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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 DECEMBER 31, 2016 AND 2015
 (in millions, except per share data)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 359	\$ 133
Accounts receivable, net of allowance for doubtful accounts of \$265 and \$254 as of December 31, 2016 and 2015, respectively	926	901
Inventories	82	84
Prepaid expenses and other current assets	155	207
Assets held for sale	9	176
Total current assets	1,531	1,501
Property, plant and equipment, net	1,029	925
Goodwill	6,000	5,905
Intangible assets, net	949	984
Investments in equity method investees	443	473
Other assets	148	174
Total assets	\$ 10,100	\$ 9,962
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 975	\$ 1,014
Current portion of long-term debt	6	159
Total current liabilities	981	1,173
Long-term debt	3,728	3,492
Other liabilities	654	514
Commitments and contingencies		
Redeemable noncontrolling interest	77	70
Stockholders' equity:		
Quest Diagnostics stockholders' equity:		
Common stock, par value \$0.01 per share; 600 shares authorized as of both December 31, 2016 and 2015; 216 shares issued as of both December 31, 2016 and 2015	2	2
Additional paid-in capital	2,545	2,481
Retained earnings	6,613	6,199
Accumulated other comprehensive loss	(72)	(38)
Treasury stock, at cost; 79 shares and 73 shares as of December 31, 2016 and 2015, respectively	(4,460)	(3,960)
Total Quest Diagnostics stockholders' equity	4,628	4,684
Noncontrolling interests	32	29
Total stockholders' equity	4,660	4,713
Total liabilities and stockholders' equity	\$ 10,100	\$ 9,962

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
 (in millions, except per share data)

	2016	2015	2014
Net revenues	\$ 7,515	\$ 7,493	\$ 7,435
Operating costs, expenses and other income:			
Cost of services	4,616	4,657	4,637
Selling, general and administrative	1,681	1,679	1,728
Amortization of intangible assets	77	81	84

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**QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
 (in millions, except per share data)**

	2016	2015	2014
Net revenues	\$ 7,515	\$ 7,493	\$ 7,435
Operating costs, expenses and other income:			
Cost of services	4,616	4,657	4,637
Selling, general and administrative	1,681	1,679	1,728
Amortization of intangible assets	72	81	94
Gain on disposition of business	(118)	(334)	—
Other operating (income) expense, net	(13)	11	(7)
Total operating costs, expenses, net	<u>6,238</u>	<u>6,094</u>	<u>6,452</u>
Operating income	1,277	1,399	983
Other income (expense):			
Interest expense, net	(143)	(153)	(164)
Other (expense) income, net	(48)	(143)	4
Total non-operating expenses, net	<u>(191)</u>	<u>(296)</u>	<u>(160)</u>
Income from continuing operations before income taxes and equity in earnings of equity method investees	1,086	1,103	823
Income tax expense	(429)	(373)	(262)
Equity in earnings of equity method investees, net of taxes	39	23	26
Income from continuing operations	696	753	587
Income from discontinued operations, net of taxes	—	—	5
Net income	696	753	592
Less: Net income attributable to noncontrolling interests	51	44	36
Net income attributable to Quest Diagnostics	<u>\$ 645</u>	<u>\$ 709</u>	<u>\$ 556</u>
Amounts attributable to Quest Diagnostics' stockholders:			
Income from continuing operations	\$ 645	\$ 709	\$ 551
Income from discontinued operations, net of taxes	—	—	5
Net income	<u>\$ 645</u>	<u>\$ 709</u>	<u>\$ 556</u>
Earnings per share attributable to Quest Diagnostics' common stockholders - basic:			
Income from continuing operations	\$ 4.58	\$ 4.92	\$ 3.80
Income from discontinued operations	—	—	0.03
Net income	<u>\$ 4.58</u>	<u>\$ 4.92</u>	<u>\$ 3.83</u>
Earnings per share attributable to Quest Diagnostics' common stockholders - diluted:			
Income from continuing operations	\$ 4.51	\$ 4.87	\$ 3.78
Income from discontinued operations	—	—	0.03
Net income	<u>\$ 4.51</u>	<u>\$ 4.87</u>	<u>\$ 3.81</u>
Dividends per common share	\$ 1.65	\$ 1.52	\$ 1.32

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**QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
 (in millions)**

2016 2015 2014

The accompanying notes are an integral part of these statements.

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**QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
 (in millions)**

	2016	2015	2014
Net income	\$ 696	\$ 753	\$ 592
Other comprehensive (loss) income:			
Currency translation	(34)	(15)	(7)
Market valuation, net of tax	(2)	—	(1)
Net deferred loss on cash flow hedges, net of tax	2	3	(10)
Other	—	1	(1)
Other comprehensive loss	(34)	(11)	(19)
Comprehensive income	662	742	573
Less: Comprehensive income attributable to noncontrolling interests	51	44	36
Comprehensive income attributable to Quest Diagnostics	\$ 611	\$ 698	\$ 537

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**QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
 (in millions)

	2016	2015	2014
Cash flows from operating activities:			
Net income	\$ 696	\$ 753	\$ 592
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	249	304	314
Provision for doubtful accounts	308	297	296
Deferred income tax provision	37	112	23
Stock-based compensation expense	69	52	51
Gain on disposition of business	(118)	(334)	—
Other, net	(6)	6	(12)
Changes in operating assets and liabilities:			
Accounts receivable	(343)	(262)	(312)
Accounts payable and accrued expenses	56	(24)	74
Income taxes payable	42	(41)	(84)
Termination of interest rate swap agreements	54	—	—
Other assets and liabilities, net	25	(42)	2
Net cash provided by operating activities	1,069	821	944
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(139)	(67)	(728)
Proceeds from sale of businesses	270	—	—
Capital expenditures	(293)	(263)	(308)
Investment in equity method investee	—	(33)	—
Decrease in investments and other assets	10	1	11
Net cash used in investing activities	(152)	(362)	(1,025)
Cash flows from financing activities:			
Proceeds from borrowings	1,869	2,453	2,018
Repayments of debt	(1,724)	(2,537)	(1,647)
Purchases of treasury stock	(590)	(224)	(132)
Exercise of stock options	73	60	78
Employee payroll tax withholdings on stock issued under stock-based compensation plans	(10)	(7)	(6)
Dividends paid	(223)	(212)	(187)
Distributions to noncontrolling interests	(41)	(42)	(31)
Sale of noncontrolling interest in subsidiary	—	63	—
Payment of deferred business acquisition consideration	—	(51)	—
Other financing activities, net	(45)	(21)	(7)
Net cash (used in) provided by financing activities	(691)	(518)	86
Net change in cash and cash equivalents	226	(59)	5
Cash and cash equivalents, beginning of year	133	192	187
Cash and cash equivalents, end of year	\$ 359	\$ 133	\$ 192

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
 (in millions)

	Quest Diagnostics Stockholders' Equity								Redeemable Non-controlling Interest
	Shares of Common Stock Out- standing	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at Cost	Non- controlling Interests	Total Stock-holders' Equity	
Balance, December 31, 2013	144	\$ 2	\$ 2,379	\$ 5,358	\$ (8)	\$ (3,783)	\$ 25	\$ 3,973	\$ —
Net income				556			36	592	
Other comprehensive loss, net of tax					(19)			(19)	
Dividends declared				(191)				(191)	

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
 (in millions)

Quest Diagnostics Stockholders' Equity

	Shares of Common Stock Out- standing	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at Cost	Non- controlling Interests	Total Stock-holders' Equity	Redeemable Non-controlling Interest
<i>Balance, December 31, 2013</i>	144	\$ 2	\$ 2,379	\$ 5,358	\$ (8)	\$ (3,783)	\$ 25	\$ 3,973	\$ —
Net income				556			36	592	
Other comprehensive loss, net of tax					(19)			(19)	
Dividends declared				(191)				(191)	
Distributions to noncontrolling interests							(31)	(31)	
Issuance of common stock under benefit plans	1		2			17		19	
Stock-based compensation expense			48			3		51	
Exercise of stock options	1		(2)			80		78	
Shares to cover employee payroll tax withholdings on stock issued under stock-based compensation plans			(6)					(6)	
Tax benefits associated with stock-based compensation plans			(3)					(3)	
Purchases of treasury stock	(2)					(132)		(132)	
Other							(1)	(1)	
<i>Balance, December 31, 2014</i>	144	\$ 2	\$ 2,418	\$ 5,723	\$ (27)	\$ (3,815)	\$ 29	\$ 4,330	\$ —
Net income				709			42	751	2
Other comprehensive loss, net of tax					(11)			(11)	
Dividends declared				(219)				(219)	
Distributions to noncontrolling interests							(42)	(42)	
Issuance of common stock under benefit plans	1		6			15		21	
Stock-based compensation expense			48			4		52	
Exercise of stock options	1					60		60	
Shares to cover employee payroll tax withholdings on stock issued under stock-based compensation plans			(7)					(7)	
Tax benefits associated with stock-based compensation plans			5					5	
Purchases of treasury stock	(3)					(224)		(224)	
Sale of redeemable noncontrolling interest			11					11	54
Adjustment to fair value				(14)				(14)	14
<i>Balance, December 31, 2015</i>	143	\$ 2	\$ 2,481	\$ 6,199	\$ (38)	\$ (3,960)	\$ 29	\$ 4,713	\$ 70
Net income				645			44	689	7
Other comprehensive loss, net of tax					(34)			(34)	
Dividends declared				(231)				(231)	
Distributions to noncontrolling interests							(41)	(41)	
Issuance of common stock under benefit plans			7			15		22	
Stock-based compensation expense			65			4		69	
Exercise of stock options	1		2			71		73	
Shares to cover employee payroll tax withholdings on stock issued under stock-based compensation plans			(10)					(10)	
Purchases of treasury stock	(7)					(590)		(590)	
<i>Balance, December 31, 2016</i>	137	\$ 2	\$ 2,545	\$ 6,613	\$ (72)	\$ (4,460)	\$ 32	\$ 4,660	\$ 77

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in millions unless otherwise indicated)

1. DESCRIPTION OF BUSINESS

Background

Quest Diagnostics Incorporated and its subsidiaries ("Quest Diagnostics" or the "Company") empower people to take action to improve health outcomes. The Company uses its extensive database of clinical lab results to derive diagnostic insights that reveal new avenues to identify and treat disease, inspire healthy behaviors and improve healthcare management. The Company's diagnostic information services business ("DIS") provides insights through clinical testing and related services to a broad range of customers, including patients, clinicians, hospitals, integrated delivery networks ("IDNs"), health plans, employers and accountable care organizations ("ACOs"). The Company offers the broadest access in the United States to diagnostic information services through its nationwide network of laboratories, patient service centers and phlebotomists in physician offices. The Company is the world's leading provider of diagnostic information services, which includes providing clinical testing services such as routine (including drugs-of-abuse) testing, gene-based and esoteric (including advanced diagnostics) testing, and