A. Highmark's Financial Costs and Benefits

Blackstone

Summary of Highmark's WPAHS-Related Capital Commitments

$838 million of WPAHS-focused capital commitments are contingent upon approval of the Form A.

Highmark's WPAHS-Related Capital Commitment in the Transaction Scenario
($ in millions)

	Total WPAHS Capital Commitments	Non-Transaction-Contingent WPAHS Capital Commitments	Remaining Transaction-Contingent WPAHS Capital
1st Funding - Grant (6/28/2011)	$50.0	($50.0)	-
50% of 2nd Funding - Grant (10/31/2011)	50.0	(50.0)	-
Transfer to WPAHS at Close (formerly Med School Grant)	75.0	(33.6)	41.4
4th Funding - Escrow[1]	-	(50.0)	(50.0)
Total WPAHS Grants	$175.0	($183.6)	($8.6)
50% of 2nd Funding - Loan (10/31/2011)	50.0	(50.0)	-
3rd Funding - Loan (4/27/2012)	50.0	(50.0)	-
4th Funding - Loan (At Close, on or before 4/30/2013)[1]	100.0	-	100.0
5th Funding - Loan (Latter of Close or 4/1/2014)	100.0	-	100.0
Total WPAHS Loans	$300.0	($100.0)	$200.0
Total WPAHS Grants and Loans	**$475.0**	**($283.6)**	**$191.4**
Tender Offer for WPAHS 2007A Bonds[2]	646.4	-	646.4
Other Grants to WPAHS (Cash Advance and A&M Fees)[3]	33.0	(33.0)	-
Total Highmark Financial Exposure to WPAHS	**$1,154.4**	**($316.6)**	**$837.8**
Highmark's Total WPAHS Loans and Bond Obligations	$946.4		$846.4
Highmark's Total WPAHS Grants[4]	208.0		(8.6)
Memo:			
WPAHS Unfunded Pension Liability as of 1/31/2013	274.2	-	274.2
Other Liabilities as of 1/31/2013	315.0	-	315.0
Total WPAHS Financial Exposure (incl. Pension and Other)	$1,743.6	($316.6)	$1,427.0

Source: Highmark.

(1) Highmark has placed $50 million into an escrow account to secure Highmark's performance with regard to the tender offer. If the closing occurs on or before April 30,2013, or any agreed upon extension of that date, the $50 million and another $50 million from Highmark will be advanced to WPAHS at the closing in the form of a loan. If the closing does not occur by April 30, 2013, or any agreed upon extension of that date, the $50 million escrow amount will be paid to WPAHS, absent default by WPAHS. Remaining capital commitment assumes the full $100 million is loaned to WPAHS.

(2) Assumes 76.74% of bondholders tender at 87.5% of par, which is assumed to be $709.7 million at the time of the Tender Offer. Assumes Highmark pays accrued interest and purchases the non-tendered bonds at par.

(3) Includes $25 million cash advance paid to WPAHS for WPH and AGH on 4/18/2011 and $8 million unrestricted payment to WPAHS for fees to A&M paid on 4/18/2012.

(4) If the Transaction is consummated, Highmark's unrestricted grants to WPAHS will increase by $41 million but will be offset by the conversion of Highmark's $50 million escrow payment into a loan, which will become potentially recoverable to Highmark and result in a transaction-contingent net benefit of $9 million if the loan is repaid.

Highmark's Total WPAHS-Related Financial Exposure

Highmark's recovery of grants[1] and loans to WPAHS may be limited in a future WPAHS restructuring scenario if unsecured creditors, including the Pension Benefit Guaranty Corporation ("PBGC") successfully assert seniority to Highmark's commitments.

Highmark's Financial Exposure to WPAHS-Related Capital Commitments at Various Points in Time

($ in millions)

	Potential Highmark Financial Exposure to WPAHS			
	6/30/2013		6/30/2015	
	Low Value[2]	High Value[3]	Low Value[2]	High Value[3]
Total Due to Highmark:				
Total Remaining WPAHS Bond Principal and Accrued Interest[4]	$646.4	$646.4	$646.4	$646.4
Other Highmark Loans	200.0	200.0	300.0	300.0
Total Due to Highmark (Loans)	**$846.4**	**$846.4**	**$946.4**	**$946.4**
Plus: Highmark Grants to WPAHS	208.0	208.0	208.0	208.0
Highmark's Total WPAHS Financial Exposure	**$1,054.4**	**$1,054.4**	**$1,154.4**	**$1,154.4**
Unsecured WPAHS Claims: [5]				
PBGC Pension Obligation	$252.1	$252.3	$214.7	$216.0
Accrued Salaries and Vacation	51.6	52.1	55.9	60.0
Deferred Revenue	52.7	52.7	52.7	52.7
Self Insurance Liabilities	57.7	58.6	63.5	70.9
Other Liabilities	181.5	182.9	199.7	214.5
Less: FERC Balance and Accrued S&V[6]	(88.7)	(89.2)	(93.0)	(97.1)
Total Due to Other Unsecured Creditors (excl. PBGC)	$254.8	$257.1	$278.8	$301.0
Total Potential Unsecured Claims[5]	**$506.9**	**$509.4**	**$493.5**	**$517.0**

Source: Highmark as of 3/7/2013 and submission as of 3/15/2013, and H2C's "Forecast Scenarios Comparison," dated March 2013.
(1) Unrestricted grants made by Highmark to WPAHS are not recoverable under any circumstances to Highmark.
(2) Assumes Blackstone requested WPAHS Downside Scenario.
(3) Assumes WPAHS Base Case Scenario, per Highmark.
(4) Assumes 76.74% of bondholders tender at 87.5% of par, which is assumed to be $709.7 million at the time of the Tender Offer. Assumes Highmark pays accrued interest and purchases the non-tendered bonds at par.
(5) Excludes potential contingent claims related to unsecured WPAHS creditors.
(6) Assumes Accrued Salaries and Vacation are assumed by the buyer and Floating Rate Restructuring Certificates are extinguished.

Highmark's Potential Recovery for WPAHS-Related Investments

In a restructuring scenario, Highmark's ability to recover value for the loans made to WPAHS will depend on the implied value of WPAHS, as an enterprise, and the magnitude of claims made by unsecured creditors.

- The "Low Value" reflects the Downside Case in which WPAHS does not reach breakeven by 2015 and Highmark seeks to restructure WPAHS
- The "High Value" reflects the Base Case and results in Highmark recovering 100% of its loan and bond investments in WPAHS; the net loss of value is limited to the amount of unrestricted payments made to WPAHS
- This analysis does not reflect Blackstone's views of probable outcomes, but is rather intended to reflect an assessment of potential outcomes
- The implied Highmark recovery values shown are highly uncertain and depend upon WPAHS' future enterprise value and potential claims in a restructuring scenario, which may vary widely

Highmark's Recovery from WPAHS-Related Loans and Bonds at Various Points in Time
($ in millions)

	Potential Highmark Recovery of Financial Exposure to WPAHS			
	6/30/2013		6/30/2015	
	Low Value[1]	High Value[2]	Low Value[1]	High Value[2]
Total Revenue and Gains, Gross of Bad Debt	**$1,606.4**	**$1,633.5**	**$1,849.6**	**$2,127.6**
Multiple of Revenue	*0.30x*	*0.35x*	*0.30x*	*0.35x*
Available Proceeds	**$481.9**	**$571.7**	**$554.9**	**$744.7**
Plus: Cash	283.8	295.2	180.8	385.2
Plus: Investments	5.1	5.1	5.1	5.1
Plus: Board Designated Funds	73.6	73.6	73.6	73.6
Total Proceeds	**$844.4**	**$945.6**	**$814.4**	**$1,208.6**
Less: Mortgage[3]	(27.7)	(27.7)	(12.0)	(12.0)
Less: 503(b)(9) Claims[3]	(30.0)	(30.0)	(30.0)	(30.0)
Less: Bankruptcy Costs[3]	(50.0)	(50.0)	(50.0)	(50.0)
Net Recoverable Prior to Potential Unsecured Settlements[4]	**$736.7**	**$837.9**	**$722.4**	**$1,116.6**
Assumed Settlement to Unsecured Claims %	*50.0%*	*0.0%*	*50.0%*	*0.0%*
Assumed PBGC Settlement	(126.1)	-	(107.4)	-
Assumed Other Unsecured Settlement[5]	(127.4)	-	(139.4)	-
Total Net Proceeds Available to Highmark	**$483.3**	**$837.9**	**$475.7**	**$1,116.6**
Total Highmark WPAHS Loans and Bond Investments	846.4	846.4	946.4	946.4
Total Recovery of WPAHS Loans and Bond Investments[6]	**$483.3**	**$837.9**	**$475.7**	**$946.4**
Recovery % on WPAHS Loans and Bond Investments	*57.1%*	*99.0%*	*50.3%*	*100.0%*
Implied Loss on WPAHS Loans and Bond Investments	($363.1)	($8.5)	($470.8)	-

Source: Highmark report as of 3/7/2013 and submission as of 3/15/2013, and H2C's "Forecast Scenarios Comparison," dated March 2013.
(1) Assumes Blackstone requested WPAHS Downside Scenario.
(2) Assumes "UPMC Out of Network" Scenario, per Highmark.
(3) Estimated Mortgage, 503(b)(9) Claims and Bankruptcy Costs as per H2C's analysis and reports to Highmark, dated 2/5/2013 and March 2013.
(4) Excludes contingent claims from unsecured WPAHS creditors.
(5) Includes deferred revenue, self-insurance liabilities and other liabilities; assumes accrued salaries and vacation are assumed by the buyer in a restructuring scenario, and the Floating Rate Restructuring Certificates are extinguished.
(6) Highmark's unrestricted payments are not recoverable.

Summary of WPAHS-Related Capital Commitments and Potential Value Received

Analysis of value potentially received by Highmark in exchange for capital committed to WPAHS indicates total potential losses ranging from \$208 - \$679 million based on the total WPAHS Transaction, and (\$9)[1] - \$362 million based on amounts that are contingent upon Form A approval.

Summary of Highmark's Cost / Benefit for WPAHS-Related Capital Commitments

(\$ in millions)

Total WPAHS Capital Commitments	6/30/2013 Low Value[2]	6/30/2013 High Value[3]	6/30/2015 Low Value[2]	6/30/2015 High Value[3]
Total Highmark Financial Exposure:				
Total Due to Highmark (Loans and Bond Obligations)	\$846.4	\$846.4	\$946.4	\$946.4
Plus: Highmark's Grants To WPAHS	208.0	208.0	208.0	208.0
Total Highmark Financial Exposure	**\$1,054.4**	**\$1,054.4**	**\$1,154.4**	**\$1,154.4**
Total Recovery to Highmark	**\$483.3**	**\$837.9**	**\$475.7**	**\$946.4**
Total WPAHS-Related Net (Loss) / Benefit to Highmark	**(\$571.1)**	**(\$216.5)**	**(\$678.8)**	**(\$208.0)**

Transaction-Contingent Portion of WPAHS Capital Commitments	6/30/2013 Low Value[2]	6/30/2013 High Value[3]	6/30/2015 Low Value[2]	6/30/2015 High Value[3]
Total Highmark Financial Exposure:				
Total Due to Highmark (Loans and Bond Obligations)	\$846.4	\$846.4	\$946.4	\$946.4
Less Cash Portion of Loans Funded Prior to Close:				
50% of 2nd Funding - Loan (10/31/2011)	(\$50.0)	(\$50.0)	(\$50.0)	(\$50.0)
3rd Funding - Loan (4/27/2012)	(50.0)	(50.0)	(50.0)	(50.0)
50% of 4th Funding in the Form of Pre-Close Escrow Payment	(50.0)	(50.0)	(50.0)	(50.0)
Plus: Conversion of Escrow Payment into WPAHS Loan	50.0	50.0	50.0	50.0
Total Transaction-Contingent WPAHS Loans and Bond Investments	**\$746.4**	**\$746.4**	**\$846.4**	**\$846.4**
Plus: Highmark's Transaction-Contingent Grants To WPAHS[1]	\$41.4	\$41.4	\$41.4	\$41.4
Less: Conversion of Escrow Payment into WPAHS Loan[1]	(50.0)	(50.0)	(50.0)	(50.0)
Transaction-Contingent Change in Unrecoverable Highmark Funding to WPAHS[1]	**(\$8.6)**	**(\$8.6)**	**(\$8.6)**	**(\$8.6)**
Total Transaction-Contingent Highmark Financial Exposure	**\$737.8**	**\$737.8**	**\$837.8**	**\$837.8**
Total Recovery to Highmark[4]	**\$483.3**	**\$746.4**	**\$475.7**	**\$846.4**
Transaction-Contingent WPAHS-Related Net (Loss) / Benefit to Highmark	**(\$254.5)**	**\$8.6**	**(\$362.2)**	**\$8.6**

This analysis calculates the tangible financial value received by Highmark under various potential outcomes for WPAHS, compared to the total amount of capital committed to WPAHS by Highmark

Source: Highmark report as of 3/7/2013 and submission as of 3/15/2013, and H2C's "Forecast Scenarios Comparison," dated March 2013.

(1) If the Transaction is consummated, Highmark's unrestricted grants to WPAHS will increase by \$41 million but will be offset by the conversion of Highmark's \$50 million escrow payment into a loan, which will become potentially recoverable to Highmark and result in a transaction-contingent net benefit of \$9 million if the loan is repaid.

(2) Assumes Blackstone requested WPAHS Downside Scenario.

(3) Assumes WPAHS Base Case Scenario.

(4) Minimum of Total Net Proceeds Available for Highmark and total Transaction-Contingent WPAHS Loans and Bond Investments.

Summary of Highmark's Total IDN-Related Capital Commitments and Potential Tangible Financial Value Received

In addition to assessing the WPAHS Value Gap, Blackstone has assessed the potential IDN Value Gap related to the non-WPAHS IDN capital commitments. Highmark's total IDN-related financial exposure of $1.8 billion may yield $797 - $1,369 million in tangible financial assets.

Highmark's Financial Commitments and Tangible Financial Value Received in the Transaction Scenario

	Potential Highmark Financial Exposure to Total IDN			Potential Highmark Recovery of Financial Exposure to Total IDN	
($ in millions)	Total IDN Capital Commitments	Non-Transaction-Contingent IDN Capital Commitments	Remaining Transaction-Contingent IDN Capital Commitments	Low Value	High Value
Total Highmark Financial Exposure to WPAHS	**$1,154.4**	**($316.6)**	**$837.8**	**$475.7**	**$946.4**
Community Hospitals / Outpatient Services					
Highmark Unrestricted Grant to JRMC[1]	$75.0	($75.0)	-	$46.8	$75.0
Highmark Capex Grant to JRMC[2]	100.0	(100.0)	-	50.0	100.0
Highmark Unrestricted Payments to SVHS[3]	30.0	(30.0)	-	9.2	30.0
Highmark Capex Grant to SVHS[4]	5.0	(5.0)	-	2.5	5.0
[redacted] / Center of Innovation	5.0	(5.0)	-	5.0	5.0
Undetermined Community Hospital / Outpatient Services	-	(191.4)	(191.4)	-	-
Total Community Hospital / Outpatient Services Grants	**$215.0**	**($406.4)**	**($191.4)**	**$113.5**	**$215.0**
Highmark Loan to Provider PPI LLC (Formation of GPO)	18.0	(18.0)	-	18.0	18.0
Total Community Hospital / Outpatient Services Financial Exposure	**$233.0**	**($424.4)**	**($191.4)**	**$131.5**	**$233.0**
Physician Network					
Unrestricted Grant to UPE for Non-WPAHS Purposes	$94.0	($94.0)	-	-	-
Highmark Payments to PLZ for Participation in Network	123.0	(123.0)	-	-	-
MSO Development Expense	8.0	(8.0)	-	-	-
Total Physician Network Grants	$225.0	($225.0)	-	-	-
Highmark Loan to [redacted] and [redacted] - for Physician Affiliations	83.0	(83.0)	-	83.0	83.0
Total Physician Network Financial Exposure	**$308.0**	**($308.0)**	-	**$83.0**	**$83.0**
Medical Malls					
Highmark Line of Credit to HMPG to Finance Medical Malls	$107.0	($107.0)	-	$107.0	$107.0
HMPG Investments - for Real Estate Acquisitions[5]	32.0	(32.0)	-	-	-
Total Medical Malls Financial Exposure	**$139.0**	**($139.0)**	-	**$107.0**	**$107.0**
Total Grants and Highmark Loans	**$1,834.4**	**($1,188.0)**	**$646.4**	**$797.2**	**$1,369.4**
Memo[6]:					
WPAHS Unfunded Pension Liability as of 1/31/2013	274.2	-	274.2		
Other Liabilities as of 1/31/2013	315.0	-	315.0		
Total Grants, Highmark Loans and Pension Liability	$2,423.6	($1,188.0)	$1,235.6		

Source: Highmark.

(1) "Low Value" represents 7.0x EBITDA multiple applied to JRMC 2012A EBITDA of $20 million, adjusted for Unrestricted Cash of $116 million, Debt of $115 million and Benefit Plan and Other Non-Current Liabilities of $95 million, as of 6/30/2012. "High Value" represents 100% of Highmark's grants to JRMC.

(2) $100m assumes the maximum potential capital expenditures commitment to JRMC, of which Highmark projects $45m will be funded; "Low Value" assumes 50% reduction in value of CapEx spending.

(3) "Low Value" represents 7.0x EBITDA multiple applied to SVHS 2012A EBITDA of $16.2 million, adjusted for Unrestricted Cash of $130 million, Debt of $125 million and Benefit Plan and Other Non-Current Liabilities of $109 million, as of 6/30/2012. "High Value" represents 100% of Highmark's grants to SVHS.

(4) "Low Value" assumes 50% reduction in value of CapEx spending.

(5) Highmark considers the $32 million of HMPG investments for real estate acquisitions to be an unrestricted grant, and thus unrecoverable to Highmark, for the purposes of this analysis.

(6) WPAHS Pension and Other Unsecured Liabilities are excluded from cost / benefit calculation as the implied payments to WPAHS' Unsecured Creditors are included in the recovery calculation on pages 81 – 83, and are used to generate the low and high values shown above.

A. Highmark's Financial Costs and Benefits

Summary of Highmark's Total IDN-Related Capital Commitments and Transaction-Contingent Financial Value Received

Analysis of value potentially received by Highmark in exchange for capital committed to IDN-related endeavors indicates total potential losses ranging from $465 - $1,037 million based on the total IDN Plan, and ($9)(1) - $362 million based on amounts that are contingent upon the Transaction.

Summary Highmark Cost / Benefit for Total IDN-Related Capital Commitments

($ in millions)

Total IDN-Related Capital Commitments	Low Value(2)	High Value(3)
Value to Highmark		
WPAHS:(4)	$475.7	$946.4
Community Hospitals / Outpatient Services:	131.5	233.0
Physician Network:	83.0	83.0
Medical Malls:	107.0	107.0
Total Value Received	**$797.2**	**$1,369.4**
Total Highmark Financial Exposure	**$1,834.4**	**$1,834.4**
Tangible Financial "Value Gap"	**($1,037.2)**	**($465.0)**

Comprised of: $208 million in WPAHS unrestricted grants, $225 million in Physician Network unrestricted grants and $32 million in unrestricted grants from Highmark to HMPG(5); assumes full recovery on WPAHS loans and bond investments, and 100% value received for other IDN spending

Transaction-Contingent Portion	Low Value(2)	High Value(3)
Value to Highmark		
WPAHS:(4)	$475.7	$846.4
Community Hospitals / Outpatient Services:	(191.4)	(191.4)
Physician Network:	-	-
Medical Malls:	-	-
Total Transaction-Contingent Value Received	**$284.3**	**$655.0**
Highmark's Financial Exposure		
Transaction-Contingent WPAHS Capital Commitments	$837.8	$837.8
Less: Undefined Community Hospitals / Outpatient Services	(191.4)	(191.4)
Total Incremental Highmark Financial Exposure	**$646.4**	**$646.4**
Tangible Financial "Value Gap"(1)	**($362.1)**	**$8.6**

Comprised of: $75 million WPAHS unrestricted grant contingent on PID approval; less $33.6 million to be paid to WPAHS irrespective of PID approval; plus $50 million escrow payment converted to loan, which is potentially recoverable to Highmark in the "High Value" scenario

(1) If the Transaction is consummated, Highmark's unrestricted grants to WPAHS will increase by $41 million but will be offset by the conversion of Highmark's $50 million escrow payment into a loan, which will become potentially recoverable to Highmark and result in a transaction-contingent net benefit of $9 million if the loan is repaid.
(2) Assumes Blackstone requested Downside Scenario.
(3) Assumes "UPMC Out of Network" Scenario for WPAHS.
(4) WPAHS value to Highmark is based on recovery analyses, which assume a range of outcomes regarding Highmark's responsibility for WPAHS' unsecured liabilities ($589.2 million as of 1/31/2013).
(5) Highmark considers the $32 million of HMPG investments for real estate acquisitions to be an unrestricted grant, and thus unrecoverable to Highmark, for the purposes of this analysis.

B. Policyholder Costs and Benefits

Blackstone

IDN Savings in Transaction / Base Case Scenario vs. "No Transaction"

Highmark estimates that $1.147 billion of claims savings, relative to the cost of claims in a No Transaction scenario, could be realized by policyholders from 2013 to 2016, if Highmark does not renew its contract with UPMC beyond 2014.

Discussion of "Transaction / UPMC-Out" IDN Sources of Value

1 Oncology Shift

- Beginning in August 2010, UPMC changed the bill type for their physicians' oncology services, began aligning with physicians' oncology practices and billing such services as outpatient services
- Highmark believes that by shifting oncology services to non-hospital-based outpatient settings, such as medical malls and ambulatory care centers, for example, it can significantly decrease claim costs associated with oncology
- This oncology shift is expected to be completed by member education and provider alignment by the beginning of

2 Utilization Shift

- Assumes that by 2016, Highmark can move 90% of UPMC's non-emergent volume (both commercial and Medicare) to engaged providers at % lower cost for Highmark members
  - In the "No Transaction" scenario, Highmark assumes that WPAHS would be acquired by another partner who would shed 20% of WPAHS' assets; as such, 20% of WPAHS volume shifts to UPMC, but the volume migration from WPAHS to UPMC is offset by the utilization benefits of Highmark's tiered products that shift volume from UPMC to lower-cost engaged providers

Timing of IDN Savings – "Transaction / UPMC-Out" Scenario

($ in millions)

	CY2012	CY2013	CY2014	CY2015	CY2016	Cum. '13 - '16
1 Oncology Shift						
2 Utilization Shift						
3 Reimbursement						
4 Healthier Population						
5 Right Setting						
6 Right Treatment						
7 + 8 Cost / Quality[1]						
9 Other						
Subtotal	**($6)**	**($69)**	**($171)**	**($405)**	**($502)**	**($1,147)**

3 Reimbursement

- Assumes reimbursement rate increases to WPAHS and UPMC lower in the Base Case scenario than in the "No Transaction" scenario
  - No transaction case assumes that a new owner of WPAHS will require a % rate increase from Highmark effective in 2013, with additional increases thereafter
  - No transaction case assumes that UPMC imposes an initial % rate increase on Highmark post-2014, with additional increases thereafter

Source: Highmark financial projections.

Note: Includes Medicare Advantage and Commercial Group (Insured and Self-Insured); excludes Direct Pay.

(1) Cost / Quality = Lower Factor Cost plus Improved Quality.

IDN Savings in Transaction / Base Case Scenario vs. "No Transaction" (cont'd.)

Discussion of "Transaction / UPMC-Out" IDN Sources of Value

4 Healthier Population (Integrated Care)

- By engaging members and managing care, Highmark believes it can keep its insured population healthier and reduce preventable inpatient hospital admissions
- Through the patient-centered medical home ("PCMH") approach, the IDN's efforts focus on integrating care at all points of care
  - Physicians aligned with the IDN are anticipated to cut inpatient admissions by as much as % at aligned hospital facilities
- Phased in over several years; the timing of these savings is dependent on UPMC going out-of-network and ramps up in 2015, coinciding with the expiration of the UPMC contract

5 Right Setting

- Highmark assumes the IDN will be able to focus on placing patients in appropriate outpatient community settings of care that are less expensive than hospital-based settings, lowering costs by ~% on ~% of inpatient hospital admissions
- There are five areas of potential savings that have been identified:
  - Shifting inpatient admissions to lower-cost facilities
  - Shifting ambulatory surgery to stand-alone centers
  - Shifting patients to stand-alone imaging centers
  - Shifting low-acuity urgent care from emergency room to urgent care centers
  - Lowering lab costs

Timing of IDN Savings – "Transaction / UPMC-Out" Scenario
($ in millions)

	CY2012	CY2013	CY2014	CY2015	CY2016	Cum. '13 - '16
1 Oncology Shift						
2 Utilization Shift						
3 Reimbursement						
4 Healthier Population						
5 Right Setting						
6 Right Treatment						
7 + 8 Cost / Quality(1)						
9 Other						
Subtotal	**($6)**	**($69)**	**($171)**	**($405)**	**($502)**	**($1,147)**

Source: Highmark financial projections.
Note: Includes Medicare Advantage and Commercial Group (Insured and Self-Insured); excludes Direct Pay.
(1) Cost / Quality = Lower Factor Cost plus Improved Quality.

IDN Savings in Transaction / Base Case Scenario vs. "No Transaction" (cont'd.)

Discussion of "Transaction / UPMC-Out" IDN Sources of Value

6 Right Treatment

- Focuses on the reduction of duplicative tests for the IDN's health plan enrollees in two treatment categories of Diagnostic Imaging and Pathology/Lab tests
- The IDN is anticipated to use information technology to make patient data available across all providers, which may significantly reduce orders for duplicate imaging and pathology/lab tests
- Highmark expects to eliminate approximately % of outpatient and physician utilization for both diagnostic imaging and pathology/lab tests
- Highmark believes that it may achieve substantially less savings in a No Transaction scenario if it were to integrate with physicians and use health plan design and arms-length partnering with community hospitals

7 Lower Factor Cost

- Includes IDN savings associated with reduced lengths of stay for inpatient care and improved implant selection
- Highmark anticipates that it can capture savings from reduced lengths of stay (and to share these savings with aligned hospitals)
  - The IDN is anticipated to reduce lengths of stay by %, to realize 50% of the savings of $ million in 2016
  - The remaining $ million of estimated cost savings results from improved implant selection; with the proposed change of control, Highmark anticipates the IDN will educate providers and align their incentives to use appropriate implant devices

8 Improved Quality (not material)

9 Other

- Includes savings associated with therapeutic substitutions, including aligned physicians will prescribe lower-cost generic drugs that may have substitute chemical compounds, but treat the same symptoms as the corresponding brand name drugs

Timing of IDN Savings – "Transaction / UPMC-Out" Scenario
($ in millions)

	CY2012	CY2013	CY2014	CY2015	CY2016	Cum. '13 - '16
1 Oncology Shift						
2 Utilization Shift						
3 Reimbursement						
4 Healthier Population						
5 Right Setting						
6 Right Treatment						
7 + 8 Cost / Quality[1]						
9 Other						
Subtotal	($6)	($69)	($171)	($405)	($502)	($1,147)

Source: Highmark financial projections.
Note: Includes Medicare Advantage and Commercial Group (Insured and Self-Insured); excludes Direct Pay.
(1) Cost / Quality = Lower Factor Cost plus Improved Quality.

IDN Savings in Transaction / "UPMC-In" Scenario vs. "No Transaction" Scenario

Alternatively, Highmark projects that policyholders will save $796 million, cumulatively, from 2013 – 2016 if the Transaction is approved, and Highmark renews its contract with UPMC in 2015.

Key Drivers

- "UPMC-In" scenario savings are predicated on Highmark's ability to create / employ narrow network products with WPAHS facilities and extend the contract with UPMC in 2015 in a manner that would allow for expanded consumer choice product designs, including tiered products
  - Narrow network products would allow Highmark policyholders to utilize a potentially lower cost alternative (e.g. WPAHS) to UPMC
  - The "UPMC-In" scenario generates lower savings than the "UPMC-Out" scenario primarily because Highmark will have fewer means available to incentivize customers to receive care at potentially lower cost facilities, given that UPMC will remain in-network
- The "No Transaction" scenario assumes that UPMC remains in-network with a new contract in 2015, at a [redacted]% reimbursement rate increase; In the "UPMC-In" Transaction scenario, Highmark assumes that based on the rate increases provided to UPMC in the 2012 – 2014 contract, the presence of tiered network products and the presence of a viable alternative in WPAHS, Highmark has the ability to limit the reimbursement increase to UPMC to [redacted]%

Timing of IDN Savings – "UPMC-In" Scenario
($ in millions)

	CY2012	CY2013	CY2014	CY2015	CY2016	Cum. '13 - '16
Oncology Shift						
Utilization Shift						
Reimbursement						
Healthier Population						
Right Setting						
Right Treatment						
Cost / Quality[1]						
Other						
Subtotal	**($6)**	**($68)**	**($69)**	**($342)**	**($317)**	**($796)**

Source: Highmark financial projections.
Note: Includes Medicare Advantage and Commercial Group (Insured and Self-Insured); excludes Direct Pay.
(1) Cost / Quality = Lower Factor Cost plus Improved Quality.

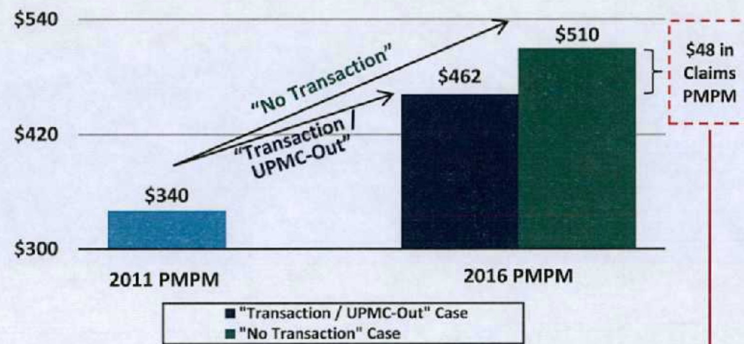
Highmark's Projected Claims Savings

Highmark has stated that an average family of four living in the Pittsburgh region could save approximately $3,000 per year in claims, relative to the "No Transaction" scenario, if the Affiliation with WPAHS is consummated.

Implication of Difference in 2016 Claims PMPM

- In 2011, average claims per member per month ("PMPM"), for Western Pennsylvania group commercial risk members, were $340
- Highmark projects that in 2016, Western Pennsylvania group commercial risk claims PMPM will average $462 in a Transaction / UPMC-Out scenario, vs. $510 in a "No Transaction" scenario
- The resulting $48 difference in claim costs per member per month between the "Transaction / UPMC-Out" and the "No Transaction" case yields an annual average claim cost differential in 2016, for a family of four, of $2,304
- The $2,304 relative savings for all of Western Pennsylvania group commercial risk is then adjusted to reflect that approximately 78% of this total membership resides in the 5-County Pittsburgh region, where the majority of claims savings are expected to be generated via the WPAHS affiliation and IDN Plan
- Expected relative average annual savings of approximately $3,000 for a family of four living in the 5-County Pittsburgh region, relative to claims PMPM expected in a "No Transaction" scenario

Western Pennsylvania Group Commercial Risk Claims PMPM



"No Transaction" Claims PMPM: $510

"Transaction" Claims PMPM: $462

Relative Increase of $48 in Claims PMPM

x 12 months

x 4 Family Members

$2,304 Annual Claims Increase without Transaction

÷ 78% who live in the 5-County Pittsburgh Region

$2,959 Relative Claims PMPM Increase without the Transaction for Policyholders in the 5-County Pittsburgh Region

Source: Highmark financial projections.

Ms. Guerin–Calvert's Review of IDN Plan and Related Savings

Blackstone notes the following per Ms. Guerin–Calvert of Compass Lexecon with respect to Highmark's IDN Plan:

"Highmark's provider management strategy consists of several initiatives designed to coordinate care at efficient costs:

1. Re-align physician incentives through new reimbursement models,
2. Secure access to a "full service" network of lower-cost, highly efficient care providers, including primary care, specialists care, captive ambulatory service verticals, aligned secondary care through community hospitals, and a quaternary care "hub," which is premised on a revitalized, vibrant WPAHS, specifically Allegheny General Hospital,
3. Promote introduction of innovative care models and lower-cost treatment sites, and
4. Build platforms (medical service organization ("MSO") and IT infrastructure) to support care redesign and cost reduction within the provider community.

Highmark expects this integrated delivery model to deliver improved costs, quality, choice, access, and experience for its policyholders/subscribers. Specifically, Highmark envisions:

1. Lowering the costs of delivery will not lower current premium levels, but will generate lower premiums than would occur if the Transaction is not approved;
2. Providing higher quality by linking quality-based reimbursement systems that link provider payments to the provision of quality healthcare, and promoting greater transparency so that consumers know more precisely the healthcare being consumed and its costs;
3. Ensuring greater access and choice of healthcare in WPA by preserving WPAHS's financial integrity;
4. Developing systems to deliver more integrated healthcare which rewards care coordination and the patient's experience;
5. Incentivizing the provision of the right care, in the right place, at the right time; and
6. Creating an IDN with significant asset value and the potential to generate substantially more value."

Source: *Economic Analysis of Highmark's Affiliation with WPAHS and Implementation of an Integrated Healthcare Delivery System*, Margaret E. Guerin-Calvert, April 8, 2013.

Ms. Guerin–Calvert's Review of Highmark's IDN Plan and Related Savings (cont'd.)

Blackstone notes the following per Ms. Guerin–Calvert of Compass Lexecon with respect to Highmark's IDN Plan:

"Although Highmark plans to develop and implement an IDN with or without the WPAHS affiliation, the WPAHS affiliation is a key driver of the IDN's benefits.

- First, Highmark identifies the affiliation with WPAHS as a "core and necessary" component in building the new IDN. To Highmark, several WPAHS characteristics particularly support its importance in the overall success of UPE's IDN network:
  1. WPAHS shares Highmark's vision to lower care costs via new care delivery models and supports Highmark's efforts to change the healthcare market in southwestern Pennsylvania.
  2. WPAHS provides high-acuity clinical services and is the only realistic alternative to UPMC for these services.
  3. WPAHS's broad geographic reach serves to offer secondary and tertiary services in competition with UPMC.
  4. WPAHS is a major employer of physicians who will play a key role in transformation of the healthcare delivery network.
  5. WPAHS is a major employer in southwestern Pennsylvania.
  6. Highmark believes WPAHS cannot survive as a non-profit, five-hospital, quaternary facility without affiliating with Highmark.
- Second, the majority of the claimed economic benefits for WPAHS of the affiliation, including its competitiveness, sustainability and future financial viability, come through UPE's IDN structure.
- Third, the value to Highmark and its insured members of implementing the IDN derives substantially from the affiliation with WPAHS and the ability to serve consumers in a lower cost, high quality environment.
- Highmark's goal of creating an IDN to provide access to affordable healthcare could result in substantial benefits to consumers of healthcare in WPA, including reduced costs (for insurance and healthcare services), improved quality of care, and improved outcomes. This prospect and the intrinsic relationship between the proposed WPAHS affiliation and the IDN make it appropriate to assess the IDN's costs and benefits as part of my evaluation of the Affiliation, and to evaluate whether the projected benefits will inure to the benefit of Highmark's insured members and to the WPA community at large. The likelihood and magnitude of benefits from the IDN could offset the risks and costs of the transaction. While there are other factors, the impact of the IDN on the volume of inpatients admitted at WPAHS as well as improved costs and quality are core metrics for assessing the impact of the Affiliation."

Source: *Economic Analysis of Highmark's Affiliation with WPAHS and Implementation of an Integrated Healthcare Delivery System*, Margaret E. Guerin-Calvert, April 8, 2013.

Ms. Guerin–Calvert's Review of IDN Plan and Related Savings (cont'd.)

Blackstone notes the following conclusions from Ms. Guerin-Calvert of Compass Lexecon with respect to the projected IDN savings:

- "My analysis described in this Section leads me to conclude that there is substantial uncertainty about Highmark's proffered projections of large volume shifts of inpatients to WPAHS from existing providers, and some of the economic assumptions underlying Highmark's projected IDN cost savings. Although the likelihood of effectuating these projected incremental discharges and associated financial consequences is highly uncertain, Highmark has articulated a reasonable IDN strategy incorporating the WPAHS affiliation that would provide significant benefits to the healthcare community in WPA and to Highmark's insured members.
- Specifically, my overall conclusions on the competitive effects, the economic and community benefits, and public interest of Highmark's proposed IDN with WPAHS as its core, are: the success of Highmark's affiliation with WPAHS depends critically on the ability of the IDN to attract large numbers of inpatients to WPAHS, especially away from UPMC. To do this, Highmark must accomplish two goals: (1) incentivize patients to select WPAHS and other aligned hospitals rather than UPMC for inpatient services by adopting Community Blue and by increasing transparency of cost information relevant for consumer decisions, and (2) incentivize physicians to use and refer patients to WPAHS and other aligned hospitals rather than UPMC.
- Without achieving these two goals, it is unlikely that Highmark can attract sufficient numbers of patients to WPAHS to make this Affiliation successful in terms of (1) stabilizing WPAHS financially, (2) lowering the cost of care to Highmark members, (3) lowering Highmark's risk exposure to possible WPAHS financial failure, and (4) providing improved competitive healthcare delivery to the WPA community."

Source: *Economic Analysis of Highmark's Affiliation with WPAHS and Implementation of an Integrated Healthcare Delivery System*, Margaret E. Guerin-Calvert, April 8, 2013.

B. Policyholder Costs and Benefits

Summary Costs / Benefit Analysis to Highmark and Its Policyholders

Regardless of UPMC contract status, Highmark anticipates substantial benefits to its operating franchise in the form of higher enrollment, market share and revenue if the Transaction is approved. Highmark projects that policyholders will only realize significant savings, however, if there is sufficient incentive to use lower cost care options, either by Highmark not having a contract with UPMC or by having a contract that allows for consumer choice initiatives, including tiered products.

	"No Transaction"	"Transaction / UPMC – Out"	"Transaction / UPMC – In"
Highmark 2016 Enrollment	million enrollees	million enrollees	million enrollees
Highmark Est. 2016 WPA Market Share	Highest Reduction in Market Share	Medium Reduction in Market Share	Lowest Reduction in Market Share
Highmark 2013 – 2016 Cumulative Net Income	$563.1m	$1.2b	$1.4b
Total IDN Capital Committed	$1.2b	$1.8b(1)	$1.8b(1)
Tangible Financial "Value Gap"(2)	($474m) – ($675m)	($465m) – ($1,037m) $9m(3) – ($362m) contingent	($465m) – ($1,037m) $9m(3) – ($362m) contingent
2013 – 2016 IDN Savings(4)	$0 (baseline)	$1,147m	$796m
2016 Annual Run-Rate IDN Savings(4)	$0 (baseline)	$503m	$317m
UPMC Contract?	Yes	No	Yes
Consumer Choice Initiatives Allowed?	Yes	Yes	Yes

Benefit to Highmark

Cost to Policyholders

Benefit to Policyholders

Impact of "Consumer Choice"
Highmark estimates that 2013-2016 IDN savings would decrease from $796m to ~$200m (2016 run-rate of ~$30m per year) if the Transaction is completed and a UPMC contract extension prohibits "tiered" products

Source: Highmark financial projections.

(1) See page 35 for detail of IDN capital commitments. Does not include unfunded pension liabilities, other unsecured liabilities or contingent liabilities.

(2) See page 85 for the calculation of the Tangible Financial "Value Gap" in the Transaction scenarios.

(3) In either Transaction scenario, Highmark's unrestricted grants to WPAHS will increase by $41 million, but will be offset by the conversion of Highmark's $50 million escrow payment into a loan, which will become potentially recoverable to Highmark and result in a transaction-contingent net benefit of $9 million if the loan is repaid.

(4) Highmark assumptions for IDN savings relative to the "No Transaction" scenario. In addition to the projected IDN savings, Highmark has asserted than non-financial benefits such as the constraint of UPMC in the marketplace, access to facilities and other benefits are also possible. Ongoing per-year benefits to policyholders are uncertain in value and may diminish over time.

C. Summary Conclusions: Costs and Benefits to Policyholders

Blackstone

Summary Conclusions(*): Costs and Benefits to Policyholders

Blackstone notes the following conclusions related to Costs and Benefits to Policyholders:

- The value of Highmark's IDN-related capital commitments is $1.834 billion, of which $646 million is contingent upon Form A approval
- The minimum estimated gap between Highmark's capital commitments and the value of tangible financial assets received is highly certain, as $465 million[1] of unrestricted grants ($41 million of which are contingent upon Form A approval[2]) will be made without the possibility of Highmark receiving tangible financial value in return
- The maximum estimated gap between Highmark's capital commitments and the value of tangible financial assets received is uncertain, and could total $1,037 million or more ($362 million of which may be contingent upon Form A approval) depending upon the future financial performance of WPAHS and the potential for unsecured creditors to pursue UPE in the event of a future WPAHS restructuring[3]
- Projected "franchise" benefits to Highmark in the form of increased enrollment, market share and revenue appear plausible when compared to a No Transaction scenario and may enhance Highmark's size, market presence and financial profile
- Highmark's projected benefits to policyholders (the IDN Savings) are feasible but have little precedent under the circumstances prevailing in the Western Pennsylvania market; however, we note that in addition to quantifiable benefits potentially accruing to policyholders directly from the IDN Savings, non-quantifiable benefits may also be realized indirectly from WPAHS being maintained as a viable provider competitor

Continued on Next Page

(1) $465 million of unrestricted grants includes: $208 million to WPAHS, $225 million to the Physicians Organization and $32 million to real estate investments for Medical Malls.
(2) If the Transaction is Approved, Highmark's unrestricted grants to WPAHS will increase by $41 million but will be offset by the conversion of Highmark's $50 million escrow payment into a loan, which will become potentially recoverable to Highmark and result in a transaction-contingent net benefit of $9 million if the loan is repaid.
(3) Unsecured creditors may pursue Highmark or UPE for payment of unsecured liabilities under various legal theories in the event of a future restructuring of WPAHS; Blackstone cannot estimate the likelihood or amount of any such losses that Highmark or UPE may incur, but as losses greater than $0 are possible, we have assumed a range of loss ratios of 0% to 50% of total unsecured liabilities for purposes of calculating potential recoveries to Highmark in various scenarios.

(*) This draft report has been prepared and is being filed to assist the Pennsylvania Insurance Department ("PID") in its ongoing consideration of the Form A Application of UPE, dated November 7, 2011, as amended. This report will not be complete until the public has had appropriate opportunity to review, and Blackstone reserves the right as may be required in its judgment to amend and/or supplement this report based upon additional or new information that may be provided during the public comment period or thereafter or in response to comments by the Applicants, the public or PID officials.

Summary Conclusions(*): Costs and Benefits to Policyholders (cont'd.)

Blackstone notes the following conclusions related to Costs and Benefits to Policyholders:

- In summary, it is possible that the value received by policyholders via the IDN Savings will cover the gap between (i) the total amount of Highmark's transaction-contingent capital commitments related to the IDN Plan and (ii) the value of tangible financial assets received by Highmark in exchange for those capital commitments
- However, the potential benefits to policyholders are less certain than either (i) the IDN-related investments and expenditures that are to be funded via policyholder reserves or (ii) the franchise benefits that may be accrue to Highmark; therefore, the PID may wish to consider the following types of conditions to increase the likelihood of quantifiable, tangible savings being realized by policyholders:
  - Conditions prohibiting Highmark from entering into hospital reimbursement contracts that constrain Highmark's ability to offer insurance products that promote consumer choice and lower the cost of care (i.e. "Consumer Choice Initiatives")
  - Conditions requiring Highmark to quantify and periodically report the level of savings that have actually been realized by policyholders, both in total and in amounts available via specific products on a per-policyholder basis
  - Conditions requiring that the Highmark senior executives who have been responsible for designing, recommending and implementing the IDN Plan have a meaningful portion of their long-term compensation tied to the achievement of quantifiable and tangible benefits to policyholders

(*) This draft report has been prepared and is being filed to assist the Pennsylvania Insurance Department ("PID") in its ongoing consideration of the Form A Application of UPE, dated November 7, 2011, as amended. This report will not be complete until the public has had appropriate opportunity to review, and Blackstone reserves the right as may be required in its judgment to amend and/or supplement this report based upon additional or new information that may be provided during the public comment period or thereafter or in response to comments by the Applicants, the public or PID officials.

VI. Competition and Insurance Buying Public

Blackstone

Summary of Risks and Analyses: Impact on Competition and Insurance Buying Public

The Transaction's impact on competition and the insurance buying public was assessed as follows:

Potential Concerns Noted:

Ms. Guerin-Calvert of Compass Lexecon reviewed the following as part of her assessment on the competitive impacts of the proposed Transaction:

Potential Vertical Integration Issues

1. Highmark may gain competitively sensitive information concerning competing insurers through its control of WPAHS
2. Highmark's implementation of an IDN may place it in position to frustrate efforts of competing insurers to contract with Highmark-affiliated hospitals, including WPAHS

Potential Impact on Overall Provider Market In Western Pennsylvania

1. Highmark's plans for WPAHS and its overall IDN Plan may cause an increase in provider capacity in the Western Pennsylvania region
2. Highmark's plans for WPAHS and its overall IDN Plan may lead to an escalation in the cost of contracting with physicians for various provider organizations in the Western Pennsylvania region
3. Highmark's plans for WPAHS and its overall IDN Plan may have a detrimental impact on community hospitals in the Western Pennsylvania region

Analyses Performed:

- Blackstone, along with Compass Lexecon, reviewed comments submitted during public hearings held in April 2012 related to the Transaction as well as comments submitted directly to the PID from the public and various industry participants
- Blackstone, along with Compass Lexecon, conducted interviews with various industry participants, including leadership of competing insurers, hospitals and other provider organizations
- Blackstone reviewed Compass Lexecon's report dated April 8, 2013

Feedback on the Proposed Transaction

Blackstone and Compass Lexecon participated in public information sessions and conducted private diligence meetings in order to identify concerns about the proposed Transaction.

	General Characteristics	Session / Meeting Details
Public Information Sessions and Written Submissions to the PID	▸ Sessions were open to the public ▸ Advertised two months in advance on the PID website ▸ The applicants prepared opening remarks and responded to questions posed by the PID during the hearing ▸ Members of the public also submitted written comments and verbal remarks; all comments and remarks transcribed and made publicly available	▸ April 17, 2012: day and evening sessions in Pittsburgh, PA
Private Diligence Meetings with Market Participants	▸ Blackstone and CL conducted 30-90 minute telephonic discussions or in-person meetings ▸ Blackstone and CL, generally, raised the following topics: • Impact on the stakeholders if the Transaction were to be approved • Impact on stakeholders if the Transaction were not to be approved • Is WPAHS salvageable, and is Highmark the right partner for WPAHS? • Perspectives on the current health insurance and provider markets in western Pennsylvania? • Other competition and insurance buying public-related issues	▸ Participants included: • Provider systems • Business organizations • Consumer interest groups • Health insurers • Physicians

A. Public Comments

Blackstone

Public Comments

Blackstone notes the following comments voiced by members of the public during information sessions held by the PID in Pittsburgh during April 2012.

Comment	Stakeholder(s) Concerned
The Pittsburgh business community would be hurt without the Transaction	Local business / organization
The Transaction will increase competition in the local health care industry and preserve ~11,000 jobs in the region	Government representative
A monopoly in the region's health care industry would be detrimental to the quality and cost of healthcare services	Local business / organization
Without the Transaction, WPAHS would not be able to sustain itself financially	Highmark / WPAHS employee
Anything less than a merger with Highmark will be detrimental to the western PA community	Highmark / WPAHS employee
If the Transaction is not approved, valuable community assets will be lost	Highmark / WPAHS employee
If health care choice is not preserved, the region will face much higher health care costs. Employers will struggle to provide adequate health insurance benefits, and consumers will go without needed care	Local business / organization
West Penn Hospital has struggled financially over the past few years, and it was through Highmark that the hospital was able to reopen its emergency room and create new jobs	Highmark / WPAHS employee
The Transaction will provide the stability that Forbes Regional Hospital and the entire WPAHS need now and opportunities for growth in the future	Government representative

Public Comments (cont'd.)

Comment	Stakeholder(s) Concerned
The current state of affairs for health care in western PA is unsustainable	Local business / organization
West Penn is our community hospital, and they provide quality, affordable health care. We were losing that until Highmark demonstrated its commitment to the surrounding neighborhoods	Local business / organization
Braddock is an example of what can happen when a non-profit like UPMC is given full control over the health care market	Government representative
West Penn has been an important community asset	Local business / organization
Having only one health system in this area severely influences the costs that are paid by insurance companies representing UPMC Health System, employers and employees	Local business / organization
Western Pennsylvania needs competition in its healthcare delivery system to control costs and improve the quality of care	Local business / organization
It is important for individuals with long-term illnesses to have access to more than one healthcare provider and more than one health insurer	Local business / organization
Pittsburgh needs WPAHS and West Penn Hospital	Government representative
If the Transaction does not occur, thousands of patients will experience severe disruption in their care	Government representative
The Transaction will safeguard choice for consumers and physicians as well as protect jobs in western Pennsylvania	Government representative

Public Comments (cont'd.)

Comment	Stakeholder(s) Concerned
Competition must be preserved to incentivize change in the western PA health care market. Value-based competition is the only antidote to the inefficiency and quality problems that plague the health care system	Health insurer / health care service provider
The right consumer and marketplace protections should be part of any order from the Commissioner. For example, the PID should not allow Highmark's Transaction with WPAHS to perpetuate its monopoly status in western PA and should continue to allow consumer choice in network hospitals	Health insurer / health care service provider
It would be very difficult for WPAHS's elderly patients to have to go to a different hospital. The Transaction gives WPAHS the resources to continue to provide quality care for the community	Highmark / WPAHS employee
In this environment, community hospitals cannot stay viable	Highmark / WPAHS employee
Highmark's financial support of the WPAHS will require substantially more funding than has been proposed	Local business / organization
Any approval of Highmark's acquisition should be conditioned on an orderly and prompt ending of its contracts with UPMC, on protections that ensure WPAHS remains open to other insurers on fair terms and on proper monitoring of these safeguards	Local business / organization
The Transaction must not limit the ability of WPAHS to independently contract with other insurers at market competitive rates and terms	Health insurer / health care service provider
Some fear that the Transaction may limit employers and employees' ability to access critical specialty services. The UPMC-Children's Hospital model provides a potential remedy to this concern	Local business / organization
Speedy approval of the Transaction is critical for the future of WPAHS and its stakeholders	Local business / organization
Should the Transaction not come to fruition, western PA would be left at the mercy of a single health care provider, meaning that physicians would be told how to practice medicine or be forced to leave, health care costs would rise with the lack of competition, employers would struggle to provide benefits and patients could go without needed care	Local business / organization

Public Comments (cont'd.)

Comment	Stakeholder(s) Concerned
Highmark's acquisition of WPAHS may not only fail to accomplish the intended result of shoring up the system, but may also create a setting in which the community's real health care problems cannot be solved or become worse	Local business / organization
UPMC should not be permitted to terminate contract negotiations with Highmark. Highmark should be able to compete with UPMC and still have a partnership	Policyholder / patient
Highmark's acquisition of WPAHS presents a conflict of interest. Wants to stay with certain specialists in the UPMC network	Policyholder / patient
Costs for medical services may continue to rise if UPMC is the dominant provider	Local business / organization
If the region is controlled by one large healthcare provider, physicians will lose the ability to choose where they practice	Physician / nurse
If the Transaction is approved, patients who have been seeing doctors in the UPMC network would have to find new physicians or, otherwise, pay higher costs to continue to be treated by UPMC physicians who know their health history	Policyholder / patient
UPMC should focus on medical care, and Highmark should focus on health insurance. The two should be forced to enter into a contract	Policyholder / patient

B. Industry Participant Comments

Blackstone

B. Industry Participant Comments

Industry Participant Interviews

Blackstone conducted interviews with healthcare industry participants in an effort to understand the views of a broad spectrum of interested parties based in Western Pennsylvania.

Comment / Concern	Stakeholder(s) Concerned
Highmark's plans for WPAHS may negatively impact the viability of community hospitals	Interest Group
Having two vertically integrated systems polarizes the market such that independents are forced into one of the two camps	Provider Executive
Highmark appears to be using the potential opening of facilities and hiring of physicians as leverage against the community hospitals	Provider Executive
Given overcapacity in the region, the community hospitals will suffer if Highmark is able to increase discharge volumes in the WPAHS system	Provider Executive
Highmark continues to acquire properties in close proximity to existing community hospitals, potentially leading to unnecessary duplication of resources and possibly posing a threat that Highmark can use to gain leverage over the community hospitals	Provider Executive
The community hospitals may lose volume as a result of WPAHS' necessary growth in discharge volume	Interest Group
Given UPMC's brand equity in the market, and therefore limited vulnerability to inpatient leakage to other health systems, the volume needed at WPAHS to make Highmark's strategy successful will come from community hospitals	Provider Executive

Industry Participant Interviews (cont'd.)

Comment / Concern	Stakeholder(s) Concerned
Highmark's market position may allow it to direct volume to its wholly-controlled subsidiaries, which could impact communtiy hospitals - even those within the Community Blue network	Provider Executive
There is no way Highmark will get 25,000 admissions at WPAHS without putting community hospitals out of business	Provider Executive
It is virtually impossible that most of the increased admissions Highmark projects for WPAHS will come from UPMC	Provider Executive
Highmark's plans for an integrated delivery network may further accelerate consolidation of currently unaffiliated provider services in the Western PA region, which may reduce consumer choice	Interest Group
Reopening WPH was a mistake, and introduced unneeded capacity into a region that already has too many beds	Provider Executive
In any circumstance that Highmark controls WPAHS, the services and capacity at West Penn Hospital are unnecessary and duplicative given the region's overcapacity	Insurance Executive
Highmark's commitment to spend up to $100 million in capital expenditures at Jefferson may, in combination with the WPAHS transaction, exacerbate the overcapacity issue in the region	Provider Executive

Industry Participant Interviews (cont'd.)

Comment / Concern	Stakeholder(s) Concerned
Highmark's plans for building medical malls and outpatient facilities will lead to unnecessary duplication of services and capacity in a region that is already over-bedded	Insurance Executive
The $475 million that Highmark has committed toward WPAHS may be insufficient to stabilize WPAHS over the long-term; WPAHS may turn into a "financial blackhole" for Highmark	Provider Executive
The region would be better off if WPAHS were to go through bankruptcy	Provider Executive
Highmark may seek to recoup losses at WPAHS from policyholders and providers via higher premiums and lower reimbursement rates, and has the market power to do so	Provider Executive
It is unclear how Highmark's policyholder surplus can be used for investment into non-admitted assets for unconventional purposes	Insurance Executive
Absent the proposed transaction, AGH would still be able to serve as a tertiary / quaternary hub as part of a competing regional system to UPMC, and would be better able to align and compete with a controlling member other than Highmark	Provider Executive
Absent the proposed transaction, there would likely be strong interest in an outside party purchasing AGH to continue serving as a tertiary hub for a regional network alternative to UPMC	Provider Executive
Highmark's assumptions, both for the financial commitments to WPAHS and Highmark's overall IDN strategy, lack transparency in the revised Form A	Interest Group
The public filing contains many assertions but very little supporting information from which the public can make any determination with respect to the proposed transaction	Interest Group

Industry Participant Interviews (cont'd.)

Comment / Concern	Stakeholder(s) Concerned
Highmark's filing has limited disclosure regarding its operating plan for WPAHS in light of the uncertainty around a renewed contract with UPMC	Interest Group
Highmark's stated goals of lowering healthcare costs in the region are noble, but its actions do not match its words so far in terms of implementing concrete plans	Provider Executive
Little evidence has been presented by Highmark to support that they have concrete steps to lower costs or improve quality	Provider Executive
The mediated settlement between Highmark and UPMC alleviates some of the concern regarding replication of unique regional assets, however there is still uncertainty with respect to women's and children's facilities	Interest Group
If the transaction is approved, patients with disabilities will be significantly impacted due to the difficulty of having to change physicians, service providers or insurance companies	Interest Group
Highmark as an insurer and hospital owner would create an unfair playing field	Provider Executive
Highmark should be prohibited from contracting with UPMC, and should be forced to put its market share at risk if its intentions are to save WPAHS and become an IDFS	Interest Group
Highmark's long-term commitment to the IDN strategy and to WPAHS are uncertain, given its pursuit of long-term UPMC contract	Provider Executive
UPMC is taking a more forward-looking approach to issues in the industry. Highmark is using yesterday's tactics to solve tomorrow's problems, which won't work	Provider Executive

Industry Participant Interviews (cont'd.)

Comment / Concern	Stakeholder(s) Concerned
UPMC contracts prohibit tiered products limiting other insurers' ability to compete	Insurance Executive
Political intervention into the contract dispute between Highmark and UPMC has distorted their contracting terms; they are different than what would come from negotiations between the two without pressure from politicians. This is detrimental to competition in Western Pennsylvania	Insurance Executive
The transaction may not lead to decreased utilization, which is the key driver of increased costs in the Western PA region	Interest Group
Highmark lacks a quantity of deep provider expertise in its senior management team	Provider Executive
The $1 billion in provider spending initiatives, inclusive of the WPAHS commitment, is not enough to build a robust integrated delivery network	Provider Executive
Highmark's plans for WPAHS to generate additional discharge volumes via physician affiliations may not be feasible given strategic reaction from other provider systems and/or the cost of such affiliations	Provider Executive
Highmark's stated intention of pulling volumes from UPMC is suspect, given UPMC's ability to counteract Highmark's strategic actions	Provider Executive
West Penn Hospital is not viable if Highmark has a contract with UPMC because it sits too close to UPMC facilities	Provider Executive
The patients with the highest utilization rates are the most likely to remain with their current providers and doctors, which calls into doubt Highmark's ability to move profitable volumes into WPAHS	Provider Executive

Industry Participant Interviews (cont'd.)

Comment / Concern	Stakeholder(s) Concerned
Highmark's plans to increase WPAHS' discharge volumes by changing physician referral patterns are unrealistic	Provider Executive
Regardless of how much Highmark spends, gaining 25,000 admissions will be extremely challenging. 5,000 - 10,000 might be possible	Provider Executive
Gaining 25,000 admissions at WPAHS for $1 billion in spending is not a reasonable assumption	Provider Executive
Highmark's plan to increase discharges at WPAHS were completely unrealistic in their original plans, and are even more so now that volume is down 5% - 7% throughout the region this year	Provider Executive
If Highmark's plans for offering a differentiated product are not as successful as anticipated, Highmark's insurance enrollment and WPAHS anticipated volumes will be much lower than indicated in the filing	Interest Group
Highmark's commitment to its cost-reduction strategies is questionable; they appear to be merely using the WPAHS situation in order to gain leverage over UPMC	Provider Executive
Highmark is trying to magnify a crisis in WPAHS' financial condition in order to gain leverage over UPMC. If the transaction is approved, they will continue to do so into the future	Insurance Executive
Highmark's proposed physician contracts are contradictory to cost-savings and may lead to escalating costs and higher utilization	Provider Executive
Highmark's execution of an IDN strategy is causing the price of physician employment to rise above market levels, and the region will bear the burden of the expense via increased health care costs	Provider Executive

Industry Participant Interviews (cont'd.)

Comment / Concern	Stakeholder(s) Concerned
Highmark is paying completely unrealistic prices for alignment with physicians. Salaries are unsustainable	Provider Executive
There are insufficient information walls between WPAHS and Highmark as new insurer contracts are being negotiated, which raises serious competitive concerns	Insurance Executive
Highmark's control of WPAHS makes the competitive process for insurers to contract with WPAHS uncertain	Insurance Executive
Creating two huge hospital systems does not make the region more competitive in providing healthcare services	Interest Group

C. Summary Conclusions: Competition and Insurance Buying Public

Blackstone

Summary Conclusions(*): Competitive Effects and Public Benefits

Blackstone notes the following per Ms. Guerin-Calvert of Compass Lexecon related to competitive effects and public benefits of the Affiliation:

As part of her assessment for the PID, Ms. Guerin-Calvert addressed three overarching topic areas in her examination of the competitive effects and public benefits of the Affiliation:

1. "The evaluation of the competitive effects of the Affiliation involving the vertical relationship of Highmark as a purchaser of WPAHS's healthcare services. Vertical transactions, in this instance between an insurer and a hospital system, can yield important pro-competitive benefits and efficiencies, but may also have horizontal implications for competition at the insurer or the provider level. For example, the Agreement may affect how Highmark competes in the healthcare insurance marketplace and how WPAHS competes in the hospital marketplace. Broadly put, the relevant economic assessment involves evaluating the incentives and effects of a combined Highmark and WPAHS on competition and consumers of healthcare services.
2. The assessment of the market conditions and effects should the Affiliation not proceed, and the impact on insurer and healthcare competitive dynamics in Western Pennsylvania (hereafter "WPA").
3. The examination of whether the Affiliation raises other competitive and public benefits issues that may not be captured in the assessment of the transaction as a vertical combination, for example, whether the affiliation would likely result in higher costs for healthcare, and ultimately, for healthcare insurance in WPA."

Continued on Next Page

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Source: *Economic Analysis of Highmark's Affiliation with WPAHS and Implementation of an Integrated Healthcare Delivery System*, Margaret E. Guerin-Calvert, April 8, 2013.

Summary Conclusions(*): Competitive Effects and Public Benefits (cont'd.)

Blackstone notes the following conclusions reached by Ms. Guerin-Calvert of Compass Lexecon. Blackstone has reviewed Ms. Guerin-Calvert's report and considers her conclusions to be reasonable.

"In summary, my assessment of and conclusions about the competitive risks of the Affiliation differ from those of Dr. Harris especially with regard to importance of WPA market conditions, the significance of competitive constraint posed by competing insurers, and the risks from common ownership and access to competitively sensitive information. These form a reasonable economic basis for concluding that there is a likelihood of significant anticompetitive effects from Highmark's affiliation with WPAHS. It is my conclusion, however, that the adoption of certain conditions, such as firewall protections, would mitigate the likelihood of anticompetitive effects. My conclusion with regard to the IDN and the public benefits from the Affiliation and the Transaction is that there is a reasonable economic basis for substantial benefits to the public in the form of improved delivery of care, reduced rate of increase in healthcare costs, and enhanced competition particularly in the hospital sector with an invigorated WPAHS. There is however, significant uncertainty surrounding the timing, magnitude, and likelihood of these benefits, and potential need for significant alternative approaches to assure a financially viable WPAHS and achievement of public benefits, including benefits to the insurance buying public and policyholders of Highmark. Finally, I conclude that a successful IDN and Affiliation would dominate the No-Affiliation Scenario.

I have also responded to the PID request to evaluate potential conditions including those proposed by commenters on the proposed Transaction. I undertook analyses to evaluate the conditions that would effectively address specific concerns, were the PID to conclude that such conditions were prerequisites for approval. In specific, the PID asked me to evaluate four categories of conditions:

1. Effective firewalls on competitively sensitive information and independence/separation of key decision-makers at hospital(s) and insurer
2. Prohibitions on Highmark's inclusion of certain contract provisions in any new contracts with hospitals or other providers and WPAHS with any insurer, including terms longer than reasonable and customary, consumer choice initiatives (e.g., anti-steering or anti-tiering), exclusivity, and Most Favored Nation ("MFNs") clauses.
3. Monitoring and reporting requirements that provide transparency and accountability with regard to the success of the IDN, the specific cost savings achieved, or information for threshold levels for further plans.
4. Development of alternative contingency strategies that may be required if WPAHS is unable to reach breakeven volumes of inpatient discharges by FY15.

Appropriate conditions would permit the substantive benefits from this Transaction to occur while limiting the risks of adverse competitive effects."

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Source: *Economic Analysis of Highmark's Affiliation with WPAHS and Implementation of an Integrated Healthcare Delivery System*, Margaret E. Guerin-Calvert, April 8, 2013.

VII. Other Analyses

Blackstone

Summary of Risks and Analyses: Other Analyses

Other financial analyses in connection with the Transaction included:

Potential Concerns Noted:

1. Highmark's insurance subsidiaries may not satisfy licensing requirements in the Commonwealth of Pennsylvania upon completion of the Transaction
2. The financial condition of UPE at the time of the Transaction may have a detrimental impact on the financial condition of Highmark
3. Transaction-contingent compensation plans for UPE and Highmark executives may have unduly influenced Highmark's decision to pursue the Transaction

Analyses Performed:

- Reviewed year-end 2012 capital, surplus and net worth balances for Highmark's Pennsylvania-based insurance subsidiaries and compared those balances to statutory requirements necessary for writing insurance in Pennsylvania
- Reviewed UPE's projected balance sheet as of closing of the Transaction
- Reviewed UPE's executive compensation as it currently stands and on the basis of Form A approval

License Requirements

Based on the year-end 2012 capital, surplus and net worth balances of its insurance subsidiaries, Highmark would be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed upon completion of the Transaction.

Highmark and Highmark subsidiaries' satisfaction of licensing requirements

- In order for Highmark and its subsidiaries to satisfy requirements for issuance of a license to write insurance in Pennsylvania, the relevant entities must meet statutory capital balance requirements
- Based on information provided by Highmark for the most recent historical period, the requirements are met
- Highmark does not project changes to its relevant capital balances, resulting from the proposed change of control, that would create a failure to meet the statutory criteria
- Blackstone notes that the below may not represent all criteria required to meet the PID's standards for issuance of a license

	Capital Balance			Surplus Balance			Net Worth Balance		
($ in thousands)	Q4 2012	Requirement	Satisfy	Q4 2012	Requirement	Satisfy	Q4 2012	Requirement	Satisfy
Highmark Inc.	–	–	Yes	–	–	Yes	$4,138,085	$25	Yes
HMO of Northeastern Pennsylvania, Inc.	432	–	Yes	49,500	–	Yes	64,035	1,500	Yes
First Priority Life Insurance Company, Inc.	1,837	1,100	Yes	118,757	550	Yes	145,141	1,650	Yes
Gateway Health Plan, Inc.	1	–	Yes	114,329	–	Yes	197,604	1,500	Yes
Highmark Casualty Insurance Company	2,500	850	Yes	21,250	425	Yes	148,453	1,275	Yes
Highmark Senior Resources Inc.	2,000	1,100	Yes	72,000	550	Yes	38,568	1,650	Yes
HM Casualty Insurance Company	1,000	850	Yes	1,000	425	Yes	5,464	1,275	Yes
HM Health Insurance Company	2,500	1,100	Yes	491,438	550	Yes	641,252	1,650	Yes
HM Life Insurance Company	3,000	1,100	Yes	174,338	550	Yes	246,981	1,650	Yes
Inter-County Health Plan, Inc.	–	–	Yes	2,295	–	Yes	2,400	25	Yes
Inter-County Hospitalization Plan	–	–	Yes	2,655	–	Yes	4,692	–	Yes
Keystone Health Plan West, Inc.	150	–	Yes	120,850	–	Yes	407,207	1,500	Yes
United Concordia Companies, Inc.	1,100	1,100	Yes	72,650	550	Yes	399,943	1,650	Yes
United Concordia Dental Plans of Pennsylvania, Inc.	1	–	Yes	3,972	–	Yes	1,546	100	Yes
United Concordia Life and Health Insurance Company	1,500	1,100	Yes	10,444	550	Yes	213,357	1,650	Yes

Source: Highmark.

Financial Condition of UPE at Time of Transaction

UPE is projected to have total reserves of $80.1 million upon closing of the Transaction.

Review of UPE Financial Condition

- The proposed Affiliation, if approved, will give UPE control of Highmark
- UPE's projected balance sheet at closing, as submitted by the Applicant, is shown at right
- UPE's projected balance sheet at closing reflects:
  - JRMC balance sheet accounts as of 2/28/13[1]
  - $1 million in Highmark contributions to UPE, residing in Cash and Investments

UPE Balance Sheet at Closing of the Transaction

($ in millions)

	At Closing of the Transaction
Assets	
Cash and Investments	
Accounts Receivable	
Property and Equipment, net	
Goodwill and Other Intangibles	
Other Assets	
Total Assets	**$327.3**
Liabilities and Reserves	
Claims Outstanding	
Unearned Revenue	
Other Payables and Accrued Expenses	
Benefit Plan Liabilities	
Debt	
Total Liabilities	**$247.2**
Total Reserves (Deficit)	**$80.1**
Total Liabilities and Reserves	**$327.3**

Source: Highmark financial projections.

(1) Does not include fair value accounting in conjunction with the affiliation with JRMC; JRMC balance sheet is not expected to materially change prior to closing.

Summary of Executive Compensation

The following tables illustrate 2010 – 2012 and current pay levels for Highmark's top executives, which Highmark has asserted will not change based on approval of the Form A.

2010 - 2012 Historical Compensation for Highmark Officers

Name	Title	2010 Salary	2010 Bonus	2010 All Other	2010 Total	2011 Salary	2011 Bonus	2011 All Other	2011 Total	2012 Salary	2012 Bonus	2012 All Other	2012 Total
K. Melani, MD	Frmr President and CEO	$1,033,032	$1,990,579	$915,596	$3,939,207	$1,065,817	$2,873,956	$410,907	$4,350,680	$290,585	$3,302,701	$315,988	$3,909,274
D. O'Brien	Retired EVP	412,644	516,960	125,295	1,054,899	429,069	715,038	302,985	1,447,092	247,806	629,009	1,259,333	2,136,148
W. Winkenwerder, JR., MD	President and CEO									562,712	1,175,000	131,330	1,869,042
N. DeTurk	Treasurer and CFO	482,052	769,021	301,282	1,552,355	538,806	1,005,150	159,440	1,703,393	563,150	1,077,382	159,786	1,800,318
M. Hogel	Retired Corporate Secretary	-	-	-	-	388,364	336,681	318,143	1,043,188	115,821	473,090	1,201,931	1,790,842
D. Rice	EVP	393,466	393,960	127,622	915,048	489,855	646,746	189,389	1,325,990	513,017	880,995	219,908	1,613,920
D. Holmberg	EVP	472,422	624,170	520,898	1,617,490	493,121	855,498	67,426	1,416,045	536,503	748,410	311,848	1,596,761
T. Kerr	Retired EVP	-	-	-	-	-	-	-	-	247,592	435,309	610,120	1,293,021
D. Lebish	EVP	391,518	331,191	124,347	847,056	405,887	541,336	109,237	1,056,490	402,276	716,505	127,804	1,246,585
E. Farbacher	Retired EVP	-	-	-	-	-	-	-	-	24,216	50,103	970,994	1,045,313

Current Compensation for Highmark CEO and Direct Reports, Effective as of 3/14/2013

		TDC Breakdown			Target Annual Incentive Details			Target Long-Term Incentive Details		
Name	Title	Annual Base Salary	Annual Incentive Target %	Long-Term Incentive Target %	Minimum Annual Incentive	Target Annual Incentive	Maximum Annual Incentive	Minimum Long-Term Incentive	Target Long-Term Incentive	Maximum Long-Term Incentive
W. Winkenwerder, Jr., MD	CEO & President									
N. DeTurk	EVP, Chief Administrative & Financial Officer									
D. Rice	Division President Health Services, EVP Highmark									
T. VanKirk	EVP, Chief Legal Officer									
D. Holmberg	Chair & CEO, HVHC, UCD & HMIG									
M. Ray	EVP, Chief Information Officer									
R. Carson Jr.	EVP, Chief Human Resources Officer									
D. Onorato	EVP, Chief External Affairs &Comm Officer									
M. Anderson	EVP, Chief Auditor & Comp Officer									
J. Godla	EVP, Chief Strategy Officer									
J. Paul	Division President, IDS & EVP, Highmark									

UPE has asserted that no changes in executive compensation are contingent upon completion of the Transaction

Source: Highmark.

A. Summary Conclusions: Other Analyses

Blackstone

Summary Conclusions(*): Other Analyses

Blackstone notes the following conclusions with respect to other analyses performed:

- Based upon year-end 2012 capital, surplus and net worth balances, Highmark's subsidiaries that are currently licensed to write insurance in Pennsylvania are expected to meet statutory requirements for the continued writing of insurance upon closing of the Transaction
- UPE's balance sheet is projected to have $327 million of total assets and $80.1 million of capital at closing of the Transaction and, as such, appears well capitalized and is unlikely to jeopardize Highmark's financial stability at that time. Analyses concerning the potential future impact of UPE's financial condition, including WPAHS, and plans for Highmark are included in Section IV "Financial Impact on Highmark"
- Executive compensation is not directly tied to the outcome of the Form A filing, but we note that the compensation of various Highmark and UPE executives may indirectly increase along with "franchise" benefits accruing to Highmark as a result of the Transaction in the form of enhanced enrollment, market share and revenue
- As Highmark's policyholders will bear the primary cost of the Transaction and the potential benefits (in the form of IDN Savings) are uncertain, the PID may wish to consider conditions that would tie a portion of UPE and Highmark executive long-term compensation to the achievement of measures that will incorporate actual benefits received by Highmark policyholders from the WPAHS Affiliation and IDN Plan in the form of reduced cost of care, increased quality of care or reduced insurance premiums

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