UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

Or

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

For the transition period from to

Commission file number 1-11239

HCA Healthcare, Inc.

(Exact name of registrant as specified in its charter)

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

(615) 344-9551

(Registrant s telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit 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	Smaller reporting company
Emerging growth company	

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

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

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

Class of Common Stock	Outstanding at October 31, 2018
Voting common stock, $.01 par value	344,160,500 shares

HCA HEALTHCARE, INC.

Form 10-Q

September 30, 2018

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Unaudited

(Dollars in millions, except per share amounts)

	Quarter		Nine Months	
	2018	2017	**2018**	2017
Revenues	**$ 11,451**	$ 10,696	**$ 34,403**	$ 32,052
Salaries and benefits	**5,377**	5,081	**15,940**	14,878
Supplies	**1,890**	1,777	**5,722**	5,369
Other operating expenses	**2,097**	2,075	**6,325**	5,970
Equity in earnings of affiliates	**(9)**	(13)	**(25)**	(36)
Depreciation and amortization	**582**	539	**1,697**	1,581
Interest expense	**442**	427	**1,309**	1,257
Gains on sales of facilities	**(6)**	(7)	**(420)**	(10)
Losses on retirement of debt	**9**	39	**9**	39
	10,382	9,918	**30,557**	29,048
Income before income taxes	**1,069**	778	**3,846**	3,004
Provision for income taxes	**173**	248	**702**	902
Net income	**896**	530	**3,144**	2,102
Net income attributable to noncontrolling interests	**137**	104	**421**	360
Net income attributable to HCA Healthcare, Inc.	**$ 759**	$ 426	**$ 2,723**	$ 1,742
Per share data:				
Basic earnings	**$ 2.20**	$ 1.18	**$ 7.82**	$ 4.77
Diluted earnings	**$ 2.15**	$ 1.15	**$ 7.65**	$ 4.64
Shares used in earnings per share calculations (in millions):				
Basic	**345.823**	360.170	**348.411**	365.398
Diluted	**353.639**	369.834	**356.124**	375.013

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

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Unaudited

(Dollars in millions)

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Net income	**$ 896**	$ 530	**$ 3,144**	$ 2,102
Other comprehensive income (loss) before taxes:				
Foreign currency translation	**(13)**	32	**(35)**	87
Unrealized (losses) gains on available-for-sale securities	**(2)**		**(8)**	5
Defined benefit plans				
Pension costs included in salaries and benefits	**5**	5	**15**	14
	5	5	**15**	14
Change in fair value of derivative financial instruments	**10**	(1)	**60**	(9)
Interest (benefits) costs included in interest expense	**(3)**	4	**(5)**	17
	7	3	**55**	8
Other comprehensive (loss) income before taxes	**(3)**	40	**27**	114
Income taxes related to other comprehensive income items	**2**	15	**15**	44
Other comprehensive (loss) income	**(5)**	25	**12**	70
Comprehensive income	**891**	555	**3,156**	2,172
Comprehensive income attributable to noncontrolling interests	**137**	104	**421**	360
Comprehensive income attributable to HCA Healthcare, Inc.	**$ 754**	$ 451	**$ 2,735**	$ 1,812

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

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in millions)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 578	$ 732
Accounts receivable	6,532	6,501
Inventories	1,634	1,573
Other	1,266	1,171
	10,010	9,977
Property and equipment, at cost	41,978	40,084
Accumulated depreciation	(22,937)	(22,189)
	19,041	17,895
Investments of insurance subsidiaries	367	418
Investments in and advances to affiliates	238	199
Goodwill and other intangible assets	7,759	7,394
Other	629	710
	$ 38,044	$ 36,593
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 2,414	$ 2,606
Accrued salaries	1,456	1,369
Other accrued expenses	2,170	1,983
Long-term debt due within one year	191	200
	6,231	6,158
Long-term debt, less net debt issuance costs of $163 and $164	32,916	32,858
Professional liability risks	1,239	1,198
Income taxes and other liabilities	1,388	1,374
Stockholders deficit:		
Common stock $0.01 par; authorized 1,800,000,000 shares; outstanding 345,085,800 shares in 2018 and 350,091,600 shares in 2017	3	4
Accumulated other comprehensive loss	(266)	(278)
Retained deficit	(5,342)	(6,532)

Stockholders deficit attributable to HCA Healthcare, Inc.		**(5,605)**		(6,806)
Noncontrolling interests		**1,875**		1,811
		(3,730)		(4,995)
	$	**38,044**	$	36,593

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

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT

FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Unaudited

(Dollars in millions)

	Equity (Deficit) Attributable to HCA Healthcare, Inc.						
	Common Stock		Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Deficit	Equity Attributable to Noncontrolling Interests	Total
	Shares (in millions)	Par Value					
Balances, December 31, 2016	370.536	$ 4	$	$ (338)	$ (6,968)	$ 1,669	$ (5,633)
Comprehensive income				18	659	118	795
Repurchase of common stock	(5.121)		(32)		(392)		(424)
Share-based benefit plans	3.280		35				35
Distributions						(145)	(145)
Other			(3)			18	15
Balances, March 31, 2017	368.695	4		(320)	(6,701)	1,660	(5,357)
Comprehensive income				27	657	138	822
Repurchase of common stock	(6.404)		(83)		(459)		(542)
Share-based benefit plans	0.604		82				82
Distributions						(103)	(103)
Other			1			18	19
Balances, June 30, 2017	362.895	4		(293)	(6,503)	1,713	(5,079)
Comprehensive income				25	426	104	555
Repurchase of common stock	(6.322)		(70)		(439)		(509)
Share-based benefit plans	0.407		71				71
Distributions						(115)	(115)
Other			(1)			12	11
Balances, September 30, 2017	356.980	4		(268)	(6,516)	1,714	(5,066)
Comprehensive income				(10)	474	167	631
Repurchase of common stock	(7.245)		(86)		(490)		(576)
Share-based benefit plans	0.357		93				93
Distributions						(85)	(85)
Other			(7)			15	8
Balances, December 31, 2017	350.092	4		(278)	(6,532)	1,811	(4,995)
Comprehensive income				81	1,144	138	1,363
Repurchase of common stock	(4.370)				(423)		(423)
Share-based benefit plans	5.265				(114)		(114)
					(126)		(126)

Cash dividends declared ($0.35 per share)							
Distributions						(92)	(92)
Other						(47)	(47)
Balances, March 31, 2018	350.987	4		(197)	(6,051)	1,810	(4,434)
Comprehensive income				(64)	820	146	902
Repurchase of common stock	(4.670)	(1)	(93)		(376)		(470)
Share-based benefit plans	0.443		96				96
Cash dividends declared ($0.35 per share)					(124)		(124)
Distributions						(93)	(93)
Other			(3)			1	(2)
Balances, June 30, 2018	346.760	3		(261)	(5,731)	1,864	(4,125)
Comprehensive income				**(5)**	**759**	**137**	**891**
Repurchase of common stock	**(2.518)**		**(55)**		**(247)**		**(302)**
Share-based benefit plans	**0.844**		**54**				**54**
Cash dividends declared ($0.35 per share)					**(123)**		**(123)**
Distributions						**(130)**	**(130)**
Other			**1**			**4**	**5**
Balances, September 30, 2018	**345.086**	**$ 3**	**$**	**$ (266)**	**$ (5,342)**	**$ 1,875**	**$ (3,730)**

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

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Unaudited

(Dollars in millions)

	2018	2017
Cash flows from operating activities:		
Net income	**$ 3,144**	$ 2,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase (decrease) in cash from operating assets and liabilities:		
Accounts receivable	**(161)**	(70)
Inventories and other assets	**(136)**	(50)
Accounts payable and accrued expenses	**150**	(169)
Depreciation and amortization	**1,697**	1,581
Income taxes		(9)
Gains on sales of facilities	**(420)**	(10)
Losses on retirement of debt	**9**	39
Amortization of debt issuance costs	**23**	23
Share-based compensation	**204**	195
Other	**76**	60
Net cash provided by operating activities	**4,586**	3,692
Cash flows from investing activities:		
Purchase of property and equipment	**(2,420)**	(2,033)
Acquisition of hospitals and health care entities	**(1,056)**	(1,142)
Disposal of hospitals and health care entities	**802**	24
Change in investments	**65**	(15)
Other	**(6)**	(6)
Net cash used in investing activities	**(2,615)**	(3,172)
Cash flows from financing activities:		
Issuances of long-term debt	**2,000**	1,502
Net change in revolving bank credit facilities	**(330)**	650
Repayment of long-term debt	**(1,652)**	(700)
Distributions to noncontrolling interests	**(315)**	(363)
Payment of debt issuance costs	**(24)**	(25)
Payment of cash dividends	**(366)**	
Repurchases of common stock	**(1,195)**	(1,475)
Other	**(232)**	(37)
Net cash used in financing activities	**(2,114)**	(448)

Effect of exchange rate changes on cash and cash equivalents		**(11)**		
Change in cash and cash equivalents		**(154)**		72
Cash and cash equivalents at beginning of period		**732**		646
Cash and cash equivalents at end of period	**$**	**578**	$	718
Interest payments	**$**	**1,422**	$	1,383
Income tax payments, net	**$**	**702**	$	911

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

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

HCA Healthcare, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term affiliates includes direct and indirect subsidiaries of HCA Healthcare, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At September 30, 2018, these affiliates owned and operated 179 hospitals, 122 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Healthcare, Inc. s facilities are located in 20 states and England. The terms Company, HCA, we, our or us, as used he unless otherwise stated or indicated by context, refer to HCA Healthcare, Inc. and its affiliates. The terms facilities or hospitals refer to entities owned and operated by affiliates of HCA and the term employees refers to employees of affiliates of HCA.

Basis of Presentation

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

The majority of our expenses are costs of revenues items. Costs that could be classified as general and administrative would include our corporate office costs, which were $90 million and $83 million for the quarters ended September 30, 2018 and 2017, respectively, and $254 million and $247 million for the nine months ended September 30, 2018 and 2017, respectively. Operating results for the quarter and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2017.

Revenues

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

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

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenues (continued)

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

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

	Quarter			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 2,404**	**21.0%**	$ 2,298	21.5%
Managed Medicare	**1,344**	**11.7**	1,122	10.5
Medicaid	**338**	**3.0**	286	2.7
Managed Medicaid	**622**	**5.4**	537	5.0
Managed care and insurers	**6,026**	**52.6**	5,605	52.4
International (managed care and insurers)	**273**	**2.4**	276	2.6
Other	**444**	**3.9**	572	5.3
Revenues	**$ 11,451**	**100.0%**	$ 10,696	100.0%

	Nine Months			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 7,353**	**21.4%**	$ 6,931	21.6%
Managed Medicare	**4,088**	**11.9**	3,463	10.8
Medicaid	**976**	**2.8**	956	3.0

Managed Medicaid	**1,769**	**5.1**	1,653	5.2
Managed care and insurers	**18,081**	**52.6**	16,957	52.9
International (managed care and insurers)	**873**	**2.5**	814	2.5
Other	**1,263**	**3.7**	1,278	4.0
Revenues	**$ 34,403**	**100.0%**	$ 32,052	100.0%

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenues (continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility recorded estimates will change by a material amount. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the cost report filing and settlement process).

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

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

The estimates for implicit price concessions are based upon management s assessment of historical writeoffs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical writeoffs and collections at facilities that represent a majority of our revenues and accounts receivable (the hindsight analysis) as a primary source of information in estimating the collectability of our accounts receivable. We perform the hindsight analysis quarterly, utilizing rolling twelve-months accounts receivable collection and writeoff data. We believe our quarterly updates to the estimated implicit price concession amounts at each of our hospital facilities provide reasonable estimates of our revenues and valuations of our accounts receivable. These routine, quarterly changes in estimates have not resulted in material adjustments to the valuations of our accounts receivable or period-to-period comparisons of our results of operations. At September 30, 2018 and December 31, 2017, estimated implicit price concessions of $5.781 billion and $5.488 billion, respectively, had been recorded as

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenues (continued)

reductions to our accounts receivable balances to enable us to record our revenues and accounts receivable at the estimated amounts we expect to collect.

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

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Patient care costs (salaries and benefits, supplies, other operating expenses and depreciation and amortization)	**$ 9,946**	$ 9,472	**$ 29,684**	$ 27,798
Cost-to-charges ratio (patient care costs as percentage of gross patient charges)	**12.7%**	13.4%	**12.6%**	13.1%
Total uncompensated care	**$ 6,786**	$ 6,089	**$ 19,524**	$ 17,137
Multiply by the cost-to-charges ratio	**12.7%**	13.4%	**12.6%**	13.1%
Estimated cost of total uncompensated care	**$ 862**	$ 816	**$ 2,460**	$ 2,245

Total uncompensated care as a percentage of the sum of revenues and total uncompensated care was 37.2% and 36.3% for the quarters ended September 30, 2018 and 2017, respectively, and 36.2% and 34.8% for the nine months ended September 30, 2018 and 2017, respectively. The total uncompensated care amounts include charity care of $2.314 billion and $1.235 billion, and the related estimated costs of charity care were $295 million and $167 million for the quarters ended September 30, 2018 and 2017, respectively, and charity care of $6.170 billion and $3.494 billion, and the related estimated costs of charity care were $777 million and $458 million for the nine months ended September 30, 2018 and 2017, respectively.

Recent Pronouncements

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

During October 2018, the SEC adopted a final rule affecting interim financial statements which requires a reconciliation of changes in stockholders equity in the notes to the financial statements or as a separate statement. We have included a single statement presentation of our condensed consolidated statements of stockholders deficit for the quarters and nine months ended September 30, 2018 and 2017.

Reclassifications

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

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 ACQUISITIONS AND DISPOSITIONS

During the nine months ended September 30, 2018, we paid $788 million to acquire two hospital facilities and $268 million to acquire other nonhospital health care entities. During the nine months ended September 30, 2017, we paid $1.000 billion to acquire seven hospital facilities and $142 million to acquire other nonhospital health care entities. Purchase price amounts have been allocated to the related assets acquired and liabilities assumed based upon their respective fair values. The purchase price paid in excess of the fair value of identifiable net assets of these acquired entities aggregated $433 million and $655 million for the nine months ended September 30, 2018 and 2017, respectively. The consolidated financial statements include the accounts and operations of the acquired entities subsequent to the respective acquisition dates. The pro forma effects of these acquired entities on our results of operations for periods prior to the respective acquisition dates were not significant.

During the nine months ended September 30, 2018, we received proceeds of $758 million and recognized a net pretax gain of $372 million related to the sale of the two hospital facilities in our Oklahoma market. During the nine months ended September 30, 2018, we also received proceeds of $44 million and recognized a net pretax gain of $48 million related to sales of real estate and other investments. During the nine months ended September 30, 2017, we received proceeds of $24 million and recognized a net pretax gain of $10 million related to sales of real estate and other investments.

NOTE 3 INCOME TAXES

Our provision for income taxes for the quarters ended September 30, 2018 and 2017, was $173 million and $248 million, respectively, and the effective tax rates were 18.6% and 36.7%, respectively. Our provision for income taxes for the nine months ended September 30, 2018 and 2017, was $702 million and $902 million, respectively, and the effective tax rates were 20.5% and 34.1%, respectively. The reductions in the effective tax rates for 2018 periods were primarily related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act (the Tax Act). Our provision for income taxes for the quarter and nine months ended September 30, 2018 included tax benefits, of $132 million and $377 million, respectively, related to the reduction in our effective tax rate associated with the impact of the Tax Act. Our provision for income taxes also included tax benefits related to the settlement of employee equity awards of $23 million and $4 million for the quarters ended September 30, 2018 and 2017, respectively, and $119 million and $80 million for the nine months ended September 30, 2018 and 2017, respectively. We also recorded a reduction to the provision for income taxes of $28 million during the quarter ended September 30, 2018 for tax credits related to certain 2017 hurricane-related expenses.

The Tax Act was enacted on December 22, 2017, and it significantly revised U.S. corporate income taxes, including lowering the federal statutory corporate tax rate from 35% to 21% beginning in 2018. Due to the complexity and uncertainty regarding numerous provisions of the Tax Act, we have not completed our accounting for its effects. However, we have made reasonable estimates and recorded provisional amounts in our financial statements as of September 30, 2018. As we complete our analysis of the Tax Act, we may make adjustments to the provisional amounts and record additional amounts for those federal, state, and foreign tax assets and liabilities for which we were unable to make reasonable estimates as of September 30, 2018. Any adjustments or additional amounts recorded may materially impact our provision for income taxes and effective tax rate in the periods in which they are made.

Our liability for unrecognized tax benefits was $440 million, including accrued interest of $45 million, as of September 30, 2018 ($439 million and $44 million, respectively, as of December 31, 2017). Unrecognized tax benefits of $145 million ($145 million as of December 31, 2017) would affect the effective rate, if recognized.

We are subject to examination by federal, state and foreign taxing authorities. Depending on the resolution of any federal, state and foreign tax disputes, the completion of examinations by federal, state or foreign taxing

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (continued)

authorities, or the expiration of statutes of limitation for specific taxing jurisdictions, we believe it is reasonably possible that our liability for unrecognized tax benefits may significantly increase or decrease within the next 12 months. However, we are currently unable to estimate the range of any possible change.

NOTE 4 EARNINGS PER SHARE

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

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

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Net income attributable to HCA Healthcare, Inc.	**$ 759**	$ 426	**$ 2,723**	$ 1,742
Weighted average common shares outstanding	**345.823**	360.170	**348.411**	365.398
Effect of dilutive incremental shares	**7.816**	9.664	**7.713**	9.615
Shares used for diluted earnings per share	**353.639**	369.834	**356.124**	375.013
Earnings per share:				
Basic earnings	**$ 2.20**	$ 1.18	**$ 7.82**	$ 4.77
Diluted earnings	**$ 2.15**	$ 1.15	**$ 7.65**	$ 4.64

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES

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

	September 30, 2018			
		Unrealized Amounts		
	Amortized Cost	Gains	Losses	Fair Value
Debt securities	**$ 343**	**$ 4**	**$ (2)**	**$ 345**
Money market funds and other	**68**			**68**

	$ 411	**$ 4**	**$ (2)**	**413**
Amounts classified as current assets				**(46)**
Investment carrying value				**$ 367**

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES (continued)

	December 31, 2017			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
Debt securities	$ 361	$ 10	$	$ 371
Money market funds and other	101			101
	$ 462	$ 10	$	472
Amounts classified as current assets				(54)
Investment carrying value				$ 418

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

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

	Amortized Cost	Fair Value
Due in one year or less	$ 9	$ 9
Due after one year through five years	57	58
Due after five years through ten years	210	212
Due after ten years	67	66
	$ 343	$ 345

The average expected maturity of the investments in debt securities at September 30, 2018 was 5.7 years, compared to the average scheduled maturity of 10.1 years. Expected and scheduled maturities may differ because the issuers of certain securities have the right to call, prepay or otherwise redeem such obligations prior to their scheduled maturity date.

NOTE 6 FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

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

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FINANCIAL INSTRUMENTS (continued)

Interest Rate Swap Agreements (continued)

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

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	$ 2,000	December 2021	$ 88
Pay-fixed interest rate swaps	500	December 2022	17

During the next 12 months, we estimate $26 million will be reclassified from other comprehensive income (OCI) and will reduce interest expense.

Derivatives Results of Operations

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives, Net of Tax	Location of Gain Reclassified from Accumulated OCI into Operations	Amount of Gain Reclassified from Accumulated OCI into Operations
Interest rate swaps	$ 46	Interest expense	$ 5

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

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

Cash Traded Investments

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

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivative Financial Instruments

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

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

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

		September 30, 2018 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments of insurance subsidiaries:				
Debt securities	$ 345	$	$ 345	$
Money market funds and other	68	68		
Investments of insurance subsidiaries	413	68	345	
Less amounts classified as current assets	(46)	(46)		
	$ 367	22	$ 345	$
Interest rate swaps (Other)	$ 105	$	$ 105	$

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

The estimated fair value of our long-term debt was $34.125 billion and $34.689 billion at September 30, 2018 and December 31, 2017, respectively, compared to carrying amounts, excluding net debt issuance costs, aggregating $33.270 billion and $33.222 billion, respectively. The estimates of fair value are generally based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities.

NOTE 8 LONG-TERM DEBT

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

	September 30, 2018	December 31, 2017
Senior secured asset-based revolving credit facility (effective interest rate of 3.7%)	**$ 3,350**	$ 3,680
Senior secured revolving credit facility		
Senior secured term loan facilities (effective interest rate of 3.6%)	**3,825**	3,891

Senior secured notes (effective interest rate of 5.6%)		**13,800**		15,300
Other senior secured debt (effective interest rate of 5.8%)		**543**		599
Senior secured debt		**21,518**		23,470
Senior unsecured notes (effective interest rate of 6.3%)		**11,752**		9,752
Net debt issuance costs		**(163)**		(164)
Total debt (average life of 6.6 years, rates averaging 5.4%)		**33,107**		33,058
Less amounts due within one year		**191**		200
	$	**32,916**	$	32,858

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 LONG-TERM DEBT (continued)

During August 2018, we issued $2.000 billion aggregate principal amount of senior notes comprised of $1.000 billion aggregate principal amount of 5.375% notes due 2026 and $1.000 billion aggregate principal amount of 5.625% notes due 2028. We used the net proceeds for general corporate purposes, including funding the purchase of a hospital, and the redemption of all $1.500 billion aggregate principal amount of our existing 3.750% senior secured notes maturing in March 2019. The pretax loss on retirement of debt was $9 million.

NOTE 9 CONTINGENCIES

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

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

NOTE 10 SHARE REPURCHASES TRANSACTIONS AND OTHER COMPREHENSIVE LOSS

During the nine months ended September 30, 2018, we repurchased 11.558 million shares of our common stock at an average price of $103.42 per share through market purchases pursuant to the $2.0 billion share repurchase program authorized during October 2017. At September 30, 2018, we had $607 million of repurchase authorization available under the October 2017 authorization.

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

	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Change in Fair Value of Derivative Instruments	Total
Balances at December 31, 2017	$ 7	$ (149)	$ (168)	$ 32	$ (278)

Unrealized losses on available-for-sale securities, net of $1 income tax benefit	(7)				(7)
Foreign currency translation adjustments		(35)			(35)
Change in fair value of derivative instruments, net of $14 of income taxes				46	46
Expense (income) reclassified into operations from other comprehensive income, net of $3 income tax benefit and $1 of income taxes, respectively			12	(4)	8
Balances at September 30, 2018	$	$ (184)	$ (156)	$ 74	$ (266)

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NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. We operate in two geographically organized groups: the National and American Groups. The National Group includes 88 hospitals located in Alaska, California, Florida, southern Georgia, Idaho, Indiana, northern Kentucky, Nevada, New Hampshire, South Carolina, Utah and Virginia, and the American Group includes 85 hospitals located in Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Tennessee and Texas. We also operate six hospitals in England, and these facilities are included in the Corporate and other group.

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (continued)

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

	Quarter		**Nine Months**	
	2018	**2017**	**2018**	**2017**
Revenues:				
National Group	**$ 5,542**	$ 5,036	**$ 16,719**	$ 15,344
American Group	**5,396**	5,180	**16,113**	15,268
Corporate and other	**513**	480	**1,571**	1,440
	$ 11,451	$ 10,696	**$ 34,403**	$ 32,052
Equity in earnings of affiliates:				
National Group	**$ (1)**	$ (8)	**$ (5)**	$ (17)
American Group	**(10)**	(9)	**(29)**	(27)
Corporate and other	**2**	4	**9**	8
	$ (9)	$ (13)	**$ (25)**	$ (36)
Adjusted segment EBITDA:				
National Group	**$ 1,127**	$ 975	**$ 3,593**	$ 3,268
American Group	**1,072**	930	**3,250**	2,977
Corporate and other	**(103)**	(129)	**(402)**	(374)
	$ 2,096	$ 1,776	**$ 6,441**	$ 5,871
Depreciation and amortization:				
National Group	**$ 245**	$ 219	**$ 702**	$ 650
American Group	**258**	251	**765**	727

Corporate and other		**79**		69		**230**		204
	$	**582**	$	539	**$**	**1,697**	$	1,581
Adjusted segment EBITDA	**$**	**2,096**	$	1,776	**$**	**6,441**	$	5,871
Depreciation and amortization		**582**		539		**1,697**		1,581
Interest expense		**442**		427		**1,309**		1,257
Gains on sales of facilities		**(6)**		(7)		**(420)**		(10)
Losses on retirement of debt		**9**		39		**9**		39
Income before income taxes	**$**	**1,069**	$	778	**$**	**3,846**	$	3,004

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

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

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

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE QUARTER ENDED SEPTEMBER 30, 2018

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$	$ 6,747	$ 4,704	$	$ 11,451
Salaries and benefits			3,090	2,287		5,377
Supplies			1,115	775		1,890
Other operating expenses	2		1,137	958		2,097
Equity in earnings of affiliates	(728)		(2)	(7)	728	(9)
Depreciation and amortization			340	242		582
Interest expense (income)	16	913	(423)	(64)		442

Losses (gains) on sales of facilities			(6)			(6)
Losses on retirement of debt		9				9
Management fees			(158)	158		
	(710)	922	5,093	4,349	728	10,382
Income (loss) before income taxes	710	(922)	1,654	355	(728)	1,069
Provision (benefit) for income taxes	(49)	(214)	379	57		173
Net income (loss)	759	(708)	1,275	298	(728)	896
Net income attributable to noncontrolling interests			22	115		137
Net income (loss) attributable to HCA Healthcare, Inc.	$ 759	$ (708)	$ 1,253	$ 183	$ (728)	$ 759
Comprehensive income (loss) attributable to HCA Healthcare, Inc.	$ 754	$ (703)	$ 1,258	$ 168	$ (723)	$ 754

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE QUARTER ENDED SEPTEMBER 30, 2017

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors (as adjusted)	Subsidiary Non-Guarantors (as adjusted)	Eliminations	Condensed Consolidated
Revenues	$	$	$ 6,303	$ 4,393	$	$ 10,696
Salaries and benefits			2,915	2,166		5,081
Supplies			1,033	744		1,777
Other operating expenses			1,093	982		2,075
Equity in earnings of affiliates	(436)		(1)	(12)	436	(13)
Depreciation and amortization			311	228		539
Interest expense (income)	16	792	(342)	(39)		427
Gains on sales of facilities			(3)	(4)		(7)
Losses on retirement of debt		39				39
Management fees			(159)	159		
	(420)	831	4,847	4,224	436	9,918
Income (loss) before income taxes	420	(831)	1,456	169	(436)	778
Provision (benefit) for income taxes	(6)	(307)	528	33		248
Net income (loss)	426	(524)	928	136	(436)	530
Net income attributable to noncontrolling interests			24	80		104
Net income (loss) attributable to HCA Healthcare, Inc.	$ 426	$ (524)	$ 904	$ 56	$ (436)	$ 426

Comprehensive income (loss) attributable to HCA Healthcare, Inc.	$ 451	$ (522)	$ 907	$ 76	$ (461)	$ 451

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$	$ 20,297	$ 14,106	$	$ 34,403
Salaries and benefits			9,184	6,756		15,940
Supplies			3,383	2,339		5,722
Other operating expenses	7		3,387	2,931		6,325
Equity in earnings of affiliates	(2,670)		(5)	(20)	2,670	(25)
Depreciation and amortization			992	705		1,697
Interest expense (income)	48	2,617	(1,179)	(177)		1,309
Gains on sales of facilities			(378)	(42)		(420)
Losses on retirement of debt		9				9
Management fees			(473)	473		
	(2,615)	2,626	14,911	12,965	2,670	30,557
Income (loss) before income taxes	2,615	(2,626)	5,386	1,141	(2,670)	3,846
Provision (benefit) for income taxes	(108)	(610)	1,235	185		702
Net income (loss)	2,723	(2,016)	4,151	956	(2,670)	3,144
Net income attributable to noncontrolling interests			72	349		421
Net income (loss) attributable to HCA Healthcare, Inc.	$ 2,723	$ (2,016)	$ 4,079	$ 607	$ (2,670)	$ 2,723

Comprehensive income (loss) attributable to HCA Healthcare, Inc.	$	2,735	$	(1,974)	$	4,091	$	565	$	(2,682)	$	2,735

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors (as adjusted)	Subsidiary Non-Guarantors (as adjusted)	Eliminations	Condensed Consolidated
Revenues	$	$	$ 19,008	$ 13,044	$	$ 32,052
Salaries and benefits			8,689	6,189		14,878
Supplies			3,163	2,206		5,369
Other operating expenses	5		3,207	2,758		5,970
Equity in earnings of affiliates	(1,702)		(4)	(32)	1,702	(36)
Depreciation and amortization			923	658		1,581
Interest expense (income)	48	2,280	(947)	(124)		1,257
Gains on sales of facilities			(6)	(4)		(10)
Losses on retirement of debt		39				39
Management fees			(479)	479		
	(1,649)	2,319	14,546	12,130	1,702	29,048
Income (loss) before income taxes	1,649	(2,319)	4,462	914	(1,702)	3,004
Provision (benefit) for income taxes	(93)	(856)	1,619	232		902
Net income (loss)	1,742	(1,463)	2,843	682	(1,702)	2,102
Net income attributable to noncontrolling interests			74	286		360
Net income (loss) attributable to HCA	$ 1,742	$ (1,463)	$ 2,769	$ 396	$ (1,702)	$ 1,742

Healthcare, Inc.

Comprehensive income (loss) attributable to HCA Healthcare, Inc.	$	1,812	$	(1,458)	$	2,778	$	452	$	(1,772)	$	1,812

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2018

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 105	$ 473	$	$ 578
Accounts receivable			3,854	2,678		6,532
Inventories			1,088	546		1,634
Other	47		667	552		1,266
	47		5,714	4,249		10,010
Property and equipment, net			12,192	6,849		19,041
Investments of insurance subsidiaries				367		367
Investments in and advances to affiliates	32,263		29	209	(32,263)	238
Goodwill and other intangible assets			5,736	2,023		7,759
Other	389	106	29	105		629
	$ 32,699	$ 106	$ 23,700	$ 13,802	$ (32,263)	$ 38,044
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
Current liabilities:						
Accounts payable	$	$	$ 1,627	$ 787	$	$ 2,414
Accrued salaries			914	542		1,456
Other accrued expenses	10	296	790	1,074		2,170
Long-term debt due within one year		97	61	33		191

	10	393	3,392	2,436		6,231
Long-term debt, net	996	31,471	281	168		32,916
Intercompany balances	36,790	(7,734)	(27,263)	(1,793)		
Professional liability risks				1,239		1,239
Income taxes and other liabilities	508		364	516		1,388
	38,304	24,130	(23,226)	2,566		41,774
Stockholders (deficit) equity attributable to HCA Healthcare, Inc.	(5,605)	(24,024)	46,846	9,441	(32,263)	(5,605)
Noncontrolling interests			80	1,795		1,875
	(5,605)	(24,024)	46,926	11,236	(32,263)	(3,730)
	$ 32,699	$ 106	$ 23,700	$ 13,802	$ (32,263)	$ 38,044

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2017

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 1	$	$ 112	$ 619	$	$ 732
Accounts receivable			3,693	2,808		6,501
Inventories			1,030	543		1,573
Other			663	508		1,171
	1		5,498	4,478		9,977
Property and equipment, net			11,110	6,785		17,895
Investments of insurance subsidiaries				418		418
Investments in and advances to affiliates	29,581		22	177	(29,581)	199
Goodwill and other intangible assets			4,893	2,501		7,394
Other	510	50	47	103		710
	$ 30,092	$ 50	$ 21,570	$ 14,462	$ (29,581)	$ 36,593
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
Current liabilities:						
Accounts payable	$	$	$ 1,793	$ 813	$	$ 2,606
Accrued salaries			862	507		1,369
Other accrued expenses	29	378	536	1,040		1,983
Long-term debt due within one year		97	64	39		200
	29	475	3,255	2,399		6,158

Long-term debt, net	995	31,367	307	189		32,858
Intercompany balances	35,322	(9,742)	(25,228)	(352)		
Professional liability risks				1,198		1,198
Income taxes and other liabilities	552		357	465		1,374
	36,898	22,100	(21,309)	3,899		41,588
Stockholders (deficit) equity attributable to HCA Healthcare, Inc.	(6,806)	(22,050)	42,755	8,876	(29,581)	(6,806)
Noncontrolling interests			124	1,687		1,811
	(6,806)	(22,050)	42,879	10,563	(29,581)	(4,995)
	$ 30,092	$ 50	$ 21,570	$ 14,462	$ (29,581)	$ 36,593

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 2,723	$ (2,016)	$ 4,151	$ 956	$ (2,670)	$ 3,144
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Changes in operating assets and liabilities	(15)	(83)	(154)	105		(147)
Depreciation and amortization			992	705		1,697
Gains on sales of facilities			(378)	(42)		(420)
Losses on retirement of debt		9				9
Amortization of debt issuance costs		23				23
Share-based compensation			204			204
Equity in earnings of affiliates	(2,670)				2,670	
Other	67			9		76
Net cash provided by (used in) operating activities	105	(2,067)	4,815	1,733		4,586
Cash flows from investing activities:						
Purchase of property and equipment			(1,425)	(995)		(2,420)
Acquisition of hospitals and health care entities			(894)	(162)		(1,056)
Disposition of hospitals and health care entities			770	32		802
Change in investments			19	46		65

Other			(18)	12		(6)
Net cash used in investing activities			(1,548)	(1,067)		(2,615)
Cash flows from financing activities:						
Issuance of long-term debt		2,000				2,000
Net change in revolving credit facilities		(330)				(330)
Repayment of long-term debt		(1,566)	(44)	(42)		(1,652)
Distributions to noncontrolling interests			(63)	(252)		(315)
Payment of debt issuance costs		(24)				(24)
Payment of cash dividends	(366)					(366)
Repurchases of common stock	(1,195)					(1,195)
Changes in intercompany balances with affiliates, net	1,697	1,987	(3,167)	(517)		
Other	(242)			10		(232)
Net cash (used in) provided by financing activities	(106)	2,067	(3,274)	(801)		(2,114)
Effect on exchange rate changes on cash and cash equivalents				(11)		(11)
Change in cash and cash equivalents	(1)		(7)	(146)		(154)
Cash and cash equivalents at beginning of period	1		112	619		732
Cash and cash equivalents at end of period	$	$	$ 105	$ 473	$	$ 578

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(Dollars in millions)

	HCA Healthcare, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors (as adjusted)	Subsidiary Non-Guarantors (as adjusted)	Eliminations	Condensed Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 1,742	$ (1,463)	$ 2,843	$ 682	$ (1,702)	$ 2,102
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Changes in operating assets and liabilities	(15)	(293)	(191)	210		(289)
Depreciation and amortization			923	658		1,581
Income taxes	(9)					(9)
Gains on sales of facilities			(6)	(4)		(10)
Losses on retirement of debt		39				39
Amortization of debt issuance costs		23				23
Share-based compensation			195			195
Equity in earnings of affiliates	(1,702)				1,702	
Other	58		2			60
Net cash provided by (used in) operating activities	74	(1,694)	3,766	1,546		3,692
Cash flows from investing activities:						
Purchase of property and equipment			(1,161)	(872)		(2,033)
Acquisition of hospitals and health care entities			(9)	(1,133)		(1,142)

Disposition of hospitals and health care entities			12	12		24
Change in investments			1	(16)		(15)
Other			(7)	1		(6)
Net cash used in investing activities			(1,164)	(2,008)		(3,172)
Cash flows from financing activities:						
Issuance of long-term debt		1,500		2		1,502
Net change in revolving credit facilities		650				650
Repayment of long-term debt		(604)	(54)	(42)		(700)
Distributions to noncontrolling interests			(105)	(258)		(363)
Payment of debt issuance costs		(25)				(25)
Repurchases of common stock	(1,475)					(1,475)
Changes in intercompany balances with affiliates, net	1,468	173	(2,439)	798		
Other	(66)		1	28		(37)
Net cash (used in) provided by financing activities	(73)	1,694	(2,597)	528		(448)
Change in cash and cash equivalents	1		5	66		72
Cash and cash equivalents at beginning of period			114	532		646
Cash and cash equivalents at end of period	$ 1	$	$ 119	$ 598	$	$ 718

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

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

	As Previously Reported	Adjustment	As Adjusted
Quarter ended September 30, 2017			
Net income (loss) attributable to HCA Healthcare, Inc.:			
HCA Healthcare, Inc. Issuer	$ 426	$	$ 426
HCA Inc. Issuer	(524)		(524)
Subsidiary Guarantors	787	117	904
Subsidiary Non-Guarantors	173	(117)	56
Eliminations	(436)		(436)
Condensed Consolidated	$ 426	$	$ 426

	As Previously Reported	Adjustment	As Adjusted
Nine months ended September 30, 2017			
Net income (loss) attributable to HCA Healthcare, Inc.:			
HCA Healthcare, Inc. Issuer	$ 1,742	$	$ 1,742
HCA Inc. Issuer	(1,463)		(1,463)
Subsidiary Guarantors	2,467	302	2,769
Subsidiary Non-Guarantors	698	(302)	396
Eliminations	(1,702)		(1,702)

Condensed Consolidated	$ 1,742	$	$ 1,742

	As Previously Reported	Adjustment	As Adjusted
Nine months ended September 30, 2017			
Net cash provided (used in) operating activities:			
HCA Healthcare, Inc. Issuer	$ 74	$	$ 74
HCA Inc. Issuer	(1,694)		(1,694)
Subsidiary Guarantors	3,342	424	3,766
Subsidiary Non-Guarantors	1,970	(424)	1,546
Eliminations			
Condensed Consolidated	$ 3,692	$	$ 3,692

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Third Quarter 2018 Operations Summary

Revenues increased to $11.451 billion in the third quarter of 2018 from $10.696 billion in the third quarter of 2017. Net income attributable to HCA Healthcare, Inc. totaled $759 million, or $2.15 per diluted share, for the quarter ended September 30, 2018, compared to $426 million, or $1.15 per diluted share, for the quarter ended September 30, 2017. Third quarter 2018 results included net gains on sales of facilities of $6 million, or $0.01 per diluted share, and losses on retirement of debt of $9 million, or $0.02 per diluted share. Third quarter 2017 results included net gains on sales of facilities of $7 million, or $0.01 per diluted share, and losses on retirement of debt of $39 million, or $0.07 per diluted share. Third quarter 2018 results also included a reduction to the provision for income taxes of $132 million, or $0.37 per diluted share, related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act which, along with other revisions, lowered the federal statutory corporate tax rate from 35% to 21% beginning in 2018. Third quarter 2017 results include additional expenses and losses of revenues of approximately $140 million, or $0.24 per diluted share, associated with the impact of hurricanes Harvey and Irma, and a negative impact to operating results related to the Texas Medicaid Waiver program of $50 million, or $0.08 per diluted share, related to final settlement amounts for the program year ended September 30, 2017. The amount associated with the hurricanes is prior to any insurance recoveries. During the third quarter of 2018, we recorded a reduction to the provision for income taxes of $28 million, or $0.08 per diluted share, for tax credits related to certain 2017 hurricane-related expenses. Our provisions for income taxes for the third quarters of 2018 and 2017 also included tax benefits of $23 million, or $0.07 per diluted share, and $4 million, or $0.01 per diluted share, respectively, related to employee equity award settlements. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 353.639 million shares for the quarter ended September 30, 2018 and 369.834 million shares for the quarter ended September 30, 2017. During 2017 and the first nine months of 2018, we repurchased 25.092 million shares and 11.558 million shares of our common stock, respectively.

Revenues increased 7.1% on a consolidated basis and increased 7.4% on a same facility basis for the quarter ended September 30, 2018, compared to the quarter ended September 30, 2017. The increase in consolidated revenues can be primarily attributed to the combined impact of a 2.5% increase in revenue per equivalent admission and a 4.4% increase in equivalent admissions. The same facility revenues increase primarily resulted from the combined impact of a 3.9% increase in same facility revenue per equivalent admission and a 3.4% increase in same facility equivalent admissions.

During the quarter ended September 30, 2018, consolidated admissions and same facility admissions increased 3.2% and 3.1%, respectively, compared to the quarter ended September 30, 2017. Surgeries increased 3.5% on a consolidated basis and 3.2% on a same facility basis during the quarter ended September 30, 2018, compared to the quarter ended September 30, 2017. Emergency department visits increased 0.4% on a consolidated basis and declined 0.4% on a same facility basis during the quarter ended September 30, 2018, compared to the quarter ended September 30, 2017. Same facility uninsured admissions increased 8.8% for the quarter ended September 30, 2018, compared to the quarter ended September 30, 2017.

Cash flows from operating activities increased $713 million from $1.008 billion for the third quarter of 2017 to $1.721 billion for the third quarter of 2018. The increase in cash provided by operating activities was primarily related to the combined impact of an increase in net income of $366 million, positive changes of $149 million related to working capital items and a benefit from income tax payments of $158 million.

Results of Operations

Revenue/Volume Trends

Our revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period our obligations to provide health

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Revenue/Volume Trends (continued)

care services are satisfied. Our performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Our performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payers. The payment arrangements with third-party payers for the services we provide to the related patients typically specify payments at amounts less than our standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

Revenues increased 7.1% from $10.696 billion in the third quarter of 2017 to $11.451 billion in the third quarter of 2018. Our revenues are based upon the estimated amounts we expect to be entitled to receive from patients and third-party payers. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect. Our revenues from third-party payers and others (including uninsured patients) for the quarters and nine months ended September 30, 2018 and 2017 are summarized in the following table (dollars in millions):

	Quarter			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 2,404**	**21.0%**	$ 2,298	21.5%
Managed Medicare	**1,344**	**11.7**	1,122	10.5
Medicaid	**338**	**3.0**	286	2.7
Managed Medicaid	**622**	**5.4**	537	5.0
Managed care and insurers	**6,026**	**52.6**	5,605	52.4
International (managed care and insurers)	**273**	**2.4**	276	2.6
Other	**444**	**3.9**	572	5.3
Revenues	**$ 11,451**	**100.0%**	$ 10,696	100.0%

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Revenue/Volume Trends (continued)

	Nine Months			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 7,353**	**21.4%**	$ 6,931	21.6%
Managed Medicare	**4,088**	**11.9**	3,463	10.8
Medicaid	**976**	**2.8**	956	3.0
Managed Medicaid	**1,769**	**5.1**	1,653	5.2
Managed care and insurers	**18,081**	**52.6**	16,957	52.9
International (managed care and insurers)	**873**	**2.5**	814	2.5
Other	**1,263**	**3.7**	1,278	4.0
Revenues	**$ 34,403**	**100.0%**	$ 32,052	100.0%

Consolidated and same facility revenue per equivalent admission increased 2.5% and 3.9%, respectively, in the third quarter of 2018, compared to the third quarter of 2017. Consolidated and same facility equivalent admissions increased 4.4% and 3.4%, respectively, in the third quarter of 2018, compared to the third quarter of 2017. Consolidated and same facility outpatient surgeries increased 4.9% and 4.2%, respectively, in the third quarter of 2018, compared to the third quarter of 2017. Consolidated and same facility inpatient surgeries increased 1.1% and 1.6%, respectively, in the third quarter of 2018, compared to the third quarter of 2017. Consolidated and same facility emergency department visits increased 0.4% and declined 0.4%, respectively, in the third quarter of 2018, compared to the third quarter of 2017.

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

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Patient care costs (salaries and benefits, supplies, other operating expenses and depreciation and amortization)	**$ 9,946**	$ 9,472	**$ 29,684**	$ 27,798
Cost-to-charges ratio (patient care costs as percentage of gross patient charges)	**12.7%**	13.4%	**12.6%**	13.1%
Total uncompensated care	**$ 6,786**	$ 6,089	**$ 19,524**	$ 17,137
Multiply by the cost-to-charges ratio	**12.7%**	13.4%	**12.6%**	13.1%
Estimated cost of total uncompensated care	**$ 862**	$ 816	**$ 2,460**	$ 2,245

Total uncompensated care as a percentage of the sum of revenues and total uncompensated care was 37.2% and 36.3% for the quarters ended September 30, 2018 and 2017, respectively, and 36.2% and 34.8% for the nine months ended September 30, 2018 and 2017, respectively.

Same facility uninsured admissions increased by 3,383 admissions, or 8.8%, in the third quarter of 2018, compared to the third quarter of 2017. Same facility uninsured admissions increased 7.8%, in the second quarter of 2018, compared to the second quarter of 2017. Same facility uninsured admissions increased 10.1%, in the first quarter of 2018, compared to the first quarter of 2017. Same facility uninsured admissions in 2017, compared to 2016, increased 6.4% in the fourth quarter of 2017, increased 6.4% in the third quarter of 2017, increased 4.9% in the second quarter of 2017 and increased 3.2% in the first quarter of 2017.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Revenue/Volume Trends (continued)

The approximate percentages of our admissions related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and insurers and the uninsured for the quarters and nine months ended September 30, 2018 and 2017 are set forth in the following table.

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Medicare	**29%**	30%	**30%**	31%
Managed Medicare	**17**	15	**17**	16
Medicaid	**5**	5	**5**	5
Managed Medicaid	**12**	13	**12**	12
Managed care and insurers	**28**	28	**28**	28
Uninsured	**9**	9	**8**	8
	100%	100%	**100%**	100%

The approximate percentages of our inpatient revenues related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and insurers and other for the quarters and nine months ended September 30, 2018 and 2017 are set forth in the following table.

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Medicare	**28%**	29%	**28%**	29%
Managed Medicare	**13**	12	**14**	13
Medicaid	**4**	4	**4**	5
Managed Medicaid	**6**	5	**6**	5
Managed care and insurers	**49**	48	**48**	48
Other		2		
	100%	100%	**100%**	100%

At September 30, 2018, we had 92 hospitals in the states of Texas and Florida. During the third quarter of 2018, 57% of our admissions and 49% of our revenues were generated by these hospitals. Uninsured admissions in Texas and Florida represented 70% of our uninsured admissions during the third quarter of 2018.

We receive a significant portion of our revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. In December 2017, the Centers for Medicare & Medicaid Services (CMS) announced that it will phase out federal matching funds for Designated State Health Programs under waivers granted under section 1115 of the Social Security Act. Texas currently operates its Healthcare Transformation and Quality Improvement Program pursuant to a Medicaid waiver. In December 2017, CMS approved an extension of this waiver through September 30, 2022, but indicated that it will phase out some of the federal funding. Our Texas Medicaid revenues included Medicaid supplemental payments of $101 million and $60 million during the third quarters of 2018 and 2017, respectively, and $296 million and $261 million during the first nine months of 2018 and 2017, respectively.

In addition, we receive supplemental payments in several other states. We are aware these supplemental payment programs are currently being reviewed by certain state agencies and some states have made waiver requests to CMS to replace their existing supplemental payment programs. It is possible these reviews and

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Revenue/Volume Trends (continued)

waiver requests will result in the restructuring of such supplemental payment programs and could result in the payment programs being reduced or eliminated. Because deliberations about these programs are ongoing, we are unable to estimate the financial impact the program structure modifications, if any, may have on our results of operations.

Operating Results Summary

The following is a comparative summary of results of operations for the quarters and nine months ended September 30, 2018 and 2017 (dollars in millions):

	Quarter			
	2018		2017	
	Amount	Ratio	Amount	Ratio
Revenues	**$ 11,451**	**100.0**	$ 10,696	100.0
Salaries and benefits	**5,377**	**46.9**	5,081	47.5
Supplies	**1,890**	**16.5**	1,777	16.6
Other operating expenses	**2,097**	**18.4**	2,075	19.4
Equity in earnings of affiliates	**(9)**	**(0.1)**	(13)	(0.1)
Depreciation and amortization	**582**	**5.1**	539	5.0
Interest expense	**442**	**3.9**	427	4.0
Gains on sales of facilities	**(6)**	**(0.1)**	(7)	(0.1)
Losses on retirement of debt	**9**	**0.1**	39	0.4
	10,382	**90.7**	9,918	92.7
Income before income taxes	**1,069**	**9.3**	778	7.3
Provision for income taxes	**173**	**1.5**	248	2.3
Net income	**896**	**7.8**	530	5.0
Net income attributable to noncontrolling interests	**137**	**1.2**	104	1.0
Net income attributable to HCA Healthcare, Inc.	**$ 759**	**6.6**	$ 426	4.0
% changes from prior year:				
Revenues	**7.1%**		4.2%	
Income before income taxes	**37.5**		(23.6)	
Net income attributable to HCA Healthcare, Inc.	**78.3**		(31.1)	

Admissions(a)	**3.2**	2.7
Equivalent admissions(b)	**4.4**	2.5
Revenue per equivalent admission	**2.5**	1.6
Same facility % changes from prior year(c):		
Revenues	**7.4**	2.3
Admissions(a)	**3.1**	0.6
Equivalent admissions(b)	**3.4**	0.3
Revenue per equivalent admission	**3.9**	2.0

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Operating Results Summary (continued)

	Nine Months			
	2018		2017	
	Amount	Ratio	Amount	Ratio
Revenues	**$ 34,403**	**100.0**	$ 32,052	100.0
Salaries and benefits	**15,940**	**46.3**	14,878	46.4
Supplies	**5,722**	**16.6**	5,369	16.8
Other operating expenses	**6,325**	**18.5**	5,970	18.6
Equity in earnings of affiliates	**(25)**	**(0.1)**	(36)	(0.1)
Depreciation and amortization	**1,697**	**4.9**	1,581	4.9
Interest expense	**1,309**	**3.8**	1,257	3.9
Gains on sales of facilities	**(420)**	**(1.2)**	(10)	
Losses on retirement of debt	**9**		39	0.1
	30,557	**88.8**	29,048	90.6
Income before income taxes	**3,846**	**11.2**	3,004	9.4
Provision for income taxes	**702**	**2.1**	902	2.8
Net income	**3,144**	**9.1**	2,102	6.6
Net income attributable to noncontrolling interests	**421**	**1.2**	360	1.2
Net income attributable to HCA Healthcare, Inc.	**$ 2,723**	**7.9**	$ 1,742	5.4
% changes from prior year:				
Revenues	**7.3%**		3.9%	
Income before income taxes	**28.0**		(7.4)	
Net income attributable to HCA Healthcare, Inc.	**56.4**		(11.6)	
Admissions(a)	**4.1**		1.8	
Equivalent admissions(b)	**4.7**		2.1	
Revenue per equivalent admission	**2.5**		1.7	
Same facility % changes from prior year(c):				
Revenues	**6.6**		3.0	
Admissions(a)	**2.7**		1.0	
Equivalent admissions(b)	**2.7**		1.2	
Revenue per equivalent admission	**3.8**		1.8	

(a) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.

(b) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation "equates" outpatient revenues to the volume measure (admissions) used to measure inpatient volume, resulting in a general measure of combined inpatient and outpatient volume.

(c) Same facility information excludes the operations of hospitals and their related facilities which were either acquired or divested during the current and prior period.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Quarters Ended September 30, 2018 and 2017

Net income attributable to HCA Healthcare, Inc. totaled $759 million, or $2.15 per diluted share, for the third quarter of 2018, compared to $426 million, or $1.15 per diluted share, for the third quarter of 2017. Third quarter 2018 results included net gains on sales of facilities of $6 million, or $0.01 per diluted share, and losses on retirement of debt of $9 million, or $0.02 per diluted share. Third quarter 2017 results include net gains on sales of facilities of $7 million, or $0.01 per diluted share, and losses on retirement of debt of $39 million, or $0.07 per diluted share. Third quarter 2018 results also included a reduction to the provision for income taxes of $132 million, or $0.37 per diluted share, related to the impact of tax rate changes under the 2017 Tax Cuts and Jobs Act. Third quarter 2017 results also include additional expenses and losses of revenues of approximately $140 million, or $0.24 per diluted share, associated with the impact of hurricanes Harvey and Irma, and a negative impact to operating results related to the Texas Medicaid waiver program of $50 million, or $0.08 per diluted share, related to final settlement amounts for the program year ended September 30, 2017. The amount associated with the hurricanes is prior to any insurance recoveries. During the third quarter of 2018, we recorded a reduction to the provision for income taxes of $28 million, or $0.08 per diluted share, for tax credits related to certain 2017 hurricane-related expenses. Our provisions for income taxes for the third quarters of 2018 and 2017 also included tax benefits of $23 million, or $0.07 per diluted share, and $4 million, or $0.01 per diluted share, respectively, related to employee equity award settlements. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 353.639 million shares for the quarter ended September 30, 2018 and 369.834 million shares for the quarter ended September 30, 2017. During 2017 and the first nine months of 2018, we repurchased 25.092 million shares and 11.558 million shares of our common stock, respectively.

Revenues increased 7.1% primarily due to the combined impact of revenue per equivalent admission growth of 2.5% and a 4.4% increase in equivalent admissions for the third quarter of 2018 compared to the third quarter of 2017. Same facility revenues increased 7.4% due to the combined impact of a 3.9% increase in same facility revenue per equivalent admission and a 3.4% increase in same facility equivalent admissions for the third quarter of 2018 compared to the third quarter of 2017.

Salaries and benefits, as a percentage of revenues, were 46.9% in the third quarter of 2018 and 47.5% in the third quarter of 2017. Salaries and benefits per equivalent admission increased 1.3% in the third quarter of 2018 compared to the third quarter of 2017. Same facility labor rate increases averaged 3.1% for the third quarter of 2018 compared to the third quarter of 2017.

Supplies, as a percentage of revenues, were 16.5% in the third quarter of 2018 and 16.6% in the third quarter of 2017. Supply costs per equivalent admission increased 1.9% in the third quarter of 2018 compared to the third quarter of 2017. Supply costs per equivalent admission increased 5.0% for medical devices and 1.8% for general medical and surgical items, and declined 2.5% for pharmacy supplies in the third quarter of 2018 compared to the third quarter of 2017.

Other operating expenses, as a percentage of revenues, were 18.4% in the third quarter of 2018 and 19.4% in the third quarter of 2017. Other operating expenses is primarily comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes.

Provisions for losses related to professional liability risks were $60 million and $116 million for the third quarters of 2018 and 2017, respectively. During the third quarter of 2018, we recorded a reduction of $70 million, or $0.15 per diluted share, to our provision for professional liability risks related to the receipt of updated actuarial information.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Quarters Ended September 30, 2018 and 2017 (continued)

Equity in earnings of affiliates was $9 million and $13 million in the third quarters of 2018 and 2017, respectively.

Depreciation and amortization increased $43 million, from $539 million in the third quarter of 2017 to $582 million in the third quarter of 2018. The increase in depreciation relates to both acquired facilities and increased capital expenditures at our existing facilities.

Interest expense was $442 million in the third quarter of 2018 and $427 million in the third quarter of 2017. Our average debt balance was $33.091 billion for the third quarter of 2018 compared to $32.337 billion for the third quarter of 2017. The average effective interest rate for our long-term debt increased to 5.3% from 5.2% for the quarters ended September 30, 2018 and 2017, respectively.

During the third quarters of 2018 and 2017, we recorded net gains on sales of facilities of $6 million and $7 million, respectively.

During August 2018, we issued $2.000 billion aggregate principal amount of senior notes comprised of $1.000 billion aggregate principal amount of 5.375% notes due 2026 and $1.000 billion aggregate principal amount of 5.625% notes due 2028. We used the net proceeds for general corporate purposes, including funding the purchase of a hospital, and the redemption of all $1.500 billion aggregate principal amount of our existing 3.750% senior secured notes maturing in March 2019. The pretax loss on retirement of debt was $9 million. During June 2017, we issued $1.500 billion aggregate principal amount of 5.500% senior secured notes due 2047. We used the net proceeds for general corporate purposes, including funding the purchase of certain hospital acquisitions, and the redemption of all $500 million aggregate principal amount of our existing 8.000% senior notes maturing in October 2018. The pretax loss on retirement of debt was $39 million.

The effective tax rates were 18.6% and 36.7% for the third quarters of 2018 and 2017, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships. Our provisions for income taxes for the third quarters of 2018 and 2017 included tax benefits of $23 million and $4 million, respectively, related to employee equity award settlements. Our provision for income taxes for the third quarter of 2018 also included $28 million of reductions for tax credits related to certain 2017 hurricane-related expenses. Excluding the effect of these adjustments, the effective tax rate for the third quarters of 2018 and 2017 would have been 24.1% and 37.2%, respectively. The reduction in the effective tax rate was primarily related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act which, along with other revisions, lowered the federal statutory corporate tax rate from 35% to 21% beginning in 2018.

Net income attributable to noncontrolling interests increased from $104 million for the third quarter of 2017 to $137 million for the third quarter of 2018. The increase in net income attributable to noncontrolling interests related primarily to one of our Texas markets.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Nine Months Ended September 30, 2018 and 2017

Net income attributable to HCA Healthcare, Inc. totaled $2.723 billion, or $7.65 per diluted share, in the nine months ended September 30, 2018, compared to $1.742 billion, or $4.64 per diluted share, in the nine months ended September 30, 2017. The first nine months of 2018 results included net gains on sales of facilities of $420 million, or $0.89 per diluted share, and losses on retirement of debt of $9 million, or $0.02 per diluted share. The first nine months of 2017 results include net gains on sales of facilities of $10 million, or $0.02 per diluted share, and losses on retirement of debt of $39 million, or $0.07 per diluted share. The first nine months of 2018 results also included a reduction to the provision for income taxes of $316 million, or $0.89 per diluted share, on net income attributable to HCA Healthcare, Inc., excluding gains on sales of facilities and losses on retirement of debt, related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act. The first nine months of 2017 results also include additional expenses and losses of revenues of approximately $140 million, or $0.24 per diluted share, associated with the impact of hurricanes Harvey and Irma, and a negative impact to operating results related to the Texas Medicaid waiver program of $50 million, or $0.08 per diluted share, related to final settlement amounts for the program year ended September 30, 2017. The amount associated with the hurricanes is prior to any insurance recoveries. During the nine months ended September 30, 2018, we recorded a reduction to the provision for income taxes of $28 million, or $0.08 per diluted share, for tax credits related to certain 2017 hurricane-related expenses. Our provisions for income taxes for the first nine months of 2018 and 2017 also included tax benefits of $119 million, or $0.33 per diluted share, and $80 million, or $0.21 per diluted share, respectively, related to employee equity award settlements. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 356.124 million shares for the nine months ended September 30, 2018 and 375.013 million shares for the nine months ended September 30, 2017. During 2017 and the first nine months of 2018, we repurchased 25.092 million shares and 11.558 million shares of our common stock, respectively.

Revenues increased 7.3% due to the combined impact of revenue per equivalent admission growth of 2.5% and a 4.7% increase in equivalent admissions for the first nine months of 2018 compared to the first nine months of 2017. Same facility revenues increased 6.6% due to the combined impact of a 3.8% increase in same facility revenue per equivalent admission and a 2.7% increase in same facility equivalent admissions for the first nine months of 2018 compared to the first nine months of 2017.

Salaries and benefits, as a percentage of revenues, were 46.3% in the first nine months of 2018 and 46.4% in the first nine months of 2017. Salaries and benefits per equivalent admission increased 2.3% in the first nine months of 2018 compared to the first nine months of 2017. Same facility labor rate increases averaged 3.3% for the first nine months of 2018 compared to the first nine months of 2017.

Supplies, as a percentage of revenues, were 16.6% in the first nine months of 2018 and 16.8% in the first nine months of 2017. Supply costs per equivalent admission increased 1.8% in the first nine months of 2018 compared to the first nine months of 2017. Supply costs per equivalent admission increased 4.0% for medical devices and 1.6% for general medical and surgical items, and declined 0.8% for pharmacy supplies in the first nine months of 2018 compared to the first nine months of 2017.

Other operating expenses, as a percentage of revenues, were 18.5% in the first nine months of 2018 and 18.6% in the first nine months of 2017. Other operating expenses is primarily comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes. Provisions for losses related to professional liability risks were $312 million and $353 million for the first nine months of 2018 and 2017, respectively. During the first nine months of 2018, we recorded a reduction of $70 million, or $0.15 per diluted share, to our provision for professional liability risks related to the receipt of updated actuarial information.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Nine Months Ended September 30, 2018 and 2017 (continued)

Equity in earnings of affiliates was $25 million and $36 million in the first nine months of 2018 and 2017, respectively.

Depreciation and amortization increased $116 million, from $1.581 billion in the first nine months of 2017 to $1.697 billion in the first nine months of 2018. The increase in depreciation relates to both acquired facilities and increased capital expenditures at our existing facilities.

Interest expense was $1.309 billion in the first nine months of 2018 and $1.257 billion in the first nine months of 2017. Our average debt balance was $33.129 billion for the first nine months of 2018 compared to $31.846 billion for the first nine months of 2017. The average effective interest rate for our long-term debt was 5.3% for each of the nine months ended September 30, 2018 and 2017.

During the first nine months of 2018 and 2017, we recorded net gains on sales of facilities of $420 million and $10 million, respectively. The net gains on sales of facilities for 2018 related primarily to the sale of the two hospital facilities in our Oklahoma market.

During August 2018, we issued $2.000 billion aggregate principal amount of senior notes comprised of $1.000 billion aggregate principal amount of 5.375% notes due 2026 and $1.000 billion aggregate principal amount of 5.625% notes due 2028. We used the net proceeds for general corporate purposes, including funding the purchase of a hospital, and the redemption of all $1.500 billion aggregate principal amount of our existing 3.750% senior secured notes maturing in March 2019. The pretax loss on retirement of debt was $9 million. During June 2017, we issued $1.500 billion aggregate principal amount of 5.500% senior secured notes due 2047. We used the net proceeds for general corporate purposes, including funding the purchase of certain hospital acquisitions, and the redemption of all $500 million aggregate principal amount of our existing 8.000% senior notes maturing in October 2018. The pretax loss on retirement of debt was $39 million.

The effective tax rates were 20.5% and 34.1% for the first nine months of 2018 and 2017, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships. Our provisions for income taxes for the first nine months of 2018 and 2017 included tax benefits of $119 million and $80 million, respectively, related to employee equity award settlements. Our provision for income taxes for the first nine months of 2018 also included $28 million of reductions for tax credits related to certain 2017 hurricane-related expenses. Excluding the effect of these adjustments, the effective tax rate for the first nine months of 2018 and 2017 would have been 24.8% and 37.1%, respectively. The reduction in the effective tax rate was primarily related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act which, along with other revisions, lowered the federal statutory corporate tax rate from 35% to 21% beginning in 2018.

Net income attributable to noncontrolling interests increased from $360 million for the first nine months of 2017 to $421 million for the first nine months of 2018. The increase in net income attributable to noncontrolling interests related primarily to two of our Texas markets.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity and Capital Resources

Cash provided by operating activities totaled $4.586 billion in the first nine months of 2018 compared to $3.692 billion in the first nine months of 2017. The $894 million increase in cash provided by operating activities in the first nine months of 2018 compared to the first nine months of 2017 related primarily to the combined impact of the increase in net income, excluding gains on sales of facilities, of $632 million, depreciation and amortization of $116 million and positive changes of $142 million related to working capital items. The combined interest payments and net tax payments in the first nine months of 2018 and 2017 were $2.124 billion and $2.294 billion, respectively. Working capital totaled $3.779 billion at September 30, 2018 and $3.819 billion at December 31, 2017.

Cash used in investing activities was $2.615 billion in the first nine months of 2018 compared to $3.172 billion in the first nine months of 2017. Acquisitions of hospitals and health care entities declined from $1.142 billion in the first nine months of 2017 to $1.056 billion in the first nine months of 2018. Excluding acquisitions, capital expenditures were $2.420 billion in the first nine months of 2018 and $2.033 billion in the first nine months of 2017. Capital expenditures, excluding acquisitions, are expected to approximate $3.5 billion in 2018. At September 30, 2018, there were projects under construction which had estimated additional costs to complete and equip over the next five years of approximately $3.9 billion. We expect to finance capital expenditures with internally generated and borrowed funds. Cash received from disposals of hospitals and health care entities increased $778 million for the first nine months of 2018 compared to the first nine months of 2017 primarily related to the receipt of $758 million from the sale of the two hospital facilities in our Oklahoma market.

Cash used in financing activities totaled $2.114 billion in the first nine months of 2018 compared to $448 million in the first nine months of 2017. During the first nine months of 2018, net cash flows used in financing activities included a net increase of $18 million in our indebtedness, payments of cash dividends of $366 million, repurchases of common stock of $1.195 billion and distributions to noncontrolling interests of $315 million. During the first nine months of 2017, net cash flows used in financing activities included a net increase of $1.452 billion in our indebtedness, repurchases of common stock of $1.475 billion and distributions to noncontrolling interests of $363 million.

We are a highly leveraged company with significant debt service requirements. Our debt totaled $33.107 billion at September 30, 2018. Our interest expense was $1.309 billion for the first nine months of 2018 and $1.257 billion for the first nine months of 2017.

In addition to cash flows from operations, available sources of capital include amounts available under our senior secured credit facilities ($2.382 billion and $2.562 billion available as of September 30, 2018 and October 31, 2018, respectively) and anticipated access to public and private debt markets.

During August 2018, we issued $2.000 billion aggregate principal amount of senior notes comprised of $1.000 billion aggregate principal amount of 5.375% notes due 2026 and $1.000 billion aggregate principal amount of 5.625% notes due 2028. We used the net proceeds for general corporate purposes, including funding the purchase of a hospital, and the redemption of all $1.500 billion aggregate principal amount of our existing 3.750% senior secured notes maturing in March 2019.

During March 2018, we entered into a joinder agreement to refinance our existing senior secured term B-8 loan credit facility maturing on February 15, 2024, repay a portion of our existing senior secured term B-9 loan credit facility maturing on March 18, 2023 and pay related fees and expenses with a new $1.500 billion senior secured term B-10 loan credit facility maturing on March 13, 2025. The senior secured term

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity and Capital Resources (continued)

B-10 loan credit facility will bear interest at LIBOR plus an applicable margin of 2.00% or a base rate plus an applicable margin of 1.00%, compared to applicable margins of 2.25% and 1.25%, respectively, under the senior secured term B-8 loan credit facility.

During March 2018, we also entered into an additional joinder agreement to refinance a portion of our existing senior secured term B-9 loan credit facility maturing on March 18, 2023 and pay related fees and expenses with a new approximately $1.166 billion senior secured term B-11 loan credit facility maturing on March 18, 2023. The senior secured term B-11 loan credit facility will bear interest at LIBOR plus an applicable margin of 1.75% or a base rate plus an applicable margin of 0.75%, compared to applicable margins of 2.00% and 1.00%, respectively, under the senior secured term B-9 loan credit facility.

Investments of our professional liability insurance subsidiaries, to maintain statutory equity and pay claims, totaled $413 million and $472 million at September 30, 2018 and December 31, 2017, respectively. An insurance subsidiary maintained net reserves for professional liability risks of $186 million and $194 million at September 30, 2018 and December 31, 2017, respectively. Our facilities are insured by a 100% owned insurance subsidiary for losses up to $50 million per occurrence; however, this coverage is generally subject to a $15 million per occurrence self-insured retention. Net reserves for the self-insured professional liability risks retained were $1.459 billion and $1.409 billion at September 30, 2018 and December 31, 2017, respectively. Claims payments, net of reinsurance recoveries, during the next 12 months are expected to approximate $449 million. We estimate that approximately $413 million of the expected net claim payments during the next 12 months will relate to claims subject to the self-insured retention.

Management believes that cash flows from operations, amounts available under our senior secured credit facilities and our anticipated access to public and private debt markets will be sufficient to meet expected liquidity needs during the next 12 months.

Market Risk

We are exposed to market risk related to changes in market values of securities. The investments in our 100% owned insurance subsidiaries were $413 million at September 30, 2018. These investments are carried at fair value, with changes in unrealized gains and losses being recorded as adjustments to other comprehensive income. At September 30, 2018, we had a net unrealized gain of $2 million on the insurance subsidiaries investments.

We are exposed to market risk related to market illiquidity. Investments in debt and equity securities of our 100% owned insurance subsidiaries could be impaired by the inability to access the capital markets. Should the 100% owned insurance subsidiaries require significant amounts of cash in excess of normal cash requirements to pay claims and other expenses on short notice, we may have difficulty selling these investments in a timely manner or be forced to sell them at a price less than what we might otherwise have been able to in a normal market environment. We may be required to recognize other-than-temporary impairments on our investment securities in future periods should issuers default on interest payments or should the fair market valuations of the securities deteriorate due to ratings downgrades or other issue-specific factors.

We are also exposed to market risk related to changes in interest rates, and we periodically enter into interest rate swap agreements to manage our exposure to these fluctuations. Our interest rate swap agreements involve the exchange of fixed and variable rate interest payments between two parties, based on common notional principal amounts and maturity dates. The notional amounts of the swap agreements represent balances

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity and Capital Resources (continued)

Market Risk (continued)

used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements are settled on a net basis. These derivatives have been recognized in the financial statements at their respective fair values. Changes in the fair value of these derivatives, which are designated as cash flow hedges, are included in other comprehensive income, and changes in the fair value of derivatives which have not been designated as hedges are recorded in operations.

With respect to our interest-bearing liabilities, approximately $4.676 billion of long-term debt at September 30, 2018 was subject to variable rates of interest, while the remaining balance in long-term debt of $28.431 billion at September 30, 2018 was subject to fixed rates of interest. Both the general level of interest rates and, for the senior secured credit facilities, our leverage affect our variable interest rates. Our variable debt is comprised primarily of amounts outstanding under the senior secured credit facilities. Borrowings under the senior secured credit facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the federal funds rate plus 0.50% and (2) the prime rate of Bank of America or (b) a LIBOR rate for the currency of such borrowing for the relevant interest period. The applicable margin for borrowings under the senior secured credit facilities may fluctuate according to a leverage ratio. The average effective interest rate for our long-term debt was 5.3% for each of the nine months ended September 30, 2018 and 2017.

The estimated fair value of our total long-term debt was $34.125 billion at September 30, 2018. The estimates of fair value are based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities. Based on a hypothetical 1% increase in interest rates, the potential annualized reduction to future pretax earnings would be approximately $47 million. To mitigate the impact of fluctuations in interest rates, we generally target a portion of our debt portfolio to be maintained at fixed rates.

We are exposed to currency translation risk related to our foreign operations. We currently do not consider the market risk related to foreign currency translation to be material to our consolidated financial statements or our liquidity.

Tax Examinations

We are subject to examination by federal, state and foreign taxing authorities. Management believes HCA Healthcare, Inc. and its predecessors, subsidiaries and affiliates properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with IRS, state and foreign taxing authorities and final resolution of any disputes will not have a material, adverse effect on our results of operations or financial position. However, if payments due upon final resolution of any issues exceed our recorded estimates, such resolutions could have a material, adverse effect on our results of operations or financial position.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Data

	2018	**2017**
Number of hospitals in operation at:		
March 31	**178**	171
June 30	**178**	172
September 30	**179**	177
December 31		179
Number of freestanding outpatient surgical centers in operation at:		
March 31	**120**	118
June 30	**122**	119
September 30	**122**	119
December 31		120
Licensed hospital beds at(a):		
March 31	**46,745**	44,374
June 30	**46,723**	44,727
September 30	**47,060**	46,250
December 31		46,738
Weighted average licensed beds(b):		
Quarter:		
First	**46,686**	44,362
Second	**46,667**	44,605
Third	**46,909**	45,887
Fourth		46,636
Year		45,380
Average daily census(c):		
Quarter:		
First	**28,130**	26,699
Second	**26,047**	25,353
Third	**25,991**	25,653
Fourth		26,304
Year		26,000
Admissions(d):		
Quarter:		
First	**507,873**	485,761
Second	**494,610**	473,174
Third	**497,899**	482,557
Fourth		495,121
Year		1,936,613
Equivalent admissions(e):		
Quarter:		
First	**849,164**	812,192

Second	**851,047**	809,367
Third	**854,940**	818,887
Fourth		845,986
Year		3,286,432

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Data (continued)

	2018	2017
Average length of stay (days)(f):		
Quarter:		
First	**5.0**	4.9
Second	**4.8**	4.9
Third	**4.8**	4.9
Fourth		4.9
Emergency room visits(g):		
Quarter:		
First	**2,302,112**	2,163,138
Second	**2,148,338**	2,116,123
Third	**2,139,375**	2,130,460
Fourth		2,214,416
Year		8,624,137
Outpatient surgeries(h):		
Quarter:		
First	**230,869**	225,915
Second	**244,367**	234,215
Third	**235,258**	224,252
Fourth		250,925
Year		935,307
Inpatient surgeries(i):		
Quarter:		
First	**136,650**	133,341
Second	**139,049**	134,553
Third	**138,699**	137,187
Fourth		141,147
Year		546,228
Days revenues in accounts receivable(j):		
Quarter:		
First	**50**	48
Second	**52**	49
Third	**52**	51
Fourth		52
Outpatient revenues as a % of patient revenues(k):		
Quarter:		
First	**37%**	38%
Second	**39%**	37%
Third	**39%**	38%
Fourth		39%
Year		38%

(a) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.
(b) Represents the average number of licensed beds, weighted based on periods owned.
(c) Represents the average number of patients in our hospital beds each day.
(d) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Data (continued)

(e) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation equates outpatient revenues to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.
(f) Represents the average number of days admitted patients stay in our hospitals.
(g) Represents the number of patients treated in our emergency rooms.
(h) Represents the number of surgeries performed on patients who were not admitted to our hospitals. Pain management and endoscopy procedures are not included in outpatient surgeries.
(i) Represents the number of surgeries performed on patients who have been admitted to our hospitals. Pain management and endoscopy procedures are not included in inpatient surgeries.
(j) Revenues per day is calculated by dividing revenues for the quarter by the days in the quarter. Days revenues in accounts receivable is then calculated as accounts receivable at the end of the quarter divided by revenues per day.
(k) Represents the percentage of patient revenues related to patients who are not admitted to our hospitals.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided under the caption Market Risk under Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

HCA s management, with participation of HCA s chief executive officer and chief financial officer, has evaluated the effectiveness of HCA s disclosure controls and procedures as of September 30, 2018. Based on that evaluation, HCA s chief executive officer and chief financial officer concluded that HCA s disclosure controls and procedures were effective as of September 30, 2018. There were no material changes in HCA s internal control over financial reporting during the third quarter of 2018.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM1A. RISK FACTORS

Reference is made to the factors set forth under the caption Forward-Looking Statements in Part I, Item 2 of this quarterly report on Form 10-Q and other risk factors described in our annual report on Form 10-K for the year ended December 31, 2017, which are incorporated herein by reference. There have not been any material changes to the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended September 30, 2018, we repurchased 2,517,742 shares of our common stock at an average price of $120.26 per share through market purchases pursuant to the $2 billion share repurchase program authorized during October 2017. At September 30, 2018, we had $607 million of repurchase authorization available under the October 2017 authorization.

The following table provides certain information with respect to our repurchases of common stock from July 1, 2018 through September 30, 2018 (dollars in millions, except per share amounts).

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 Publicly Announced Plans or Programs
July 1, 2018 through July 31, 2018	1,095,236	$ 106.68	1,095,236	$ 793
August 1, 2018 through August 31, 2018	709,923	$ 128.18	709,923	$ 702
September 1, 2018 through September 30, 2018	712,583	$ 133.25	712,583	$ 607
Total for third quarter 2018	2,517,742	$ 120.26	2,517,742	$ 607

On October 29, 2018, our Board of Directors declared a quarterly dividend of $0.35 per share on our common stock payable on December 28, 2018 to stockholders of record on December 3, 2018. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors. Our ability to declare future dividends may also from time to time be limited by the terms of our debt agreements.

ITEM 6. EXHIBITS

(a) List of Exhibits:

4.1	Supplemental Indenture No. 19, dated as of August 23, 2018, among HCA Inc., HCA Healthcare, Inc., Delaware Trust Company, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, registrar and transfer agent (filed as Exhibit 4.2 to the Company s Current Report on Form 8-K filed August 23, 2018 and incorporated herein by reference).
4.2	Supplemental Indenture No. 20, dated as of August 23, 2018, among HCA Inc., HCA Healthcare, Inc., Delaware Trust Company, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, registrar and transfer agent (filed as Exhibit 4.3 to the Company s Current Report on Form 8-K filed August 23, 2018 and incorporated herein by reference).
4.3	Form of Global Note representing the 2026 Notes (included in Exhibit 4.1).
4.4	Form of Global Note representing the 2028 Notes (included in Exhibit 4.2).
10.1	Amended and Restated Employment Agreement dated September 10, 2018 (R. Milton Johnson) (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed September 12, 2018 and incorporated herein by reference).*
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	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from our quarterly report on Form 10-Q for the quarters and nine months ended September 30, 2018 and 2017, filed with the SEC on November 6, 2018, formatted in Extensible Business Reporting Language: (i) the condensed consolidated balance sheets at September 30, 2018 and December 31, 2017, (ii) the condensed consolidated income statements for the quarters and nine months ended September 30, 2018 and 2017, (iii) the condensed consolidated comprehensive income statements for the quarters and nine months ended September 30, 2018 and 2017, (iv) the condensed consolidated statements of stockholders deficit for the quarters and nine months ended September 30, 2018 and 2017, (v) the condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 and (vi) the notes to condensed consolidated financial statements.

* Management compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HCA Healthcare, Inc.

By: /s/ William B. Rutherford
William B. Rutherford
Executive Vice President and Chief Financial Officer

Date: November 6, 2018