028 Notes and 2038 Notes at a redemption price equal to 101% of the aggregate principal amount of those notes plus accrued and unpaid interest. The 2048 Notes are not subject to this mandatory redemption provision.

On December 3, 2017, in connection with the proposed acquisition of Aetna, the Company entered into a $49.0 billion unsecured bridge loan facility. The Company paid approximately $221 million in fees upon entering into the agreement. The fees were capitalized in other current assets and are being amortized as interest expense over the period the bridge facility is outstanding. The bridge loan facility was reduced to $44.0 billion on December 15, 2017 upon the Company entering into a $5.0 billion term loan agreement. As discussed above, on March 9, 2018, the Company issued unsecured senior notes with an aggregate principal of $40.0 billion. At this time, the bridge loan facility was reduced to $4.0 billion and the Company paid approximately $8 million in fees to retain the bridge loan facility through the date of the proposed Aetna acquisition. These fees were capitalized in other current assets and will be amortized as interest expense over the period the bridge facility is outstanding. The Company recorded $161 million of amortization of the bridge loan facility fees during the three months ended March 31, 2018, which was recorded in "Interest expense, net" on the condensed consolidated income statement.

Note 5 – Share Repurchase Programs

The following share repurchase programs were authorized by the Company's Board of Directors:

In billions **Authorization Date**	**Authorized**	**Remaining as of March 31, 2018**
November 2, 2016 ("2016 Repurchase Program")	$ 15.0	$ 13.9
December 15, 2014 ("2014 Repurchase Program")	10.0	—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase ("ASR") transactions, and/or other derivative transactions. The 2016 Repurchase Program can be modified or terminated by the Board of Directors at any time.

During the three months ended March 31, 2018, the Company did not repurchase any shares of common stock pursuant to the 2016 Repurchase Program.

Pursuant to the authorization under the 2014 Repurchase Program, effective August 29, 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC ("Barclays") for a total of $3.6 billion. Upon payment of the $3.6 billion purchase price on January 6, 2017, the Company received a number of shares of its common stock equal to 80% of the $3.6 billion notional amount of the ASRs or approximately 36.1 million shares, which were placed into treasury stock in January 2017. The ASRs were accounted for as an initial treasury stock transaction for $2.9 billion and a forward contract for $0.7 billion. In April 2017, the Company received 9.9 million shares of common stock, representing the remaining 20% of the $3.6 billion notional amount of the ASRs, thereby concluding the ASRs. The remaining 9.9 million shares of common stock delivered to the Company by Barclays were placed into treasury stock and the forward contract was reclassified from capital surplus to treasury stock in April 2017.

At the time they were received, the initial and final receipt of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

Note 6 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of foreign currency translation adjustments, cash flow hedges associated with the forecasted issuance of long-term debt, and changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans. The following table summarizes the activity within the components of accumulated other comprehensive income.

Changes in accumulated other comprehensive income (loss) by component is shown on the following tables:

	Three Months Ended March 31, 2018 [1]			
In millions	**Foreign Currency**	**Cash Flow Hedges**	**Pension and Other Postretirement Benefits**	**Total**
Balance, December 31, 2017	$ (129)	$ (15)	$ (21)	$ (165)
Reclassifications to retained earnings in accordance with ASU 2018-02 [3]	—	(3)	(4)	(7)
	(129)	(18)	(25)	(172)
Other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications	1	344	—	345
Amounts reclassified from accumulated other comprehensive income [2]	—	(1)	—	(1)
Other comprehensive income	1	343	—	344
Balance, March 31, 2018	$ (128)	$ 325	$ (25)	$ 172

	Three Months Ended March 31, 2017 [1]			
	Foreign Currency	**Cash Flow Hedges**	**Pension and Other Postretirement Benefits**	**Total**
Balance, December 31, 2016	$ (127)	$ (5)	$ (173)	$ (305)
Other comprehensive income:				
Other comprehensive income before reclassifications	8	—	—	8
Amounts reclassified from accumulated other comprehensive income [2]	—	1	—	1
Other comprehensive income	8	1	—	9
Balance, March 31, 2017	$ (119)	$ (4)	$ (173)	$ (296)

(1) All amounts are net of tax.
(2) The amounts reclassified from accumulated other comprehensive income for cash flow hedges are recorded within interest expense, net on the condensed consolidated statements of income. The amounts reclassified from accumulated other comprehensive income for pension and other postretirement benefits are included in other expense on the condensed consolidated statements of income.
(3) See "Note 1 – Accounting Policies" to the condensed consolidated financial statements for additional information on the adoption of ASU 2018-02 during the first quarter of 2018.

Beginning in December 2017 and during the three months ended March 31, 2018, to manage interest rate risk the Company entered into several interest rate swap and treasury lock transactions. These agreements were designated as cash flow hedges and were used to hedge the exposure to variability in future cash flows resulting from changes in interest rates related to the anticipated issuance of long-term debt in connection with the proposed acquisition of Aetna.

On March 9, 2018, the Company issued unsecured senior notes with an aggregate principal of $40.0 billion as discussed in "Note 4 – Borrowings and Credit Agreements" to the condensed consolidated financial statements. In connection with the issuance of the Notes, the Company terminated all outstanding cash flow hedges. In connection with the hedge transactions, the Company received a net amount of $446 million from the hedge counterparties upon termination, which was recorded as a gain, net of tax, of $331 million in accumulated other comprehensive income and will be reclassified as a reduction of interest expense over the life of the underlying debt. The Company expects to reclassify approximately $24 million in gains associated with these cash flow hedges into earnings within the next 12 months.

Note 7 – Interest Expense, Net

The following are the components of interest expense, net:

	Three Months Ended March 31,	
In millions	**2018**	**2017**
Interest expense	$ 523	$ 258
Interest income	(50)	(6)
Interest expense, net	$ 473	$ 252

Note 8 – Earnings Per Share

Earnings per share is computed using the two-class method. Options to purchase 13.2 million shares of common stock were outstanding, but were not included in the calculation of diluted earnings per share, for the three months ended March 31, 2018, because the exercise prices of the options were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. For the same reason, options to purchase approximately 7.8 million shares of common stock were outstanding, but were not included in the calculation of diluted earnings per share for the three months ended March 31, 2017.

The following is a reconciliation of basic and diluted earnings per share from continuing operations for the respective periods:

	Three Months Ended March 31,	
In millions, except per share amounts	**2018**	**2017**
Numerator for earnings per share calculation:		
Income from continuing operations	$ 998	$ 962
Income allocated to participating securities	(2)	(4)
Net income attributable to noncontrolling interest	—	(1)
Income from continuing operations attributable to CVS Health	$ 996	$ 957
Denominator for earnings per share calculation:		
Weighted average shares, basic	1,016	1,030
Effect of dilutive securities	3	5
Weighted average shares, diluted	1,019	1,035
Earnings per share from continuing operations:		
Basic	$ 0.98	$ 0.93
Diluted	$ 0.98	$ 0.92

Note 9 – Segment Reporting

The Company has three reportable segments: Pharmacy Services, Retail/LTC and Corporate. As discussed in "Note 3- Goodwill", during the three months ended March 31, 2018, the Company sold its RxC operations which were previously included in the Retail/LTC reportable segment.

In conjunction with the Company's implementation of a new enterprise resource planning system in the first quarter of 2018, the Company changed the manner in which certain shared functional costs are allocated to its reportable segments. Segment financial information for the three months ended March 31, 2017, has been retrospectively adjusted to reflect this change to the cost allocation methodology as shown below:

In millions	Pharmacy Services Segment	Retail/LTC Segment	Corporate Segment	Intersegment Eliminations	Consolidated Totals
Cost of revenues, as previously reported	$ 30,127	$ 13,665		$ (5,858)	$ 37,934
Adjustments	14	(5)		—	9
Cost of revenues, as adjusted	$ 30,141	$ 13,660		$ (5,858)	$ 37,943
Gross profit, as previously reported	$ 1,096	$ 5,676		$ (192)	$ 6,580
Adjustments	(14)	5		—	(9)
Gross profit, as adjusted	$ 1,082	$ 5,681		$ (192)	$ 6,571
Operating expenses, as previously reported	$ 312	$ 4,265	$ 226	$ (16)	$ 4,787
Adjustments	13	(17)	(5)	—	(9)
Operating expenses, as adjusted	$ 325	$ 4,248	$ 221	$ (16)	$ 4,778
Operating profit (loss), as previously reported	$ 784	$ 1,411	$ (226)	$ (176)	$ 1,793
Adjustments	(27)	22	5	—	—
Operating profit (loss), as adjusted	$ 757	$ 1,433	$ (221)	$ (176)	$ 1,793

The following is a reconciliation of the Company's segments to the accompanying condensed consolidated financial statements:

In millions	Pharmacy Services Segment [1]	Retail/LTC Segment	Corporate Segment	Intersegment Eliminations [2]	Consolidated Totals
Three Months Ended					
March 31, 2018:					
Net revenues	$ 32,218	$ 20,432	$ —	$ (6,957)	$ 45,693
Gross profit	1,138	5,916	—	(195)	6,859
Operating profit (loss) [3][4]	761	1,624	(264)	(175)	1,946
March 31, 2017:					
Net revenues	31,223	19,341	—	(6,050)	44,514
Gross profit	1,082	5,681	—	(192)	6,571
Operating profit (loss) [5]	757	1,433	(221)	(176)	1,793

(1) Net revenues of the Pharmacy Services Segment include approximately $3.3 billion and $3.1 billion of retail co-payments for the three months ended March 31, 2018 and 2017, respectively.

(2) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services Segment and the Retail/LTC Segment. These occur in the following ways: when members of Pharmacy Services Segment clients ("members") fill prescriptions at the Company's retail pharmacies to purchase covered products, when members enrolled in programs such as Maintenance Choice ® elect to pick up maintenance prescriptions at one of the Company's retail pharmacies instead of receiving them through the mail, or when members have prescriptions filled at the Company's long-term care pharmacies. When these occur, both the Pharmacy Services and Retail/LTC segments record the revenues, gross profit and operating profit on a standalone basis.

(3) The Retail/LTC Segment operating profit for the three months ended March 31, 2018 includes an $86 million loss on the divestiture of the RxCrossroads subsidiary (see "Note 3 – Goodwill" to the condensed consolidated financial statements) and $3 million of acquisition-related integration costs related to the acquisition of Omnicare.

(4) The Corporate Segment operating loss for the three months ended March 31, 2018 includes $40 million in acquisition-related transaction and integration costs related to the proposed Aetna acquisition.

(5) The Retail/LTC Segment operating profit for the three months ended March 31, 2017 includes a $199 million charge associated with store closures and $15 million of acquisition-related integration costs related to the acquisition of Omnicare.

Note 10 – Commitments and Contingencies

Lease Guarantees

Between 1995 and 1997, the Company sold or spun off a number of subsidiaries, including Bob's Stores, Linens 'n Things, and Marshalls. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the store's lease obligations. When the subsidiaries were disposed of and accounted for as discontinued operations, the Company's guarantees remained in place, although each initial purchaser has agreed to indemnify the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations. As of March 31, 2018, the Company guaranteed approximately 85 such store leases (excluding the lease guarantees related to Linens 'n Things, which have been recorded as a liability on the condensed consolidated balance sheet), with the maximum remaining lease term extending through 2029.

Legal Matters

The Company is a party to legal proceedings, investigations and claims in the ordinary course of its business, including the matters described below. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. None of the Company's accruals for outstanding legal matters are material individually or in the aggregate to the Company's financial position.

Except as otherwise noted, the Company cannot predict with certainty the timing or outcome of the legal matters described below, and is unable to reasonably estimate a possible loss or range of possible loss in excess of amounts already accrued for these matters.

- *Indiana State District Council of Laborers and HOD Carriers Pension and Welfare Fund v. Omnicare, Inc.,* et al. (U.S. District Court for the Eastern District of Kentucky). In February 2006, two substantially similar putative class action lawsuits were filed and subsequently consolidated. The consolidated complaint was filed against Omnicare, three of its officers and two of its directors and purported to be brought on behalf of all open-market purchasers of Omnicare common stock from August 3, 2005 through July 27, 2006, as well as all purchasers who bought shares of Omnicare common stock in Omnicare's public offering in December 2005. The complaint alleged violations of the Securities Exchange Act of 1934 and Section 11 of the Securities Act of 1933 and sought, among other things, compensatory damages and injunctive relief. After dismissals and appeals to the United States Court of Appeals for the Sixth Circuit, the United States Supreme Court remanded the case to the district court. In October 2016, Omnicare filed an answer to plaintiffs' third amended complaint, and discovery commenced. In August 2017, the plaintiffs moved for class certification, which Omnicare has opposed.

- *FTC and Multi-State Investigation.* In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies were conducting a multi-state investigation of certain of the Company's business practices similar to those being investigated at that time by the U.S. Federal Trade Commission ("FTC"). Twenty-eight states, the District of Columbia and the County of Los Angeles are known to be participating in this investigation. The prior FTC investigation, which commenced in August 2009, was officially concluded in May 2012 when the consent order entered into between the FTC and the Company became final. The Company has cooperated with the multi-state investigation.

- *United States* ex rel. *Jack Chin v. Walgreen Company,* et al. (U.S. District Court for the Central District of California). In March 2010, the Company received a subpoena from the U.S. Department of Health and Human Services, Office of the Inspector General requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to the Company's pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. In October 2016, the U.S. District Court for the Central District of California unsealed a *qui tam* complaint, filed in April 2009 against CVS Pharmacy and other retail pharmacies, alleging that the Company violated the federal False Claims Act, and the False Claims Acts of several states, by offering such programs. The complaint was served on the Company in January 2017. In December 2017, the same court unsealed a second *qui tam* complaint filed by the same relator in September 2017. The complaint is based on the same factual allegations but asserts a legal theory the Court did not permit him to add to the original case. The federal government has declined intervention in both cases. In April 2018, the Court dismissed the second lawsuit. The Company is defending the matter.

- *State of Texas* ex rel. *Myron Winkelman and Stephani Martinson,* et al. *v. CVS Health Corporation,* (Travis County Texas District Court). In February 2012, the Attorney General of the State of Texas issued Civil Investigative Demands and has issued a series of subsequent requests for documents and information in connection with its investigation concerning the CVS Health Savings Pass program and other pricing practices with respect to claims for reimbursement from the Texas Medicaid program. In January 2017, the court unsealed a first amended petition. The amended petition alleges the Company violated the Texas Medicaid Fraud Prevention Act by submitting false claims for reimbursement to Texas Medicaid by, among other things, failing to use the price available to members of the CVS Health Savings Pass program as the usual and customary price. The amended petition was unsealed following the Company's filing of *CVS Pharmacy, Inc. v. Charles Smith,* et al. (Travis County District Court), a declaratory judgment action against the State of Texas in December 2016 seeking a declaration that the prices charged to members of the CVS Health Savings Pass program do not constitute usual and customary prices under the Medicaid regulation. In March 2018, the Court denied the State of Texas's request for temporary injunctive relief.

- *Subpoena Concerning PBM Administrative Fees.* In March 2014, the Company received a subpoena from the United States Attorney's Office for the District of Rhode Island, requesting documents and information concerning bona fide service fees and rebates received from pharmaceutical manufacturers in connection with certain drugs utilized under Medicare Part D, as well as the reporting of those fees and rebates to Part D plan sponsors. The Company cooperated with the government and provided documents and information in response to the subpoena. In April 2018, the U.S. District Court for the District of Rhode Island unsealed a 2014 *qui tam* complaint, *U.S.* ex rel. *Borzilleri v. Bayer AB* et al., naming pharmaceutical manufacturers, insurers and PBMs, including the Company, and asserting claims under the federal False Claims Act, and the false claims acts of several states, concerning the payment and/or receipt of bona fide service fees. The government has declined intervention in this action.

- *Corcoran* et al. *v. CVS Health Corporation* (U.S. District Court for the Northern District of California) and *Podgorny* et al. *v. CVS Health Corporation* (U.S. District Court for the Northern District of Illinois). These putative class actions were filed against the Company in July and September 2015. The cases were consolidated in United States District Court in the Northern District of California. Plaintiffs seek damages and injunctive relief on behalf of a class of consumers who purchased certain prescription drugs under the consumer protection statutes and common laws of certain states. Several third-party payors filed similar putative class actions on behalf of payors captioned *Sheet Metal Workers Local No. 20 Welfare and Benefit Fund v. CVS Health Corp.* and *Plumbers Welfare Fund, Local 130 v. CVS Health Corporation* (both pending in the U.S. District Court for the District of Rhode Island) in February and August 2016. In all of these cases the plaintiffs allege the Company overcharged for certain prescription drugs by not submitting the price available to members of the CVS Health Savings Pass program as the pharmacy's usual and customary price. In the consumer case (Corcoran), the Court granted summary judgment to CVS on plaintiffs' claims in their entirety and certified certain subclasses in September 2017. The plaintiffs have filed a notice of appeal to the Ninth Circuit. The Company continues to defend these actions.

- *Omnicare DEA Subpoena.* In September 2015, Omnicare was served with an administrative subpoena by the U.S. Drug Enforcement Administration ("DEA"). The subpoena seeks documents related to controlled substance policies, procedures, and practices at eight pharmacy locations from May 2012 to the present. In September 2017, the DEA expanded the investigation to include an additional pharmacy. The Company has been cooperating and providing documents and witnesses in response to this administrative subpoena.

- *Omnicare Cycle Fill Civil Investigative Demand.* In October 2015, Omnicare received a Civil Investigative Demand from the United States Attorney's Office for the Southern District of New York requesting information and documents concerning Omnicare's cycle fill process for assisted living facilities. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand. In July 2017, Omnicare also received a subpoena from the California Department of Insurance requesting documents on similar subject matter.

- *United States* ex rel. *Behnke v. CVS Caremark Corporation* et al. (U.S. District Court for the Eastern District of Pennsylvania). In April 2018, the Court unsealed a complaint that had been filed in February 2014 by a *qui tam* relator alleging that the Company violated the federal False Claims Act by causing to be reported prices that were higher than those actually paid to certain pharmacies for medications dispensed to beneficiaries under the Medicare Part D program. This action relates to an October 2015 Civil Investigative Demand issued by the U.S. Department of Justice. The Company cooperated with the government and provided documents and information in response to that Civil Investigative Demand. The U.S. Department of Justice has filed a notice of declination with respect to the *qui tam* action.

- *United States* ex rel. *Sally Schimelpfenig and John Segura v. Dr. Reddy's Laboratories Limited and Dr. Reddy's Laboratories, Inc.* (U.S. District Court for the Eastern District of Pennsylvania). In November 2015, the court unsealed a second amended *qui tam* complaint filed in September 2015. The DOJ declined to intervene in this action. The relators allege that the Company, Walgreens, Wal-Mart, and Dr. Reddy's Laboratories violated the federal and various state False Claims Acts by dispensing prescriptions in unit dose packaging supplied by Dr. Reddy's that was not compliant with the Consumer Product Safety Improvement Act and the Poison Preventive Packaging Act and thereby allegedly rendering the drugs misbranded under the Food, Drug and Cosmetic Act. In March 2017, the Court granted the Company's motion to dismiss with leave to file an amended complaint. In March 2018, the Court granted the Company's motion to dismiss an amended complaint with prejudice.

- *Barchock* et al. *v. CVS Health Corporation,* et al. (U.S. District Court for the District of Rhode Island). In February 2016, a class action lawsuit was filed against the Company, the Benefit Plans Committee of the Company, and Galliard Capital Management, Inc., by Mary Barchock, Thomas Wasecko, and Stacy Weller, purportedly on behalf of the 401(k) Plan and the Employee Stock Ownership Plan of the Company (the "Plan"), and participants in the Plan. The complaint alleged that the defendants breached fiduciary duties owed to the plaintiffs and the Plan by investing too much of the Plan's Stable Value Fund in short-term money market funds and cash management accounts. The court granted the Company's motion to dismiss the plaintiffs' amended complaint. In May 2017, plaintiffs appealed that ruling in the United States Court of Appeals for the First Circuit. In March 2018, the Court of Appeals affirmed the dismissal.

- *State of California* ex rel. *Matthew Omlansky v. CVS Caremark Corporation* (Superior Court of the State of California, County of Sacramento). In April 2016, the court unsealed a first amended *qui tam* complaint filed in July 2013. The government has declined intervention in this case. The relator alleges that the Company submitted false claims for payment to California Medicaid in connection with reimbursement for drugs available through the CVS Health Savings Pass program as well as certain other generic drugs. The case has been stayed pending the relator's appeal of the judgment against him in a similar case against another retailer.

- *Retail DEA Matters.* The Company has been also undergoing several audits by the DEA Administrator and is in discussions with the DEA and the U.S. Attorney's Offices in several locations concerning allegations that the Company has violated certain requirements of the Controlled Substance Act.

- *National Opioid Litigation* . In December 2017, the United States Judicial Panel on Multidistrict Litigation consolidated numerous cases filed against various defendants by plaintiffs such as counties, cities, hospitals, Indian tribes, and third-party payors, alleging claims generally concerning the impacts of widespread opioid abuse. The consolidated multidistrict litigation captioned *In re National Prescription Opiate Litigation* (MDL

No. 2804) is pending in the U.S. District Court for the Northern District of Ohio. This multidistrict litigation presumptively includes approximately 40 relevant federal court cases that name the Company. Approximately 20 similar cases that name the Company in some capacity have been filed in state courts. Such cases include a case that was re-filed in Oklahoma Circuit Court by the Cherokee Nation after it was dismissed voluntarily by the Cherokee Nation in the District Court of Cherokee Nation. The Company is defending all such federal and state matters. Additionally, the Company has received from the Attorney Generals of several states subpoenas, civil investigative demands, and/or other requests concerning opioids.

- *State of Mississippi v. CVS Health Corporation,* et al. (Chancery Court of DeSoto County, Mississippi, Third Judicial District). In July 2016, the Company was served with a complaint filed on behalf of the State of Mississippi alleging that CVS retail pharmacies in Mississippi submitted false claims for reimbursement to Mississippi Medicaid by not submitting the price available to members of the CVS Health Savings Pass program as the pharmacy's usual and customary price. The Company has responded to the complaint, filed a counterclaim, and moved to transfer the case to circuit court. The motion to transfer was granted, which the State has appealed, and the motion to dismiss remains pending.

- *Part B Insulin Products Civil Investigative Demand.* In December 2016, the Company received a Civil Investigative Demand from the U.S. Attorney's Office for the Northern District of New York, requesting documents and information in connection with a False Claims Act investigation concerning whether the Company's retail pharmacies improperly submitted certain insulin claims to Medicare Part D rather than Part B. The Company has cooperated with the government and provided documents and information in response to the Civil Investigative Demand.

- *Cold Chain Logistics Civil Investigative Demand* . In September 2016, the Company received from the DOJ a Civil Investigative Demand in connection with an investigation as to whether the Company's handling of certain temperature-sensitive pharmaceuticals violates the federal Food, Drug and Cosmetic Act and the False Claims Act. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.

- *Amburgey,* et al. *v. CaremarkPCS Health, L.L.C.* (U.S. District Court for the Central District of California). In March 2017, the Company was served with a complaint challenging the policies and procedures used by CVS Specialty pharmacies to ship temperature-sensitive medications. The case is similar to a matter already pending against the Company in the Superior Court of California (Los Angeles County), *Bertram v. Immunex Corp.* , et al., which was filed in October 2014. In November 2017, the plaintiffs voluntarily dismissed the *Amburgey* case without prejudice. In April 2018, the Court granted summary judgment in the Company's favor in the *Bertram* matter and also denied Bertram's motion for class certification.

- *Insulin Products Investigation.* In April 2017, the Company received a Civil Investigative Demand from the Attorney General of Washington, seeking documents and information regarding pricing and rebates for insulin products in connection with a pending investigation into unfair and deceptive acts or practice regarding insulin pricing. We have been notified by the Office of the Attorney General of Washington that information provided in response to the Civil Investigative Demand will be shared with the Attorneys General of California, Florida, Minnesota, New Mexico, the District of Columbia, and Mississippi. In July 2017, the Company received a Civil Investigative Demand from the Attorney General of Minnesota, seeking documents and information regarding pricing and rebates for insulin and epinephrine products in connection with a pending investigation into unfair and deceptive acts or practices regarding insulin and epinephrine pricing.

- *Bewley,* et al. v. *CVS Health Corporation* , et al. and *Prescott* , et al. v. *CVS Health Corporation* , et al. (both pending in the U.S. District Court for the Western District of Washington). These putative class actions were filed in May 2017 against the Company and other pharmacy benefit managers and manufacturers of glucagon kits (*Bewley*) and diabetes test strips (*Prescott*). Both cases allege that, by contracting for rebates with the manufacturers of these diabetes products, the Company and other PBMs caused list prices for these products to increase, thereby harming certain consumers. The primary claims are made under federal antitrust laws, RICO, state unfair competition and consumer protection laws, and ERISA. These cases have both been transferred to the United States District Court for the District of New Jersey on defendants' motions. The Company is defending these lawsuits.

- *Klein* , et al. v. *Prime Therapeutics* , et al. (U.S. District Court for the District of Minnesota). In June 2017, a putative class action complaint was filed against the Company and other pharmacy benefit managers on behalf of ERISA plan members who purchased and paid for EpiPen or EpiPen Jr. Plaintiffs allege that the pharmacy benefit managers are ERISA fiduciaries to plan members and have violated ERISA by allegedly causing higher inflated prices for EpiPen through the process of negotiating increased rebates from EpiPen manufacturer, Mylan. This case was recently consolidated with a similar matter and is now proceeding as *In re EpiPen ERISA Litigation* . The Company is defending the lawsuit.

- *Medicare Part D Civil Investigative Demand* . In May 2017, the United States Attorney's Office for the Southern District of New York issued a Civil Investigative Demand to the Company concerning possible false claims submitted to Medicare in connection with reimbursements for prescription drugs under the Medicare Part D program. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.

- *Shareholder Matters.* In August and September 2017, four complaints were filed by putative derivative plaintiffs against certain officers and directors of the Company. Three of those actions, *Sherman v. Merlo,* et al., *Feghali v. Merlo,* et al., and *Banchalter v. Merlo,* et al., were filed in the U.S. District Court for the District of Rhode Island. A fourth, *Boron v. Bracken,* et al., was filed in Rhode Island Superior Court. These matters assert a variety of causes of action, including breach of fiduciary duty, waste of corporate assets, unjust enrichment, civil conspiracy and violation of Section 14(a) of the Exchange Act, and are premised on the allegation that the defendants approved business plans that exposed the Company to various litigations and investigations. The three federal matters have been stayed pending resolution of certain of the underlying matters, and the Company has filed a motion to stay the state court action.

- *MSP Recovery Claims Series, LLC* , et al. v. *CVS Health Corporation* , et al. (U.S. District Court for the Western District of Texas). In September 2017, a putative class action complaint was filed against the Company, Express Scripts, Inc., and the manufacturers of insulin on behalf of assignees of claims of Medicare Advantage Organizations. Plaintiffs assert that the PBMs and manufacturers have engaged in a conspiracy whereby the PBMs sell access to their formularies by demanding the highest rebates, which in turn causes increased list prices for insulin. The plaintiffs initially asserted claims against the Company on behalf of two putative classes: (1) all Medicare C payors and (2) all Medicare D payors. The complaint asserts claims under RICO, and for common law fraud and unjust enrichment. This case was transferred to the U.S. District Court for the District of New Jersey, and the plaintiff filed an amended complaint against only the drug manufacturers, and not against the PBMs.

The Company is also a party to other legal proceedings, government investigations, inquiries and audits, and has received and is cooperating with subpoenas or similar process from various governmental agencies requesting information, all arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that its business, financial condition and results of operations will not be materially adversely affected, or that the Company will not be required to materially change its business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations as they may relate to the Company's business, the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industries or to the health care industry generally; (iii) pending or future federal or state governmental investigations of the Company's business or the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industry or of the health care industry generally; (iv) pending or future government enforcement actions against the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in pending or future legal proceedings against the Company or affecting the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industry or the health care industry generally.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of CVS Health Corporation

Results of Review of Interim Financial Statements

We have reviewed the accompanying condensed consolidated balance sheet of CVS Health Corporation (the Company) as of March 31, 2018, the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month periods ended March 31, 2018 and 2017, and the related notes (collectively referred to as the "condensed consolidated interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended, and the related notes (not presented herein); and in our report dated February 14, 2018, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company's management. 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 law and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Ernst & Young LLP

Boston, Massachusetts

May 2, 2018

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

Overview of Our Business

CVS Health Corporation, together with its subsidiaries (collectively, "CVS Health," the "Company," "we," "our" or "us"), is a pharmacy innovation company helping people on their path to better health. At the forefront of a changing health care landscape, the Company has an unmatched suite of capabilities and the expertise needed to drive innovations that will help shape the future of health care.

We are currently the only integrated pharmacy health care company with the ability to impact consumers, payors, and providers with innovative, channel-agnostic solutions. We have a deep understanding of their diverse needs through our unique integrated model, and we are bringing them innovative solutions that help increase access to quality care, deliver better health outcomes and lower overall health care costs.

Through more than 9,800 retail locations, more than 1,100 retail health care clinics, a leading pharmacy benefits manager with approximately 94 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services and a leading stand-alone Medicare Part D prescription drug plan, we enable people, businesses, and communities to manage health in more affordable, effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS Pharmacy ® locations, to introducing unique programs to help control costs for our clients at CVS Caremark ®, to innovating how care is delivered to our patients with complex conditions through CVS Specialty ®, to improving pharmacy care for the senior community through Omnicare ®, or by expanding access to high-quality, low-cost care at CVS MinuteClinic ®.

We have three reportable segments: Pharmacy Services, Retail/LTC and Corporate.

Pharmacy Services Segment

Our Pharmacy Services business generates revenue from a full range of pharmacy benefit management ("PBM") solutions, including plan design offerings and administration, formulary management, Medicare Part D services, mail order pharmacy, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D plans, Managed Medicaid plans, plans offered on the public and private exchanges, other sponsors of health benefit plans and individuals throughout the United States. A portion of covered lives, primarily within the Managed Medicaid, health plan and employer markets have access to our services through public and private exchanges.

As a pharmacy benefits manager, we manage the dispensing of prescription drugs through our mail order pharmacies, specialty pharmacies, national network of long-term care pharmacies and more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS Pharmacy ® pharmacies) and 27,000 independent pharmacies, to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand-to-generic substitutions.

Our specialty pharmacies support individuals who require complex and expensive drug therapies. Our specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark ®, CarePlus CVS Pharmacy ®, Navarro ® Health Services and Advanced Care Scripts ("ACS Pharmacy") names. The Pharmacy Services Segment also provides health management programs, which include integrated disease management for 18 conditions, through our Accordant ® rare disease management offering. In addition, through our SilverScript Insurance Company subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the federal government's Medicare Part D program. The Pharmacy Services Segment operates under the CVS Caremark ® Pharmacy Services, Caremark ®, CVS Caremark ®, CVS Specialty ®, AccordantCare ™, SilverScript ®, Wellpartner ®, Coram ®, NovoLogix ®, Navarro ® Health Services and ACS Pharmacy names. As of March 31, 2018, the Pharmacy Services Segment operated 25 retail specialty pharmacy stores, 18 specialty mail order pharmacies, four mail order dispensing pharmacies, and 86 branches for infusion and enteral services, including approximately 74 ambulatory infusion suites and three centers of excellence, located in 43 states, Puerto Rico and the District of Columbia.

Retail/LTC Segment

Our Retail/LTC Segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, seasonal merchandise, greeting cards and photo finishing, through our CVS Pharmacy ®, CVS ®, Longs Drugs ®, Navarro Discount Pharmacy ® and Drogaria Onofre ™ retail locations and online through CVS.com ®, Navarro.com ™ and Onofre.com.br ™. The Retail/LTC Segment also includes the long-term care ("LTC") operations of Omnicare, which distributes prescription drugs and provides related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. The Retail/LTC operations also included commercialization services which were provided under the name RxCrossroads ® ("RxC"), until the sale of RxC was completed on January 2, 2018. See "Note 3 - Goodwill" to the condensed consolidated financial statements for more information. Our Retail/LTC Segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 32,000 pharmacists. Our Retail/LTC Segment also provides health care services through our MinuteClinic ® health care clinics. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations. As of March 31, 2018, our Retail/LTC Segment included 9,847 retail stores (of which 8,099 were our stores that operated a pharmacy and 1,699 were our pharmacies located within Target stores) located in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy ®, CVS ®, CVS Pharmacy y más ®, Longs Drugs ®, Navarro Discount Pharmacy ® and Drogaria Onofre ™ names, 37 onsite pharmacies primarily operating under the CarePlus CVS Pharmacy ™, CarePlus ® and CVS Pharmacy ® names, 1,111 retail health care clinics operating under the MinuteClinic ® name (of which 1,107 were located in our retail pharmacy stores or Target stores), and our online retail websites, CVS.com ®, Navarro.com ™ and Onofre.com.br ™. LTC operations are comprised of 163 spoke pharmacies that primarily handle new prescription orders, of which 30 are also hub pharmacies that use proprietary automation to support spoke pharmacies with refill prescriptions. LTC operates primarily under the Omnicare ® and NeighborCare ® names.

Corporate Segment

The Corporate Segment provides management and administrative services to support the Company. The Corporate Segment consists of certain aspects of our executive management, corporate relations, legal, compliance, human resources, information technology and finance departments.

Results of Operations

The following discussion explains the material changes in our results of operations for the three months ended March 31, 2018 and 2017, and the significant developments affecting our financial condition since December 31, 2017. We strongly recommend that you read our audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included as Exhibit 13 to our 2017 Form 10-K along with this report.

Summary of the Condensed Consolidated Financial Results:

In millions, except per share amounts	Three Months Ended March 31, 2018	2017 [1]
Net revenues	$ 45,693	$ 44,514
Cost of revenues	38,834	37,943
Gross profit	6,859	6,571
Operating expenses	4,913	4,778
Operating profit	1,946	1,793
Interest expense, net	473	252
Other expense	3	7
Income before income tax provision	1,470	1,534
Income tax provision	472	572
Income from continuing operations	998	962
Loss from discontinued operations, net of tax	—	(9)
Net income	998	953
Net income attributable to noncontrolling interest	—	(1)
Net income attributable to CVS Health	$ 998	$ 952

(1) Financial information for the three months ended March 31, 2017 has been retrospectively adjusted to reflect a change to the Company's cost allocation methodology effective January 1, 2018. See "Note 9 – Segment Reporting" to the condensed consolidated financial statements for further discussion.

Net Revenues

Net revenues increased approximately $1.2 billion, or 2.6% in the three months ended March 31, 2018, as compared to the prior year. The increase is due to increases in the both Pharmacy Services Segment and the Retail/LTC Segment. The increase in the Pharmacy Services Segment was driven by growth in pharmacy network and specialty claim volume attributable to net new business as well as brand inflation, partially offset by continued price compression and increased generic dispensing. The increase in the Retail/LTC Segment was primarily due to increased prescription volume and brand inflation, partially offset by continued reimbursement pressure and the impact of recent generic introductions. Generic prescription drugs typically have a lower selling price than brand name prescription drugs.

Please see the section entitled "Segment Analysis" below for additional information regarding net revenues.

Gross Profit

Gross profit dollars increased $288 million, or 4.4% in the three months ended March 31, 2018, as compared to the prior year. Gross profit dollars for the three months ended March 31, 2018, were positively impacted by increased prescription volume, improved purchasing economics and the impact of recent generic introductions, partially offset by continued reimbursement pressure in the Retail/LTC Segment. Gross profit as a percentage of net revenues increased approximately 25 basis points in the three months ended March 31, 2018 to 15.0%, as compared to the prior year.

Please see the section entitled "Segment Analysis" below for additional information regarding gross profit.

Operating Expenses

Operating expenses increased $135 million, or 2.8%, in the three months ended March 31, 2018 as compared to the prior year. Operating expenses as a percentage of net revenues remained flat in the three months ended March 31, 2018 as compared to the prior year. The increase in operating expenses in the three months ended March 31, 2018 was primarily due to the following:

- An $86 million loss on the divestiture of the RxCrossroads subsidiary included in our Retail/LTC Segment.
- An increase in acquisition-related transaction and integration costs of $28 million versus the same period in the prior year.

- An increase in operating expenses in the Retail/LTC Segment due to the increased prescription volume described previously, incremental costs associated with operating more stores, investments in the business to drive sales growth and the impact of weather related events.

These items were partially offset by:

- A decrease in operating expenses due to our enterprise streamlining initiatives including a $199 million decrease associated with store closures as compared to the same period in the prior year.

Please see the section entitled "Segment Analysis" below for additional information regarding operating expenses.

Interest Expense, net

Interest expense, net, increased $221 million in the three months ended March 31, 2018, as compared to the prior year. The increase in the three months ended March 31, 2018 was primarily due to the amortization of bridge facility fees of $161 million for the unsecured bridge facility entered into in December 2017, as well as interest expense of $112 million on the $40 billion of senior notes issued in March 2018 and the $5 billion term loan facility. These increases were partially offset by interest income on the investment of the proceeds of the $40 billion debt issuance. See "Note 4 - Borrowings and Credit Agreements" to the condensed consolidated financial statements for additional information.

For additional information on our financing activities, please see the "Liquidity and Capital Resources" section below.

Income Tax Provision

Our effective income tax rate was 32.1% for the three months ended March 31, 2018, as compared to 37.3% for the three months ended March 31, 2017. The effective income tax rate in 2018 was lower than in 2017 primarily due to the enactment of the Tax Cuts and Jobs Act (the "TCJA"), which lowered the federal corporate income tax rate from 35% to 21%. This was partially offset by the impact of the disposition of the Company's RxCrossroads subsidiary.

Loss from Discontinued Operations

The loss from discontinued operations of $9 million for the three months ended March 31, 2017, was comprised of a $15 million charge (net of tax of $6 million) associated with lease guarantees the Company provided on store lease obligations of Bob's Stores, a former subsidiary of the Company that filed for bankruptcy subsequent to its disposition. See "Note 10 - Commitments and Contingencies" to the Company's condensed consolidated financial statements.

Segment Analysis

We evaluate the performance of our Pharmacy Services and Retail/LTC segments based on net revenue, gross profit and operating profit before the effect of nonrecurring charges and gains and certain intersegment activities. We evaluate the performance of our Corporate Segment based on operating expenses before the effect of nonrecurring charges and gains and certain intersegment activities.

In conjunction with the Company's implementation of a new enterprise resource planning system in the first quarter of 2018, the Company changed the manner in which certain shared functional costs are allocated to its reportable segments. Segment financial information for the three months ended March 31, 2017, has been retrospectively adjusted to reflect this change to the cost allocation methodology as shown in "Note 9 – Segment Reporting" to the condensed consolidated financial statements.

The following is a reconciliation of our segments to the condensed consolidated financial statements:

In millions	Pharmacy Services Segment [1]	Retail/LTC Segment	Corporate Segment	Intersegment Eliminations [2]	Consolidated Totals
Three Months Ended					
March 31, 2018:					
Net revenues	$ 32,218	$ 20,432	$ —	$ (6,957)	$ 45,693
Gross profit	1,138	5,916	—	(195)	6,859
Operating profit (loss) [3][4]	761	1,624	(264)	(175)	1,946
March 31, 2017:					
Net revenues	31,223	19,341	—	(6,050)	44,514
Gross profit	1,082	5,681	—	(192)	6,571
Operating profit (loss) [5]	757	1,433	(221)	(176)	1,793

(1) Net revenues of the Pharmacy Services Segment include approximately $3.3 billion and $3.1 billion of retail co-payments for the three months ended March 31, 2018 and 2017, respectively.

(2) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services Segment and the Retail/LTC Segment. These occur in the following ways: when members of Pharmacy Services Segment clients ("members") fill prescriptions at the Company's retail pharmacies to purchase covered products, when members enrolled in programs such as Maintenance Choice ® elect to pick up maintenance prescriptions at one of the Company's retail pharmacies instead of receiving them through the mail, or when members have prescriptions filled at the Company's long-term care pharmacies. When these occur, both the Pharmacy Services and Retail/LTC segments record the revenues, gross profit and operating profit on a standalone basis.

(3) The Retail/LTC Segment operating profit for the three months ended March 31, 2018 includes an $86 million pre-tax loss on the divestiture of the RxCrossroads subsidiary (see "Note 3 – Goodwill" to the condensed consolidated financial statements) and $3 million of acquisition-related integration costs related to the acquisition of Omnicare.

(4) The Corporate Segment operating loss for the three months ended March 31, 2018 includes $40 million in acquisition-related transaction and integration costs related to the proposed Aetna acquisition.

(5) The Retail/LTC Segment operating profit for the three months ended March 31, 2017 includes a $199 million charge associated with store closures and $15 million of acquisition-related integration costs related to the acquisition of Omnicare.

Pharmacy Services Segment

The following table summarizes our Pharmacy Services Segment's performance for the respective periods:

	Three Months Ended March 31,	
In millions	**2018**	**2017**
Net revenues	$ 32,218	$ 31,223
Gross profit	1,138	1,082
Gross profit % of net revenues	3.5 %	3.5 %
Operating expenses	377	325
Operating expenses % of net revenues	1.2 %	1.0 %
Operating profit	761	757
Operating profit % of net revenues	2.4 %	2.4 %
Net revenues:		
Mail choice [1]	$ 11,208	$ 10,848
Pharmacy network [2][4]	19,554	18,987
Other [4]	1,456	1,388
Pharmacy claims processed (90 Day = 3 prescriptions) [3]:		
Total	468.8	440.5
Mail choice [1]	69.3	63.7
Pharmacy network [2]	399.5	376.8
Generic dispensing rate [3]:		
Total	87.6 %	87.0 %
Mail choice [1]	83.9 %	82.8 %
Pharmacy network [2]	88.3 %	87.7 %
Mail choice penetration rate [3]	14.8 %	14.5 %

(1) Mail choice is defined as claims filled at a Pharmacy Services mail facility, which includes specialty mail claims inclusive of Specialty Connect ® claims picked up at retail, as well as prescriptions filled at our retail pharmacies under the Maintenance Choice ® program.
(2) Pharmacy network net revenues, claims processed and generic dispensing rates do not include Maintenance Choice activity, which is included within the mail choice category. Pharmacy network is defined as claims filled at retail and specialty retail pharmacies, including our retail pharmacies and long-term care pharmacies, but excluding Maintenance Choice activity.
(3) Includes the adjustment to convert 90-day prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.
(4) Amounts revised for the three months ended March 31, 2017 to reflect the reclassification of Med D premium revenues from pharmacy network revenues to other revenues.

Net Revenues

Net revenues in our Pharmacy Services Segment increased $995 million, or 3.2%, to $32.2 billion in the three months ended March 31, 2018, as compared to the prior year. The increase is primarily due to growth in pharmacy network and specialty claim volume attributable to net new business as well as brand inflation, partially offset by increased price compression and generic dispensing. As you review our Pharmacy Services Segment's performance in this area, we believe you should consider the following important information about the business for the three months ended March 31, 2018:

- In the three months ended March 31, 2018, our mail choice claims processed, on a 30-day equivalent basis, increased 8.9% to 69.3 million claims compared to 63.7 million claims in the prior year. The increase in mail choice claims was primarily driven by the continued adoption of our Maintenance Choice offerings.

- Our average revenue per mail choice claim, on a 30-day equivalent basis, decreased 5.1% in the three months ended March 31, 2018, compared to the prior year, primarily due to price compression and generic launches.

- In the three months ended March 31, 2018, our pharmacy network claims processed, on a 30-day equivalent basis, increased 6.0% to 399.5 million claims compared to 376.8 million claims in the prior year. The increase in the pharmacy network claim volume was primarily due to net new business.

- Our average revenue per pharmacy network claim processed, on a 30-day equivalent basis, decreased 2.7% in the three months ended March 31, 2018, compared to the prior year.

- In the three months ended March 31, 2018, our total generic dispensing rate increased to 87.6%, compared to 87.0% in the prior year. The continued increase in our generic dispensing rate was primarily due to the impact of new generic drug introductions, and our continuous efforts to encourage plan members to use generic drugs when they are available and clinically appropriate. We believe our generic dispensing rate will continue to increase in future periods, albeit at a slower pace. This increase will be affected by, among other things, the number of new brand and generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.

Gross Profit

Gross profit in our Pharmacy Services Segment includes net revenues less cost of revenues. Cost of revenues includes (i) the cost of pharmaceuticals dispensed, either directly through our mail service, specialty mail and specialty retail pharmacies or indirectly through our retail pharmacy networks, (ii) shipping and handling costs and (iii) the operating costs of our mail service dispensing pharmacies, customer service operations and related information technology support.

Gross profit increased $56 million, or 5.1%, to approximately $1.1 billion in the three months ended March 31, 2018, as compared to the prior year. The increase in gross profit dollars was primarily due to increased claims volume and improved purchasing economics, partially offset by continued pricing compression. Gross profit as a percentage of net revenues remained flat at 3.5% in the three months ended March 31, 2018, compared to the prior year.

As you review our Pharmacy Services Segment's performance in this area, we believe you should consider the following important information about the business for the three months ended March 31, 2018:

- Our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the rebates and/or discounts we received from manufacturers, wholesalers and retail pharmacies continue to have an impact on our gross profit dollars and gross profit as a percentage of net revenues. In particular, competitive pressures in the PBM industry have caused us and other PBMs to continue to share with clients a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. In addition, market dynamics and regulatory changes have limited our ability to offer plan sponsors pricing that includes retail network "differential" or "spread," and we expect these trends to continue. The "differential" or "spread" is any difference between the drug price charged to plan sponsors, including Medicare Part D plan sponsors, by a PBM and the price paid for the drug by the PBM to the dispensing provider.

Operating Expenses

Operating expenses in our Pharmacy Services Segment include selling, general and administrative expenses; depreciation and amortization related to selling, general and administrative activities; and expenses related to specialty retail pharmacies, which include store and administrative payroll, employee benefits and occupancy costs.

Operating expenses increased $52 million, or 15.9%, to $377 million, or 1.2% as a percentage of net revenues, in the three months ended March 31, 2018, compared to $325 million, or 1.0% as a percentage of net revenues, in the prior year. The increase in operating expenses in the three months ended March 31, 2018 is primarily due to growth in the business, the reinstatement of the Affordable Care Act's health insurer fee in 2018 as well as the acquisition of Wellpartner, Inc. in November 2017.

Retail/LTC Segment

The following table summarizes our Retail/LTC Segment's performance for the respective periods:

	Three Months Ended March 31,	
In millions	**2018**	**2017**
Net revenues	$ 20,432	$ 19,341
Gross profit	5,916	5,681
Gross profit % of net revenues	29.0 %	29.4 %
Operating expenses [1][2]	4,292	4,248
Operating expenses % of net revenues	21.0 %	22.0 %
Operating profit	1,624	1,433
Operating profit % of net revenues	8.0 %	7.4 %
Net revenues:		
Pharmacy	$ 15,500	$ 14,436
Front Store	4,726	4,620
Other	206	285
Prescriptions filled (90 Day = 3 prescriptions) [3]	328.8	303.1
Net revenue increase (decrease):		
Total	5.6 %	(3.8) %
Pharmacy	7.4 %	(3.8) %
Front Store	2.3 %	(3.9) %
Total prescription volume (90 Day = 3 prescriptions) [3]	8.5 %	(0.6) %
Same store sales increase (decrease) [4]:		
Total	5.8 %	(4.7) %
Pharmacy	7.3 %	(4.7) %
Front Store	1.6 %	(4.9) %
Prescription volume (90 Day = 3 prescriptions) [3]	8.5 %	(1.4) %
Generic dispensing rates [3]	88.1 %	87.5 %

(1) Operating expenses for the three months ended March 31, 2018 include an $86 million loss on the divestiture of the RxCrossroads subsidiary (see "Note 3 – Goodwill" to the condensed consolidated financial statements) and $3 million of acquisition-related integration costs related to the acquisition of Omnicare.

(2) Operating expenses for the three months ended March 31, 2017 include a $199 million charge associated with store closures and $15 million of acquisition-related integration costs related to the acquisition of Omnicare.

(3) Includes the adjustment to convert 90-day non-specialty prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.

(4) Same store sales and prescriptions exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil, LTC operations and, in 2017, from commercialization services provided through RxCrossroads.

As of March 31, 2018, we operated 9,847 retail locations (of which 8,099 were our stores that operated a pharmacy and 1,699 were our pharmacies located within Target stores), compared to 9,676 retail locations as of March 31, 2017.

Net Revenues

Net revenues in our Retail/LTC Segment increased $1.1 billion, or 5.6%, to approximately $20.4 billion in the three months ended March 31, 2018, as compared to the prior year. As you review our Retail/LTC Segment's performance in this area, we believe you should consider the following important information about the business for the three months ended March 31, 2018:

- Front store same store sales increased by 1.6% for the three months ended March 31, 2018, compared to the prior year. Front store sales were positively impacted by approximately 90 basis points, due to the shift of sales associated with the Easter holiday to the first quarter of 2018 from the second quarter of 2017. The impact of seasonal cough and cold accounted for approximately 70 basis points in additional favorability, as compared to the same quarter in the prior year. These increases were partially offset by softer customer traffic.

- Pharmacy same store sales increased 7.3% for the three months ended March 31, 2018, principally due to the increase in pharmacy same store prescription volumes, which increased 8.5% on a 30-day equivalent basis, as well as the impact of year over year brand inflation.

- Pharmacy revenues were negatively impacted by approximately 280 basis points due to the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. The generic dispensing rate grew to 88.1% for the three months ended March 31, 2018, compared to 87.5% in the prior year. In addition, our pharmacy revenue growth has also been affected by continued reimbursement pressure.

- The results for the three months ended March 31, 2017 include approximately $0.1 billion related to RxCrossroads ("RxC") which was sold on January 2, 2018.

- Pharmacy revenue growth has been impacted by industry changes in the LTC business, such as continuing lower occupancy rates at skilled nursing facilities.

- Pharmacy revenue continued to benefit from our ability to attract and retain managed care customers, and the increased use of pharmaceuticals by an aging population as the first line of defense for health care.

Gross Profit

Gross profit in our Retail/LTC Segment includes net revenues less the cost of merchandise sold in the period and the related purchasing costs, warehousing costs, delivery costs and actual and estimated inventory losses.

Gross profit increased $235 million, or 4.2%, to $5.9 billion in the three months ended March 31, 2018, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 29.0% in the three months ended March 31, 2018, compared to 29.4% in the prior year.

The increase in gross profit dollars was primarily driven by increased volume, improved purchasing economics, and generic introductions, partially offset by continued reimbursement pressure. The decrease in gross profit as a percentage of net revenues in the three months ended March 31, 2018 was primarily due to continued reimbursement pressure on pharmacy, partially offset by increased front store margins.

As you review our Retail/LTC Segment's performance in this area, we believe you should consider the following important information about the business for the three months ended March 31, 2018:

- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, PBMs and governmental and other third-party payors to reduce their prescription drug costs, including the use of restrictive networks, as well as changes in the mix of our business within the pharmacy portion of the Retail/LTC Segment. In the event the reimbursement pressure accelerates, we may not be able grow our revenues and gross profit dollars could be adversely impacted. The increased use of generic drugs has positively impacted our gross profit but has resulted in third-party payors augmenting their efforts to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.

Operating Expenses

Operating expenses in our Retail/LTC Segment include payroll and employee benefits, occupancy costs, selling expenses, advertising expenses, depreciation and amortization expense and certain administrative expenses.

Operating expenses increased $44 million to $4.3 billion, or 21.0% as a percentage of net revenues, in the three months ended March 31, 2018, as compared to $4.2 billion, or 22.0% as a percentage of net revenues, in the prior year. The increase in operating expenses in the three months ended March 31, 2018 was primarily due to the following:

- As discussed in "Note 3 – Goodwill" to the condensed consolidated financial statements, on January 2, 2018, the Company sold RxC to McKesson Corporation for $725 million. The Company recorded an $86 million pre-tax loss on the sale of RxC, which was recorded in operating expenses. When the Company wrote down the carrying value of RxC to its fair value in 2017, one component of the remaining carrying value of RxC was

deferred income tax liabilities of $86 million. During the first quarter of 2018, when the Company removed the net assets of RxC from its balance sheet, all but the deferred taxes liabilities were required to be used to determine any pre-tax gain or loss on the sale which resulted in the $86 million pre-tax loss on the sale. When the RxC deferred income tax liabilities were removed from the Company's balance sheet as the result of the sale, the $86 million benefit of removing such deferred tax liabilities was recorded as a reduction of income tax expense.

- An increase in operating expenses in the Retail/LTC Segment due to the increased volume described above, incremental costs associated with operating more stores, investments in the business to drive revenue growth, the impact of weather related events, and an increase in bad debt expense in the LTC reporting unit, primarily due to a customer bankruptcy.

- These items were partially offset by a decrease in operating expenses due to our enterprise streamlining initiatives, including a $199 million decrease associated with store closures as compared to the same period in the prior year.

Corporate Segment

Operating Expenses

Operating expenses in our Corporate Segment include expenses from the Company's executive management, corporate relations, legal, compliance, human resources, information technology and finance departments.

Operating expenses increased $43 million, or 19.0%, to $264 million in the three months ended March 31, 2018, as compared to the prior year. The change in operating expenses was primarily driven by an increase in acquisition-related transaction and integration costs of $40 million for the three months ended March 31, 2018 versus the same period in the prior year. The acquisition-related transaction and integration costs relate to the proposed Aetna acquisition.

Liquidity and Capital Resources

We maintain a level of liquidity sufficient to allow us to cover our cash needs in the short-term. Over the long-term, we manage our cash and capital structure to maximize shareholder return, maintain our financial position and maintain flexibility for future strategic initiatives. We continuously assess our working capital needs, debt and leverage levels, capital expenditure requirements, dividend payouts, potential share repurchases and future investments or acquisitions. We believe our operating cash flows, commercial paper program, sale-leaseback program, as well as any potential future borrowings, will be sufficient to fund these future payments and long-term initiatives.

The change in cash and cash equivalents is as follows:

	Three Months Ended March 31,	
In millions	**2018**	**2017**
Net cash provided by operating activities	$ 2,355	$ 3,533
Net cash used in investing activities	(131)	(537)
Net cash provided by (used in) financing activities	38,140	(4,133)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 40,364	$ (1,137)

Net cash provided by operating activities was approximately $2.4 billion in the three months ended March 31, 2018, compared to $3.5 billion in the three months ended March 31, 2017, primarily driven by timing of receipts based on new client activity.

Net cash used in investing activities was approximately $0.1 billion in the three months ended March 31, 2018, compared to $0.5 billion in the three months ended March 31, 2017. Cash used in investing activities decreased year over year due to $725 million in proceeds from the sale of RxC as discussed in "Note 3 – Goodwill" to the condensed consolidated financial statements, which was partially offset by an increase in cash used for acquisitions and other investments of approximately $0.3 billion in the current year.

Net cash provided by financing activities was $38.1 billion in the three months ended March 31, 2018, compared to net cash used in financing activities of $4.1 billion in the three months ended March 31, 2017. Cash provided by financing activities increased $42.3 billion primarily due to proceeds from the issuance of long-term debt of $39.4 billion, a $3.6 billion decrease in share repurchases in the current year due to the suspension of the share repurchase program, and $0.4 billion received in connection with interest rate hedge settlements. These cash inflows were partially offset by an increase in the repayment of short-term debt of $1.2 billion as compared to the prior year period.

The following share repurchase programs were authorized by the Company's Board of Directors:

In billions **Authorization Date**	**Authorized**	**Remaining as of March 31, 2018**
November 2, 2016 ("2016 Repurchase Program")	$ 15.0	$ 13.9
December 15, 2014 ("2014 Repurchase Program")	10.0	—

The share Repurchase Programs, each of which were effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase ("ASR") transactions, and/or other derivative transactions. The 2014 Repurchase Program was completed during the second quarter of 2017. The 2016 Repurchase Program can be modified or terminated by the Board of Directors at any time.

During the three months ended March 31, 2018, the Company did not repurchase any shares of common stock pursuant to the 2016 Repurchase Program.

Pursuant to the authorization under the 2014 Repurchase Program, effective August 29, 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC ("Barclays") for a total of $3.6 billion. Upon payment of the $3.6 billion purchase price on January 6, 2017, the Company received a number of shares of its common stock equal to 80% of the $3.6 billion notional amount of the ASRs or approximately 36.1 million shares, which were placed into treasury stock in January 2017. The ASRs were accounted for as an initial treasury stock transaction for $2.9 billion and a forward contract for $0.7 billion. In April 2017, the Company received 9.9 million shares of common stock, representing the remaining 20% of the $3.6 billion notional amount of the ASRs, thereby concluding the ASRs. The remaining 9.9 million shares of common stock delivered to the Company by Barclays were placed into treasury stock and the forward contract was reclassified from capital surplus to treasury stock in April 2017.

At the time they were received, the initial and final receipt of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

The Company did not have any commercial paper outstanding as of March 31, 2018. In connection with its commercial paper program, the Company maintains a $1.0 billion 364-day unsecured back-up credit facility, which expires on May 17, 2018, a $1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019, a $1.25 billion, five-year unsecured back-up credit facility, which expires on July 1, 2020, and a $1.0 billion, five-year unsecured back-up credit facility, which expires on May 18, 2022. The Company intends to renew its 364-day unsecured back-up credit facility prior to its expiration. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.02%, regardless of usage. As of March 31, 2018, there were no borrowings outstanding under the back-up credit facilities.

On March 9, 2018, the Company issued an aggregate of $40.0 billion of floating rate notes and unsecured senior notes, collectively the "Notes", for total proceeds of approximately $39.4 billion, net of discounts and underwriting fees, comprised of the following:

In millions	
3.125% senior notes due 2020	$ 2,000
Floating rate notes due 2020	1,000
3.35% senior notes due 2021	3,000
Floating rate notes due 2021	1,000
3.7% senior notes due 2023	6,000
4.1% senior notes due 2025	5,000
4.3% senior notes due 2028	9,000
4.78% senior notes due 2038	5,000
5.05% senior notes due 2048	8,000
Total debt principal	$ 40,000

The Notes pay interest semi-annually and contain redemption terms which allow or require the Company to redeem the Notes at a defined redemption price plus accrued and unpaid interest at the redemption date. The net proceeds of the Notes will be used to fund the proposed acquisition of Aetna.

If the Aetna acquisition has not been completed by September 3, 2019 (the "Outside Date") or if, prior to such date, the merger agreement is terminated or the Company otherwise publicly announces that the merger will not be consummated, then the Company will be required to redeem all outstanding 2020 Floating Rate Notes, 2021 Floating Rate Notes, 2020 Notes, 2021 Notes, 2023 Notes, 2025 Notes, 2028 Notes and 2038 Notes at a redemption price equal to 101% of the aggregate principal amount of those notes plus accrued and unpaid interest. The 2048 Notes are not subject to this mandatory redemption provision.

On December 3, 2017, in connection with the proposed acquisition of Aetna, the Company entered into a $49.0 billion unsecured bridge loan facility. The Company paid approximately $221 million in fees upon entering into the agreement. The fees were capitalized in other current assets and were to be amortized as interest expense over the period the bridge facility is outstanding. The bridge loan facility was reduced to $44.0 billion on December 15, 2017 upon the Company entering into a $5.0 billion term loan agreement. As discussed above, on March 9, 2018, the Company issued unsecured senior notes with an aggregate principal of $40.0 billion. At this time, the bridge loan facility was reduced to $4.0 billion and the Company paid approximately $8 million in fees to retain the bridge loan facility through the date of the proposed Aetna acquisition. These fees were capitalized in other current assets and will be amortized as interest expense over the period the bridge facility is outstanding. The Company recorded $161 million of amortization of the bridge loan facility fees during the three months ended March 31, 2018, which was recorded in "Interest expense, net" on the condensed consolidated income statement.

Our back-up credit facilities and unsecured senior notes contain customary restrictive financial and operating covenants. These covenants do not include a requirement for the acceleration of our debt maturities in the event of a downgrade in our credit rating. We do not believe the restrictions contained in these covenants materially affect our financial or operating flexibility. As of March 31, 2018, the Company is in compliance with all debt covenants.

As of March 31, 2018, our long-term debt was rated "Baa1" by Moody's and "BBB" by Standard & Poor's, and our commercial paper program was rated "P-2" by Moody's and "A-2" by Standard & Poor's. In December 2017, subsequent to the announcement of the proposed acquisition of Aetna, Moody's changed the outlook on our long-term debt to "Under Review" from "Stable." Similarly, S&P placed our-long-term debt outlook on "Watch Negative" from "Stable". Upon the issuance of the Notes on March 9, 2018, Standard and Poor's lowered its corporate credit rating on our long-term debt to "BBB" from "BBB+" and changed the outlook from "Watch Negative" to "Stable". In assessing our credit strength, we believe that both Moody's and Standard & Poor's considered, among other things, our capital structure and financial policies as well as our consolidated balance sheet, our historical acquisition activity and other financial information. Although we currently believe our long-term debt ratings will remain investment grade, we cannot guarantee the future actions of Moody's and/or Standard & Poor's. Our debt ratings have a direct impact on our future borrowing costs, access to capital markets and new store operating lease costs.

Off-Balance Sheet Arrangements

In connection with executing operating leases, we provide a guarantee of the lease payments. We also finance a portion of our new store development through sale-leaseback transactions, which involve selling stores to unrelated parties and then leasing the stores back under leases that generally qualify and are accounted for as operating leases. We do not have any retained or contingent interests in the stores, and we do not provide any guarantees, other than a guarantee of the lease payments, in connection with the transactions. In accordance with GAAP, such operating leases are not reflected in our condensed consolidated balance sheet. See "Note 10 – Commitments and Contingencies" to the condensed consolidated financial statements for a detailed discussion of these guarantees.

Critical Accounting Policies

We prepare our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which requires management to make certain estimates and apply judgment. We base our estimates and judgments on historical experience, current trends and other factors that management believes to be important at the time the condensed consolidated financial statements are prepared. On a regular basis, we review our accounting policies and how they are applied and disclosed in our condensed consolidated financial statements.

While we believe that the historical experience, current trends and other factors considered support the preparation of our condensed consolidated financial statements in conformity with GAAP, actual results could differ from our estimates and such differences could be material.

Revenue Recognition

Effective January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In March 2016, the FASB issued ASU 2016-08, " *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* ," which amends the principal-versus-agent implementation guidance and in April 2016 the FASB issued ASU 2016-10, " *Identifying Performance Obligations and Licensing* ," which amends the guidance in those areas in the new revenue recognition standard. See the Adoption of New Revenue Recognition Standard section of "Note 1 - Accounting Policies" to the condensed consolidated financial statements for a detailed discussion of the adoption of this new revenue recognition standard.

Goodwill

During the third quarter of 2017, we performed our required annual impairment tests of goodwill. The results of the impairment tests indicated that there was no impairment of goodwill. The goodwill impairment tests resulted in the fair values of our Pharmacy Services and Retail Pharmacy reporting units exceeding their carrying values by significant margins. The fair values of our LTC and RxC reporting units exceeded their carrying values by approximately 1% and 6%, respectively. As of March 31, 2018, the goodwill balance in our LTC reporting unit was approximately $6.6 billion. As discussed in "Note 3 - Goodwill" to the condensed consolidated financial statements, on January 2, 2018, we sold our RxC reporting unit to McKesson Corporation and accordingly the remaining RxC goodwill was removed from our balance sheet.

The fair value of our reporting units is estimated using a combination of a discounted cash flow method and a market multiple method. The determination of the fair value of our reporting units requires the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies; control premiums and valuation multiples appropriate for acquisitions in the industries in which the Company competes; discount rates, terminal growth rates; and forecasts of revenue, operating profit, depreciation and amortization, income taxes, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, we consider each reporting unit's historical results and current operating trends and our consolidated revenues, profitability and cash flow results, forecasts and industry trends. Our estimates can be affected by a number of factors including, but not limited to general economic and regulatory conditions, our market capitalization, efforts of customers and payers to reduce costs including their prescription drug costs and/or increase member co-payments, the continued efforts of competitors to gain market share, and consumer spending patterns.

Our LTC reporting unit continues to face challenges that may affect our ability to grow the business at the rate that we had originally estimated when we made the acquisition of Omnicare and when we performed our prior year annual goodwill impairment test. These challenges include customer reimbursement pressures, lower occupancy rates in skilled nursing facilities, the deteriorating financial health of numerous skilled nursing facility customers, and client retention rates. We recently made a number of additions and changes to our LTC management team to better respond to these challenges. Our financial projections assume future script growth from our senior living initiative, acquisitions, as well as cost savings from labor productivity and other initiatives. The estimated fair value of our LTC reporting unit is dependent on earnings multiples of market participants in the pharmacy industry, including certain competitors and suppliers. The estimated fair value is also dependent on the corporate income tax rate which was lowered from 35% to 21% as a result of the TCJA in December 2017, which had a positive impact on future cash flows and the estimated fair value. If we do not achieve our forecasts, given the small excess of fair value over the related carrying value in the prior year, as well as current market conditions in the healthcare industry, it is reasonably possible that the operational performance of the LTC reporting unit could be below our current expectations in the near term and the goodwill of the LTC reporting unit could be deemed to be impaired by a material amount.

For a full description of our other critical accounting policies, please refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2017 Form 10-K.

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. In addition, the Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the U.S. Securities and Exchange Commission ("SEC") and in its reports to stockholders, press releases, webcasts, conference calls, meetings and other communications. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "project," "anticipate," "will," "should" and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Health Corporation or any subsidiary, events or developments that the Company expects or anticipates will occur in the future, including statements relating to corporate strategy; revenue growth; earnings or earnings per common share growth; adjusted earnings or adjusted earnings per common share growth; free cash flow; debt ratings; inventory levels; inventory turn and loss rates; store development; relocations and new market entries; retail pharmacy business, sales trends and operations; PBM business, sales trends and operations; specialty pharmacy business, sales trends and operations; LTC pharmacy business, sales trends and operations; the Company's ability to attract or retain customers and clients; pending acquisitions, including the Aetna acquisition; Medicare Part D competitive bidding, enrollment and operations; new product development; and the impact of industry and regulatory developments, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the Reform Act.

The forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons as described in our SEC filings, including those set forth in the Risk Factors section within the 2017 Annual Report on Form 10-K, and including, but not limited to:

- *Risks relating to the health of the economy in general and in the markets we serve, which could impact consumer purchasing power, preferences and/or spending patterns, drug utilization trends, the financial health of our PBM and LTC clients, retail and specialty pharmacy payors or other payors doing business with the Company and our ability to secure necessary financing, suitable store locations and sale-leaseback transactions on acceptable terms.*

- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*

- *The possibility of PBM and LTC client loss and/or the failure to win new PBM and LTC business, including as a result of failure to win renewal of expiring contracts, contract termination rights that may permit clients to terminate a contract prior to expiration and early or periodic renegotiation of pricing by clients prior to expiration of a contract.*

- *Risks relating to the health of the economy in general and in the markets we serve, which could impact consumer purchasing power, preferences and/or spending patterns, drug utilization trends, the financial health of our PBM and LTC clients, retail and specialty pharmacy payors or other payors doing business with the Company and our ability to secure necessary financing, suitable store locations and sale-leaseback transactions on acceptable terms.*

- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*

- *The possibility of PBM and LTC client loss and/or the failure to win new PBM and LTC business, including as a result of failure to win renewal of expiring contracts, contract termination rights that may permit clients to terminate a contract prior to expiration and early or periodic renegotiation of pricing by clients prior to expiration of a contract.*

- *The possibility of loss of Medicare Part D business and/or failure to obtain new Medicare Part D business, whether as a result of the annual Medicare Part D competitive bidding process or otherwise.*

- *Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products.*

- *Risks of declining gross margins attributable to increased competitive pressures, increased client demand for lower prices, enhanced service offerings and/or higher service levels and market dynamics and, with respect to the PBM industry, regulatory changes that impact our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread" or the use of maximum allowable cost pricing.*

- *Regulatory changes, business changes and compliance requirements and restrictions that may be imposed by Centers for Medicare and Medicaid Services ("CMS"), Office of Inspector General or other government agencies relating to the Company's participation in Medicare, Medicaid and other federal and state government-funded programs, including sanctions and remedial actions that may be imposed by CMS on our Medicare Part D business.*

- *Risks and uncertainties related to the timing and scope of reimbursement from Medicare, Medicaid and other government-funded programs, including the possible impact of sequestration, the impact of other federal budget, debt and deficit negotiations and legislation that could delay or reduce reimbursement from such programs and the impact of any closure, suspension or other changes affecting federal or state government funding or operations.*

- *Possible changes in industry pricing benchmarks used to establish pricing in many of our PBM and LTC client contracts, pharmaceutical purchasing arrangements, retail network contracts, specialty payor agreements and other third party payor contracts.*

- *Efforts to increase reimbursement rates in PBM pharmacy networks and to inhibit the ability of PBMs to audit network pharmacies for fraud, waste and abuse.*

- *Risks related to increasing oversight of PBM activities by state departments of insurance and boards of pharmacy.*

- *A highly competitive business environment, including the uncertain impact of increased consolidation in the PBM industry, the possibility of combinations, joint ventures or other collaboration between PBMs and retailers, uncertainty concerning the ability of our retail pharmacy business to secure and maintain contractual relationships with PBMs and other payors on acceptable terms, uncertainty concerning the ability of our PBM business to secure and maintain competitive access, pricing and other contract terms from retail network pharmacies in an environment where some PBM clients are willing to consider adopting narrow or more restricted retail pharmacy networks, the possibility of our retail stores or specialty pharmacies being excluded from narrow or restricted networks, the potential of disruptive innovation from existing and new competitors and risks related to developing and maintaining a relevant experience for our customers.*

- *The Company's ability to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being purchased by our customers, or the failure or inability to obtain or offer particular categories of products.*

- *Risks relating to our ability to secure timely and sufficient access to the products we sell from our domestic and/or international suppliers, including limited distribution drugs.*

- *Reform of the U.S. health care system, including ongoing implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA") and the possible repeal and replacement of all or parts of ACA, continuing legislative efforts, regulatory changes and judicial interpretations impacting our health care system and the possibility of shifting political and legislative priorities related to reform of the health care system in the future.*

- *Risks related to changes in legislation, regulation and government policy (including through the use of Executive Orders) that could significantly impact our business and the health care and retail industries, including, but not limited to, the possibility of major developments in tax policy or trade relations, such as the imposition of unilateral tariffs on imported products, changes with respect to the approval process for biosimilars, or changes or developments with respect to the regulation of drug pricing, including federal and state drug pricing programs.*

- *Risks relating to any failure to properly maintain and protect our information technology systems, our information security systems, our infrastructure to support our business and the privacy and security of sensitive customer and business information, including from external intrusions and threats.*

- *Risks related to compliance with a broad and complex regulatory framework, including compliance with new and existing federal, state and local laws and regulations relating to health care, network pharmacy reimbursement and auditing, accounting standards, corporate securities, tax, environmental and other laws and regulations affecting our business.*

- *Risks related to litigation, government investigations and other legal proceedings as they relate to our business, the pharmacy services, retail pharmacy, LTC pharmacy, specialty pharmacy or retail clinic industries, or to the health care industry generally.*

- *The risk that any condition related to the closing of any proposed acquisition, including the Aetna Acquisition, may not be satisfied on a timely basis or at all, including the inability to obtain required regulatory approvals of any proposed acquisition, including the Aetna Acquisition, or on the terms desired or anticipated; the risk that such approvals may result in the imposition of conditions that could adversely affect the resulting combined company or the expected benefits of any proposed transaction, including the Aetna Acquisition; and the risk that the proposed transactions, including the Aetna Acquisition fail to close for any other reason, which could negatively impact our stock price and our future business and financial results.*

- *The possibility that the anticipated synergies and other benefits from any acquisition by us, including the Aetna Acquisition, will not be realized, or will not be realized within the expected time periods.*

- *Other risks related to the Aetna Acquisition including the possibility of failing to retain existing management including key executives of Aetna, the potential for disruption of our business relationships due to uncertainty associated with the Aetna Acquisition, the increased difficulty for us to pursue alternatives to the Aetna Acquisition, and the possibility that the Aetna Acquisition may not be accretive to our earnings per share.*

- *The risks and uncertainties related to our ability to integrate the operations, products, services and employees of any entities acquired by us, including the Aetna Acquisition and the effect of the potential disruption of management's attention from ongoing business operations due to any pending acquisitions, including the Aetna Acquisition.*

- *The accessibility or availability of adequate financing on a timely basis and on reasonable terms and the risks related to the indebtedness incurred to fund the Aetna Acquisition.*

- *Risks related to the outcome of any legal proceedings related to, or involving any entity that is a part of, any proposed acquisition contemplated by us, including the risk that we may be subject to securities class action and derivative lawsuits in connection with the Aetna Acquisition.*

- *The possibility of lower than expected valuations at the Company's reporting units could result in goodwill impairment charges at those reporting units.*

- *Other risks and uncertainties detailed from time to time in our filings with the SEC.*

The foregoing list is not exhaustive. There can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting its business. Additional risks and uncertainties not presently known to the Company or that it currently believes to be immaterial also may adversely impact the Company. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on the Company's business, financial condition and results of operations. For these reasons, you are cautioned not to place undue reliance on the Company's forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2018, the Company did not have any interest rate, foreign currency exchange rate or commodity derivative instruments in place and believes that as of March 31, 2018 its exposure to interest rate risk (inherent in the Company's debt portfolio), foreign currency exchange rate risk and commodity price risk is not material.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures: The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(f) and 15d-15(f)) as of March 31, 2018, have concluded that as of such date the Company's disclosure controls and procedures were adequate and effective and designed to provide reasonable assurance that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

Changes in internal control over financial reporting: There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Securities Exchange Act Rule 13a-15 or Rule 15d-15 that occurred in the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II

Item 1. Legal Proceedings

I. Legal Proceedings

We refer you to "Note 10 - Commitments and Contingencies" contained in the "Notes to the Condensed Consolidated Financial Statements" of our Quarterly Report on Form 10-Q for the three months ended March 31, 2018 for a description of our legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Stock Repurchases

The following table presents the total number of shares purchased in the three months ended March 31, 2018, the average price paid per share and the approximate dollar value of shares that still could have been purchased at the end of the applicable fiscal period, pursuant to the 2016 Repurchase Program. See "Note 5 - Share Repurchase Programs" contained in the "Notes to the Condensed Consolidated Financial Statements" of our Quarterly Report on Form 10-Q for the three months ended March 31, 2018.

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2018 through January 31, 2018	—	$ —	—	$ 13,869,392,446
February 1, 2018 through February 28, 2018	—	$ —	—	$ 13,869,392,446
March 1, 2018 through March 31, 2018	—	$ —	—	$ 13,869,392,446
	—		—	

Item 6. Exhibits

Exhibits:

Exhibits marked with an asterisk (*) are hereby incorporated by reference to exhibits or appendices previously filed by the Registrant as indicated in brackets following the description of the exhibit.

3.1*	Amended and Restated Certificate of Incorporation of the Registrant [incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (Commission File No. 001-01011)].
3.1A*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 [incorporated by reference to Exhibit 4.1A to the Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998 (Commission File No. 001-01001)].
3.1B*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)].
3.1C*	Certificate of Merger dated May 9, 2007 [incorporated by reference to Exhibit 3.1C to the Registrant's Quarterly Report on Form 10-Q dated November 1, 2007 (Commission File No. 001-01011)].
3.1D*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 13, 2010 (Commission File No. 001-01011)].
3.1E*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 10, 2012 (Commission File No. 001-01011)].
3.1F*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 13, 2013 (Commission File No. 001-01011)].
3.1G*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated September 3, 2014 (Commission File No. 001-01011)].
3.2*	By-laws of Registrant, as amended and restated [incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated January 26, 2016 (Commission File No. 001-01011)].
10.1	Form of Performance Stock Unit Agreement for Section 16 Officers.
10.2	Form of Performance Stock Unit Agreement for the Long-Term Incentive Plan.
15.1	Letter re: Unaudited Interim Financial Information.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the CVS Health Corporation Quarterly Report on Form 10-Q for the three months ended March 31, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows and (v) related Footnotes to the Condensed Consolidated Financial Statements.

Signatures:

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

CVS Health Corporation
(Registrant)

/s/ David M. Denton
David M. Denton
Executive Vice President and Chief Financial Officer
May 2, 2018

CVS HEALTH CORPORATION
PERFORMANCE STOCK UNIT AGREEMENT – ANNUAL GRANT
GRANT DATE : XX/XX/XXXX

1. Pursuant and subject to the provisions of the 2017 Incentive Compensation Plan (the " **ICP** "), of CVS Health Corporation (the " **Company** "), on the date set forth above (the " **Grant Date** "), the Company has awarded and hereby evidences the Performance Stock Unit (" **PSU** ") Award to the person named below (the " **Participant** "), subject to the terms and conditions set forth and incorporated in this Performance Stock Unit agreement (this " **Agreement** "). The ICP is hereby made a part hereof, and the Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. On the Grant Date specified above, the Fair Market Value, which is the closing price of the Company's common stock on the Grant Date, or, in the event the Grant Date is a date on which the New York Stock Exchange is closed, the closing price on the last trading date prior to the Grant Date, of each PSU equals **$XX.XX** .

Participant:	**[XXX]**
Employee ID:	**[XXX]**
Target Number of PSUs (#):	**[XXX]**

2. Each PSU represents a right to a future payment of one share (" **Share** ") of Common Stock ($0.01 par value) of the Company, subject to required tax withholding. The actual number of Shares (if any) that the Participant receives shall be subject to the terms and conditions of the ICP and this Agreement, including, without limitation, the Company's achievement of the performance goals set forth in Appendix A and Section 10 of this Agreement.

3. (a) Subject to the terms and conditions of the ICP and this Agreement and subject to the Participant's continued employment, the PSUs shall vest and become non-forfeitable on the third anniversary of the Grant Date or such other date as may be provided in Section 6 (the " **Vesting Date** "), based on the level of achievement of the performance goals set forth in Appendix A, and shall be determined by multiplying the number of PSUs that are subject to this Agreement by the applicable performance adjustment shown in Appendix A for the attained level of the performance goals. The " **Performance Period** " shall be the three-year period commencing on January 1, 2018 and ending on December 31, 2020

(b) The Participant shall be entitled to receive (and the Company shall deliver to the Participant) the Shares, subject to any applicable withholdings, as soon as administratively practicable following the Vesting Date, unless delivery of the Shares has been deferred in accordance with Section 4 below (the date of such delivery of the Shares being hereafter referred to as the " **Settlement Date** ").

(c) Notwithstanding anything herein to the contrary, if the Participant is subject to the reporting requirements under Section 16 of the Securities Exchange Act of 1934, as amended, or becomes subject to such reporting obligations at any time during the Performance Period, the Participant agrees and covenants that as a condition to the receipt of the award of PSUs and the payment of the PSUs hereunder, the Participant shall not sell or otherwise transfer any Shares issued and transferred to the Participant pursuant to this Agreement (including with respect to any Shares that are deferred under Section 4(a)) until the second anniversary of

the Settlement Date (such period hereinafter referred to as the " **Holding Period** "), except that the Participant shall be permitted to sell or transfer Shares, prior to the end of the Holding Period, (a) to pay applicable tax and social security withholdings, if any, with respect to such settlement (or, alternatively, if the Company withholds such Shares pursuant to Section 5 of this Agreement, the requirements in this Section 3(c) not to sell or otherwise transfer any Shares shall only apply to the number of such Shares delivered to the Participant (i.e., after such withholding of Shares)), (b) upon the Participant's termination of employment for any reason other than for Cause, (c) upon a Change in Control, (d) if the Company, in its sole discretion, waives in writing the requirements of this Section 3(c), or (e) to transfer Shares to the Participant's personal brokerage account. The Participant's attempt to assign or transfer Shares subject to this Agreement, either voluntarily or involuntarily, contrary to the provisions hereof, shall be null and void and without effect. The Company may, in its sole discretion, impose restrictions on the assignment or transfer of Shares consistent with the provisions hereof, including, without limitation, by or through the transfer agent for such Shares or by means of legending stock certificates or otherwise.

4. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the " **Committee** "), the Participant, to the extent eligible under the CVS Health Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of PSUs covered by this Agreement. Any such deferred delivery date elected by the Participant shall become the Settlement Date for purposes of this Agreement.

(b) To the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, the Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by the Participant on the record date of such dividend, divided by (z) the Fair Market Value of a Share on such dividend payment date.

5. On the Settlement Date, the number of Shares to be delivered by the Company to the Participant shall be reduced by the smallest number of Shares having a Fair Market Value at least equal to the dollar amount of federal, state and local tax withholding required to be withheld by the Company with respect to such PSUs on such date.

6. (a) Except as provided in Sections 6(b)–(e) below, if, for any reason, the Participant's employment with the Company and any subsidiary of the Company terminates, all PSUs not then vested in accordance with Section 3 above shall be immediately forfeited.

(b) In the event the Participant's employment with the Company and any subsidiary of the Company terminates by reason of death, PSUs not then vested in accordance with Section 3 shall become immediately vested based upon target performance as of the date of the Participant's death, and shall become settled upon thirty (30) days of the Participant's death .

(c) In the event the Participant's employment with the Company and any subsidiary of the Company terminates by reason of a deemed "Qualified Retirement" or involuntary termination of employment and the Participant is entitled to severance, PSUs shall vest [on a pro-rata basis as of the Participant's termination of employment date, which is the last day that the Participant is employed by the Company and any subsidiary of the Company, as follows: the total number of PSUs that the Participant shall be entitled to shall be equal to the number of PSUs based upon actual performance as of the end of the Performance Period multiplied by the following fraction: (A) the numerator shall be the number of months elapsed as of the termination of employment date since the beginning of the Performance Period and

(B) the denominator shall be the total number of months in the Performance Period. For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which the Participant has worked (for example, if the time elapsed between the beginning of the Performance Period and the retirement date is eight (8) months and five (5) days, the numerator in sub-section (A) above shall be nine (9)).][*Insert other approved vesting schedule* .] " **Qualified Retirement** " shall mean termination of employment on or after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service or such other terms as may be determined by the Company and set forth in the applicable award agreement; provided that : if the Participant elects to terminate his or her employment voluntarily, the Participant has provided the Company with at least twelve (12) months advance notice, in accordance with the provisions of Section 9 below, of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company. Any Shares represented by the pro-rated PSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 3 of this Agreement.

(d) In the event the Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the PSUs shall vest as of the employment termination date on a pro- rata basis as follows: the number of PSUs based upon actual performance as of the end of the Performance Period multiplied by the following fraction: (A) the numerator shall be the number of months elapsed as of the Participant's termination date since the beginning of the Performance Period and (B) the denominator shall be the total number of months in the Performance Period . For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which the Participant has worked. For example, if the time elapsed between the beginning of the Performance Period and the termination date is eight (8) months and five (5) days, the numerator in sub-section (A) above shall be nine (9). Any Shares represented by PSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 3 of this Agreement.

(e) Notwithstanding the above, if the Participant experiences a Termination Without Cause or a Constructive Termination Without Cause within two (2) years following a Change in Control, the provisions of Section 10 of the ICP shall apply, and the Participant's PSUs shall become fully vested with the performance goals and other conditions with respect to the PSUs being deemed to be met at target performance.

(f) For purposes of this Section 6, transfer of the Participant's employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries of the Company, or transfer from a subsidiary of the Company to the Company shall not be treated as a termination of employment.

(g) The Participant shall be responsible for any applicable withholding or other taxes that may become due as a result of PSUs that vest as of the Participant's termination of employment date or thereafter.

7. A PSU does not represent an equity interest in the Company and carries no voting rights. The Participant shall have no rights of a shareholder with respect to the PSUs prior to the Vesting Date.

8. Neither the execution and delivery hereof nor the granting of the Award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ the Participant for any specific period.

9. Any notice required to be given hereunder to the Company shall be in writing. If by regular mail, any required notice shall be addressed to: CVS Health Corporation, Attention: Senior Director, Executive Compensation, One CVS Drive, Woonsocket, RI 02895. If by electronic mail, any notice required shall be sent to: equityadministration@cvshealth.com.

Any notice required to be given hereunder to the Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.

10. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern. Furthermore, the determination of the achievement of any performance goals under this Agreement, and the amounts used in making such determination, shall be in the Board of Director's or the Committee's sole discretion and such determination shall be final, binding and conclusive for all purposes and upon all parties. The Committee or, if applicable, the Chief Executive Officer of the Company, may, in its discretion, reduce or increase the amount of a settlement otherwise to be made in connection with the PSUs to the extent permissible under the ICP.

11. The award of PSUs pursuant to this Agreement is expressly subject to and contingent upon the requirement that the Participant shall have fully executed and delivered to the Company the Restrictive Covenant Agreement, that may be required and provided by the Company. The applicable agreement containing the restrictive covenants that the Company may require in connection with this award is hereafter referred to as the "Restrictive Covenant Agreement".

If the Company intends to require Participant to execute and deliver a new Restrictive Covenant Agreement in connection with the grant hereunder, the Company shall provide such new Restrictive Covenant Agreement to Participant and Participant agrees to execute and deliver such new Restrictive Covenant Agreement by the deadline set forth by the Company. If Participant is currently subject to a Restrictive Covenant Agreement and the Company does not require Participant to execute and deliver a new Restrictive Covenant Agreement, then by accepting the award of PSUs, pursuant to this Agreement. Participant affirms his or her Restrictive Covenant Agreement and intent to be bound by the restrictions in the Restrictive Covenant Agreement and to comply with all of its provisions.

Participant agrees that failure to execute and return the new Restrictive Covenant Agreement, if required, by the deadline set forth by the Company shall result in the immediate and irrevocable forfeiture of the PSU Award hereunder and any right to receive dividend equivalents or Shares with respect thereto. Further, if Participant violates any provision of the applicable Restrictive Covenant Agreement, any unvested PSUs will be immediately and irrevocably forfeited, and no payment of any kind, including Dividend Equivalents or Shares, shall be payable with respect thereto. This Section shall not constitute the Company's exclusive remedy for Participant's violation of the Restrictive Covenant Agreement. The Company reserves all rights to seek all available legal or equitable remedies in the event of Participant's violation or threatened violation of the Restrictive Covenant Agreement, including injunctive relief.

12. By accepting this Award, the Participant acknowledges that a copy of the ICP has been made available by the Company for the Participant's reference and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time.

13. By accepting this Award, the Participant further acknowledges that the Federal securities laws and/or the Company's policies regarding trading in its securities may limit or restrict the Participant's right to trade Shares, including, without limitation, sales of Shares acquired in connection with PSUs. The Participant agrees to comply with such Federal securities law requirements and the Company's policies, as such laws and policies may be amended from time to time.

14. The Company intends that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986, as amended (the " **Code** "), and that to the extent any provisions of this Agreement do not comply with Code Section 409A the Company shall make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Health Corporation's 409A Universal Definitions Document are hereby incorporated by reference and to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to the "termination of employment" (and corollary terms) shall be construed to refer to "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and the Participant, by accepting this Award, acknowledges that the Participant shall be solely responsible for same.

15. The Award subject to this PSU Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, the Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.

16. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.

17. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

By: S/ Lisa G. Bisaccia
Executive Vice President, Chief Human Resources Officer
CVS Health Corporation

CVS HEALTH CORPORATION
PERFORMANCE STOCK UNIT AGREEMENT (LTIP) – ANNUAL GRANT
GRANT DATE : XX/XX/XXXX

1. Pursuant and subject to the provisions of the 2017 Incentive Compensation Plan (the " **ICP** "), of CVS Health Corporation (the " **Company** "), on the date set forth above (the " **Grant Date** "), the Company has awarded and hereby evidences the Performance Stock Unit (" **PSU** ") Award to the person named below (the " **Participant** "), subject to the terms and conditions set forth and incorporated in this Performance Stock Unit agreement (this " **Agreement** "). The ICP is hereby made a part hereof, and the Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. On the Grant Date specified above, the fair value, as determined utilizing the methodology approved by the Management Planning and Development Committee of the Board of Directors (the " **Committee** ") or its delegate, of each PSU equals **$XX.XX** .

Participant:	**[XXX]**
Employee ID:	**[XXX]**
Target Number of PSUs (#):	**[XXX]**

2. Each PSU represents a right to a future payment of one share (" **Share** ") of Common Stock ($0.01 par value) of the Company, subject to required tax withholding. The actual number of Shares (if any) that the Participant receives shall be subject to the terms and conditions of the ICP and this Agreement, including, without limitation, the Company's achievement of the performance goals set forth in Appendix A and Section 10 of this Agreement.

3. (a) Subject to the terms and conditions of the ICP and this Agreement and subject to the Participant's continued employment, the PSUs shall vest and become non-forfeitable on the third anniversary of the Grant Date or such other date as may be provided in Section 6 (the " **Vesting Date** "), based on the level of achievement of the performance goals set forth in Appendix A, and shall be determined by multiplying the number of PSUs that are subject to this Agreement by the applicable performance adjustment shown in Appendix A for the attained level of the performance goals. The " **Performance Period** " shall be the three-year period commencing on January 1, 2018 and ending on December 31, 2020.

(b) The Participant shall be entitled to receive (and the Company shall deliver to the Participant) the Shares, subject to any applicable withholdings, as soon as administratively practicable following the Vesting Date, unless delivery of the Shares has been deferred in accordance with Section 4 below (the date of such delivery of the Shares being hereafter referred to as the " **Settlement Date** ").

(c) Notwithstanding anything herein to the contrary, the Participant agrees and covenants that as a condition to the receipt of the award of PSUs and the payment of the PSUs hereunder, the Participant shall not sell or otherwise transfer any Shares issued and transferred to the Participant pursuant to this Agreement (including with respect to any Shares that are deferred under Section 4(a)) until the second anniversary of the Settlement Date (such period hereinafter referred to as the " **Holding Period** "), except that the Participant shall be permitted to sell or transfer Shares, prior to the end of the Holding Period, (a) to pay

applicable tax and social security withholdings, if any, with respect to such settlement (or, alternatively, if the Company withholds such Shares pursuant to Section 5 of this Agreement, the requirements in this Section 3(c) not to sell or otherwise transfer any Shares shall only apply to the number of such Shares delivered to the Participant (i.e., after such withholding of Shares)), (b) upon the Participant's termination of employment for any reason other than for Cause, (c) upon a Change in Control, (d) if the Company, in its sole discretion, waives in writing the requirements of this Section 3(c), or (e) to transfer Shares to the Participant's personal brokerage account. The Participant's attempt to assign or transfer Shares subject to this Agreement, either voluntarily or involuntarily, contrary to the provisions hereof, shall be null and void and without effect. The Company may, in its sole discretion, impose restrictions on the assignment or transfer of Shares consistent with the provisions hereof, including, without limitation, by or through the transfer agent for such Shares or by means of legending stock certificates or otherwise.

4. (a) In accordance with rules promulgated by the Committee, the Participant, to the extent eligible under the CVS Health Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of PSUs covered by this Agreement. Any such deferred delivery date elected by the Participant shall become the Settlement Date for purposes of this Agreement.

(b) To the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, the Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by the Participant on the record date of such dividend, divided by (z) the Fair Market Value of a Share on such dividend payment date.

5. On the Settlement Date, the number of Shares to be delivered by the Company to the Participant shall be reduced by the smallest number of Shares having a Fair Market Value at least equal to the dollar amount of federal, state and local tax withholding required to be withheld by the Company with respect to such PSUs on such date.

6. (a) Except as provided in Sections 6(b)–(e) below, if, for any reason, the Participant's employment with the Company and any subsidiary of the Company terminates, all PSUs not then vested in accordance with Section 3 above shall be immediately forfeited.

(b) In the event the Participant's employment with the Company and any subsidiary of the Company terminates by reason of death, PSUs not then vested in accordance with Section 3 shall become immediately vested based upon target performance as of the date of the Participant's death, and shall become settled upon thirty (30) days of the Participant's death .

(c) In the event the Participant's employment with the Company and any subsidiary of the Company terminates by reason of a deemed "Qualified Retirement" or involuntary termination of employment and the Participant is entitled to severance, PSUs shall vest [on a pro-rata basis as of the Participant's termination of employment date, which is the last day that the Participant is employed by the Company and any subsidiary of the Company, as follows: the total number of PSUs that the Participant shall be entitled to shall be equal to the number of PSUs based upon actual performance as of the end of the Performance Period multiplied by the following fraction: (A) the numerator shall be the number of months elapsed as of the termination of employment date since the beginning of the Performance Period and (B) the denominator shall be the total number of months in the Performance Period. For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which the Participant has worked (for example, if the time

elapsed between the beginning of the Performance Period and the retirement date is eight (8) months and five (5) days, the numerator in sub-section (A) above shall be nine (9)).][*Insert other approved vesting schedule* .] " **Qualified Retirement** " shall mean termination of employment on or after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service or such other terms as may be determined by the Company and set forth in the applicable award agreement; provided that : if the Participant elects to terminate his or her employment voluntarily, the Participant has provided the Company with at least twelve (12) months advance notice, in accordance with the provisions of Section 9 below, of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company. Any Shares represented by the pro-rated PSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 3 of this Agreement.

(d) In the event the Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the PSUs shall vest as of the employment termination date on a pro- rata basis as follows: the number of PSUs based upon actual performance as of the end of the Performance Period multiplied by the following fraction: (A) the numerator shall be the number of months elapsed as of the Participant's termination date since the beginning of the Performance Period and (B) the denominator shall be the total number of months in the Performance Period . For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which the Participant has worked. For example, if the time elapsed between the beginning of the Performance Period and the termination date is eight (8) months and five (5) days, the numerator in sub-section (A) above shall be nine (9). Any Shares represented by PSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 3 of this Agreement.

(e) Notwithstanding the above, if the Participant experiences a Termination Without Cause or a Constructive Termination Without Cause within two (2) years following a Change in Control, the provisions of Section 10 of the ICP shall apply, and the Participant's PSUs shall become fully vested with the performance goals and other conditions with respect to the PSUs being deemed to be met at target performance.

(f) For purposes of this Section 6, transfer of the Participant's employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries of the Company, or transfer from a subsidiary of the Company to the Company shall not be treated as a termination of employment.

(g) The Participant shall be responsible for any applicable withholding or other taxes that may become due as a result of PSUs that vest as of the Participant's termination of employment date or thereafter.

7. A PSU does not represent an equity interest in the Company and carries no voting rights. The Participant shall have no rights of a shareholder with respect to the PSUs prior to the Vesting Date.

8. Neither the execution and delivery hereof nor the granting of the Award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ the Participant for any specific period.

9. Any notice required to be given hereunder to the Company shall be in writing. If by regular mail, any required notice shall be addressed to: CVS Health Corporation, Attention: Senior

Director, Executive Compensation, One CVS Drive, Woonsocket, RI 02895. If by electronic mail, any notice required shall be sent to: equityadministration@cvshealth.com.

Any notice required to be given hereunder to the Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.

10. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern. Furthermore, the determination of the achievement of any performance goals under this Agreement, and the amounts used in making such determination, shall be in the Board of Directors' or the Committee's sole discretion and such determination shall be final, binding and conclusive for all purposes and upon all parties. The Committee (or, if applicable, the Chief Executive Officer of the Company) may, in its discretion, reduce or increase the amount of a settlement otherwise to be made in connection with the PSUs to the extent permissible under the ICP.

11. The award of PSUs pursuant to this Agreement is expressly subject to and contingent upon the requirement that the Participant shall have fully executed and delivered to the Company the Restrictive Covenant Agreement, that may be required and provided by the Company. The applicable agreement containing the restrictive covenants that the Company may require in connection with this award is hereafter referred to as the "Restrictive Covenant Agreement".

If the Company intends to require Participant to execute and deliver a new Restrictive Covenant Agreement in connection with the grant hereunder, the Company shall provide such new Restrictive Covenant Agreement to Participant and Participant agrees to execute and deliver such new Restrictive Covenant Agreement by the deadline set forth by the Company. If Participant is currently subject to a Restrictive Covenant Agreement and the Company does not require Participant to execute and deliver a new Restrictive Covenant Agreement, then by accepting the award of PSUs, pursuant to this Agreement. Participant affirms his or her Restrictive Covenant Agreement and intent to be bound by the restrictions in the Restrictive Covenant Agreement and to comply with all of its provisions.

Participant agrees that failure to execute and return the new Restrictive Covenant Agreement, if required, by the deadline set forth by the Company shall result in the immediate and irrevocable forfeiture of the PSU Award hereunder and any right to receive dividend equivalents or Shares with respect thereto. Further, if Participant violates any provision of the applicable Restrictive Covenant Agreement, any unvested PSUs will be immediately and irrevocably forfeited, and no payment of any kind, including Dividend Equivalents or Shares, shall be payable with respect thereto. This Section shall not constitute the Company's exclusive remedy for Participant's violation of the Restrictive Covenant Agreement. The Company reserves all rights to seek all available legal or equitable remedies in the event of Participant's violation or threatened violation of the Restrictive Covenant Agreement, including injunctive relief.

12. By accepting this Award, the Participant acknowledges that a copy of the ICP has been made available by the Company for the Participant's reference and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time.

13. By accepting this Award, the Participant further acknowledges that the Federal securities laws and/or the Company's policies regarding trading in its securities may limit or restrict the Participant's right to trade Shares, including, without limitation, sales of Shares acquired in connection with PSUs. The Participant agrees to comply with such Federal securities law

requirements and the Company's policies, as such laws and policies may be amended from time to time.

14. The Company intends that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986, as amended (the " **Code** "), and that to the extent any provisions of this Agreement do not comply with Code Section 409A the Company shall make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Health Corporation's 409A Universal Definitions Document are hereby incorporated by reference and to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to the "termination of employment" (and corollary terms) shall be construed to refer to "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and the Participant, by accepting this Award, acknowledges that the Participant shall be solely responsible for same.

15. The Award subject to this PSU Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, the Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.

16. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.

17. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

By: S/ Lisa G. Bisaccia
Executive Vice President, Chief Human Resources Officer
CVS Health Corporation

Letter re: Unaudited Interim Financial Information

May 2, 2018

The Board of Directors and Shareholders:
CVS Health Corporation

We are aware of the incorporation by reference in the Registration Statements (Nos. 333-49407, 333-34927, 333-28043, 333-91253, 333-63664, 333-139470, 333-141481, 333-167746, 333-208805, and 333-217853 on Form S-8, Nos. 333-187440, 333-200217, and 333-217596 on Form S-3ASR, Nos. 333-205156 and 333-210872 on Form S-3 and No. 333-210873 on Form S-4) of CVS Health Corporation of our report dated May 2, 2018, relating to the unaudited condensed consolidated interim financial statements of CVS Health Corporation that are included in its Form 10-Q for the quarter ended March 31, 2018.

/s/ Ernst & Young LLP

Boston, Massachusetts

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry J. Merlo, President and Chief Executive Officer of CVS Health Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CVS Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2018

By: /s/ Larry J. Merlo
Larry J. Merlo
President and Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David M. Denton, Executive Vice President and Chief Financial Officer of CVS Health Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CVS Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2018

By: /s/ David M. Denton
David M. Denton
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with the Quarterly Report of CVS Health Corporation (the "Company") on Form 10-Q for the period ended March 31, 2018 (the "Report"), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Larry J. Merlo, President and Chief Executive Officer of the Company, certify that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 2, 2018

/s/ Larry J. Merlo
Larry J. Merlo
President and Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with the Quarterly Report of CVS Health Corporation (the "Company") on Form 10-Q for the period ended March 31, 2018 (the "Report"), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, David M. Denton, Executive Vice President and Chief Financial Officer of the Company, certify that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 2, 2018

/s/ David M. Denton
David M. Denton
Executive Vice President and Chief Financial Officer