MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR ASCENSION

As of and for the year ended June 30, 2017 and 2016

The following information should be read in conjunction with Ascension's consolidated financial statements and related notes to the consolidated financial statements.

INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System) that enables users of the System's financial statements to better understand the System's operations, to enhance the System's overall financial disclosures, to provide the context within which the System's financial information may be analyzed, and to provide the System's financial condition, results of operations and cash flows. Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. MD&A, which should be read in conjunction with the accompanying Consolidated Financial Statements and Supplementary Information, includes the following sections:

- Strategies Driving Our Growth
- Results of Operations — Consolidated
- Results of Operations — Same Facility Basis
- Liquidity and Capital Resources

STRATEGIES DRIVING OUR GROWTH

Ascension is driven by the changing consumer landscape to put our patients and their needs first. Providing care for all persons where, how and when they need it – that is the organization's unique and special calling.

Ascension is actively creating unique relationships and acquiring new partners — working collaboratively across our national ministry to provide care for all, with special attention to persons living in poverty and those most vulnerable. Ascension has entered into joint ventures with other healthcare providers to maximize effectiveness, reduce costs, and build clinically integrated networks to provide quality services.

In addition, the organization is making strategic and purposeful investments in communities across the organization to support ambulatory access and sites of care, consumer engagement, increased geographic presence and facility improvements to enhance patient experience.

The new, state-of-the-art Dell Seton Medical Center at the University of Texas, for example, opened in May 2017 as the newest addition to the Seton Healthcare Family, part of Ascension Texas. The facility replaced University Medical Center Brackenridge as the only level I trauma center for adults in the Austin area

In some cases, Ascension also is divesting specific assets of particular facilities in order to better sustain and ensure the long-term health of individuals and communities in those locations.

Ascension divested its ownership of St. Joseph Regional Medical Center, located in Lewiston, Idaho, from Ascension to RCCH HealthCare Partners (formerly Capella Healthcare) and Saint Joseph Hospital in Marshfield, part of Ascension Wisconsin, to the Marshfield Clinic Health System in order to ensure the healthcare needs are best served for those local communities. The transactions closed on May 1, 2017 and June 30, 2017, respectively.

RESULTS OF OPERATIONS – CONSOLIDATED

The following table reflects summary financial information, on a consolidated basis.

Financial Data (in millions)

	June 30, 2017	June 30, 2016		June 30, 2017	June 30, 2016
Current Assets	$ 5,168	$ 5,393	Current Liabilities	$ 4,988	$ 5,394
Long-Term Investments	16,999	15,069	Long-Term Liabilities	8,918	8,446
Property and Equipment	9,183	9,020	Total Liabilities	13,906	13,840
Other Assets	2,970	2,951	Net Assets	20,414	18,593
Total Assets	$ 34,320	$ 32,433	Total Liabilities and Net Assets	$ 34,320	$ 32,433

Financial Data (in millions)

	Year ended June 30, 2017	Year ended June 30, 2016
Care of Persons Living in Poverty and Other Community Benefit (at cost)	$ 1,843	$ 1,688
Total Operating Revenue	22,633	21,898
Income from Recurring Operations	739	997
Income from Operations	553	753
Net Income	1,861	478

Operating results reflect the System's continued operational improvement initiatives and focus on consolidation, standardization, joint venture creation and synergistic mergers of new entities and divestitures of entities that are no longer congruent with the System's strategic goals. On a consolidated basis, recurring operating margin, including self-insurance trust fund (SITF) investment return, was 3.5% for the year ended June 30, 2017, as compared to 4.5% for the year ended June 30, 2016. The drivers impacting net patient service revenue are further discussed below. Net income margin was 8.2% for the year ended June 30, 2017 as compared to 2.2% for the year ended June 30, 2016. The increase in net income margin is primarily due to favorable investment returns.

Net Patient Service Revenue and Volume Trends

For the year ended June 30, 2017, net patient service revenue, less provision for doubtful accounts, increased $781.3 million or 3.9%, as compared to prior year primarily due to the addition of Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc. (Wheaton) facilities, effective March 1, 2016. Net patient service revenue per equivalent discharge increased 0.6% compared to prior year primarily due to higher intensity medical cases with increased volume of cardiac related procedures and organ transplants. The case mix index increased 1.9% to 1.64 for the year ended June 30, 2017, compared to 1.61 for the prior year. The percentage of gross patient service revenue from governmental payors has increased for the year ended June 30, 2017 as compared to prior year.

For the year ended June 30, 2017, equivalent discharges increased 3.3% as compared to prior year. Additionally, inpatient admissions, inpatient surgeries, outpatient surgeries, observation days, and emergency room visits have increased 1.8%, 1.0%, 0.2%, 0.4%, and 4.9%, respectively, as compared to prior year. The increase in volumes is primarily due to the previously mentioned addition of Wheaton. On a same facility basis, equivalent discharges, inpatient admissions, inpatient surgeries, outpatient surgeries, and observation days decreased 0.9%, 1.6%, 1.3%, 2.8%, and 3.0%, respectively, while emergency room visits increased 0.3%.

For the year ended June 30, 2017, gross patient service revenue from outpatient services increased to 51.9% of total gross patient service revenue compared to 51.1% in the prior year. Outpatient volumes increased 3.5% compared to prior year primarily due to the addition of Wheaton. On a same facility basis, outpatient visits decreased 1.5% primarily due to a decrease in home health visits. Due to the contribution of Ascension Healthcare's home health, hospice and other related services to an unconsolidated joint venture with Evolution Health, LLC during fiscal years 2016 and 2017, home health visits decreased 72.4% for the year ended June 30, 2017, compared to prior year. Ascension records 50% of the income from the Ascension at Home joint venture. Excluding home health visits, same facility outpatient visits remained relatively flat.

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the year ended June 30, 2017 and 2016.

Volume Trends and Key Performance Indicators

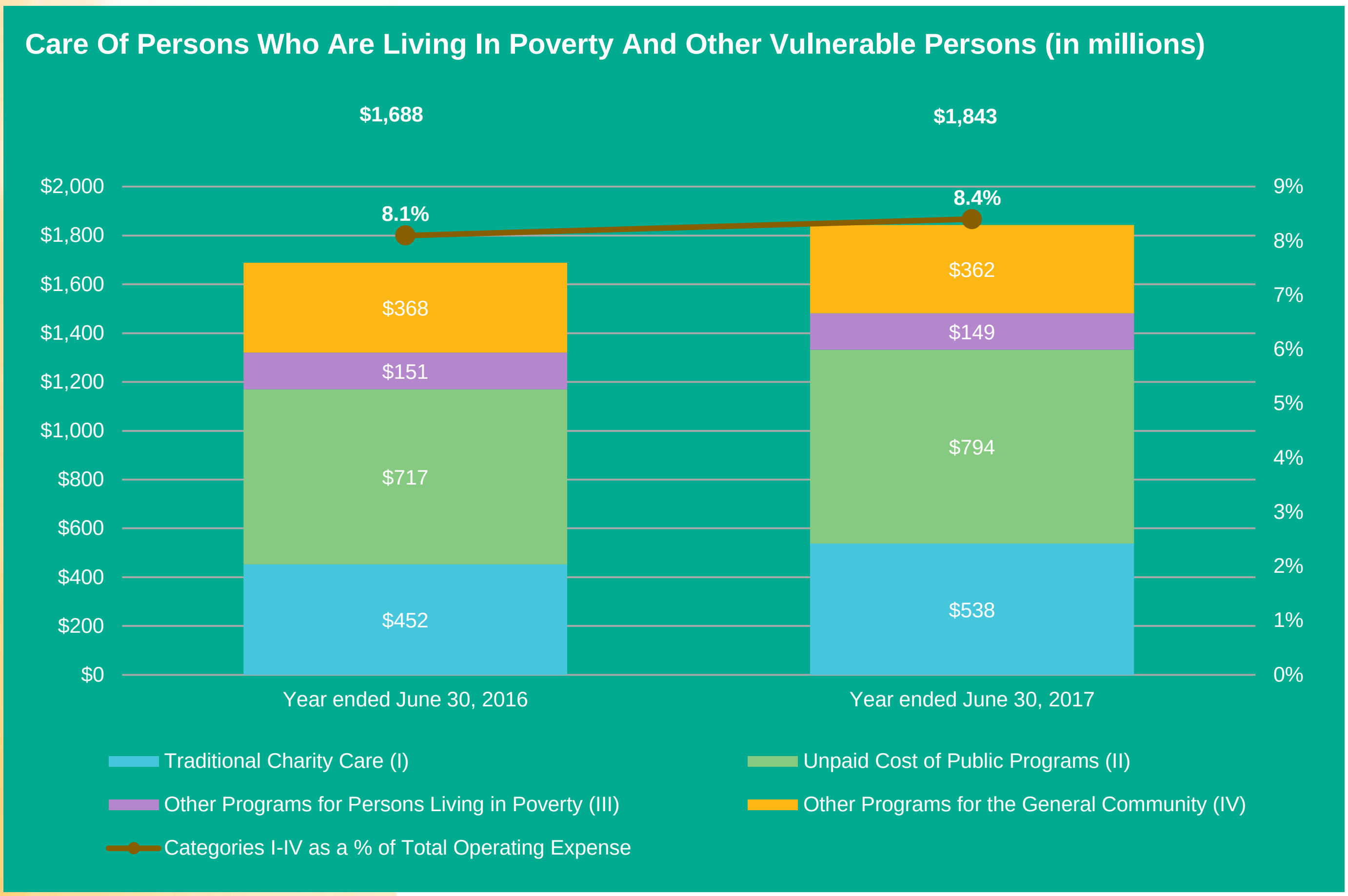
	Year ended June 30,	
	2017	**2016**
Volume Trends		
Equivalent Discharges	1,649,841	1,597,177
Total Admissions	791,339	777,593
Case Mix Index	1.64	1.61
Acute Average Length of Stay (days)	4.53	4.54
Observation Days	317,919	316,804
Emergency Room Visits	3,155,516	3,007,923
Surgical Visits (IP & OP)	633,507	630,514
Physician Office and Clinic Visits	13,490,056	12,687,354
Key Performance Indicators		
Recurring Operating Margin, including SITF investment return	3.5%	4.5%
Recurring Operating EBITDA Margin	9.3%	10.1%
Operating Margin	2.4%	3.4%
Operating EBITDA Margin	8.3%	9.1%
Net Income Margin	8.2%	2.2%

Uncompensated Care

The total cost of providing care to persons living in poverty and other community benefit programs increased $155 million or 9.2% as compared to prior year, partly due to costs reported from Wheaton and other facilities acquired during fiscal year 2016.

Traditional charity care costs (Category I) increased $86 million, or 19.0%, primarily due to more patients qualifying for charity at certain health ministries and the previously mentioned addition of Wheaton facilities.

Additionally, the unpaid cost of public programs for persons living in poverty (Category II) increased $77 million, or 10.7%, for the year ended June 30, 2017 as compared to the prior year primarily due to higher Medicaid volumes along with an overall decline in Medicaid reimbursement as compared to prior year primarily due to rate changes.



RESULTS OF OPERATIONS – SAME FACILITY BASIS[1]

Recurring Operations[1]

Total operating revenue increased $1.9 million as compared to prior year. Net patient service revenue per equivalent discharge increased 0.9% while equivalent discharges decreased 0.9%. The increase in net patient service revenue per equivalent discharge is primarily due to the 2.0% increase in case mix index reflecting higher intensity of services provided.

Total operating expenses increased $307.7 million, or 1.5%, as compared to the prior year primarily due to the following:

- Increased cost of labor due to staffing challenges across the System resulting in higher overtime and contracted labor.
- Employee benefits expense increased $30.0 million or 1.7% primarily due to the rising pharmacy costs associated with employee health coverage.
- Supplies expense increased only a moderate $29.3 million, or 0.9%, as compared to the prior year due to ongoing focused supply contract management efforts despite increasing specialty and generic drug pricing and a higher intensity service mix.

Impairment, Restructuring and Nonrecurring Losses – consolidated basis

Net impairment, restructuring and nonrecurring losses were $230.4 million for the year ended June 30, 2017, as compared to a loss of $227.8 million during the year ended June 30, 2016. Losses for the year ended June 30, 2017 were primarily due to $110.4 million in expenses associated with the continued implementation of the System's ERP system (Symphony), one-time termination and other restructuring expenses of $86.7 million, impairment charges of $34.7 million, and other nonrecurring expenses of $38.6 million partially offset by a pension curtailment gain of $40.0 million at Wheaton.

Investment Return – consolidated basis

Ascension's long-term investments, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a return of investment of 10.0%, or $1.4 billion, for the year ended June 30, 2017. Substantially all of the System's cash and investments are invested in a broadly diversified portfolio that is managed by Ascension Investment Management (AIM), a wholly owned subsidiary of Ascension.

Total net investments under management by AIM are $37.1 billion and $33.1 billion at June 30, 2017, and June 30, 2016, respectively. Of the total net investments under AIM management, $16.2 billion are included in the total consolidated net assets of the System at June 30, 2017, compared to $14.2 billion at June 30, 2016.

[1]*Amounts are on a same facility basis, which is the System excluding Wheaton, TriMedx and certain other facilities which do not have comparable operation periods during the years ended June 30, 2017 and 2016.*

LIQUIDITY AND CAPITAL RESOURCES

Net unrestricted cash and investments for the System increased from $13.6 billion at June 30, 2016 to $15.1 billion at June 30, 2017. Additionally, days cash on hand increased 28 days from June 30, 2016 to June 30, 2017. The increases are primarily due to cash generated from operations and investment gains partially offset by capital purchases and principal payments made on debt during the year ended June 30, 2017. Net days in accounts receivable increased from 48 days at June 30, 2016 to 50 days at June 30, 2017. The increase is due to a few Health Ministries transitioning to a new revenue cycle service provider and is expected to return to previous levels.

Cash-to-senior debt and cash-to-debt remain strong at 220.4% and 215.9%, respectively, at June 30, 2017, representing increases from June 30, 2016. Both senior debt and total debt to capitalization have also improved, decreasing from 29.3% and 30.2%, respectively, at June 30, 2016, to 27.7% and 28.1%, respectively, at June 30, 2017.

Balance Sheet Ratios

	June 30,	
	2017	2016
Days Cash on Hand	265	237
Net Days in Accounts Receivable	50	48
Cash-to-Senior Debt	220.4%	198.4%
Cash-to-Debt (Senior and Subordinated)	215.9%	189.6%
Senior Debt to Capitalization	27.7%	29.3%
Total Debt to Capitalization	28.1%	30.2%