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

As of and for the year ended June 30, 2018 and 2017

Ascension

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:

- Strategic Direction
- Results of Operations — Consolidated
- Liquidity and Capital Resources

Strategic Direction

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 special calling. The service line structure is evolving to promote integration and consistency in service line business plans across Ascension. This focus will better align and leverage resources across markets to create the care models and strategic relationships needed to advance clinical quality and strengthen operations to benefit the individuals and communities Ascension serves.

Ascension is actively creating unique relationships and establishing new partnerships — working collaboratively across our integrated 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 Ascension serves to support ambulatory access and sites of care, consumer engagement, and increased geographic presence and facility improvements to enhance the patient experience. We are enhancing the patient experience by creating a unified brand identity across our ministry to make access and navigation simpler and easier.

With the addition of Presence Health Network (Presence) to Ascension Healthcare, AMITA Health in Chicago is now well-positioned in the Chicago market. With its medical centers, outpatient facilities, and most other sites of care joining the integrated health system of AMITA Health, AMITA Health is now the largest health system in Illinois with new service areas that includes over 6 million residents. The addition of Presence facilities, which was effective March 1, 2018, will improve access to care in the greater Chicago area, expand the physician network and deepen sub-specialization capabilities, producing better value for patients. The transaction resulted in a contribution of approximately $771 million toward total net assets as of June 30, 2018.

In May 2018, Ascension and Ramsay Health Care Limited (Ramsay), an Australia based health care company, announced a partnership in a new global supply chain joint venture which will be owned equally by both organizations. Two Ascension subsidiaries – Ascension Holdings International and The Resource Group, Ascension's GPO and strategic sourcing subsidiary – will work with Ramsay's International Procurement Office to develop and operationalize the new global healthcare buying group. The organization has already begun exploring alternatives to traditional approaches to create a more efficient technology platform for ordering, tracking, logistics and fulfillment.

In June 2018, Ascension's Indianapolis-based shared services subsidiary, the Ministry Service Center, launched a new enterprise, Agilify. Agilify is designed to deliver intelligent robotic process automation consulting and services to organizations from healthcare and other industries.

On September 1, 2018, Ascension divested its ownership of Lourdes Health Network, located in Pasco, Washington, from Ascension to RCCH HealthCare Partners to ensure the healthcare needs are best served for the local community.

Results of Operations – Consolidated

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

Select Financial Data (in millions)

	6/30/2018	6/30/2017
Current Assets	$ 5,514	$ 5,168
Long-Term Investments	19,405	16,999
Property and Equipment	10,598	9,183
Other Assets	3,011	2,970
Total Assets	$ 38,528	$ 34,320

	6/30/2018	6/30/2017
Current Liabilities	$ 5,389	$ 5,184
Long-Term Liabilities	10,021	8,722
Total Liabilities	15,410	13,906
Net Assets	23,118	20,414
Total Liabilities and Net Assets	$ 38,528	$ 34,320

Select Financial Data (in millions)

Year Ended June 30,	2018	2017
Net Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	$ 1,982	$ 1,843
Total Operating Revenue	23,159	22,714
Income from Recurring Operations	298	783
Nonoperating Gains, net	2,270	1,308
Net Income	2,375	1,861

Consistent with trends seen throughout the fiscal year, changes in the healthcare landscape and planned changes in the way that we provide services to our communities have resulted in expected shifts in volumes within our System. Over the past several years, Ascension has systematically been building capacity to manage the care of those we serve in a different manner, as we migrate from fee for service to fee for value and from inpatient to outpatient care. Ascension care delivery is evolving from treating people when they are sick to being a partner in the well-being of individuals – measuring the care we provide by the quality outcomes and experience to patients.

Therefore, while the operating results reflect the System's continued operational improvement initiatives and focus on standardization, expected declines in volumes, rising pharmaceutical costs, and increased uncompensated care continue to adversely impact performance. As this transition, and Ascension's investment in population health management and addressing the social determinants of health continues, changes to operating performance are expected.

On a consolidated basis, recurring operating margin was 1.3% for the year ended June 30, 2018. The drivers impacting net patient service revenue are further discussed below. Net income margin was 9.3% for the year ended June 30, 2018, primarily due to favorable investment returns and contributions from business combinations. The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the years ended June 30, 2018 and 2017.

Volume Trends and Key Performance Indicators

Year ended June 30,	2018	2017
Volume Trends		
Equivalent Discharges	1,648,998	1,649,841
Total Admissions	785,255	791,339
Case Mix Index	1.67	1.64
Acute Average Length of Stay (days)	4.48	4.48
Observation Days	328,263	317,919
Emergency Room Visits	3,160,538	3,155,516
Physician Office and Clinic Visits	13,955,260	13,357,986
Revenue (in millions)		
Total Operating Revenue	$ 23,159	$ 22,714
Net Patient Service Revenue, less Provision for Doubtful Accounts	21,666	21,021
Key Performance Indicators		
Recurring Operating Margin	1.3%	3.4%
Recurring Operating EBITDA Margin	7.3%	9.2%
Operating EBITDA Margin	6.4%	8.2%
Net Income Margin	9.3%	7.7%

Total Operating Revenue

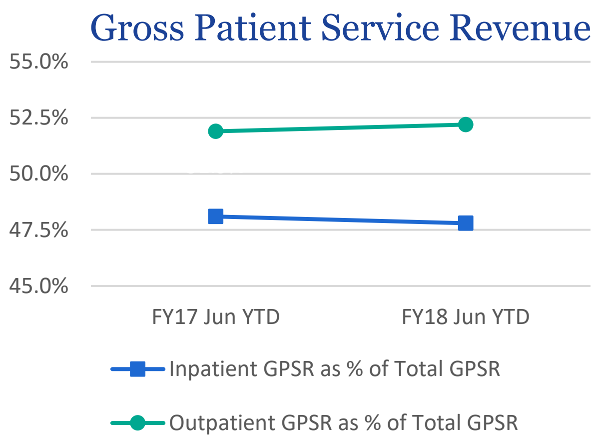
Total operating revenue increased $445.2 million, or 2.0%, for the year ended June 30, 2018, as compared to prior year primarily due to revenue recorded by Presence facilities acquired March 1, 2018 partially offset by the divestitures of Saint Joseph Hospital in Marshfield (Marshfield) effective June 30, 2017 and Door County Hospital (Door County) in Wisconsin effective October 31, 2016. On a same facility basis, total operating revenue increased $203.7 million.

Net Patient Service Revenue and Volume Trends

For the year ended June 30, 2018, net patient service revenue, less provision for doubtful accounts, increased $645.1 million or 3.1%. On a same facility basis, net patient service revenue, less provision for doubtful accounts, increased $254.7 million, or 1.2% compared to prior year partially because of targeted efforts to improve overall revenue cycle effectiveness. Net patient service revenue per equivalent discharge increased 3.1% compared to prior year, dampened by increases in governmental payor mix, transition of services to outpatient settings, and an approximate 3% increase in uncompensated care volume. The case mix index increased 1.8% to 1.67 for the year ended June 30, 2018, compared to 1.64 for the same period in the prior year indicating a greater intensity of patient care provided.

For the year ended June 30, 2018, equivalent discharges and inpatient admissions decreased 0.1% and 0.8%, respectively, as compared to prior year partly due to the previously mentioned divestitures of Marshfield and Door County partially offsetting the acquisition of Presence. Observation days and emergency room visits have increased 3.3% and 0.2%, respectively. On a same facility basis, equivalent discharges, inpatient admissions, and emergency room visits decreased 2.3%, 3.1%, and 2.1%, respectively while observation days increased 0.3%.

For the year ended June 30, 2018, gross patient service revenue from outpatient services was 52.2% of total gross patient service revenue, compared to 51.9% in the prior year.



Outpatient volumes increased 2.8% compared to prior year primarily driven by an increase in physician office and clinic visits of 4.5%. On a same facility basis, outpatient visits remained relatively flat compared to prior year.

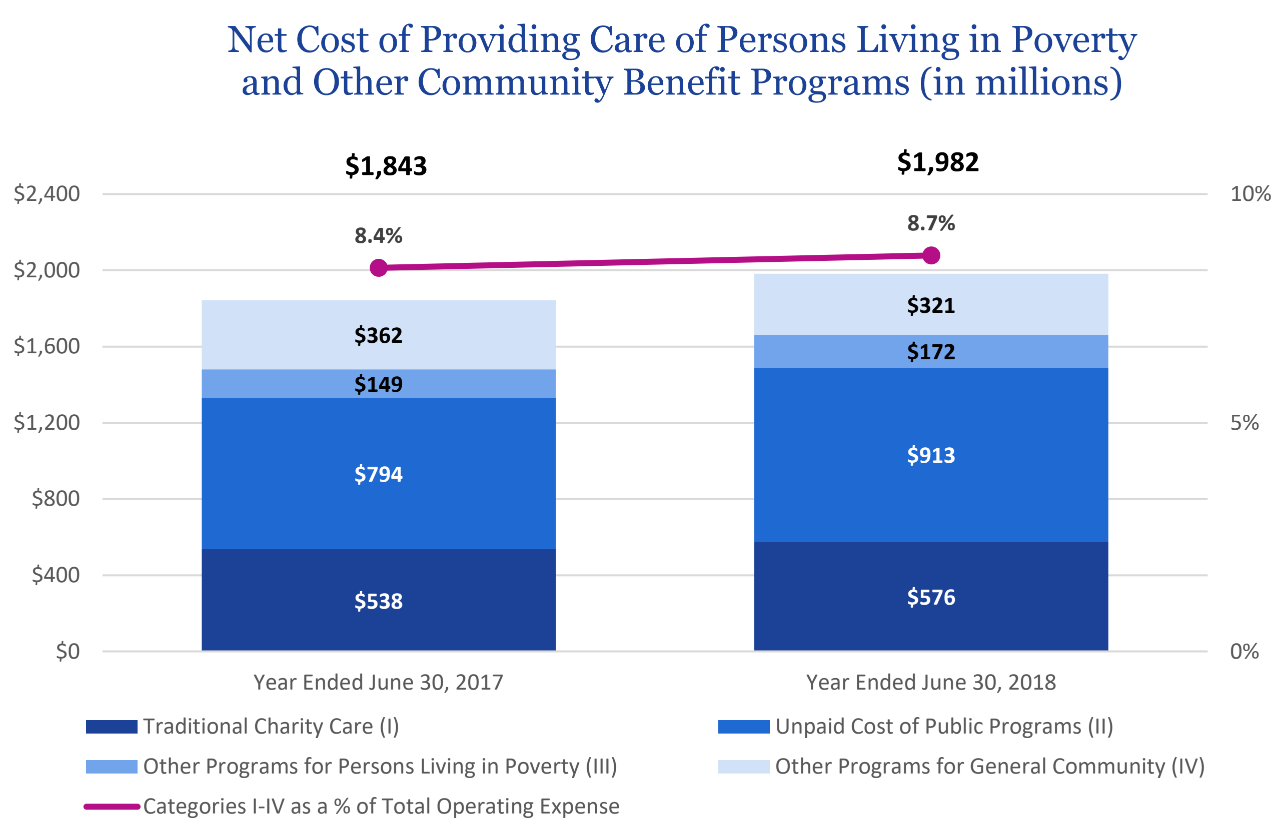
Uncompensated Care

Ascension provided nearly $2.0 billion in Care of Persons Living in Poverty and other Community Benefit Programs for the year ended June 30, 2018 which represents an increase of $135 million or 7.3% as compared to prior year. Through programs, donations, health education, free care, and more, the organization's uncompensated care and other community benefit fulfills unmet needs in communities across 22 states and the District of Columbia.

In a continued effort to live out the Ascension Mission to serve all persons, with special attention to those who are poor and vulnerable, $576 million in free and discounted or traditional charity care (Category I) was offered for those in need. In addition, there was $172 million in unreimbursed costs from programs intentionally designed to serve persons living in poverty and other vulnerable persons of the community (Category III), including substance abusers, homeless, victims of child abuse and all other persons in need of care.

With the current environment of decreasing reimbursement for government-sponsored medical care, community benefit spending related to the unpaid costs of public programs (Category II) such as Medicaid was $913 million for the year ended June 30, 2018.

Ascension is dedicated to many other programs that positively affect the General Community (Category IV). These programs, which total to $321 million in unreimbursed costs, include physician residency programs, clinical research, rural health clinics and other subsidized programs.



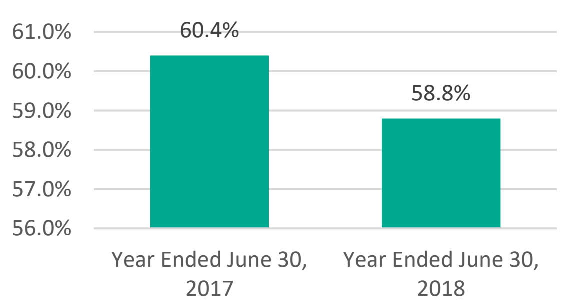
Total Operating Expenses

Total operating expenses increased $914.9 million, or 4.2%, as compared to prior year. As volumes continue to shift to outpatient services, Ascension is managing its cost structure to align with revenues.

On a same facility basis, total operating expenses increased $345.2 million, or 1.6%, primarily due to the following:

- Purchased services increased $360.5 million, or 19.1%, as compared to prior year primarily due to continued efforts to standardize revenue cycle across the System and the transition of Ascension employees to the preferred partner organizations providing these services. The transition of employees to external organizations has led to certain offsetting decreases in salaries and wages, benefits, collection agency fees and other related operating costs and accounts for approximately $230 million of the increase in purchased services.
- Total salaries, wages and benefits decreased $186.7 million, or 1.7%, compared to prior year. Salaries, wages and benefits have been reduced by approximately $175 million with the transition of certain services being provided by external organizations, as noted above. Focused initiatives addressing productivity and pay practices have also resulted in right-sizing staffing levels as well as less overtime and agency costs during the current year. These decreases have been partially offset by moderate merit and cost of living adjustments and successful provider recruitment efforts. Salaries, wages, and benefits, including the purchased services labor component, as a percentage of net patient service revenue, less provision for doubtful accounts, has improved from 60.4% as of June 30, 2017 to 58.8% as of June 30, 2018.

Salaries & Benefits[1]
as % of Net Patient Service Revenue - Same Facility



[1] Includes the purchased services labor component

- Supplies expense increased a moderate $43.0 million, or 1.3%, as compared to prior year due to ongoing focused supply contract management efforts despite rapidly increasing specialty and generic drug pricing and a higher intensity service mix.

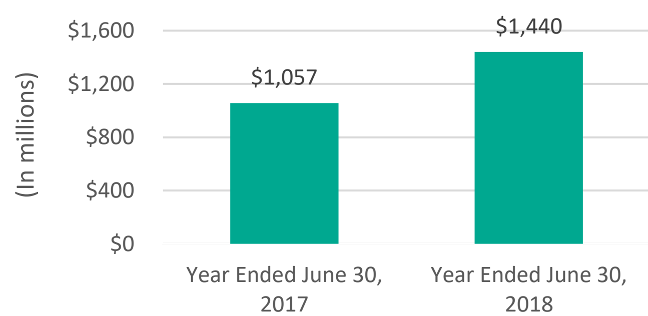
Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were $193.0 million for the year ended June 30, 2018, as compared to losses of $230.4 million during the year ended June 30, 2017. Losses for the year ended June 30, 2018 were primarily due to expenses associated with the implementation of the System's ERP system (Symphony), one-time termination and other restructuring expenses, and other nonrecurring expenses, such as software implementations and impairments.

Investment Return

Ascension's long-term investments, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a return on investment of 7.6%, or $1.4 billion, for the year ended June 30, 2018. Substantially all 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 Investment Income[2]



[2] Excludes investment income from noncontrolling interests and investments held by self-insurance programs

Total net investments under management by AIM are $39.5 billion and $37.1 billion at June 30, 2018 and June 30, 2017, respectively.

Liquidity and Capital Resources

Net unrestricted cash and investments for the System increased from $15.1 billion at June 30, 2017 to $17.1 billion at June 30, 2018 primarily due to the acquisition of Presence and favorable investment returns. Days cash on hand of 268 days increased 4 days from June 30, 2017 to June 30, 2018. Net days in accounts receivable was 51 days at June 30, 2018.

Cash-to-senior debt and cash-to-total debt remain strong at 217.2% and 214.7%, respectively, at June 30, 2018. Debt to capitalization was 28.0% at June 30, 2018.

Balance Sheet Ratios

	6/30/2018	6/30/2017
Days Cash on Hand	268	264
Net Days in Accounts Receivable	51	50
Cash-to-Senior Debt	217.2%	220.4%
Cash-to-Total Debt (Senior and Subordinated)	214.7%	215.9%
Senior Debt to Capitalization	27.8%	27.7%
Total Debt to Capitalization	28.0%	28.1%