The following information should be read with Ascension Health Alliance’s audited consolidated financial statements and related notes to the consolidated financial statements.

**Business Combinations**

Effective January 1, 2012, Ascension Health, a subsidiary of Ascension Health Alliance, became sole corporate member of Alexian Brothers Health System (Alexian Brothers), a Catholic healthcare system which operates acute and specialty care hospitals, ambulatory care clinics, physician practices and senior living facilities in Illinois, Missouri, Tennessee and Wisconsin.

On April 1, 2013, Marian Health System, Inc. (Marian) merged into Ascension Health. Marian was composed of three regional health systems: Via Christi Health, Inc. (Via Christi), based in Wichita, Kansas; Ministry Health Care, Inc. (Ministry Health Care), based in Milwaukee, Wisconsin; and St. John Health System, Inc. (St. John Health), based in Tulsa, Oklahoma. Prior to April 1, 2013, Ascension Health had a 50% membership interest in Via Christi.

In total, the merger of Marian into Ascension Health added 32 hospitals and more than 250 clinics in the states of Wisconsin, Minnesota, Oklahoma and Kansas to the System. As of and for the fiscal year ended September 30, 2012, Marian entities had, on a consolidated basis, $5.3 billion in assets, $2.9 billion in net assets, $1.6 billion of long-term debt, net and $3.9 billion in total revenues.

**Symphony and Ministry Service Center**

Symphony is an enterprise resource planning initiative being undertaken by Ascension Health Alliance and the Health Ministries. Symphony is intended to facilitate efficiency, focus resources, and provide analytic capabilities that will improve operational and clinical decisions, both at the local Health Ministry and System-wide levels, by providing a single, centralized source of information with a shared database, allowing for immediate information access and retrieval and reducing or eliminating data inaccuracy and duplication.

Through Symphony, the System is implementing new operational practices in finance, human resources, and supply chain, enabled by information technology. As of March 1, 2013, this initiative has been successfully deployed at eight Health Ministries with more than 37,000 users and is expected to be fully implemented in fiscal year 2016.

The Ministry Service Center (MSC), a key part of Symphony, provides shared services in the areas of human resources, supply chain and finance to the Health Ministries of Ascension Health Alliance. Through process transformation the MSC delivers value by providing services more efficiently, enabling new insights, and sharpening Health Ministry focus.
Results of Operations

Volume Trends and Net Patient Service Revenue

For the nine months ended March 31, 2013, the System experienced a 2.7% increase in equivalent discharges and a 1.5% increase in inpatient admissions as compared to the nine months ended March 31, 2012. Increases in patient volumes are primarily due to the addition of Alexian Brothers to Ascension Health on January 1, 2012. On a same facility basis (the System excluding Alexian Brothers and certain other facilities), equivalent discharges decreased 1.4% from prior year, a reflection of the national trend toward declining utilization rates in healthcare delivery systems.

Outpatient visits increased 2.3% for the nine months ended March 31, 2013, as compared to the same period in the prior year, primarily due to the addition of Alexian Brothers. Observation days increased 7.5% (2.8% on a same facility basis) as compared to the same period of the prior year. The increase in observation days is consistent with the health care industry trend toward avoiding short inpatient stays through ongoing short-term treatment and assessment, in lieu of inpatient admission. Outpatient revenue as a percentage of total gross patient service revenue was 48.1% for the nine months ended March 31, 2013, which increased from 47.5% for the nine months ended March 31, 2012.

The System was able to achieve a 3.2% increase in net patient service revenue per equivalent discharge (a 3.0% increase on a same facility basis), due to successful managed care negotiations resulting in improved commercial rates along with an increase in the case mix index to 1.52 on a same facility basis for the nine months ended March 31, 2013 as compared to 1.50 for the nine months ended March 31, 2012.
The following table reflects certain patient volume information and key performance indicators for the nine months ended March 31, 2013 and 2012.

<table>
<thead>
<tr>
<th>Volume Trends</th>
<th>Nine Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Equivalent Discharges</td>
<td>1,011,223</td>
</tr>
<tr>
<td>Total Admissions</td>
<td>523,517</td>
</tr>
<tr>
<td>Case Mix Index</td>
<td>1.52</td>
</tr>
<tr>
<td>Acute Average Length of Stay (days)</td>
<td>4.51</td>
</tr>
<tr>
<td>Observation Days</td>
<td>176,974</td>
</tr>
<tr>
<td>Emergency Room Visits</td>
<td>1,893,345</td>
</tr>
<tr>
<td>Surgical Visits (IP &amp; OP)</td>
<td>392,432</td>
</tr>
<tr>
<td>Physician Office Visits</td>
<td>5,426,115</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Performance Indicators</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring Operating Margin</td>
<td>3.8%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>2.9%</td>
<td>7.5% *</td>
</tr>
<tr>
<td>Operating EBITDA Margin</td>
<td>8.2%</td>
<td>12.7% *</td>
</tr>
</tbody>
</table>

* Impacted by one-time pension curtailment gain recorded in fiscal year 2012.

Excluding the pension curtailment gain, income from operations, operating margin and operating EBITDA margin for the nine months ended March 31, 2012 were $453 million, 3.9% and 9.1%, respectively.

Increases in emergency room and physician office visits are primarily due to the addition of Alexian Brothers to Ascension Health.

**Income from Recurring Operations and Income from Operations**

For the nine months ended March 31, 2013, income from recurring operations was $422 million compared to $496 million for the nine months ended March 31, 2012. For the nine months ended March 31, 2013, income from operations was $360 million compared to $865 million for the nine months ended March 31, 2012. The decrease is primarily due to the $412 million pension curtailment gain (as a result of freezing the defined benefit plan as of January 1, 2013) recorded in fiscal year 2012, included in impairment, restructuring and nonrecurring gains, net.
Recurring Operations

For the nine months ended March 31, 2013:

- Net patient service revenue, less provision for doubtful accounts, increased $645 million, or 6.0%, (an increase of $166 million, or 1.5%, on a same facility basis), as a result of the 2.7% increase in equivalent discharges, primarily due to the addition of Alexian Brothers, successfully managed care negotiations, an increase in case mix index, and increases in physician office visits, partially offset by increases in charity care and unfavorable trends in payor mix.

- Other revenue increased $76 million, or 10.3%, primarily due to the following:
  - Improved investment returns reflected in the investment in Via Christi Health, Inc.
  - Increased revenue at TriMedx, a wholly-owned biomedical engineering company, due to the addition of several new customers during the fiscal year

- Total operating expenses increased $794 million, or 7.2%, primarily due to the following:
  - Salaries and wages and benefits increased $316 million, or 5.3%, (an increase of $68 million, or 1.1%, on a same facility basis) primarily as a result of a 3.9% increase in salaries, wages and benefits expense per full-time equivalent employees (FTEs) and a 1.3% increase in FTEs due to the following:
    - The addition of Alexian Brothers
    - Growth of operations at TriMedx and the Ministry Service Center, the System’s shared services support center for human resources, finance, and supply chain functions
    - Physician alignment activities
    - The restructuring of pension benefits from a defined benefit plan to a defined contribution plan and the ongoing transition to a centrally managed medical benefits program
  - These increases were partially offset by staffing reductions at facilities with declining utilization and the transition to a third-party contractor to provide dietary and housekeeping services reflected in purchased services expense as discussed below. Purchased services expense increased $182 million, or 33.4%, (an increase of $137 million, or 25.1%, on a same facility basis) due to the addition of Alexian Brothers and the ongoing transition to a third-party contractor to provide dietary and housekeeping services at a reduced rate across the System.
Supplies expense increased $31 million, or 1.8%, (a decrease of $37 million, or 2.1%, on a same facility basis) due to the addition of Alexian Brothers, offset by management’s continued focus on supply chain management as evidenced by the 0.9% decrease in supplies expense per equivalent discharge compared to the same period of the prior year.

Other expenses increased $161 million, or 12.5%, (an increase of $114 million, or 8.9%, on a same facility basis) primarily due to:
- The addition of Alexian Brothers
- Increases in state sponsored provider tax expense in Indiana and other various states
- Information system improvements
- Increased repairs and maintenance expense due to growth at TriMedx

Impairment, Restructuring and Non-Recurring

Net impairment, restructuring and nonrecurring losses were $105 million for the nine months ended March 31, 2013 as compared to a gain of $348 million during the nine months ended March 31, 2012, primarily due to the $412 million pension curtailment gain recorded in December 2011. In addition, Symphony had expenses of $81 million through the nine months ended March 31, 2013, an increase of $39 million over the same period last year.

Nonoperating Gains, Net

For the nine months ended March 31, 2013, nonoperating gains, net were $807 million compared to nonoperating gains of $306 million for the nine months ended March 31, 2012. This change is primarily attributable to a $774 million increase in nonoperating investment return as further discussed in the Investment Return section that follows, as well as a $71 million increase in gains on interest rate swaps. Additionally, there were no contributions from business combinations during the nine months ended March 31, 2013, in contrast to the $334 million contribution from Alexian Brothers recorded in fiscal year 2012.

Investment Return

For the nine months ended March 31, 2013, the long-term investments held in the Alpha Fund, excluding noncontrolling interests and long-term investments held by the self-insurance programs, earned a return of 9.1%, compared to 1.4% for the nine months ended March 31, 2012, an increase of 7.7%.

Excess of Revenues and Gains over Expenses and Losses

The excess of revenues and gains over expenses and losses for both the nine months ended March 31, 2013 and March 31, 2012, was $1.2 billion. The increase in investment return in the nine months ended March 31, 2013, as compared to the same period of the prior year of $796 million offset the $412 million one-time pension curtailment gain and the $334 million contribution from business combinations recorded in the nine months ended March 31, 2012.
Care of Persons Living in Poverty and Community Benefit Programs

The unpaid cost of providing care to persons living in poverty and community benefit programs was $1.1 billion for the nine months ended March 31, 2013, a $58 million, or 5.7%, increase over the nine months ended March 31, 2012. This increase is primarily attributable to increased charity care provided as a result of the addition of Alexian Brothers, economic conditions driving increased charity care in certain markets, further eligibility restrictions and reduced reimbursement in state sponsored Medicaid programs, and increased unreimbursed costs of medical education and community clinics.

Liquidity and Capital Resources

The System had unrestricted cash and investments, net of $9.7 billion at March 31, 2013, compared to $9.1 billion at June 30, 2012, an increase of 6.6%.

Cash-to-senior debt and cash-to-debt continue to be strong at 232.9% and 204.8%, respectively, at March 31, 2013, representing increases compared to June 30, 2012.

<table>
<thead>
<tr>
<th>Balance Sheet Ratios</th>
<th>March 31, 2013</th>
<th>June 30, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Cash on Hand</td>
<td>237</td>
<td>233</td>
</tr>
<tr>
<td>Net Days in Accounts Receivable</td>
<td>48</td>
<td>46</td>
</tr>
<tr>
<td>Cash-to-Senior Debt</td>
<td>232.9%</td>
<td>216.6%</td>
</tr>
<tr>
<td>Cash-to-Debt (Senior and Subordinated)</td>
<td>204.8%</td>
<td>190.1%</td>
</tr>
<tr>
<td>Senior Debt to Capitalization</td>
<td>24.3%</td>
<td>26.1%</td>
</tr>
<tr>
<td>Total Debt to Capitalization</td>
<td>26.7%</td>
<td>28.7%</td>
</tr>
</tbody>
</table>
Capital Financing and Asset Management

Through the normal course of its debt management activities, the System remarkets certain series of outstanding put bonds on scheduled remarketing dates, resetting the interest rates to current market levels for new interest mode periods.

Prior to April 2012, the System held a significant portion of its investments in the Ascension Legacy Portfolio (formerly the Health System Depository, or HSD), an investment pool of funds in which the System and a limited number of other nonprofit entities participated. The System did not consolidate the Ascension Legacy Portfolio prior to April 2012. Accordingly, the System’s investments recorded in the consolidated financial statements consisted only of the System’s pro-rata share of the Ascension Legacy Portfolio’s investments held for participants prior to April 2012.

In April 2012, a significant portion of the assets in the Ascension Legacy Portfolio were transferred to the Alpha Fund, a separate legal entity created during the year ended June 30, 2012. The Alpha Fund members include the investment interests of the System and other nonprofit entities. The System began consolidating the Alpha Fund in April 2012. The consolidation of the Alpha Fund by the System in April 2012 resulted in an increase in net assets of $440 million, representing the interests held by entities other than the System as of the date investments were transferred into the Alpha Fund. The portion of the Alpha Fund’s net assets representing interests held by entities other than the System included in noncontrolling interests in the Consolidated Balance Sheets is $1.4 billion at March 31, 2013 and $589 million at June 30, 2012.

Total net investments under management by CHIMCO are $24.5 billion and $22.6 billion at March 31, 2013 and June 30, 2012, respectively. Of the total net investments under CHIMCO management, $11.2 billion and $9.5 billion are included in the consolidated net assets of the System at March 31, 2013 and June 30, 2012, respectively, because these net assets are controlled by the System.