STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
INSURANCE DIVISION

BEFORE THE DIRECTOR
OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

In the Matter of the Proposed Plan of Acquisition of Control of Health Net Health Plan of Oregon, Inc., Tigard, Oregon, by Centene Corporation, Chopin Merger Sub I, Inc., and Chopin Merger Sub II, Inc., each of St. Louis, Missouri	))))))	Findings of Fact, Conclusions of Law and Order Case No. 15-11-021

INTRODUCTION

On July 31, 2015, Centene Corporation ("Centene"), Chopin Merger Sub I, Inc. ("Merger Sub I") and Chopin Merger Sub II, Inc. ("Merger Sub II" and together with Merger Sub I, the "Merger Subs" and the Merger Subs together with Centene, the "Applicants") filed with the Oregon Department of Consumer and Business Services, Insurance Division ("Insurance Division") a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer to acquire control of Health Net Health Plan of Oregon, Inc., an Oregon health care service contractor (the "Domestic Insurer"), as required by ORS 732.517 through 732.546 (as supplemented, the "Form A"). The filing fee required under OAR 836-009-0007(12) was received by the Insurance Division on August 3, 2015. The acquisition described in the filing (the "activity" or the "Proposed Acquisition") is an activity described in ORS 732.521(1). The Proposed Acquisition is a consequence of a proposed merger (the "Merger") of a wholly owned subsidiary of Centene with Health Net, Inc. ("Health Net"). The Applicants, the Domestic Insurer, Health Net, and (as defined below) QualMed are the parties to the Proposed Acquistion (each a "Party" and collectively the "Parties").

FINDINGS OF FACT

(1) The Domestic Insurer was incorporated in Oregon on January 1, 1989 as a for-profit corporation that received its Certificate of Authority as a health care service contractor on June 22, 1989. In 1997, the Domestic Insurer merged with a nonprofit health care service contractor that first began providing health services in Oregon in 1938 as Physicians Association of Clackamas County. The Domestic Insurer is a direct wholly owned subsidiary of QualMed, Inc., a Delaware corporation ("QualMed"), which, in turn, is a direct wholly owned subsidiary of Health Net. The Domestic Insurer provides and administers health benefits with commercial membership of approximately 46,260 and Medicare Supplement and Medicare Advantage membership of 27,368 through group, individual and Medicare (including the Medicare prescription drug benefit commonly referred to as Part D).

(2) Health Net is a publicly traded Delaware corporation that delivers managed health care services through health plans and government-sponsored managed care plans. Health Net and its subsidiaries provide and administer health benefits to approximately 6.1 million individuals across the United States through group, individual, Medicare (including the Medicare prescription drug benefit commonly referred to as Part D), Medicaid and dual eligible programs as well as programs with the U.S. Department of Defense, and U.S. Department of Veterans Affairs. Health Net and its subsidiaries also offer behavioral health, substance abuse and employee assistance programs, and managed health care products related to prescription drugs.

(3) Health Net Life Insurance Company ("Health Net Life"), a California domiciled stock life and health insurance company and a subsidiary of Health Net, has a certificate of authority as a foreign insurer in Oregon.

(4) Centene is a diversified, multi-line healthcare enterprise that provides programs and services to government-sponsored healthcare programs, focusing on under-insured and uninsured individuals. Centene subsidiaries offer healthcare services in several states, including California, Washington, Florida, Illinois, Massachusetts, Ohio, Oregon and Texas. Centene is a Delaware corporation. Its common stock is publicly traded on the NYSE under the ticker symbol "CNC."

(5) In 2015, Centene entered the Oregon market through its indirect acquisition of Trillium Community Health Plan, Inc. ("Trillium"), a for-profit corporation that has a Certificate of Authority in Oregon as a health care service contractor. Trillium is 60% owned by Lane Individual Practice Association, Inc. and 40% owned by Agate Resources, Inc. Agate Resources, Inc. wholly owns Lane Individual Practice Association, Inc. and is wholly owned by Centene.

(6) The Merger Subs are both Delaware corporations and direct wholly owned subsidiaries of Centene. Each of the Merger Subs was formed as an acquisition vehicle for the purpose of effecting the acquisition of Health Net by Centene. Neither of the Merger Subs have conducted any activities other than those incidental to its formation and the matters contemplated by the Agreement and Plan of Merger, dated as of July 2, 2015, by and among Centene, the Merger Subs and Health Net (the "Merger Agreement").

(7) Centene proposes to acquire control of the Domestic Insurer through the Merger, pursuant to the terms and conditions of the Merger Agreement. The Merger will be accomplished by a potential two-step process.

(8) First, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub I will merge with and into Health Net (the "First Merger"), with Health Net continuing as the surviving corporation in the First Merger. Upon the consummation of the First Merger, Health Net will be a direct wholly owned subsidiary of Centene.

(9) Second, if Health Net's counsel, Morgan Lewis & Bockius LLP, provides a legal opinion regarding certain aspects of the tax treatment of the transaction, immediately following the completion of the First Merger, Health Net (as the surviving corporation in the First Merger) will merge (the "Second Merger") with and into Merger Sub II, with Merger Sub II continuing as the surviving corporation in the Second Merger as a direct wholly owned subsidiary of Centene. Immediately following consummation of the Second Merger, Merger Sub II will be renamed Health Net, Inc.

(10) QualMed will remain the sole direct shareholder of the Domestic Insurer following the Proposed Acquisition. The Proposed Acquisition does not provide Merger Consideration to the stockholder of the Domestic Insurer.

(11) The Merger is valued at approximately $6.8 billion in cash and stock, based on common stock prices as of July 1, 2015 and including the assumption of approximately $500 million in debt from Health Net. The Merger has been approved by the Boards of Directors of Centene and Health Net and their respective shareholders.

(12) At the effective time of the First Merger, each share of Health Net common stock, par value $0.001 per share, that is issued and outstanding immediately prior to the effective time of the First Merger (excluding any shares held by Health Net in treasury, any shares held, directly or indirectly, by Centene, by Merger Sub I or by Merger Sub II and any shares that are outstanding immediately prior to the effective time of the First

Merger and that are held by any person who is entitled to demand and properly demands appraisal of such shares pursuant to Delaware law) will be converted to the right to receive the merger consideration (the "Merger Consideration"), which will consist of (i) $28.25 in cash and (ii) 0.622 of a share of Centene common stock, par value $0.001 per share (the "Exchange Ratio"). Based on the closing price of Centene common stock on July 1, 2015 of $80.90, this valued, as of July 1, 2015, each share of Health Net common stock at $78.57. The Exchange Ratio is fixed and will not be adjusted to reflect changes in the common stock price of either Centene or Health Net. Accordingly, the value of the Merger Consideration to be received in exchange for each share of Health Net common stock will fluctuate with the market value of Centene common stock until the First Merger is complete. The Merger Consideration will be paid in connection with the First Merger and there will be no additional consideration paid if the Second Merger occurs.

(13) Health Net's Board of Directors retained J.P. Morgan Securities LLC to render an opinion as to the fairness of the Merger Consideration, from a financial point of view, to the Health Net stockholders, and J.P. Morgan Securities LLC rendered such an opinion. Likewise, Allen & Company LLC and Evercore Group L.L.C. reviewed the Merger Consideration and each rendered an opinion to the Board of Directors of Centene as to the fairness of the Merger Consideration, from a financial point of view, to Centene.

(14) At the effective time of the First Merger, (i) each outstanding stock option to purchase shares of Health Net common stock will be converted into a right to receive at the effective time of the First Merger cash and shares of Centene's common stock (net of the option exercise price); (ii) each share of Health Net's vested performance share awards and vested restricted stock units will be converted into rights to receive at the

effective time of the First Merger the Merger Consideration in respect of the shares of Health Net common stock subject to the awards and units; and (iii) each unvested performance share award and each unvested restricted stock unit of Health Net will be converted into equity awards related to Centene's common stock, subject to the same criteria, provided that any performance vesting goal will be deemed satisfied at target.

(15) Following consummation of the First Merger, existing stockholders of Centene will own approximately 71% of the combined company and existing stockholders of Health Net will own approximately 29% of the combined company based on the number of outstanding shares of Centene common stock and Health Net common stock as of July 1, 2015. Upon completion of the First Merger, one new director will be added to the Centene Board, from among those serving on the Health Net Board as of July 2, 2015, who qualifies as an "independent" director as defined by Section 303A.02 of the NYSE Listed Company Manual and is reasonably acceptable to the Nominating and Corporate Governance Committee of Centene. Centene's current Chairman, President and CEO will remain Chairman, President and CEO after the completion of the Merger. As a result, Centene's Board and management will be in control of Health Net after the Merger.

(16) The basis and terms of the Merger Agreement, including the nature and amount of consideration, were determined through arms' length negotiations among the representatives of the Applicants, on the one hand, and the representatives of Health Net, on the other hand, and their respective legal and other advisors.

(17) Centene is financing the cash portion of the Merger Consideration to be paid to the Health Net stockholders through new borrowing. After completion of the Merger,

Centene will have approximately $2.382 billion in additional debt on a consolidated basis (including assumed Health Net debt) and total consolidated debt of approximately $4.136 billion. Centene has obtained a commitment letter from certain lenders providing commitments for a new revolving credit facility of up to $1 billion and, in the event Centene is unable to issue senior unsecured notes yielding up to $2.67 billion on or prior to the closing date of the First Merger, a senior bridge facility of up to $2.67 billion to consummate the First Merger and the other transactions contemplated by the Merger Agreement. The financing contemplated by the commitment letter is subject to customary conditions and will be unsecured. In particular, no assets or stock of Health Net, the Domestic Insurer or of any person controlled by Health Net will be pledged or otherwise offered as security for the financing.

(18) The Applicants have no present plans or proposals to cause the Domestic Insurer to declare an extraordinary dividend, liquidate the Domestic Insurer, sell any of the Domestic Insurer's assets (other than in ordinary course), or to merge the Domestic Insurer with any person or persons or to make any other material change in the Domestic Insurer's corporate structure, business operations or management. Following the consummation of the Proposed Acquisition, the Domestic Insurer will continue to maintain its separate corporate existence. In addition, the Merger Agreement provides that for one year after the completion of the First Merger (or such earlier time as an employee ceases employment), Centene will cause all of its subsidiaries, including the Domestic Insurer, to compensate former employees of Health Net with at least the same level of base salary or regular hourly wages as provided to each such employee prior to the First Merger.

(19) Centene's current intention is to continue the business of the Domestic Insurer without any material modification to the Domestic Insurer's existing plan of operations. No changes are currently planned to the leadership, employees, contracts or affiliation agreements of the Domestic Insurer. Centene will continue to evaluate the quality and effectiveness of the ongoing operations of the Domestic Insurer. If as a result of its integration analysis following the closing Centene determines that changes or new agreements are desirable, any required filings will be made with the Insurance Division.

(20) On the basis of the Form A and specifically on the basis of the findings of fact above, the Director of the Department of Consumer and Business Services of the State of Oregon (the "Director") enters the following:

CONCLUSIONS OF LAW

1. The Form A is properly supported by the required documents and meets the requirements of the Oregon Insurance Code for approval with respect to acquisitions and mergers pursuant to ORS 732.517 to 732.546.

2. The Director finds that there is no evidence that:

   (a) The activity is contrary to law or would result in a prohibited combination of risks or classes of insurance.

   The acquisition of control of the Domestic Insurer by the Applicants is permitted by ORS 732.517 to 732.546.

   (b) The activity is inequitable or unfair to the policyholders or shareholders of any insurer involved in, or to any other person affected by, the proposed activity.

   The Domestic Insurer is the insurer involved in the proposed activity. The activity is not inequitable or unfair to the policyholders or shareholders of the Domestic Insurer or to any other person affected by the proposed activity. A subsidiary of Centene will merge with and into Health Net and Health Net's existing shares of common stock will be converted into the right to receive the Merger Consideration. Thereafter, if Health Net's outside legal counsel delivers a certain tax opinion, Health Net will merge with a second subsidiary of Centene. The Domestic Insurer is and will remain a wholly owned subsidiary of a publicly traded company. The Proposed Acquisition does not provide Merger

Consideration to QualMed, the direct stockholder of the Domestic Insurer. The shareholders of Centene and Health Net have already voted in favor of the Merger, and the Boards of Directors of each of Centene and Health Net have received fairness opinions. The Division has not investigated, and takes no position on, the fairness of the Merger Consideration. As stated in the Form A, immediately following the Proposed Acquisition, Centene indicates that it fully intends to continue the business of the Domestic Insurer without any material changes or modifications to the Domestic Insurer's current operations. Correspondingly, the policyholders of the Domestic Insurer can expect to receive the same level of service as prior to the Proposed Acquisition as no material changes are anticipated with respect to the products or services which they receive from the Domestic Insurer.

(c) The activity would substantially reduce the security of and service to be rendered to policyholders of any domestic insurer involved in the proposed activity, or would otherwise prejudice the interests of such policyholders in this state or elsewhere.

The activity will not substantially reduce the security of and service to be rendered to policyholders of the Domestic Insurer or otherwise prejudice the interests of such policyholders in this state or elsewhere.

(d) The activity provides for a foreign or alien insurer to be an acquiring party, and the insurer cannot satisfy the requirements of this state for transacting an insurance business involving the classes of insurance affected by the activity.

The Proposed Acquisition does not provide for a foreign or alien insurer to be an acquiring party. As such, this provision is not relevant to the Director's consideration.

(e) The activity or its consummation would substantially diminish competition in insurance in this state or tend to create a monopoly.

Based on the Form E filed by the Applicants as a companion filing to the Form A, the immediate result of the Proposed Acquisition will not exceed the safe harbor exemptions set forth in Section 732.537(3)(d) of the Oregon Insurance Code for any line of insurance business in the State of Oregon. As set forth in the Form E, the only lines of business written by both the Domestic Insurer and Trillium in Oregon are Comprehensive (Hospital & Medical) Individual and Title XVIII Medicare lines of business. The combined market share for each line of business would not represent an increase which would exceed any of the safe harbor exemptions under the Oregon Insurance Code. Accordingly, this Acquisition will not substantially diminish competition of insurance in this state or another state or tend to create a monopoly.

(f) After the change of control or ownership, the domestic insurer to which the activity applies would not be able to satisfy the requirements for the issuance

of a certificate of authority to transact the line or lines of insurance for which the insurer is currently authorized.

The Domestic Insurer will be adequately capitalized to transact the lines of business for which it is authorized in Oregon. See ORS 750.045.

(g) The financial condition of any acquiring party might jeopardize the financial stability of the insurer.

The Acquisition by Centene will enhance – not jeopardize – the financial stability of the Domestic Insurer.

(h) The plans or proposals that the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in the insurer's business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest.

Following the Proposed Acquisition, Centene has no current plans to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management.

(i) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the activity or its consummation.

There is nothing to suggest that the competence, experience and integrity of those persons who will control the operations of the Domestic Insurer will not be in the interest of the policyholders of the Domestic Insurer and of the public so as not to permit the Proposed Acquisition or its consummation.

(j) The activity or its consummation is likely to be hazardous or prejudicial to the insurance-buying public.

There is nothing to suggest that the Proposed Acquisition will be hazardous or prejudicial to the insurance-buying public.

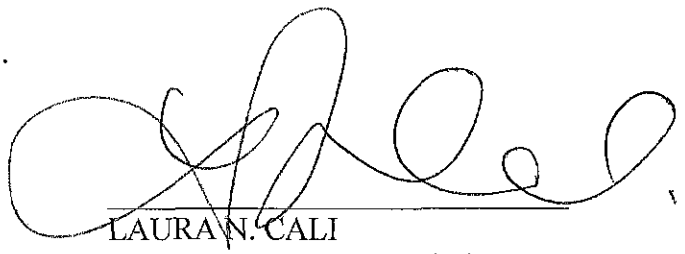
(k) The activity is subject to other material and reasonable objections.

After considering all comments, the division finds that there are no material or reasonable objections to the Proposed Acquisition.

ORDER

Based on the foregoing Findings of Fact and Conclusions of Law, it is hereby ordered that the acquisition of control of the Domestic Insurer by the Applicants is hereby approved, provided that the Parties shall not close the Proposed Acquisition until after the following conditions have been met: (1) 60 days have elapsed following the date of this Order; and (2) the Applicants have received approval from the California Department of Insurance of the Applicants' proposed acquisition of control of Health Net Life as a result of the transactions contemplated by the Merger Agreement.

DATED this 30 day of November, 2015.



LAURA N. CALI
Oregon Insurance Commissioner

NOTICE

Pursuant to ORS 732.528 (6), any insurer or other Party to the proposed activity, including the Domestic Insurer, within 60 days after receipt of a notice of approval or disapproval, may appeal the final order of the Director as provided in ORS 183.310 to 183.550. For purposes of the judicial review the specifications required to be set forth in the written notice from the Director will be deemed the findings of fact and conclusions of law of the Insurance Division.