

Ascension Health

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read with Ascension Health's unaudited consolidated financial statements and related notes to the consolidated financial statements, as well as Ascension Health's June 30, 2009 audited consolidated financial statements.

Volume Trends and Net Patient Service Revenue

For the six months ended December 31, 2009, Ascension Health experienced a 2.1% increase in equivalent discharges as compared with the six months ended December 31, 2008. Acute care admissions grew 0.5% from prior year. Outpatient revenue as a percentage of total gross patient service revenue increased from 44.6% for the six months ended December 31, 2008 to 45.4% for the six months ended December 31, 2009.

| Volume Trends | | |
|-------------------------------------|--------------------------------------|-------------|
| | Six Months Ended December 31, | |
| | 2009 | 2008 |
| Acute Care Discharges | 318,406 | 316,833 |
| Total Discharges | 343,800 | 341,645 |
| Case Mix Index | 1.47 | 1.48 |
| Equivalent Discharges | 630,371 | 617,410 |
| Acute Average Length of Stay (days) | 4.45 | 4.58 |
| Emergency Room Visits | 1,185,051 | 1,132,460 |
| Surgical Visits (IP & OP) | 269,554 | 271,173 |

Net patient service revenue grew 3.7% for the six months ended December 31, 2009 as compared with the six months ended December 31, 2008. Net patient service revenue per equivalent discharge increased 1.5%. Charity care measured at cost increased by approximately \$34 million or 23% for the six months ended December 31, 2009 as compared to the six months ended December 31, 2008.

Income from Operations before Impairment, Restructuring, Self-Insurance Trust Fund Investment Return, and Nonrecurring Expenses

For the six months ended December 31, 2009, income from operations before impairment, restructuring, self-insurance trust fund investment return, and nonrecurring expenses was \$292 million, an \$89 million or 44% increase over the same period in the prior fiscal year, with \$81 million of the \$89 million increase attributable to favorable returns included in Ascension Health's interest in Via Christi Health, an unconsolidated entity. In addition, the unpaid cost of public programs for the poor increased \$74 million or 55% over the same period in the prior fiscal year.

Operating expenses per equivalent discharge for the six months ended December 31, 2009 increased 1.7% as compared to the six months ended December 31, 2008. Bad debt expense per equivalent discharge decreased 13.8%, while the cost of charity care increased as previously mentioned. Operating expenses per equivalent discharge, excluding bad debt expense, increased 3.0% for the six months ended December 31, 2009 as compared to the six months ended December 31, 2008.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Income from Operations

For the six months ended December 31, 2009, income from operations was \$351 million, an increase of \$260 million from the same period ended December 31, 2008. Self-insurance trust fund investment return of \$63 million is included in income from operations and represents a \$159 million increase from the same period ended in the prior fiscal year.

Excess (Deficit) of Revenues and Gains over Expenses and Losses

The excess of revenues and gains over expenses and losses for the six months ended December 31, 2009 was \$1.0 billion compared to the (deficit) of (\$1.3) billion for the six months ended December 31, 2008 primarily due to a nonoperating investment return of \$665 million, an increase of \$1.9 billion as compared to the losses experienced in the same period ended in the prior fiscal year.

Balance Sheet Ratios

Ascension Health had 177 days of cash and investments on hand at December 31, 2009, which represents an increase of 19 days from June 30, 2009. The increase was driven primarily by favorable investment returns previously discussed partially offset by capital expenditures of \$269 million for the six months ended December 31, 2009.

Cash-to-senior debt and cash-to-debt were 184.7% and 152.7%, respectively, at December 31, 2009 as indicated in the following table, representing an increase compared to that at June 30, 2009. Ascension Health continues to focus significant efforts on maintaining a strong balance sheet.

| | December 31, 2009 | June 30, 2009 |
|--|----------------------|------------------|
| Days Cash on Hand | 177 | 158 |
| Net Days in Accounts Receivable | 46 | 47 |
| Cash-to-Senior Debt | 184.7% | 161.3% |
| Cash-to-Debt (Senior and Subordinated) | 152.7% | 133.4% |
| Senior Debt to Capitalization | 28.3% | 30.9% |
| Debt to Capitalization | 32.3% | 35.1% |

Other Information

Ascension Health is evaluating several steps to restructure its debt to reduce risk while expanding facilities to better serve individuals in the communities it serves.