Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

2016 ACTUAL RESULTS

CVS Health is providing non-GAAP information that excludes certain items because of the nature of these items and the impact they have on the analysis of underlying business performance and trends. Management believes that providing this information enhances investors' understanding of the company's performance. This information should be considered in addition to, rather than as a substitute for, information prepared in accordance with GAAP. CVS Health's definitions of these non-GAAP items may not be comparable to similarly-titled measurements reported by other companies.

ADJUSTED EARNINGS PER SHARE

Adjusted Earnings per Share, or Adjusted EPS, is income from continuing operations excluding the impact of the amortization of intangible assets, acquisition-related transaction, integration and bridge financing costs, adjustments to reserves in connection with certain legal settlements, charges in connection with store rationalization and losses on early extinguishment of debt, divided by the company's weighted average diluted shares outstanding. The Company believes that this measure enhances investors' ability to compare the Company's past financial performance with its current performance. The following is a reconciliation of income before income tax provision to Adjusted EPS:

FULL YEAR

In millions, except per share amounts	Three Months Ended December 31, **2016**	Three Months Ended December 31, 2015	Year Ended December 31, **2016**	Year Ended December 31, 2015
Income before income tax provision	**$ 2,753**	$ 2,453	**$ 8,637**	$ 8,616
Non-GAAP adjustments:				
Amortization of intangible assets	**202**	191	**795**	611
Acquisition-related transaction and integration costs(1)	**84**	72	**291**	220
Acquisition-related bridge financing costs(1)	**-**	-	**-**	52
Adjustments to legal reserves in connection with legal settlements(2)	**(88)**	90	**(85)**	90
Asset impairment charge in connection with store rationalization(3)	**34**	-	**34**	-
Loss on early extinguishment of debt	**-**	-	**643**	-
Adjusted income before income tax provision	**2,985**	2,806	**10,315**	9,589
Adjusted income tax provision	**1,149**	1,093	**3,982**	3,750
Adjusted income from continuing operations	**1,836**	1,713	**6,333**	5,839
Net income attributable to noncontrolling interest	**-**	(1)	**(2)**	(2)
Adjusted Income allocable to participating securities	**(9)**	(8)	**(31)**	(27)
Adjusted income from continuing operations attributable to CVS Health	**$ 1,827**	$ 1,704	**$ 6,300**	$ 5,810
Weighted average diluted shares outstanding	**1,069**	1,114	**1,079**	1,126
Adjusted EPS	**$ 1.71**	$ 1.53	**$ 5.84**	$ 5.16

(1) Costs associated with the acquisitions of Omnicare, Inc. ("Omnicare") and the pharmacies and clinics of Target Corporation ("Target").

(2) Represents legal charges of $90 million in the fourth quarter of 2015 and $3 million in the first quarter of 2016 in connection with a disputed 1999 legal settlement, and an $88 million reversal of an accrual in connection with a legal settlement in the fourth quarter of 2016.

(3) Asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.

Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

FREE CASH FLOW

For internal comparisons, management finds it useful to assess year-over-year cash flow performance using Free Cash Flow. CVS Health defines Free Cash Flow as net cash provided by operating activities less net additions to property and equipment (i.e., additions to property and equipment plus proceeds from sale-leaseback transactions). The following is a reconciliation of net cash provided by operating activities to Free Cash Flow:

In millions	Three Months Ended December 31, **2016**	Three Months Ended December 31, 2015	Year Ended December 31, **2016**	Year Ended December 31, 2015
Net cash provided by operating activities	**$ 2,121**	$ 3,571	**$ 10,069**	$ 8,412
Subtract: Additions to property and equipment	**(617)**	(877)	**(2,224)**	(2,367)
Add: Proceeds from sale-leaseback transactions	**-**	377	**230**	411
Free Cash Flow	**$ 1,504**	$ 3,071	**$ 8,075**	$ 6,456

EBITDA and ADJUSTED EBITDA

For internal comparisons, management finds it useful to assess year-over-year operating profitability performance before non-operating expenses and non-cash charges, using EBITDA. CVS Health defines EBITDA as income before income tax provision, loss on early extinguishment of debt, interest, depreciation and amortization. EBITDA can be reconciled to income from continuing operations, which we believe to be the most directly comparable GAAP financial measure. The following are reconciliations of income from continuing operations to EBITDA and Adjusted EBITDA:

CONSOLIDATED

In millions	Three Months Ended December 31, **2016**	Three Months Ended December 31, 2015	Year Ended December 31, **2016**	Year Ended December 31, 2015
Income from continuing operations	**$ 1,707**	$ 1,500	**$ 5,320**	$ 5,230
Income tax provision	**1,046**	953	**3,317**	3,386
Income before income tax provision	**2,753**	2,453	**8,637**	8,616
Loss on early extinguishment of debt	**-**	-	**643**	-
Interest expense, net	**242**	276	**1,058**	838
Depreciation and amortization(1)	**628**	582	**2,475**	2,092
EBITDA	**$ 3,623**	$ 3,311	**$ 12,813**	$ 11,546
Non-GAAP adjustments:				
Acquisition-related transaction and integration costs(2)	**76**	61	**261**	209
Adjustments to legal reserves in connection with legal settlements(3)	**(88)**	90	**(85)**	90
Asset impairment charge in connection with store rationalization(4)	**34**	-	**34**	-
Adjusted EBITDA	**$ 3,645**	$ 3,462	**$ 13,023**	$ 11,845

(1) For the three months and year ended December 31, 2016, depreciation and amortization includes $8 million and $30 million, respectively, of acquisition-related integration depreciation. For the three months and year ended December 31, 2015, depreciation and amortization includes $11 million of acquisition-related integration depreciation. The depreciation and amortization relate to the acquisitions of Omnicare and the pharmacies and clinics of Target.

(2) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target, excluding the depreciation and amortization mentioned above in footnote (1).

(3) Represents legal charges of $90 million in the fourth quarter of 2015 and $3 million in the first quarter of 2016 in connection with a disputed 1999 legal settlement, and an $88 million reversal of an accrual in connection with a legal settlement in the fourth quarter of 2016.

(4) Asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.

CVS Health

Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

PHARMACY SERVICES SEGMENT

	Three Months Ended December 31,		Year Ended December 31,	
In millions	**2016**	2015	**2016**	2015
Operating profit[1]	**$ 1,394**	$ 1,152	**$ 4,672**	$ 3,989
Depreciation and amortization	**179**	170	**713**	654
EBITDA	**$ 1,573**	$ 1,322	**$ 5,385**	$ 4,643

(1) Operating profit for the three months and year ended December 31, 2016, includes an $88 million reversal of an accrual in connection with a legal settlement.

RETAIL/LTC SEGMENT

	Three Months Ended December 31,		Year Ended December 31,	
In millions	**2016**	2015	**2016**	2015
Operating profit[1]	**$ 2,026**	$ 2,079	**$ 7,281**	$ 7,130
Depreciation and amortization[2]	**420**	385	**1,643**	1,336
EBITDA	**$ 2,446**	$ 2,464	**$ 8,924**	$ 8,466

(1) Operating profit for the three months ended December 31, 2016 and 2015, includes $87 million and $52 million, respectively, of acquisition-related integration costs. Operating profit for the year ended December 31, 2016 and 2015, includes $281 million and $64 million, respectively, of acquisition-related integration costs. The costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target. Operating profit for the three months and the year ended December 31, 2016, includes a $34 million asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.

(2) For the three months and the year ended December 31, 2016, depreciation and amortization includes $8 million and $30 million of acquisition-related integration depreciation, respectively. The depreciation relates to the acquisitions of Omnicare and the pharmacies and clinics of Target.

CORPORATE SEGMENT

	Three Months Ended December 31,		Year Ended December 31,	
In millions	**2016**	2015	**2016**	2015
Operating profit (loss)[1]	**$ (233)**	$ (325)	**$ (894)**	$ (1,037)
Depreciation and amortization	**29**	27	**119**	102
EBITDA	**$ (204)**	$ (298)	**$ (775)**	$ (935)

(1) Operating loss for the three months ended December 31, 2016, includes a $3 million reduction of acquisition-related integration costs for a change in estimate. Operating loss for the year ended December 31, 2016, includes $10 million of acquisition-related integration costs and a $3 million charge related to a disputed 1999 legal settlement. Operating loss for the three months ended December 31, 2015, includes $20 million of acquisition-related transaction costs and a $90 million charge related to a disputed 1999 legal settlement. Operating loss for the year ended December 31, 2015, includes $156 million of acquisition-related transaction costs and the $90 million legal charge. The transaction and integration costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target.

Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

ADJUSTED COST OF REVENUES

The following are reconciliations of cost of revenues to adjusted cost of revenues:

CONSOLIDATED

In millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Cost of revenues	**$ 38,365**	$ 33,844	**$ 148,669**	$ 126,762
Non-GAAP adjustments:				
Acquisition-related integration costs (1)	**(31)**	-	**(46)**	-
Adjusted cost of revenues	**$ 38,334**	$ 33,844	**$ 148,623**	$ 126,762

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.

RETAIL/LTC SEGMENT

In millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Cost of revenues	**$ 14,669**	$ 13,901	**$ 57,362**	$ 50,015
Non-GAAP adjustments:				
Acquisition-related integration costs(1)	**(31)**	-	**(46)**	-
Adjusted cost of revenues	**$ 14,638**	$ 13,901	**$ 57,316**	$ 50,015

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.

ADJUSTED OPERATING EXPENSES

The following are reconciliations of operating expenses to adjusted operating expenses:

CONSOLIDATED

In millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating expenses	**$ 4,611**	$ 4,572	**$ 18,519**	$ 17,074
Non-GAAP adjustments:				
Acquisition-related integration costs(1)	**(53)**	(72)	**(245)**	(220)
Adjustments to legal reserves in connection with legal settlements(2)	**88**	(90)	**85**	(90)
Asset impairment charge in connection with store rationalization(3)	**(34)**	-	**(34)**	-
Adjusted operating expenses	**$ 4,612**	$ 4,410	**$ 18,325**	$ 16,764

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.
(2) Represents legal charges of $90 million in the fourth quarter of 2015 and $3 million in the first quarter of 2016 in connection with a disputed 1999 legal settlement, and an $88 million reversal of an accrual in connection with a legal settlement in the fourth quarter of 2016.
(3) Asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.

CVS Health

Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

PHARMACY SERVICES SEGMENT

In millions	Three Months Ended December 31, **2016**	Three Months Ended December 31, 2015	Year Ended December 31, **2016**	Year Ended December 31, 2015
Operating expenses	**$ 241**	$ 340	**$ 1,229**	$ 1,238
Non-GAAP adjustment:				
Adjustment to legal reserve in connection with legal settlement	**88**	-	**88**	-
Adjusted operating expenses	**$ 329**	$ 340	**$ 1,317**	$ 1,238

RETAIL/LTC SEGMENT

In millions	Three Months Ended December 31, **2016**	Three Months Ended December 31, 2015	Year Ended December 31, **2016**	Year Ended December 31, 2015
Operating expenses	**$ 4,152**	$ 3,923	**$ 16,457**	$ 14,862
Non-GAAP adjustment:				
Acquisition-related integration costs(1)	**(56)**	(52)	**(235)**	(64)
Asset impairment charge in connection with store rationalization(2)	**(34)**	-	**(34)**	-
Adjusted operating expenses	**$ 4,062**	$ 3,871	**$ 16,188**	$ 14,798

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.
(2) Asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.

CORPORATE SEGMENT

In millions	Three Months Ended December 31, **2016**	Three Months Ended December 31, 2015	Year Ended December 31, **2016**	Year Ended December 31, 2015
Operating expenses	**$ 233**	$ 325	**$ 894**	$ 1,037
Non-GAAP adjustments:				
Acquisition-related transaction and integration costs(1)	**3**	(20)	**(10)**	(156)
Adjustment to legal reserve in connection with legal settlement	**-**	(90)	**(3)**	(90)
Adjusted operating expenses	**$ 236**	$ 215	**$ 881**	$ 791

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.

Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

ADJUSTED OPERATING PROFIT

The following are reconciliations of operating profit to adjusted operating profit:

CONSOLIDATED

In millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating profit	**$ 2,995**	$ 2,729	**$ 10,338**	$ 9,454
Non-GAAP adjustments:				
Acquisition-related transaction and integration costs(1)	**84**	72	**291**	220
Adjustments to legal reserves in connection with legal settlements(2)	**(88)**	90	**(85)**	90
Asset impairment charge in connection with store rationalization(3)	**34**		**34**	
Adjusted operating profit	**$ 3,025**	$ 2,891	**$ 10,578**	$ 9,764

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.
(2) Represents legal charges of $90 million in the fourth quarter of 2015 and $3 million in the first quarter of 2016 in connection with a disputed 1999 legal settlement, and an $88 million reversal of an accrual in connection with a legal settlement in the fourth quarter of 2016.
(3) Asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.

PHARMACY SERVICES SEGMENT

In millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating profit	**$ 1,394**	$ 1,152	**$ 4,672**	$ 3,989
Non-GAAP adjustment:				
Adjustment to legal reserve in connection with legal settlement	**(88)**	-	**(88)**	-
Adjusted operating profit	**$ 1,306**	$ 1,152	**$ 4,584**	$ 3,989

RETAIL/LTC SEGMENT

In millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating profit	**$ 2,026**	$ 2,079	**$ 7,281**	$ 7,130
Non-GAAP adjustment:				
Acquisition-related transaction and integration costs(1)	**87**	52	**281**	64
Asset impairment charge in connection with store rationalization(2)	**34**	-	**34**	-
Adjusted operating profit	**$ 2,147**	$ 2,131	**$ 7,596**	$ 7,194

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.
(2) Asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

CORPORATE SEGMENT

In millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating loss	**$ (233)**	$ (325)	**$ (894)**	$ (1,037)
Non-GAAP adjustments:				
Acquisition-related transaction and integration costs[1]	**(3)**	20	**10**	156
Adjustments to legal reserve in connection with legal settlement	**-**	90	**3**	90
Adjusted operating loss	**$ (236)**	$ (215)	**$ (881)**	$ (791)

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.

ADJUSTED INTEREST EXPENSE, NET

The following is a reconciliation of interest expense, net, to adjusted interest expense, net:

CONSOLIDATED

In millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Interest expense, net	**$ 242**	$ 276	**$ 1,058**	$ 838
Non-GAAP adjustment:				
Acquisition-related bridge financing costs[1]	**-**	-	**-**	(52)
Adjusted interest expense, net	**$ 242**	$ 276	**$ 1,058**	$ 786

(1) Costs associated with the acquisitions of Omnicare and the pharmacies and clinics of Target.

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

ADJUSTED EFFECTIVE INCOME TAX RATE

The following is a reconciliation of effective income tax rate to adjusted income tax rate:

CONSOLIDATED

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Effective Income tax rate	**38.0%**	38.9%	**38.4%**	39.3%
Impact of non-GAAP adjustments	**0.5**	-	**0.2**	(0.2)
Adjusted income tax rate	**38.5%**	38.9%	**38.6%**	39.1%

CVS Health

Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

2017 GUIDANCE

CVS Health is providing non-GAAP information that excludes certain items because of the nature of these items and the impact they have on the analysis of underlying business performance and trends. Management believes that providing this information enhances investors' understanding of the company's performance. This information should be considered in addition to, rather than as a substitute for, information prepared in accordance with GAAP. CVS Health's definitions of these non-GAAP items may not be comparable to similarly-titled measurements reported by other companies.

The following reconciliations contain forward-looking information. All forward-looking information involves risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking information for a number of reasons as described in our Securities and Exchange Commission filings, including those set forth in the Risk Factors section and under the section entitled "Cautionary Statement Concerning Forward-Looking Statements" in our most recently filed Annual Report on Form 10-K and Quarterly Report on Form 10-Q.

ADJUSTED EARNINGS PER SHARE

Adjusted Earnings per Share, or Adjusted EPS, is income from continuing operations excluding the impact of the amortization of intangible assets, acquisition-related integration costs, charges in connection with store rationalization, loss on settlement of defined benefit plan, loss on early extinguishment of debt, and adjustments to legal reserves in connection with certain legal settlements, divided by the company's weighted average diluted shares outstanding. The Company believes that this measure enhances investors' ability to compare the Company's past financial performance with its current performance. The following is a reconciliation of income before income tax provision to Adjusted EPS:

FIRST QUARTER

	Three Months Ended March 31,		
	2017E		2016
In millions, except per share amounts	**Low**	**High**	Actual
Income before income tax provision	**$ 1,368**	**$ 1,468**	$ 1,893
Non-GAAP adjustments:			
Amortization of intangible assets	**200**	**200**	199
Acquisition-related integration costs(1)	**15**	**15**	61
Charge in connection with store rationalization(2)	**220**	**220**	-
Charge related to a disputed 1999 legal settlement	**-**	**-**	3
Adjusted income before income tax provision	**1,803**	**1,903**	2,156
Adjusted income tax provision	**687**	**725**	847
Adjusted income from continuing operations	**1,116**	**1,178**	1,309
Net income attributable to noncontrolling interest	**-**	**-**	(1)
Adjusted income allocable to participating securities	**(5)**	**(5)**	(7)
Adjusted income from continuing operations attributable to CVS Health	**$ 1,111**	**$ 1,173**	$ 1,301
Weighted average diluted common shares outstanding	**1,041**	**1,041**	1,099
Adjusted EPS	**$ 1.07**	**$ 1.13**	$ 1.18

(1) Estimated integration costs related to the acquisition of Omnicare.
(2) Primarily represents an estimated lease obligation charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.

Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

FULL-YEAR

	Year Ended December 31,		
	2017E		2016
In millions, except per share amounts	**Low**	**High**	Actual
Income before income tax provision	**$ 8,563**	**$ 8,863**	$ 8,637
Non-GAAP adjustments:			
Amortization of intangible assets	**825**	**825**	795
Acquisition-related integration costs[1]	**35**	**35**	291
Charge in connection with store rationalization[2]	**225**	**225**	34
Loss on settlement of defined benefit plan	**195**	**195**	-
Loss on early extinguishment of debt	**-**	**-**	643
Adjustments to legal reserves in connection with legal settlements[3]	**-**	**-**	(85)
Adjusted income before income tax provision	**9,843**	**10,143**	10,315
Adjusted income tax provision	**3,829**	**3,956**	3,982
Adjusted income from continuing operations	**6,014**	**6,187**	6,333
Net income attributable to noncontrolling interest	**(2)**	**(2)**	(2)
Income allocable to participating securities	**(25)**	**(25)**	(31)
Adjusted income from continuing operations attributable to CVS Health	**$ 5,987**	**$ 6,160**	$ 6,300
Weighted average diluted common shares outstanding	**1,038**	**1,038**	1,079
Adjusted earnings per share	**$ 5.77**	**$ 5.93**	$ 5.84

(1) Estimated integration costs related to the acquisition of Omnicare.

(2) Asset impairment charge for the year ended December 31, 2016, and estimated charge primarily representing lease obligations for the year ending December 31, 2017. The charges are in connection with the planned store closures in 2017 related to our enterprise streamlining initiative.

(5) Represents legal charge of $3 million in the first quarter of 2016 in connection with a disputed 1999 legal settlement, and an $88 million reversal of an accrual in connection with a legal settlement in the fourth quarter of 2016.

CVS Health

Reconciliation of Non-GAAP Items Required by SEC Rules

A reconciliation of non-GAAP items disclosed for the respective periods to their most directly comparable GAAP measures.

FREE CASH FLOW

For internal comparisons, management finds it useful to assess year-over-year cash flow performance using Free Cash Flow. CVS Health defines Free Cash Flow as net cash provided by operating activities less net additions to property and equipment (i.e., additions to property and equipment plus proceeds from sale-leaseback transactions). The following is a reconciliation of net cash provided by operating activities to Free Cash Flow:

	Year Ended December 31,		
	2017E		2016
In millions	**Low**	**High**	Actual
Net cash provided by operating activities	**$ 7,700**	**$ 8,600**	$ 10,069
Subtract: Additions to property and equipment	**(2,000)**	**(2,400)**	(2,224)
Add: Proceeds from sale-leaseback transactions	**300**	**200**	230
Free Cash Flow	**$ 6,000**	**$ 6,400**	$ 8,075