Public

Report on Highmark Inc.'s Proposed Change of Control and Affiliation with West Penn Allegheny Health System, Inc.

April 25, 2013

A draft version of this report was made available for public review by the PID from April 8, 2013 through April 19, 2013. Based upon Blackstone's review of comments submitted to the PID during the public review and comment period, we have concluded that no changes to our draft report are warranted. This report, as submitted to the PID on April 25, 2013, is considered final.

Blackstone

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I. Background

Blackstone

Introduction

Blackstone Advisory Partners L.P. is serving as financial advisor to the Pennsylvania Insurance Department (the "PID") in connection with the PID's review of the proposed change of control of Highmark Inc. and related insurers[1] (individually and, when appropriate, collectively, "Highmark"), as well as Highmark's affiliation (the "Affiliation") with West Penn Allegheny Health System, Inc. ("WPAHS"), (the "Transaction").

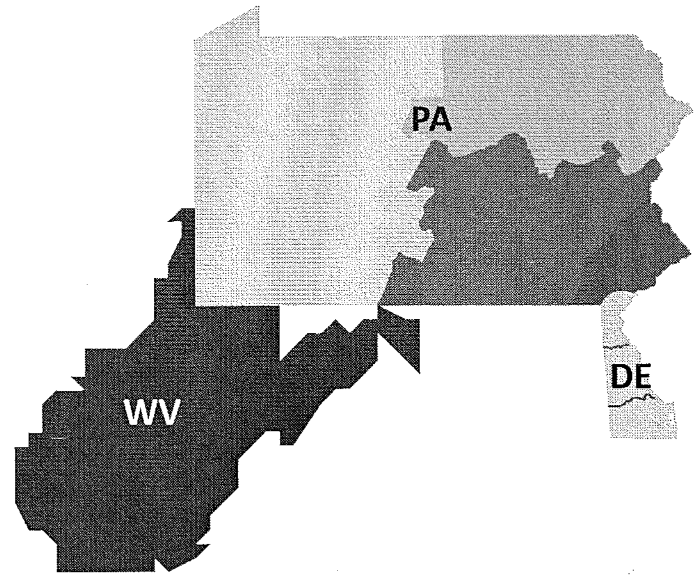
- Highmark and WPAHS have entered into an agreement pursuant to which Highmark and WPAHS will affiliate to establish an integrated health system (the "Affiliation Agreement")
  - On October 20, 2011, a new nonprofit parent company, UPE, was formed and will become the sole corporate member of Highmark
    - Highmark is to maintain control of its insurance operations
  - On October 20, 2011, a new nonprofit subsidiary of UPE, UPE Provider Sub, was also formed and will become the sole corporate member of WPAHS. UPE Provider Sub is a provider-focused entity
    - WPAHS will retain its federal income tax-exempt status
- Highmark, based in Pittsburgh, is one of the 10 largest health insurers in the country with a total membership, across all product lines, of 32 million, of which 4.7 million are health plan members
- WPAHS, also based in Pittsburgh, includes five hospitals with approximately 1,600 beds, 1,700 physicians (employed and private practice) and over 230 specialty care practice sites throughout western Pennsylvania
- The proposed Transaction is subject to review by, and the approval of, the PID
- The PID has asked Blackstone to analyze several aspects of the proposed Transaction as part of its process of determining whether the Transaction meets certain of the standards contained in 40 P.S. § 991.1402(f)(1)

(1) Highmark Inc.'s related insurers include: First Priority Life Insurance Company, Inc., Gateway Health Plan, Inc., Highmark Casualty Insurance Company, Highmark Senior Resources Inc., HM Casualty Insurance Company, HM Health Insurance Company (d/b/a Highmark Health Insurance Company), HM Life Insurance Company, HMO of Northeastern Pennsylvania, Inc. (d/b/a First Priority Health), Intercounty Health Plan, Inc., Intercounty Hospitalization Plan, Inc., Keystone Health Plan West, Inc., United Concordia Companies, Inc., United Concordia Dental Plans of Pennsylvania, Inc., and United Concordia Life and Health Insurance Company.

Highmark Overview

Highmark is a non-profit corporation and operates as a hospital plan and a professional health services plan in the Commonwealth of Pennsylvania. As a licensee of the Blue Cross and Blue Shield Association, Highmark underwrites various indemnity and managed care health insurance products.

- Headquartered in Pittsburgh, Pennsylvania
- Approximately 4.7 million health plan members
  - 3.1 million in Western Pennsylvania
  - 856,000 in Central Pennsylvania / Lehigh Valley
  - 330,000 in Northeastern Pennsylvania
  - 395,000 in Delaware
  - 213,000 in Southeastern Pennsylvania
  - 265,000 in West Virginia
- Pennsylvania service area includes:
  - 29 counties in Western Pennsylvania
  - 21 counties in Central Pennsylvania
- Jointly markets various health insurance products with i) Blue Cross of Northeastern Pennsylvania ("BCNEPA") and ii) Independence Blue Cross ("IBC")
- Highmark West Virginia, Inc., a West Virginia non-profit health services corporation, is a controlled affiliate of Highmark
- Highmark BCBSD Inc., a Delaware non-profit health services corporation, is a controlled affiliate of Highmark
- Approximately 19,700 employees
- Highmark Combined 2011 Total Revenue and Net Income of $14.8 billion and $445.5 million, respectively(1)



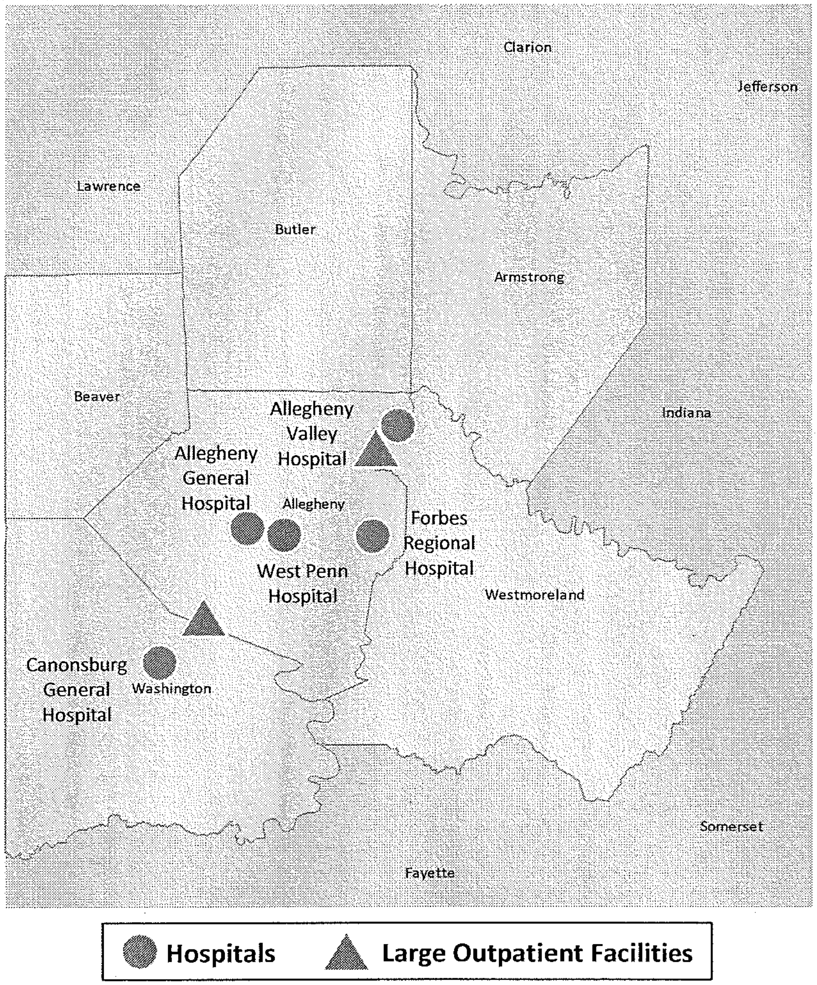
(1) Represents GAAP results; GAAP Total Revenue is equal to Total Operating Revenue plus Net Investment Income and Net Realized Gain (Loss) on Investments.

West Penn Allegheny Health System Overview

WPAHS is a regional health provider serving Allegheny, Armstrong, Butler, Beaver, Washington and Westmoreland counties.

- In November 1999, the Western Pennsylvania Health System acquired the western Pennsylvania affiliates of the former Allegheny Health Education and Research Foundation: Allegheny General Hospital, Allegheny Valley Hospital, Forbes Health System, Canonsburg General Hospital and affiliated physician practices
  - Today WPAHS includes five acute care hospitals that operate ~1,600 inpatient beds and provides a full range of clinical services
  - The System's hospitals have over 1,700 physicians on the Medical Staff and the System's Physician Organization (or "PO") employs 600+ physicians
  - The System provides training for 450 medical residents and 250 nursing and allied health students annually
- WPAHS is the 2nd largest healthcare provider in the Greater Pittsburgh market
  - ~11,000 employees
  - ~17% of inpatient market share (vs. ~41 % market share of UPMC) in Greater Pittsburgh

Location of WPAHS Facilities in Six County Region



Source: WPAHS.
Note: In addition to WPAHS, UPE is affiliated with Jefferson Regional Medical Center ("JRMC") and plans to affiliate with Saint Vincent Health System ("SVHS"), as additional hospitals within its provider organization.

Transaction Overview

The Transaction structure, as defined in the Affiliation Agreement and as described more fully later in this report, is summarized below.

- At closing: UPE will become the sole corporate member of Highmark
  - A second Pennsylvania nonprofit corporation ("UPE Provider Sub") has been formed; UPE is its sole member
  - UPE Provider Sub will become the sole member of WPAHS
  - Highmark and WPAHS will become affiliated companies, with UPE as their common ultimate sole parent and, at least initially, with certain overlapping board members

UPE:

- Is a Pennsylvania nonprofit, non-member corporation
- Has qualified for exemption from federal income tax as per section 501(c)(3) of the Internal Revenue Code
- Will not write health insurance or take any insurance risk
- Will prepare financial statements in accordance with generally applicable accounting principles ("GAAP")
- Will hold certain reserved powers with respect to Highmark

Highmark:

- Will continue to be a Pennsylvania nonprofit corporation
- Will be subject to control by UPE
- Will retain its existing assets, liabilities and operations
- Will be authorized to transact the business of a hospital plan corporation and a professional health services plan corporation
- Will continue to operate a nonprofit hospital plan and nonprofit professional health services plan
- Will be licensed by the Blue Cross and Blue Shield Association (or "BCBSA") as a risk-assuming controlled affiliate licensee
- Will continue to participate in BCBSA regulated programs
- Will retain its existing trade names

Blackstone's Mandate

The PID has asked Blackstone to assist it in preparing analyses that are relevant to five of seven applicable statutory criteria under 40 P.S. § 991.1402(f)(1) that have been deemed applicable by the PID to the proposed Transaction.

40 P.S. § 991.1402(f)(1) states that "The department shall approve any merger, consolidation or other acquisition of control referred to in subsection (a) unless it finds any of the following:

1) After the merger, consolidation or other acquisition of control, the domestic insurer referred to in subsection (a) would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed
2) The effect of the merger, consolidation or other acquisition of control would be to substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein.(1) In applying the competitive standard in this subparagraph:
   a) the informational requirements of section 1403(c)(2) and the standards of section 1403(d)(2) shall apply;
   b) the merger, consolidation or other acquisition of control shall not be disapproved if the department finds that any of the situations meeting the criteria provided by section 1403(d)(3) exist; and
   c) the department may condition the approval of the merger, consolidation or other acquisition of control on the removal of the basis of disapproval within a specified period of time
3) The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders
4) The plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable and fail to confer benefit on policyholders of the insurer and are not in the public interest(1)
5) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the merger, consolidation or other acquisition of control(2)
6) The merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public
7) The merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A(2)"

(1) The PID, through its counsel, Blank Rome LLP, has engaged Margaret Guerin–Calvert of Compass Lexecon to review matters related to Standard 2. Ms. Guerin–Calvert, in coordination with Blackstone, has also reviewed matters related to Standard 4.
(2) The PID has not asked Blackstone to consider matters related to Standard 5 or Standard 7.

Analytical Framework

The following illustrates Blackstone's framework for preparing analyses relevant to the statutory criteria.

Standard	Blackstone's Approach	Methodologies Utilized
1) Satisfy license requirements	➤ Analyzed the relevant capital, surplus and net worth requirements for each of the domestic insurers involved for issuance of a license	➤ Compared capital, surplus and net worth requirements, as appropriate, based on type of company to the actual capital and surplus of each of the relevant domestic insurers
2) Not substantially lessen competition or tend to create a monopoly	➤ The PID, through its counsel, Blank Rome LLP, has engaged Compass Lexecon, a consulting firm specializing in antitrust economics and applied microeconomics, to assess the competitive effects of the proposed Transaction	➤ Blackstone refers to the report of Margaret Guerin Calvert, of Compass Lexecon, dated April 8, 2013 for conclusions regarding potential anti-competitive effects of the Transaction
3) Not jeopardize financial stability or prejudice the interest of Highmark policyholders	➤ Analyzed the expected financial condition of UPE, which will assume control of Highmark, at the time of the proposed Transaction ➤ The expected financial condition of UPE taking into account its anticipated affiliation with WPAHS and other IDN-related entities, which is expected to occur subsequent to the change of control, and other provider initiatives, is relevant to Standard "4"	➤ Reviewed UPE's expected balance sheet and capital position at the time of the proposed change of control
4) Any Highmark plans or proposals are not unfair and unreasonable to Highmark policyholders and not in the public interest	➤ Analyzed the proposed benefits of the Transaction to Highmark policyholders ➤ Public interest primarily addressed in Standard "6" ➤ Blackstone also refers to the report of Margaret Guerin-Calvert, of Compass Lexecon, dated April 8, 2013	➤ Analyzed Highmark's current and projected financial condition and liquidity ➤ Analyzed WPAHS' current and projected financial condition ➤ Assessed Highmark's capital commitments to WPAHS and to the overall IDN strategy ➤ Analyzed the potential benefits to policyholders resulting from Highmark's transaction-dependent WPAHS and IDN investments
6) Not hazardous or prejudicial to the insurance buying public	➤ Assessed the manner in which the insurance market and the insurance buying public will be affected by the Transaction	➤ Reviewed input from written public comments sent to the PID, comments made at public hearings and comments made during private interviews conducted by Blackstone

Scope of Blackstone's Work

As part of its work on behalf of the PID, Blackstone has completed the following:

- Reviewed the Form A filings, as amended, submitted by UPE in connection with the proposed Transaction
- Reviewed Highmark's and WPAHS's audited GAAP financial statements for the years ended 2007 to 2011, and WPAHS management's unaudited financial statements for the year ended 2012, where applicable
- Reviewed Highmark's and WPAHS's financial projections, including multiple projection scenarios
- Reviewed materials related to the proposed Transaction submitted by UPE, UPE Provider Sub, Highmark and WPAHS
- Reviewed responses submitted by Highmark and WPAHS to the PID's requests for additional materials and information
- Attended a public information session in Pittsburgh on April 17, 2012 and reviewed respective transcripts and the responses provided by Highmark and WPAHS to questions posed by the public
- Reviewed public comments submitted to the PID by concerned parties
- Held discussions with third-party industry participants and observers who provided their perspective on the proposed Transaction and its potential impact on the health insurance and provider markets in Pennsylvania
- Held discussions with the members of management of both Highmark and WPAHS to discuss their respective businesses, operating environments, financial conditions, strategic objectives and other Transaction related subject matter
- Reviewed the report of Margaret Guerin–Calvert of Compass Lexecon, dated April 8, 2013, assessing the competitive impact of the proposed Transaction
- Reviewed such other information, performed such other studies and analyses and took into account such other matters as was deemed appropriate

Scope of Blackstone's Work (cont'd.)

As part of its work on behalf of the PID, Blackstone has not done the following:

- Independently verified the accuracy and completeness of financial and other information that is available from public sources or was provided to us by Highmark, WPAHS or their representatives or otherwise reviewed by us
- Made an independent appraisal of Highmark's and WPAHS's reserves or assets or expressed any opinion as to either the value of such reserves or such assets or the value of the projected income and cash flow expected to be derived therefrom
- Performed due diligence on Highmark's and WPAHS's physical properties, sales, marketing, distribution or service organizations or product markets
- Expressed any formal opinion regarding the fair value of Highmark, WPAHS, UPE or UPE Provider Sub
- Made any legal conclusions with regard to the applicable statutory criteria under 40 P.S. § 991.1402(f)(1)

II. Overview of Proposed Transaction

Blackstone

History of Highmark / WPAHS Business Relationship

Highmark's business relationship with WPAHS dates to 1996, when Highmark executed indemnity hospital agreements with the various hospitals that now comprise WPAHS.

- In 1996, Highmark executed indemnity hospital agreements with the western Pennsylvania hospitals owned by the Allegheny Health, Education and Research Foundation ("AHERF"), including Allegheny General Hospital ("AGH"), Forbes Regional Hospital ("FRH"), Allegheny Valley Hospital ("AVH"), Canonsburg Hospital ("CGH") and The Western Pennsylvania Hospital ("WPH" or "West Penn")
- In 1997, Highmark executed managed care hospital agreements with these hospitals
- In 1998, AHERF declared bankruptcy, and in 2000 its western Pennsylvania hospitals came together to form West Penn Allegheny Health System, Inc. Highmark provided the hospital system with a $125 million loan, which was subsequently repaid by WPAHS
- WPAHS has struggled financially, posting annual operating losses of ($19) million[(1)], ($52) million[(1)] and ($113)[(2)] million in 2010, 2011 and 2012, respectively. In 2010, this distress resulted in a restructuring of WPAHS that included a reduction of services at West Penn under what was known as the Urban Consolidation Plan. WPAHS has experienced senior management turnover as 6 CEOs have led the system since 2000
- In April 2011, Highmark's Board received a report describing WPAHS' need for a $25 million cash advance on claim payments prior to April 11, 2011, for working capital purposes of WPAHS
- In June of 2011, Highmark and WPAHS announced their intentions to enter into an agreement whereby Highmark and WPAHS would affiliate. In November 2011, Alvarez and Marsal was hired as WPAHS' interim management team
- In July 2011, Highmark's Board received a report on the corporate structure and governance for the proposed Highmark – WPAHS affiliation
- In October 2011, Highmark and WPAHS entered into an affiliation agreement (the "Affiliation Agreement") pursuant to which Highmark and WPAHS would affiliate to establish an integrated health network

(1) Per WPAHS 2010 – 2011 Audited Financial Statements.
(2) Per WPAHS 2012 Unaudited Financial Statements, which can be found at: http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf.

History of Highmark / WPAHS Business Relationship (cont'd.)

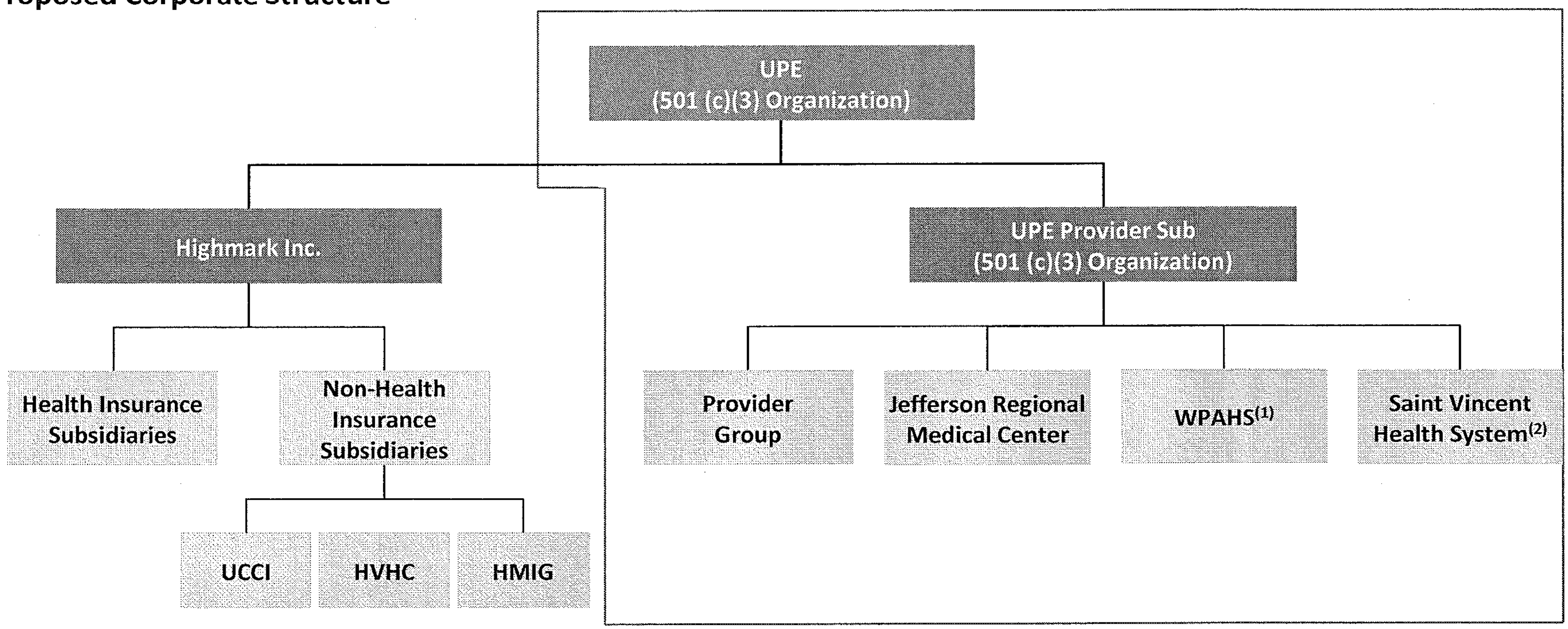
- In April 2012, Highmark authorized an unrestricted contribution of up to $8 million in 2012 to WPAHS to engage management consultants to assist it in improving its financial condition
- In May 2012, Highmark's Board approved resolutions authorizing Highmark to proceed with negotiating and executing a letter of intent regarding affiliation with Jefferson Regional Medical Center
- In July 2012, Dr. William Winkenwerder Jr. was hired as Highmark's President and CEO
- In July 2012, Hammond Hanlon Camp LLC ("H2C"), an independent investment banking and financial advisory firm, delivered a report to Highmark's Board, regarding the financial situation of WPAHS and various strategic options, including WPAHS bond debt restructuring
- In July of 2012, Highmark's Board approved a resolution stating that WPAHS must dismiss with prejudice the action captioned *West Penn Allegheny Health System, Inc. v. UPMC et al.*, Case No 2:09-00480-JFC, filed in the United States District Court for the Western District of Pennsylvania, contingent on the dismissal, with prejudice, of the action captioned *UPMC v. Highmark Inc. and West Penn Allegheny Health System, Inc.*, Case No. 2:12-CV-00692-JFC, filed in the United States District Court for the Western District of Pennsylvania
- In August 2012, Highmark and WPAHS began regular meetings to discuss a potential restructuring of WPAHS bonds
- In September 2012, WPAHS claimed that Highmark had breached the Affiliation Agreement, and announced a termination of the agreement; the subsequent litigation was resolved in favor of Highmark
- In October 2012, Highmark's Board approved resolutions authorizing Highmark to proceed with negotiating, executing and delivering an affiliation agreement with Saint Vincent Health System; the Board also agreed that Highmark management should urge WPAHS to change its position and disavow its claim of an affiliation breach by Highmark
- In January 2013, Highmark's Board approved the proposed tender offer transaction for WPAHS bonds and Highmark's intention to refinance the purchase of the Bonds acquired in the tender offer transaction with the proceeds of a subsequent tax-exempt bond issue

Overview of Affiliation Structure

Highmark and WPAHS signed an Affiliation Agreement on October 31, 2011 containing key provisions between the various entities involved.

- Parties to the Affiliation Agreement included WPAHS and Highmark
- Closing of the Affiliation Agreement subject to regulatory approvals
  - Outside date for closing is April 30, 2013 / May 31, 2013, subject to extension beyond that date with certain approvals

Proposed Corporate Structure



Source: Highmark.

(1) WPAHS' directly and indirectly owned five affiliated hospitals include Allegheny General Hospital ("AGH"), West Penn Hospital ("WPH"), Forbes Regional Hospital ("FRH"), Allegheny Valley Hospital ("AVH") and Canonsburg General Hospital ("CGH").

(2) Transaction involving Saint Vincent Health System has not closed.

Overview of UPE: Governance

UPE, the new nonprofit parent company, will hold certain reserved powers with respect to Highmark, and both UPE and UPE Provider Sub will have certain reserved powers in WPAHS.

- UPE was formed on October 20, 2011 as a non-member Pennsylvania nonprofit corporation
  - UPE was organized for scientific, educational and charitable purposes and in this connection has been recognized by the Internal Revenue Service ("IRS") as exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code
- UPE's Board of Directors will consist of at least three individuals, including the then serving CEO of UPE, who will be a director during his or her term of office
  - The directors are divided equally into three classes so that one-third of the directors are chosen each year, in addition to the CEO
  - All directors, with the exception of the then CEO, will serve terms of three years
  - All initial UPE directors will be drawn from the directors of Highmark
- At closing, the senior officers of UPE will be the same as the current senior officers of Highmark
  - William Winkenwerder Jr., President and CEO
  - Thomas VanKirk, Secretary
  - Nanette P. DeTurk, Treasurer

Source: Form A submitted on November 7, 2011.

Overview of UPE Provider Sub: Governance

UPE Provider Sub is a nonprofit entity and will be the sole corporate member of, and will have certain reserved powers in, WPAHS.

- UPE Provider Sub was formed on October 20, 2011 as a Pennsylvania nonprofit corporation, of which UPE is the sole member
  - The corporation was organized to promote, support and further the scientific, educational and charitable purposes and interests of WPAHS, Canonsburg General Hospital and Alle-Kiski Medical Center and in this connection has been recognized by the Internal Revenue Service ("IRS") as exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code
- UPE Provider Sub has one member, UPE, which has certain reserved powers with respect to UPE Provider Sub, such as electing its Board of directors and officers and approving its strategic plans and annual budgets
- The size and composition of UPE Provider Sub's Board of Directors is determined by UPE, subject to limitations
  - Upon closing of the WPAHS Affiliation Transaction, UPE will be required to elect one director designated by WPAHS
  - Under the terms of the JRMC Affiliation Transaction, an individual will be appointed by the pre-closing JRMC Board (a "Jefferson JRMC Board Appointee") to serve on the Board of Directors of UPE Provider Sub, subject to the approval and election of the UPE Board
  - Prior to four years after closing, any vacancy caused by the absence of the WPAHS director will be filled by UPE from candidates nominated by WPAHS
  - Upon closing, UPE will also elect at least one person who is also serving as a member of the board of each WPAHS subsidiary hospital
  - The directors will be divided equally into three classes so that one-third of the directors may be chosen each year
  - All directors (other than the initial directors) will serve terms of three years

Source: Form A submitted on November 7, 2011, as well as Amendment No. 2 to Form A submitted on January 18, 2013.

Overview of WPAHS: Governance

UPE and UPE Provider Sub will hold reserved powers and rights to exercise significant control over WPAHS.

- Upon closing, WPAHS will have one member, UPE Provider Sub, which will have the power to make recommendations to UPE with respect to actions on matters reserved to UPE, including, subject to limitations, determining the size and composition of WPAHS' Board of Directors, approving the appointments of all officers, approving annual budgets and dissolving, selling or merging all or a part of WPAHS
- WPAHS' Board of Directors will be elected by UPE
  - At least 25% of the WPAHS board will consist of self-perpetuating directors who are either:
    - Initial directors designated prior to closing who are community representatives and physicians affiliated with WPAHS
    - Directors chosen by the remaining self-perpetuating directors when there is a vacancy caused by the absence of a self-perpetuating director
  - The directors will be divided equally into three classes so that one-third of the directors is chosen each year
  - All directors (other than the initial directors) will serve terms of three years

Source: Form A submitted on November 7, 2011.

Summary of Affiliation Agreement

Financing and Capital Commitments

- Highmark has committed to funding $475 million to WPAHS as follows:
  - **First Funding Commitment**: $50 million unrestricted contribution made upon execution of Term Sheet (June 28, 2011)
  - **Second Funding Commitment**: $50 million unrestricted payment and $50 million loan made upon signing of the Affiliation Agreement (October 2011)
  - **Third Funding Commitment**: $50 million loan made on six-month anniversary of Affiliation Agreement (April 2012)
  - **Fourth Funding Commitment**: In connection with entering into tender agreements with certain of WPAHS' bondholders, Highmark has placed $50 million into an escrow account. If 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 closing in the form of a loan, subject to reduction for positive cash flow. If closing does not occur by April 30, 2013, or any agreed upon extension of that date, the $50 million escrow amount is paid to WPAHS, absent certain defaults
  - **Fifth Funding Commitment**: $100 million loan (reduced by any WPAHS positive cash flow) to be made on the later of the date of closing or April 1, 2014. Not payable if parties do not close the Transaction
  - **Additional Grant of $75 Million**: Highmark will fund $75 million at the time of closing, less any advances against such amount up to $33.6 million that may be made by Highmark to WPAHS prior to the closing to pay certain of WPAHS's obligations coming due prior to the closing
- In addition to Highmark's $475 million commitment, as described above, Highmark also will provide $10 million of supplemental payments to WPAHS in each of the next five years as part of its provider rate negotiations. This increase is equivalent to the standard medical index

Source: Highmark.

Summary of Affiliation Agreement (cont'd.)

Terms for Loan Agreements

- Repayment terms for the loans associated with 50% of the Second Funding Commitment and the entire amounts of the Third, Fourth and Fifth Funding Commitments include the following:
  - 50% of the Second Funding Commitment ($50 million funded in FY2012): $25 million due in 2023; $25 million due in 2024
  - Third Funding Commitment ($50 million funded FY2012): $25 million due in 2023; $25 million due in 2024
  - Fourth Funding Commitment ($100 million to be funded in FY2013): $50 million due in 2025; $50 million due in 2026
  - Fifth Funding Commitment ($100 million to be funded in FY2014): $50 million due in 2027; $50 million due in 2028
- All loans subject to variable interest rate based on the prime rate plus 200bps (subject to a 6% cap), to be re-set annually each July 1st
- All accrued and unpaid interest on the Second Funding Commitment Loan and Third Funding Commitment is due and payable on the Effective Date of the Amendment. Interest is to be payable under the Loan Agreements annually 30 days subsequent to WPAHS's Fiscal Year end date for the Fiscal Year immediately preceding
- Interest accruing on any Loans during any Fiscal Year will be forgiven, commencing with Fiscal Year 2013, if the Fiscal Year ending calculation of the WPAHS Parties' Debt Service Coverage Ratio for such year is less than 3.0x
- Mandatory prepayment of the Loans is required if at any time WPAHS' Days Cash On Hand exceed 100 days as measured at the end of each fiscal quarter and at the end of the month immediately preceding the last month of each Fiscal Year
  - The amount of such mandatory payments will be equal to the excess cash on hand over 100 days which will be applied toward such Loans as Highmark will determine
  - No payments may be made by WPAHS on WPAHS's Floating Rate Restructuring Certificates unless and until all Loans extended by Highmark pursuant to the Funding Commitment have been paid in full

Source: Confidential Supplement Submitted with Form A on January 18, 2013.

Summary of Affiliation Agreement (cont'd.)

Governance of WPAHS Post-closing

- For a period of four years post-closing, not less than 25% of the WPAHS board is to consist of directors selected by WPAHS from community representatives and physicians affiliated with WPAHS

Representations and Warrantees, Covenants and Conditions; Termination

- Effectiveness of the Transaction is conditioned upon Highmark and WPAHS having resolved all pending litigation and dispute resolution proceedings between them, including the then pending antitrust litigation and oncology arbitration cases
- Conditions to closing include receipt of approval from various regulatory bodies including the PID, Pennsylvania Attorney General and Pennsylvania Orphans' Court, approval from BCBSA confirming that the Transaction is in compliance with all BCBSA guidelines, no pending governmental proceeding to restrain or prohibit the Transaction and determinations from the IRS that the parent entities of WPAHS are recognized as 501(c)(3) tax-exempt organizations
- In addition to certain other termination rights, either party may terminate the Affiliation Agreement if closing does not occur by April 30, 2013, unless such date is extended

Source: Highmark.

Summary of Affiliation Agreement (cont'd.)

Acceleration Rights

- WPAHS "material defaults" (referred to as "WPAHS Category 1 Material Defaults" in the Affiliation Agreement) – Generally:
  - Fraudulent or willful material misrepresentation of finances or service lines
  - Intentional interference in Highmark regulatory approvals
  - Material breach of no-shop covenant
  - Unilaterally attempting to terminate the Affiliation Agreement
  - Failure to implement corporate changes to articles and bylaws and to perform certain other obligations
- If WPAHS is in material default, upon demand from Highmark, WPAHS must pay both $100 million and the Second and Third Funding Commitments
- If Highmark is in material default, as defined in the Affiliation Agreement, that is not cured, the Third Funding Commitment is required to either be paid early as a break-up fee or will convert from a loan to a full grant if already paid at the time of such default based upon the timing of the default as provided in the Affiliation Agreement
  - WPAHS is released from certain other obligations under agreement

Termination without Closing

- If the cause of termination is a breach by WPAHS of certain reps exceeding $50 million in value, the Second Funding Loan and Third Funding Commitment remain loans and WPAHS must use best efforts to cause the loans to be secured under the master indenture at that time
- Highmark was required to deposit $50 million into escrow upon the signing of the lockup agreements with the bondholders and signing of the Amendment to the Affiliation Agreement, to secure its performance with respect of the tender offer
  - If closing does not occur by April 30, 2013, subject to any permitted extension, WPAHS may receive a release of the $50 million escrow and will have no repayment obligation with respect to the loans unless WPAHS has made a material default
- WPAHS may retain the $50 million escrow and will have no repayment obligation for the loans advanced if the Affiliation Agreement is terminated by WPAHS because Highmark advises that the terms and conditions of any approval Order are not acceptable
- In case of termination due to a certain Highmark material default, Highmark must fund the Third Funding Commitment immediately if not previously paid; if paid, it becomes a grant

Source: Highmark.

III. Summary Observations

Blackstone

Executive Summary

Blackstone notes the following summary observations related to its assessment of matters concerning UPE's Form A filing:

- Blackstone's financial analysis is focused on the potential impact of the Transaction on (i) Highmark's financial stability, (ii) costs and benefits to policyholders and (iii) competition and the insurance buying public
  - Based on our analysis, Blackstone has developed a set of summary conclusions regarding the three primary elements of potential impact examined and notes various types of conditions that may be appropriate were the PID to consider approval of the Form A
  - Refer to subsequent sections of this report for detailed analyses and conclusions with respect to each of these topics
- Concurrent with the proposed change of control and affiliation with WPAHS, Highmark intends to implement a broader integrated delivery network ("IDN") strategy. Highmark has described $1.834 billion of total capital commitments and spending related to its IDN Plan, of which $646 million is contingent upon Form A approval. This report will principally address the elements of Highmark's IDN strategy that are contingent upon approval of the Form A under applicable statutory requirements
- Conditions in the Western Pennsylvania ("WPA") healthcare market have evolved over a long period of time and are unlikely to be resolved solely via action related to UPE's Form A filing. Blackstone notes that the PID's ability to address market-wide issues in the WPA region, including competitive imbalances among providers and payers and employment levels at specific systems and facilities, in the context of the current Form A is limited by:
  - the PID having limited purview over non-insurance market activities and
  - over-capacity in the provider market, which may lead to capacity reductions irrespective of whether the WPAHS transaction is consummated
- Highmark has characterized nearly $680 million of payments related to its IDN Plan as business expenses that are subject to limited PID review. Many of these payments will be (or have already been) made in conjunction with the receipt of governance rights. Highmark has asserted that no PID filing is required with respect to these funds; the PID has reserved its right to further consider Highmark's assertion on this issue
- Highmark viewed its contract dispute with UPMC as a grave threat to its health insurance franchise in Western Pennsylvania and pursued the Affiliation with extreme urgency as a consequence. Although Blackstone believes that Highmark's competitive concerns were likely founded in substance, the manner in which Highmark pursued the Affiliation may have resulted in significant expenditures for which Highmark's policyholders may receive limited value in the form of tangible financial assets

Blackstone Areas of Focus

Blackstone's financial analysis is primarily focused on the potential impact of the Transaction on (i) Highmark's financial stability, (ii) potential costs and benefits to policyholders and (iii) competition and the insurance buying public.

Blackstone has been asked by the PID to assess various financial elements of the Transaction in order to assist the PID in its review of the Form A filing. The potential risks and concerns noted below and on the pages that follow are neither comprehensive nor intended to address each of the specific criteria upon which approval/disapproval of the Form A may be rendered by the PID

1) Financial Impact to Highmark:

- Identification of risks associated with Highmark's financial commitments to WPAHS and other provider capital outlays that are contingent upon the Transaction, including whether the impact of the Transaction may be to jeopardize Highmark's financial stability

2) Potential Costs and Benefits to Highmark's Policyholders:

- Comparison of (i) the potential gap in value between the amount of capital that Highmark is committing to WPAHS and other provider initiatives and the value of tangible financial assets received by Highmark in return, vs. (ii) the potential benefit received by policyholders via savings in the cost of care delivery and policy premiums

3) Competition and the Insurance Buying Public:

- The PID, through its counsel Blank Rome LLP, has engaged Margaret Guerin–Calvert, Senior Consultant of Compass Lexecon ("CL"), a consulting firm specializing in antitrust economics and applied microeconomics, to assess the competitive effects of the proposed Transaction; Blackstone participated in the review of potential effects on competition and the insurance buying public primarily by facilitating discussions with numerous industry participants in the WPA healthcare industry and working with CL in assessing certain aspects of the financial benefits that may accrue to policyholders

4) Other Analyses:

- Consideration of (i) the financial condition of UPE at the time of Transaction closing, (ii) Highmark's satisfaction of certain licensing requirements and (iii) the impact of executive compensation on Highmark's rationale for the Transaction

Scope of Transaction and PID Review

Concurrent with the proposed change of control and affiliation with WPAHS, Highmark intends to implement a broader integrated delivery network ("IDN") strategy (the "IDN Plan"). This report will principally address elements of the IDN Plan that are contingent upon approval of the Form A.

- On June 28, 2011, Highmark announced its intention to enter into an affiliation with WPAHS as part of a broader strategy to become an integrated delivery network
- In the initial public filing, dated November 7, 2011, Highmark disclosed total capital commitment of $475 million for the proposed affiliation, 100% of which was related to WPAHS
- In its first amended public filing on August 24, 2012, Highmark described additional capital commitments related to its implementation of a broader IDN strategy, including an affiliation with Jefferson Regional Medical Center ("JRMC"), bringing the total commitments to the IDN Plan to $1 billion
- In its latest amended filing on January 18, 2013, Highmark described total capital commitments related to the IDN totaling $1.8 billion, including up to $646 million for the purchase of bonds issued by WPAHS, $100 million of external financing for purposes of building medical malls and which may retain a Highmark guarantee or other credit enhancement, $33 million of grants and advances paid to WPAHS outside of the Affiliation Agreement and $55 million in potential capital grants to JRMC
- In the absence of a UPE change-of-control, various elements of the IDN Plan will be, or have already been, implemented directly under Highmark, and absent PID approval of the Form A, Highmark has stated that a UPE change-of-control will be sought without WPAHS
  - Approximately $382 million of the total planned IDN budget, including $233 million at WPAHS, was expended or invested as of 12/31/2012
  - Highmark has informed the PID of its plans to make $806 million of additional expenditures and investments related to the IDN Plan irrespective of the PID's decision with respect to the Form A, including $84 million to WPAHS, $321 million to physician practices and medical malls and $401 to community hospitals, which increases the amount of total capital that is not contingent upon the Transaction to $1.188 billion
  - Thus, of the $1.834 billion of total capital Highmark describes as part of the IDN Plan, $646 million is contingent upon Form A approval

Given the above, Blackstone's analyses and conclusions in this report are focused on the portions of Highmark's IDN Plan that are contingent upon the proposed Transaction, including the proposed UPE change of control and affiliation with WPAHS. Other elements of Highmark's IDN Plan that are not contingent upon the proposed Transaction (including the affiliation with JRMC, the proposed affiliation with SVHS and capital commitments related to medical malls and physician practices) are referenced in this report solely insofar as they may impact Highmark's plans to implement the UPE change of control and WPAHS affiliation. Analyses and conclusions regarding the appropriateness of Highmark's plans to implement portions of the IDN Plan that are not contingent upon the Form A are outside of the purview of this report, but are not necessarily outside of the PID's jurisdiction

Market Circumstances in Relation to the Form A Filing

Conditions in the Western Pennsylvania healthcare market have evolved over a long period of time and are unlikely to be resolved solely via action related to UPE's Form A filing. As such, Blackstone notes the following limitations regarding the impact of the PID's review of the Form A filing:

Challenges in The Western Pennsylvania Healthcare Market:

- The provider and payer markets in Western Pennsylvania are both highly concentrated, with challenging circumstances in these markets that have evolved over a long period of time and that are unlikely to be fully addressed by the outcome of the WPAHS transaction alone; the PID has limited authority over non-insurance activities in healthcare markets and cannot be expected to resolve market-wide imbalances in Western Pennsylvania via its decision on WPAHS

Blackstone is not in a position to conclude as to whether the circumstances in the Western Pennsylvania healthcare market are a result of actions taken by Highmark or others, but notes that Ms. Guerin–Calvert of Compass Lexecon, the PID's economic consultant, addresses various of the factors that are impacting the cost and delivery of health insurance and care in the region in her report to the PID dated April 8, 2013

Future of WPAHS:

- Highmark has stated that up to 11,000 jobs may be at risk if the Transaction is not approved; as Ms. Guerin–Calvert of Compass Lexecon noted in her report to the PID, however, the region has significant overcapacity and rationalization of facilities and employment may occur regardless of the Transaction outcome
  - "The Pittsburgh Metropolitan Statistical Area (MSA) has among the highest rates of beds per population for MSAs with more than two million residents. For every thousand inhabitants of the Pittsburgh MSA, there are 3.12 hospital beds. The national average is 2.6 beds-per-thousand. For cities with more than two million residents, the average is 2.24 bed-per-thousand and the median is 2.15.....With or without the Affiliation, there will likely be substantial change and re-alignment of capacity, including downsizing, mergers, or closing of facilities"*

Although termination of the proposed Highmark-WPAHS affiliation would likely cause a high degree of near-term uncertainty and potential dislocation of employment at WPAHS facilities, a rationalization of healthcare capacity and employment in Western Pennsylvania may occur irrespective of the proposed Affiliation. Blackstone has therefore not specifically assessed changes in WPAHS employment as a potential community benefit rationale for the Transaction, but has instead, together with Ms. Guerin-Calvert of Compass Lexecon, focused on potential benefits to policyholders and the insurance buying public that may accrue via enhanced provider choice and cost savings resulting from the Transaction

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

Highmark's Unrestricted Grants

Whereas the degree of PID oversight with respect to Highmark's ordinary investment portfolio generally increases with the degree of risk and size of the related investment, Highmark asserts that there is a decreased level of oversight with respect to unrestricted grants given to other charitable organizations; Highmark characterizes these grants as business expenses that are subject to very limited PID review even though they have been made in conjunction with the receipt of certain governance rights with respect to the recipients of the grants.

Highmark Expenditures Subject to PID Review:

- Highmark has informed the PID of its intent to spend $680 million cumulatively in connection with the IDN Plan in the form of unrestricted payments, including $208 million related to WPAHS; Highmark asserts that these expenditures can be made without filing with the PID and will be completed irrespective of the PID's approval/disapproval of the WPAHS affiliation
- If the PID disapproves the Affiliation, over $167 million of grants will already have been made to WPAHS[1][2], in addition to commitments of $175 million to JRMC[3], $35 million to SVHS and $262 million to various other provider initiatives, totaling $639 million in a no-transaction scenario
- Thus, only $41 million[2] of total IDN related unrestricted payments are contingent upon the PID's approval of the Form A, although the total expenditures may still fall under the PID's jurisdiction given its general authority to regulate the surplus of Pennsylvania-domiciled Hospitals and Professional Health Service Plans

As per the above, Blackstone notes that Highmark has already spent, or has committed to spend, $639 million that it asserts is subject to very limited PID review and is not contingent upon PID approval; if the Transaction is approved, the PID may wish to consider conditions that may limit the amount of unrestricted payments that Highmark may commit in the future without PID review

(1) 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.
(2) Excludes $50 million escrow payment made by Highmark related to its tender offer for certain WPAHS bonds, which, if the Transaction is not consummated, will be released to WPAHS.
(3) $175 million includes $75 million unrestricted payment to JRMC, as well as the maximum potential capital expenditures commitment of $100 million to JRMC, of which Highmark projects $45 million will be funded.

Highmark's Approach to the Transaction

Highmark viewed its contract dispute with UPMC as a grave threat to its health insurance franchise in Western Pennsylvania and pursued the Affiliation with extreme urgency as a consequence. Although Blackstone believes that Highmark's competitive concerns were likely founded in substance, the manner in which Highmark pursued the Affiliation may have resulted in significant expenditures for which Highmark's policyholders may receive limited value in the form of tangible financial assets.

Highmark considered speed and control to be critical in its execution of the Agreement due to (i) the deteriorating contract dispute with UPMC, (ii) the rapid decline of WPAHS' financial condition, (iii) the potential for accelerated physician losses at WPAHS and (iv) the possibility that Highmark could find itself without either a UPMC contract or WPAHS to serve as the foundation of its provider strategy

- As a result of the urgency with which Highmark pursued the Affiliation, the depth of Highmark's pre-signing assessment of the proposed Transaction may have been more limited, in certain respects, than would typically be expected for a transaction of this magnitude
  - Limited explicit consideration of the level of potential cost at which the transaction would cease to be acceptable
  - No evidence of a valuation review for the assets to be received in exchange for capital granted to, and invested in, WPAHS
  - Limited downside analysis of potential transaction outcomes at WPAHS and optimistic patient volume projections
  - Limited consideration of unsecured creditor positions in the event of a post-signing WPAHS bond covenant default or restructuring
  - No economic study of the market-wide competitive impact of the Transaction
- Highmark has stated that there were unlikely to be other buyers for WPAHS, but performed only a limited search for alternative partners prior to signing the Agreement in 2011, and refused to allow WPAHS to conduct a market test in connection with the bond restructuring in late 2012
- In exchange for financial terms that were deemed by WPAHS' financial advisors to be highly favorable to the hospital system, Highmark received limited contractual flexibility in the Affiliation Agreement to respond to certain adverse changes in WPAHS' financial profile, including bond covenants defaults, between signing and closing of the Transaction
- In order to expedite execution of the Agreement and maximize control of WPAHS, Highmark chose not to pursue a restructuring of WPAHS debts prior to signing, and thus appears to have ceded considerable leverage to WPAHS bondholders in subsequent restructuring negotiations
  - $233 million of cash injected into WPAHS by Highmark since signing the Agreement is now, at least in part, supporting the value of the bonds that Highmark is seeking to purchase, amounting to a transfer of funds from Highmark to the bondholders for which Highmark may receive little tangible value in return
  - In connection with the agreement reached between Highmark and WPAHS bondholders in early 2013, Highmark accepted provisions calling for financial penalties to be paid by Highmark based upon failure to meet an aggressive timetable for closing of the Transaction

Blackstone notes that if the PID were to approve the Transaction, conditions limiting the amount of future capital that Highmark may commit to non-insurance initiatives, and specifying the standard of review that must be undertaken prior to Highmark entering into agreements to commit such capital, may help to address the possibility of similar circumstances arising in the future

IV. Financial Impact on Highmark

Blackstone

Summary of Risks and Analyses: Financial Impact on Highmark

The Transaction's impact on Highmark's financial stability was assessed as follows:

Potential Concerns Noted:

Transaction Impact on Highmark's Financial Profile:

1. Highmark's stated total of $1 billion of capital commitments related to its IDN strategy may understate the total financial exposure of plans to transfer capital from insurance entities

2. Highmark's direct investments into WPAHS and related IDN entities may result in the conversion of a significant amount of currently diversified, liquid assets into highly-concentrated, illiquid and, in the case of WPAHS, speculative investments

Future WPAHS Financial Performance:

1. The assumptions upon which Highmark has built projections for WPAHS and the amount of financial support it anticipates providing to the hospital system may prove optimistic, frustrating Highmark's efforts to (i) refinance certain of its exposures to WPAHS and (ii) to recoup investments it plans to make in the hospital system

2. Highmark's financial flexibility may be further negatively impacted if, in addition to continued financial difficulty at WPAHS, the insurance operations experience external competitive and/or financial shocks due to unforeseen circumstances in the rapidly evolving health insurance and health care industry

No Transaction Scenario:

1. Highmark assumes that, absent the proposed WPAHS Transaction, its insurance enrollment may decline significantly in Western Pennsylvania while Highmark continues to commit substantial resources to its IDN strategy, resulting in diminished financial strength

Analyses Performed:

- Overview of Highmark's current financial position
- Assessed Highmark's total financial commitments, both direct and indirect, related to the overall IDN Plan
- Assessed the amount of capital commitments implied by Highmark's IDN Plan that are contingent upon approval of the Form A vs. commitments that have already been funded or will be funded irrespective of the PID's decision with respect to the Form A
- Assessed the potential impact of the Transaction on Highmark's:
  - Net liquid assets
  - Investment portfolio
  - Credit profile
  - Risk Based Capital Ratio
- Assessed Highmark's RBC stress test
- Reviewed Highmark's "Base Case" financial projections for WPAHS and assessed, together with Compass Lexecon, potential vulnerabilities in Highmark's underlying assumptions
- Reviewed "Downside Case" financial projections, as requested by Blackstone and prepared by Highmark, for WPAHS and the related impact on Highmark
- Reviewed Highmark's "No Transaction" case and underlying assumptions

A. Highmark Financial Condition and IDN Impact

Blackstone

Highmark Combined Historical Balance Sheet and Income Statement

As of December 31, 2011, Highmark's Combined GAAP balance sheet shows cash and investments of approximately $6.2 billion and total reserves of approximately $5.0 billion, which averaged 5.7% growth annually since 2007.

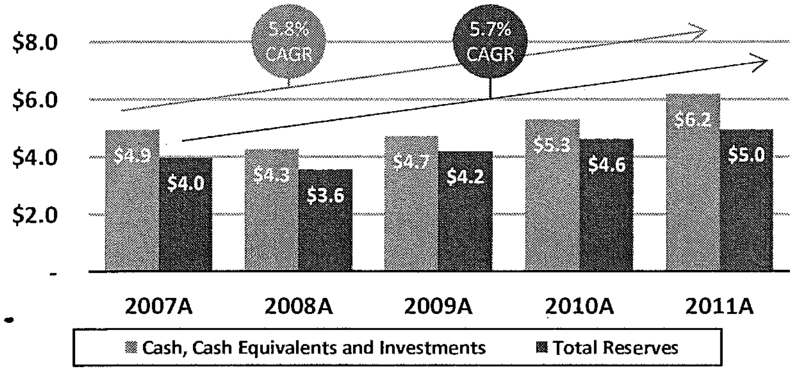
Highmark Combined Historical Balance Sheet – GAAP Basis
($ in millions)

	As of December 31,		CAGR
	2007A	2011A	'07 - '11
Cash, Cash Equivalents and Investments	4,938	6,181	5.8%
Other Assets[1]	3,988	4,438	2.7%
Total Assets	$8,926	$10,619	4.4%
Debt	800	1,120	8.8%
Other Liabilities[2]	4,149	4,538	2.3%
Total Liabilities	**$4,949**	**$5,657**	**3.4%**
Total Reserves	**$3,977**	**$4,961**	**5.7%**
Total Liabilities and Reserves	$8,926	$10,619	4.4%

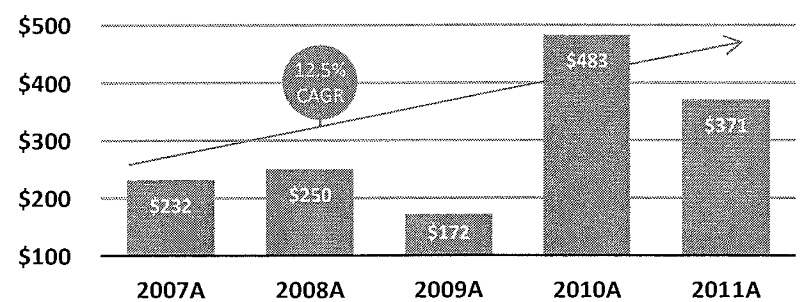
Highmark Combined Historical Income Statement – GAAP Basis
($ in millions)

	Year Ended December 31,		'07 - '11
	2007A	2011A	CAGR
Total Operating Revenue	$12,026	$14,628	5.0%
Total Operating Expenses	11,794	14,258	4.9%
Operating Income	$232	$371	12.5%
Income before Income Taxes	559	476	(3.9%)
Net Income	$375	$445	4.4%
Operating Income Margin	*1.9%*	*2.5%*	
Net Income Margin	*3.1%*	*3.0%*	
Medical Loss Ratio	*88.2%*	*87.0%*	

Highmark Combined Cash and Reserve Position 2007 - 2011
($ in billions)



Highmark Combined Operating Income 2007 - 2011
($ in millions)



Source: Highmark.
(1) "Other Assets" includes Accounts Receivable, Net Property and Equipment, Net Goodwill and Intangibles, and Other Assets.
(2) "Other Liabilities" includes Claims Outstanding, Unearned Subscription Revenue, and Other Liabilities.

Highmark Projected Financials

Assuming the Transaction is consummated, Highmark projects approximately $1.2 billion of cumulative net income from 2013 to 2017, but expects earnings of only $106 million in 2013 due to the impact of IDN related expenditures and healthcare reform.

($ in millions)

Highmark Inc. Income Statement	2012E	2013E	2014E	2015E	2016E	CAGR
Subscription Revenue						
Net Patient Service Revenue						
Management Services Revenue						
Other Operating Revenue						
Total Operating Revenue	**$14,866**	**$15,614**	**$16,663**	**$16,563**	**$17,538**	**4.2%**
Claims Expense						
Operating Expense						
Total Operating Expense	**$14,405**	**$15,300**	**$16,233**	**$16,136**	**$17,044**	**4.3%**
Plus: Change in PDR						
Operating Income	**$462**	**$314**	**$430**	**$427**	**$493**	**1.7%**
Investment Results						
Net Assets of BCBSD Acquired						
Other Expense						
Equity Income of Subs/Affiliates						
Income Before Income Tax	$546	$234	$497	$513	$583	1.7%
Income Tax Provision (Benefit)	134	128	163	177	193	
Net Income	**$413**	**$106**	**$334**	**$336**	**$390**	**(1.3%)**
Operating Margin %	*3.1%*	*2.0%*	*2.6%*	*2.6%*	*2.8%*	
Net Income (Loss) as a % of Revenue	*2.8%*	*0.7%*	*2.0%*	*2.0%*	*2.2%*	

2013E – 2017E Cumulative Net Income: $1.17 billion

Key Highmark Assumptions:

- Assumes full implementation of IDN Plan
- Assumes WPAHS Affiliation
- Assumes UPMC is out-of-network beginning in January 2015

Key Balance Sheet Items	2012E	2013E	2014E	2015E	2016E	2012E - 2016E Δ
Cash and Investments	$6,854	$7,226	$7,458	$7,252	$7,659	$805
Property and Equipment, net	626	557	626	573	553	(72)
Debt	1,118	1,322	1,254	599	599	(519)
Reserves	5,444	5,444	5,763	6,090	6,464	1,020
RBC						

Source: Highmark financial projections.

Summary of Credit Rating History

Following is an abbreviated summary of the credit rating agency's recent evaluations of Highmark's financial condition. The proposed Transaction has had a negative impact on Highmark's credit outlook.

	Past		Most Recent
Moody's Investors Service	**3/30/2012** – Moody's changes outlook on Highmark's ratings to negative from stable, citing the additional uncertainty caused by the absence of Dr. Melani while the Company is in the midst of three major issues: (i) re-negotiation of UPMC contract, (ii) obtaining regulatory approval of proposed Transaction with WPAHS, and (iii) the investment and turnaround plans for WPAHS if regulatory approval is obtained	**6/25/2012** – Moody's affirms Highmark's Baa1 insurance financial strength rating, Baa2 senior unsecured debt rating and negative outlook for Highmark, citing the risk and uncertainty of its plan to establish a medical-provider network to compete with UPMC	**1/24/2013 – Moody's places Highmark's Baa1 insurance financial strength rating and Baa2 senior unsecured debt rating on review for downgrade following its announced plan to purchase the WPAHS 2007A series bonds for cash at 87.5% of par amount**
Standard & Poor's	**12/13/2010** – S&P revises Highmark Inc. outlook to stable from negative and affirms the Company's 'A' rating, citing stronger than expected earnings and credit profile	**5/3/2011** – S&P rates Highmark Inc.'s Senior Unsecured Debt Issue 'A', citing the Company's strong competitive position, strong operating performance, and very strong capitalization	**1/28/2013 – S&P affirms Highmark's 'A' rating, but revises its outlook from 'Stable' to 'Negative', citing the expectation that Highmark's operating earnings will weaken further in 2013 primarily because of concessionary pricing actions implemented during the company's contentious contract negotiations with UPMC, as well as expenses related to its integrated delivery IDN strategy and preparing for Healthcare Reform; S&P also stated that significant financial commitments to WPAHS specifically, or the broader IDN strategy in general, more than what the company currently expects, will put downward pressure on the ratings**
A.M. Best	4/13/2011 – A.M. Best Co. revises outlook to stable from negative and affirms the financial strength rating (FSR) of "A" (Excellent) and issuer credit rating (ICR) of "A" of Highmark Inc., citing strong underwriting and net income results, strong market share and continued strengthening of capitalization	**11/2/2011** – A.M. Best places ratings under review with negative implications, citing concerns regarding Highmark's Transaction with WPAHS, including the integration and the financial viability of WPAHS, its large outstanding debt as well as WPAHS' troubled financial past	**2/7/2013 – A.M. Best affirms Highmark's financial strength rating (FSR) of "A" (Excellent) and issuer credit rating (ICR) of "A"; A.M. Best also maintains Highmark's under review status with negative implications, citing concerns with the integration and the financial viability of WPAHS, the large debt outstanding as well as WPAHS' troubled financial past**

Source: Moody's, S&P, A.M. Best, and Factiva.

Summary of Highmark's IDN Plan Capital Commitments

Although Highmark has stated that it plans to commit $1 billion in total capital to the IDN strategy, including commitments to WPAHS, the total capital commitment implicated by Highmark's plans is in excess of $1.8 billion, $646 million of which is contingent upon execution of the proposed Transaction.

Highmark's Stated $1 billion IDN Capital Commitment

($ in millions)

	Capital Outlay Prior to 12/31/2012	+	Remaining Without PID Approval	=	Total – Without PID Approval	+	Contingent on PID Approval	=	Total With PID Approval
WPAHS[1]	$200[2]		$84		$284		$191		$475
Physician Network	94		214		308		-		308
Medical Malls	32		7[3]		39		-		39
Outpatient and/or Community Hospitals	23		346[4]		369		(191)[5]		178
Total	**$349**		**$651**		**$1,000**		-		**$1,000**

Note: Totals do not include WPAHS unfunded pension liabilities, contingent liabilities or other liabilities

Memo: Transaction-Contingent Capital Commitments	
Transfer to WPAHS at Closing (formerly Med School Grant)	$41.4
4th Funding - Loan (At Closing, on or before 4/30/2013)[6]	100.0
Portion of 4th Funding Loan Converted from Non-Contingent Escrow Payment	(50.0)
5th Funding - Loan (Latter of Closing or 4/1/2014)	100.0
Tender Offer for WPAHS 2007A Bonds[7]	646.4
Transaction-Contingent WPAHS Capital Commitments	**$837.8**
Less: Undefined Community Hospital Development / Partnerships	(191.4)
Transaction-Contingent Total IDN Capital Commitments[7]	**$646.4**

All-Inclusive View of Highmark's IDN Capital Commitment

($ in millions)

	Capital Outlay Prior to 12/31/2012	+	Remaining Without PID Approval	=	Total Without PID Approval	+	Contingent on PID Approval	=	Total With PID Approval
WPAHS[1]	$233[2]		$84		$317		$838		$1,154
Physician Network	94		214		308		-		308
Medical Malls	32		107[3]		139		-		139
Outpatient and/or Community Hospitals	23		401[4]		424		(191)[5]		233
Total	**$382**		**$806**		**$1,188**		**$646**		**$1,834**

Note: Totals do not include WPAHS unfunded pension liabilities, contingent liabilities or other liabilities

- See page 36 for reconciliation of $1 billion to $1.8 billion of Total IDN Capital Committed

Source: Highmark.

(1) Does not include WPAHS' unsecured liabilities of $589.2 million (as of 1/31/2013), of which $274.2 million is WPAHS' unfunded pension liability, and does not include other contingent WPAHS liabilities.
(2) $33 million difference between Highmark's stated and the all-inclusive view 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 Alvarez & Marsal paid on 4/18/2012.
(3) $100 million difference between Highmark's stated and the all-inclusive view includes financing for Medical Malls, excluded from Highmark's reported $1 billion IDN capital commitment.
(4) $55 million difference between Highmark's stated and the all-inclusive view includes additional capital expenditures spending to JRMC up to $100 million maximum, above Highmark's $45 million estimate.
(5) Absent the Transaction, Highmark will commit $191 million of the funding earmarked for WPAHS to undefined community hospital development / partnerships.
(6) 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.
(7) 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. Note: If 100% of bondholders tender at 87.5% of par, Highmark's capital commitment for the WPAHS bonds, including accrued interest, would be $625.8 million.

All-Inclusive View of Highmark's IDN Plan Capital Commitments

A summary reconciliation of Highmark's stated $1 billion of provider strategy spending to the all-inclusive capital commitment of $1.8 billion is shown below.

Incremental Capital Commitments in Excess of $1 billion

($ in millions)

	Amount
Total Provider Capital Commitment, as Stated by Highmark	**$1,000.0**
Tender Offer for WPAHS 2007A Bonds, including Principal and Accrued interest[1]	646.4
Other Grants to WPAHS (Cash Advance and A&M Fees)[2]	33.0
Community Hospitals:	
JRMC Capex Spending Above Highmark's $45m Estimate	55.0
Medical Malls:	
External Financing on HMPG[3]	100.0
Total Grants and Highmark Loans[4]	**$1,834.4**
Less: Total Amount Spent Prior to 12/31/2012[5]	($382.0)
Net Financial Commitments Remaining[4]	**$1,452.4**
Memo:	
Total Grants and Highmark Loans	**$1,834.4**
Plus: WPAHS Unfunded Pension Liability as of 1/31/2013	274.2
Plus: WPAHS Other Liabilities as of 1/31/2013[6]	315.0
Total Grants, Highmark Loans, WPAHS Pension and Other Liabilities	**$2,423.6**

Source: Highmark.

(1) 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.
(2) 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 Alvarez & Marsal paid on 4/18/2012.
(3) Classified as a negative expenditure under "Medical Malls" within Highmark's "$1bn Reported Provider Strategy Spending."
(4) Does not include WPAHS' unsecured liabilities of $589.2 million (as of 1/31/2013), of which $274.2 million is WPAHS' unfunded pension liability, and does not include contingent liabilities.
(5) See pages 35 and 131 for details.
(6) Includes Deferred Revenue, Self-Insurance Liabilities and Other Liabilities; assumes Accrued Salaries and Vacation are assumed by a potential buyer and Floating Rate Restructuring Certificates are extinguished.

Transaction Impact on Highmark's Net Liquid Assets

The Transaction, if approved, may reduce Highmark's net liquid assets by ~$1.5bn, a decrease of nearly 49% based on Highmark's 12/31/2012 balance sheet.

Considerations Related to the Table at Right:

- If Highmark were making all IDN and WPAHS-related expenditures upon closing of the Transaction, (in practice they will be made over a four year period), the estimated effect would be a reduction in net liquid assets of 49%, from $2.97 billion to $1.52 billion
- Although the analysis at right reflects a conservative measure of Highmark's financial strength and liquidity, the proposed Transaction and IDN Plan represent a substantial commitment of Highmark's financial resources and will result in a significant amount of net liquid assets being converted into relatively illiquid, highly concentrated, and, in the case of WPAHS Series 2007A Bonds, speculative grade investments. This conversion may significantly impact Highmark's future ability to react to unforeseen adverse economic conditions
- In practice, Highmark's net liquid assets will fluctuate with the Company's earnings; Highmark may increase / decrease the amount of planned IDN expenditures
- Although Highmark expects to increase its net liquid assets through 2017 via the accumulation of operating earnings (cumulative net income of $1.2 billion is projected for FY2013 – FY2017), such results are uncertain and may not materialize as planned

Modified Balance Sheet - *12/31/2012 vs. "Day 1" Pro Forma*

($ in millions)	12-Entity Modified Combined Highmark[1]	Non-Transaction-Contingent Adjustments[2]	Non-Transaction-Contingent Pro Forma	Transaction-Contingent Adjustments[2]	Transaction-Contingent Pro Forma
Cash[3]	$986.9	($806.0)	$180.9	-	$180.9
Unearned Revenue	(275.2)	-	(275.2)	-	(275.2)
Amounts Held For Others	(506.1)	-	(506.1)	-	(506.1)
Net Cash	**$205.6**	**($806.0)**	**($600.4)**	-	**($600.4)**
Available for Sale Securities	4,615.0	-	4,615.0	-	4,615.0
Net Securities Lending	-	-	-	-	-
Receivables	2,146.9	-	2,146.9	-	2,146.9
Gross Liquid Assets	**$6,967.5**	**($806.0)**	**$6,161.5**	-	**$6,161.5**
Claims	(2,191.3)	-	(2,191.3)	-	(2,191.3)
Benefit Plan Liabilities	(248.9)	-	(248.9)	-	(248.9)
Other Payables	(653.7)	-	(653.7)	-	(653.7)
Net Working Capital	**$3,873.6**	**($806.0)**	**$3,067.6**	-	**$3,067.6**
Total Debt	**($902.8)**	-	**($902.8)**	**($646.4)**	**($1,549.2)**
Net Liquid Assets	**$2,970.8**	**($806.0)**	**$2,164.8**	**($646.4)**	**$1,518.4**
Investments In Subs. and Affiliates	1,555.9	-	1,555.9	-	1,555.9
Provider Investments	-	107.0	107.0	846.4	953.4
Tax Receivable (Payable)	38.4	-	38.4	-	38.4
Deferred Tax Asset (Liability)	83.2	-	83.2	-	83.2
Premium Deficiency Reserve	(155.9)	-	(155.9)	-	(155.9)
Semi-Liquid Assets	**$1,521.6**	**$107.0**	**$1,628.6**	**$846.4**	**$2,475.0**
Unrealized Gains (Losses)	64.8	-	64.8	-	64.8
Net PP&E	384.6	-	384.6	-	384.6
Goodwill and Intangibles	145.8	-	145.8	-	145.8
Other Assets[4]	69.0	-	69.0	-	69.0
Non-Liquid Assets	**$664.2**	-	**$664.2**	-	**$664.2**
Total Net Worth	**$5,156.6**	**($699.0)**	**$4,457.6**	**$200.0**	**$4,657.6**
Net Liquid Assets as % of Total Net Worth	*57.6%*		*48.6%*		*32.6%*

Source: Highmark.

(1) As of 12/31/2012. Note that "Modified Combined Highmark" excludes HVHC, HWV, and HDE entities because Highmark's core group of insurance entities offering commercial health insurance in Pennsylvania do not guarantee HVHC, HWV, and HDE debts and there is no cross-collateralization of debt.

(2) Adjustments exclude impact of WPAHS's unfunded pension liability of $274m, other unsecured liabilities of $315m, and contingent liabilities, as of 1/31/2013. Adjustments also exclude Highmark's Transaction-related expenditures prior to 12/31/2012, as shown on pages 35 and 131. See detail of Non-Transaction-Contingent and Transaction-Contingent Adjustments on page 130.

(3) Includes Cash Surrender Value of $75 million.

(4) Excludes Cash Surrender Value of $75 million.

Transaction Impact on Highmark's Fixed Income Portfolio

In order to fund its IDN strategy, Highmark expects to sell ~$300 million of investment grade securities from its current fixed income portfolio, resulting in an increase in the duration of Highmark's total fixed income portfolio and a decrease in the average credit quality and coupon.

Fixed Income Portfolio Characteristics

		Market Value ($mm)	Effective Duration (yrs)	Modified Duration (yrs)	Maturity (yrs)	Quality	Coupon (%)
Current	Combined Highmark Fixed Income Portfolio as of 12/31/2012[1]	$3,863.2	4.62	5.45	6.68	A1	4.13%
Pro Forma	Pro Forma Combined Highmark Fixed Income Portfolio, inclusive of WPAHS debt at 80%[1][2]	$3,932.1	5.17	5.72	8.13	A2	3.69%
Benchmark	Barclay's Aggregate Index	NA	4.92	5.06	6.92	Aa2	3.57%
WPAHS	WPAHS Debt[3]	621.3	11.78	11.54	22.75	Ca	5.88%

Reconciliation of Current to Pro Forma

($ in millions)

	Market Value
Combined Highmark Fixed Income Portfolio at 12/31/2012	**$3,863.2**
Less: Investment Grade Fixed Income Securities Sold[4]	(305.4)
Less: High Yield Fixed Income Securities Sold	(121.7)
Plus: Addition of WPAHS Bonds[5]	496.0
Estimated Combined Highmark Fixed Income Portfolio - Inclusive of WPAHS Debt	**$3,932.1**

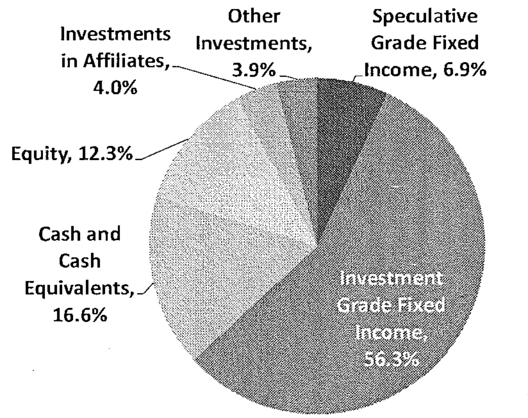
Source: Highmark.

(1) Excludes Highmark BCBSD Inc. and HWV portfolios.
(2) Includes adjustments for assumed rebalancing of assets and liquidations for payment of Highmark-assumed remaining $675 million of IDN commitments.
(3) Highmark assumes a par amount of $709.7 million, valued at 87.5% of par with 80% tendered.
(4) Investment Grade Fixed Income securities sold to rebalance Highmark's Fixed Income portfolio, per Highmark. Proceeds from sale of these securities are not intended to fund the Tender Offer.
(5) $496m purchase price assumes 80% of bondholders tender at 87.5% of par, which is assumed to be $709.7 million at the time of the Tender Offer.

Transaction Impact on Highmark's Overall Investment Portfolio

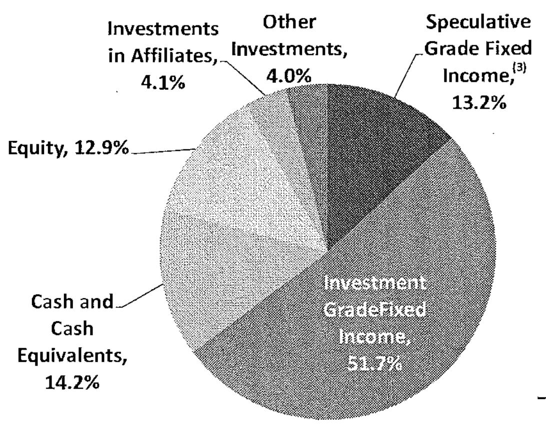
Following the projected acquisition of WPAHS' Series 2007A bonds, 20% of Highmark's fixed income investment portfolio will be comprised of speculative grade securities, compared to 11% prior to the Transaction.

2012 Investment Portfolio Allocation[1]



Total Fixed Income: 63.2%

Proposed Transaction Investment Portfolio Allocation[2]



Total Fixed Income: 64.9%

Highmark Combined Speculative Grade (High Yield and Bank Loans) as of 12/31/2012 and Pro Forma[4]
($ in millions)

	Market Value	Avg. Quality Rating
<u>Current:</u>		
High Yield	$377.6	B1
Bank Loans	45.8	Ba2
Total Speculative Grade as of 12/31/2012	**$423.4**	
Total Fixed Income Portfolio as of 12/31/2012	3,863.2	
Speculative Grade as % of Total Fixed Income Portfolio	*11.0%*	
<u>Pro Forma:</u>		
Total Speculative Grade as of 12/31/2012	**$423.4**	
Less: High Yield Fixed Income Securities Sold	(121.7)	NA
Plus: Addition of WPAHS Bonds[2]	496.0	Ca
Total Pro Forma Speculative Grade	**$797.8**	
Estimated Total Fixed Income Portfolio - Inclusive of WPAHS Debt[2]	3,932.1	
Pro Forma Speculative Grade as % of Total Pro Forma Fixed Income Portfolio [2]	*20.3%*	
Memo: WPAHS 2007A Bonds percent of Total Pro Forma Speculative Grade Securities [2]	***62.2%***	
Memo: Pro Forma Increase in Speculative Grade Fixed Income Securities [2]	***88.4%***	

Source: Highmark.
(1) Based on $6.1 billion investment portfolio as of December 31, 2012.
(2) Includes addition of 80% of the WPAHS 2007A bond debt and payment of $675 million of remaining IDN commitments. Does not include non-tendered bonds or accrued interest.
(3) Investment of WPAHS debt will be treated as a fixed income holding.
(4) Does not include Highmark BCBSD, Inc. or Highmark West Virginia.

Overview of Highmark's Credit Ratings

Highmark's credit ratings from each of Moody's, S&P and A.M. Best are either on negative outlook or under review for a possible downgrade. A downgrade by Moody's would move Highmark's senior unsecured debt rating to within one notch of speculative grade.

	Rated Entity	Current Rating / Outlook	Current Rating Definition[1]	Downward Notches to Next Category	Rating Definition of Next Lower Category[1]
Moody's	**Insurer: Financial Strength**	Baa1 (On Review for Downgrade)	**Baa** = "Obligations rated Baa are judged to be **medium-grade and subject to moderate credit risk** and as such may possess certain speculative characteristics"	3 Notches: • Baa2 • Baa3* • Ba1	**Ba** = "Obligations rated Ba are judged to be **speculative and are subject to substantial credit risk**."
Moody's	**Senior Unsecured Debt of Insurer**	Baa2 (On Review for Downgrade)		2 Notches: • Baa3* • Ba1	
S&P	**Insurer**	A (Negative Outlook)	**A** = "**Strong** capacity to meet financial commitments, but **somewhat susceptible to adverse economic conditions** and changes in circumstances"	1 Notch: • BBB*	**BBB** = "**Adequate** capacity to meet financial commitments, but **more subject to adverse economic conditions**"
A.M. Best	**Insurer: Financial Strength**	A (Under Review with Negative Implications)	**A** = Excellent; "Assigned to companies that have, in our opinion, an **excellent ability** to meet their ongoing insurance obligations"	2 Notches: • A- • B++	**B++** = **Good**; "Assigned to companies that have, in our opinion, a **good ability** to meet their ongoing insurance obligations"
A.M. Best	**Insurer: Issuer Credit Rating**	a (Under Review with Negative Implications)	**a** = Excellent; "Assigned to insurance companies that have, in our opinion, an **excellent ability** to meet their ongoing senior financial obligations"	1 Notch: • bbb	**bbb** = Good; "Assigned to insurance companies that have, in our opinion, a **good ability** to meet their ongoing senior financial obligations "

Note: "*" denotes relevant Moody's and S&P category referenced in PNC Commitment Letter.

(1) Source: Moody's January 2013 Report, "Rating Symbols and Definitions;" S&P's 2011 Report, "Understanding Ratings: Guide to Credit Rating Essentials;" and A.M. Best's 2013 Reports, "Guide to Best's Issuer Credit Ratings" and "Guide to Best's Financial Strength Ratings."

Historical RBC Relative to PID Guidelines

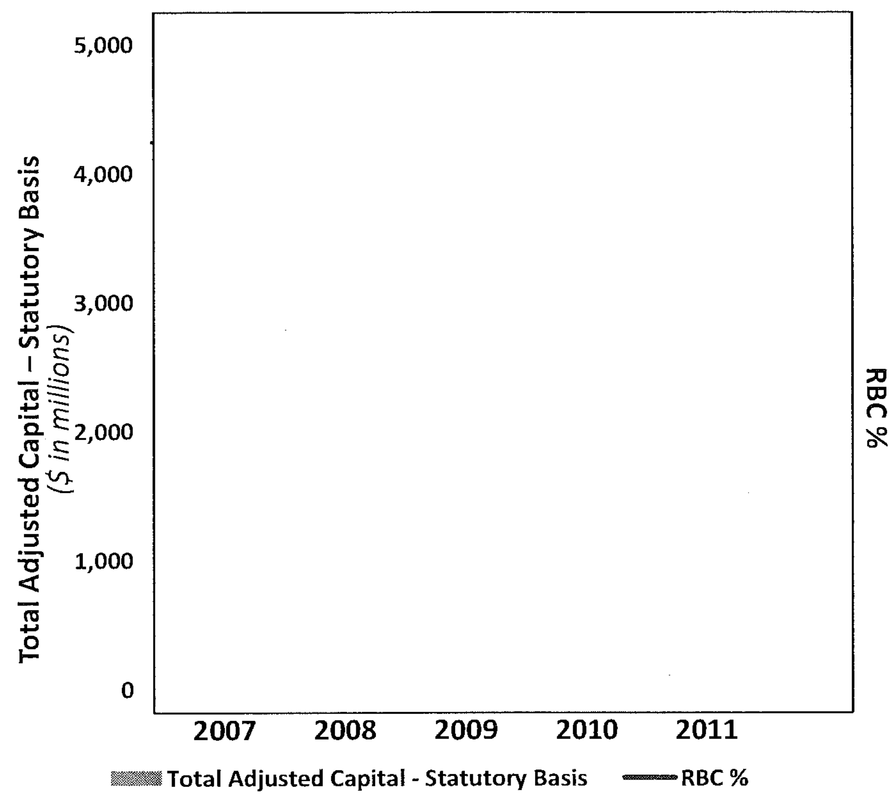
The Risk-Based Capital ratio ("RBC") is a statutory measure of liquidity and financial flexibility. This metric is monitored by the PID and measured against PID-established benchmarks. Highmark's RBC has been deemed "Sufficient" for the last five years. Highmark's RBC ratio was % as of 12/31/2011.

PID Standards

- In 2005, the PID implemented a model of analysis to review reserve and surplus levels of state "Blue" plans, classifying the RBC level as either efficient, sufficient or inefficient
- Several risk factors are considered, including: health care regulation, inflation of health care costs, class action law suits, terrorism, public health outbreaks, and underwriting risk
- Benefits of insurer surplus include reducing policyholder risk, minimizing the threat of insolvency resulting from the measured level of risk, as well as investing in improving technology or other operational efficiencies

"Efficient"	"Sufficient"	"Inefficient"
• **Below 550 percent** of the lower of the NAIC Health RBC ratio or the consolidated risk factor ratio • Plan does not face solvency issues from routine fluctuations • A lower bound for what is efficient is not identified and may differ for each Blue Plan	• **550 to 750 percent** of the lower of the NAIC Health RBC ratio or the consolidated risk factor ratio • Plan in this range is not allowed to include any risk or contingency factors in any filed premium rates	• **Above 750 percent** of the lower of the NAIC Health RBC ratio or the consolidated risk factor ratio • Upper level of surplus, which means it is presumptively inefficient and potentially excessive

Highmark Historic RBC[1]



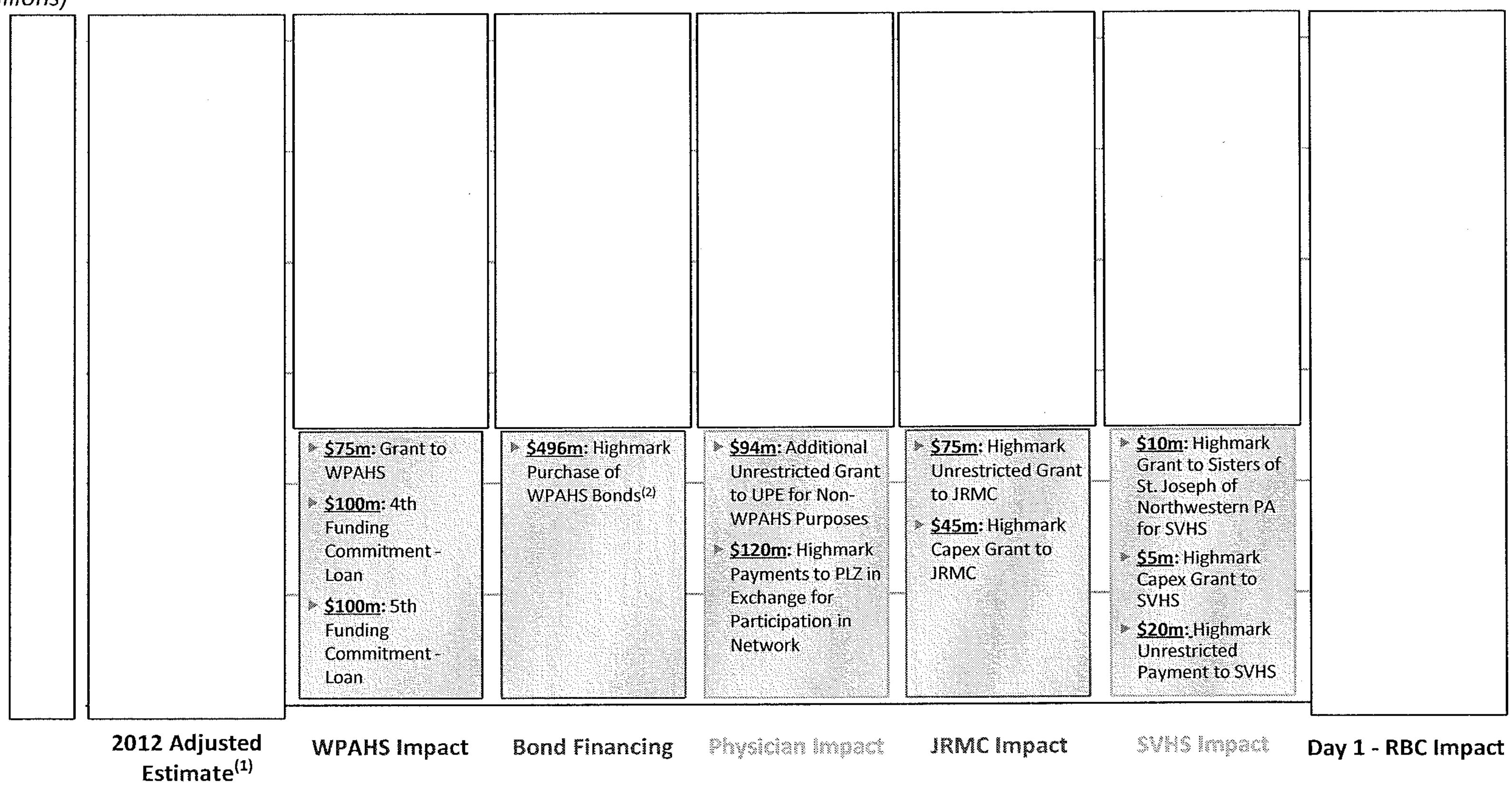
(1) Source: SNL Financial.

Day 1 Transaction Impact on Highmark's RBC

Although Highmark intends to implement and fund the IDN strategy over the next 4 years, if the investments were made at the time of the Transaction's projected closing, Highmark's RBC would decrease by approximately [redacted] basis points.

Day 1 – RBC Impact

($ in millions)



[redacted]

Source: Highmark.

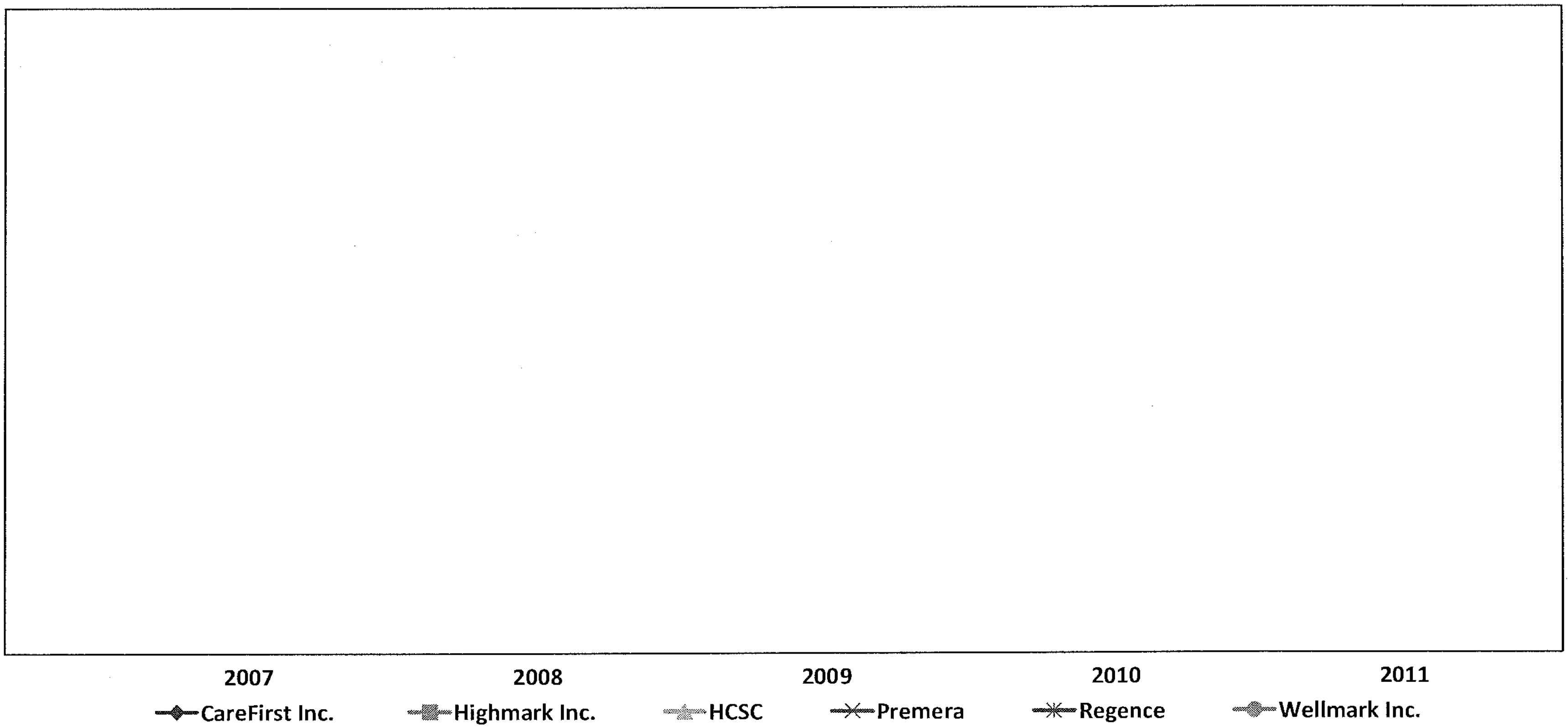
(1) [redacted]

(2) $496m purchase price assumes 80% of bondholders tender at 87.5% of par, which is assumed to be $709.7 million at the time of the Tender Offer. Does not include non-tendered bonds or accrued interest.

Highmark RBC Relative to Multi-State Blue Plans

Highmark's historical RBC, relative to other multi-state non-investor owned Blue plans, is shown below.

RBC Ratios of Multi-State Non-Investor Owned Blues (2007 – 2011)



Select Statutory Balance Sheet Items – as of 12/31/2011

($ in millions)

	CareFirst Inc.	Highmark Inc.	HCSC	Premera	Regence	Wellmark Inc.
Total Assets	$3,989.2	$7,168.9	$14,655.1	$1,661.2	$3,283.6	$1,899.6
Capital and Surplus	1,476.1	4,101.5	8,909.9	972.7	1,886.2	1,074.4

Source: SNL Financial.

Highmark's Base Case RBC "Stress Test"

Highmark submitted an RBC "stress test" in its revised Form A filing. Highmark's stress testing projected that Highmark's 2016 RBC would remain above [redacted]%.

Highmark's Base Case 2016 RBC "Stress Test" Assumptions

- Stress test applied to 2016 RBC of [redacted]%
- Highmark's stress test assumptions:
  - Highmark retains the health business lost as a result of the market turmoil in Western Pennsylvania associated with the termination of the UPMC contract in December 2014
  - The value of WPAHS is insufficient to support the carrying value of the WPAHS bonds that Highmark holds and the loans in place with WPAHS, and Highmark writes off half of the value of those investments / loans (a $398 million write off) in December 2014, prior to the projected bond refinancing
  - Highmark invests another $250 million in the provider strategy, over and above the IDN capital commitments(1)
  - Another major downturn in the financial markets (similar to 2008) results in a significant loss in the value of Highmark's equity portfolio as well, as the value of its benefit plan assets

Highmark's RBC "Stress Test" Results

[redacted]

2016 Projected Transaction Case RBC	Highmark Maintains Enrollment	Highmark Writes Off WPAHS Loans	Increase Provider Funding by $250m	Market Downturn	"Stress Test" Projected Transaction Case 2016 RBC

Source: Highmark.

(1) See page 35 for detail of IDN capital commitments.

Revised RBC "Stress Test" as Requested by Blackstone and Prepared by Highmark

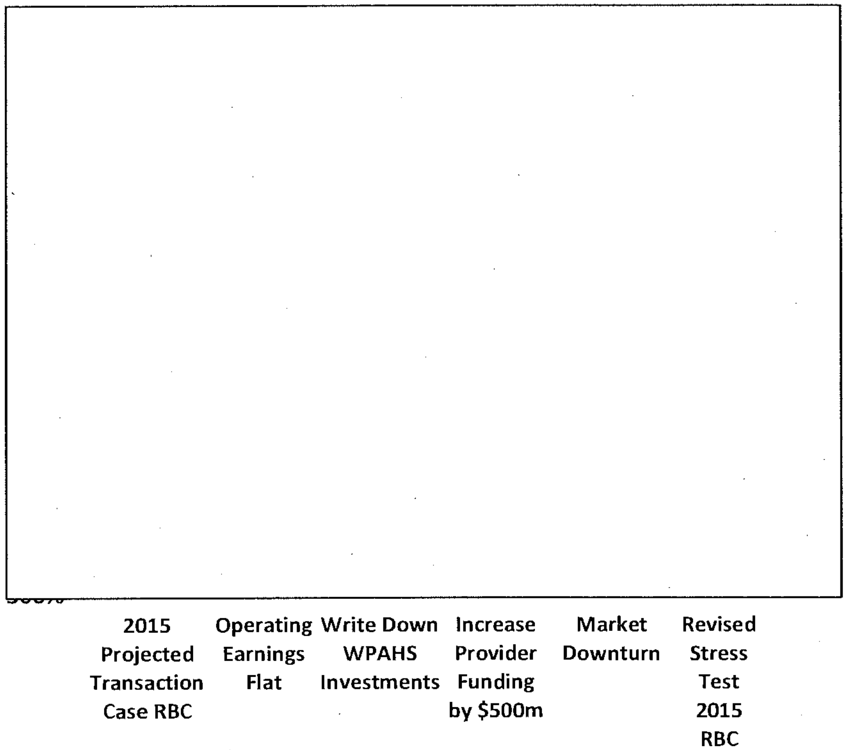
At Blackstone's request, Highmark prepared a revised RBC "stress test," which implies a 2015 RBC of [redacted]%.

Revised 2015 RBC "Stress Test" Assumptions

- Revised stress test assumptions, at Blackstone's request:
- Stress test applied to 2015 RBC of [redacted]%
  - Highmark's operating earnings remain flat from 2013-2015
  - The value of WPAHS is insufficient to support the carrying value of the WPAHS bonds that Highmark holds and the loans in place with WPAHS, and Highmark writes off a total of $476 million;(1) Highmark is unable to refinance the bonds, as projected in the initial stress test, in 2014
  - Highmark invests another $500 million in the provider strategy, over and above the IDN capital commitments(2)
  - Another major downturn in the financial markets (similar to 2008) results in a significant loss in the value of Highmark's equity portfolio as well, as the value of its benefit plan assets

Note: Since the revised stress test projections reflect a "UPMC-In" scenario, in which policyholder enrollment is maintained vs. the "UPMC-Out" assumption used in the initial stress test, no additional sensitivity was included for higher enrollment

Revised RBC "Stress Test" Results



Source: Highmark.

(1) Write-off of $476 million is based off of a recovery analysis that assumes 76.74% of WPAHS Series 2007A bondholders tender at 87.5% of par of $714.7 million at the time of the Tender Offer. Also assumes Highmark pays accrued interest and purchases the non-tendered bonds at par. See page 82 for comparable recovery analysis that assumes WPAHS Series 2007A par of $709.7 million at the time of the Tender Offer, and results in a "Low Value" write-off of $471 million in 2015.

(2) See page 35 for detail of IDN capital commitments.

B. "No Transaction" Scenario

Blackstone

Review of Select Highmark Assumptions

In order to assess the incremental impact of the Transaction on Highmark's insurance operations, Highmark developed the "No Transaction" scenario to use as a benchmark for comparison. Key Highmark assumptions are noted below.

Transaction Case

1 **The status and future of WPAHS**

- Assumes WPAHS will form the foundation of Highmark's integrated delivery network

2 **Highmark contract with UPMC**

- Reflects Highmark's current contracted rates with UPMC, per the May 2012 mediated agreement, through December 31, 2014
- Assumes UPMC is out-of-network beginning in January 2015

3 **Enrollment**

- Assumes Highmark maintains a larger balance of subscriber enrollees based on an enhanced IDN platform with the inclusion of a strong WPAHS

4 **Provider Investments**

- Total IDN capital commitments, as presented on page 35, have been incorporated into the Transaction Case projections

"No Transaction" Case

1 **The status and future of WPAHS**

- Assumes that WPAHS will continue to deteriorate and will ultimately be taken over by a for-profit entity
- Assumes WPAHS will subsequently negotiate a [ ]% reimbursement increase from Highmark
- Assumes that without WPAHS at the center of Highmark's provider strategy, potential vertical integration savings will be limited and consumer healthcare costs will increase significantly

2 **Highmark contract with UPMC**

- Assumes UPMC commercial hospital rates will increase by [ ]% on July 1, 2012, July 1, 2013 and July 1, 2014
- Assumes UPMC remains in-network with a new contract in 2015, at a [ ]% rate increase

3 **Enrollment**

- Assumes Highmark loses more enrollment due to loss of marketplace differentiation; by 2016, enrollment is [ ] lower than in the "Transaction" Case

4 **Provider Investments**

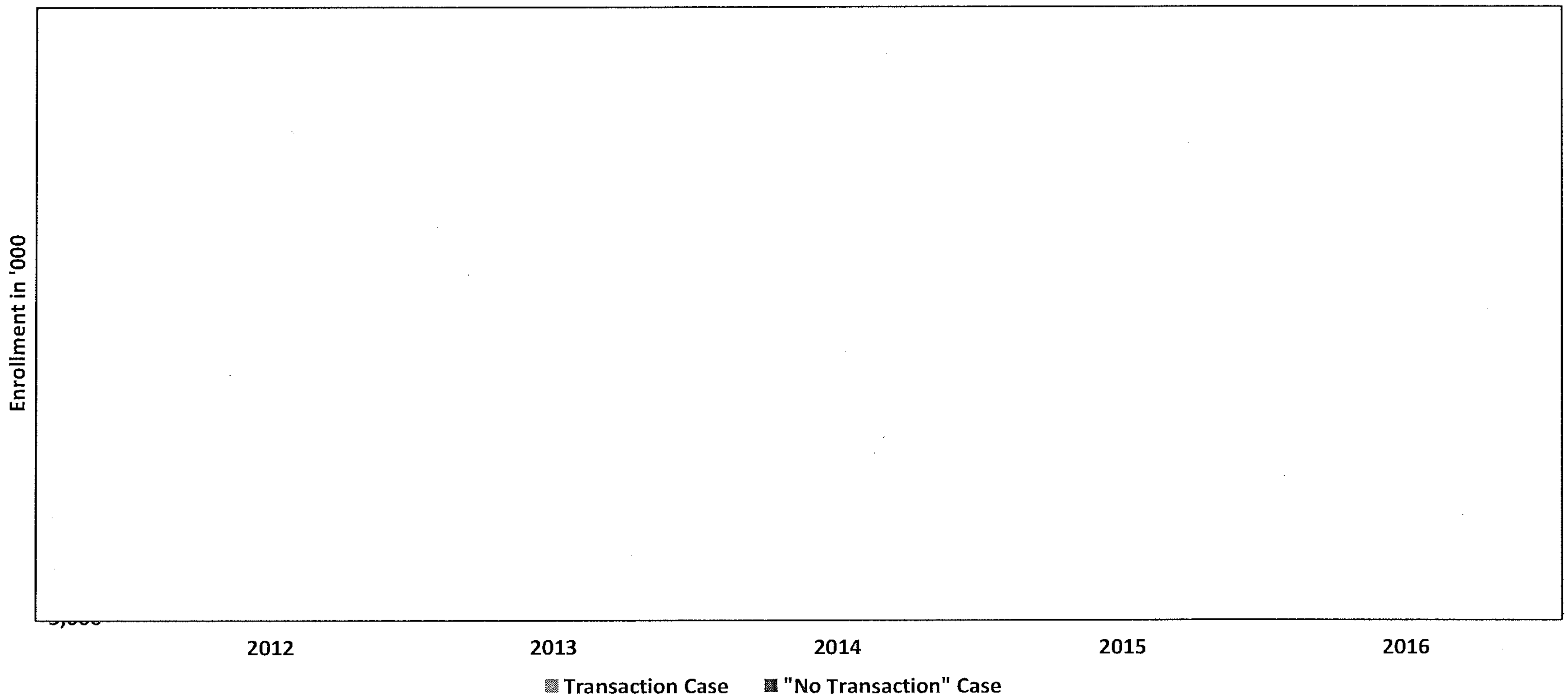
- Total non-transaction contingent IDN capital commitments, as presented on page 35, have been incorporated into the "No Transaction" Case projections

Source: Highmark projections.

Review of Select Highmark Assumptions (cont'd.)

The chart below depicts the [redacted] difference in Highmark enrollment between the Transaction Case and the "No Transaction" Case in 2016.

Highmark Enrollment Assumptions in Transaction Case Versus "No Transaction" Case



Source: Highmark projections.

Transaction vs. "No Transaction" – Scenario Comparison

A side-by-side comparison of Highmark's Transaction scenario projections and "No Transaction" scenario projections is shown below.

Transaction Case

(Assumes UPMC is Out-of-Network in January 2015)

($ in millions)

Highmark Inc. Income Statement	2012E	2013E	2014E	2015E	2016E	CAGR
Subscription Revenue						
Net Patient Service Revenue						
Management Services Revenue						
Other Operating Revenue						
Total Operating Revenue	$14,866	$15,614	$16,663	$16,563	$17,538	4.2%
Claims Expense						
Operating Expense						
Total Operating Expense	$14,405	$15,300	$16,233	$16,136	$17,044	4.3%
Plus: Change in PDR	1	-	-	-	-	
Operating Income	$462	$314	$430	$427	$493	1.7%
Investment Results						
Net Assets of BCBSD Acquired						
Other Expense						
Equity Income of Subs/Affiliates						
Income Before Income Tax	$546	$234	$497	$513	$583	1.7%
Income Tax Provision (Benefit)	134	128	163	177	193	
Net Income	$413	$106	$334	$336	$390	(1.3%)
Operating Margin %	3.1%	2.0%	2.6%	2.6%	2.8%	
Net Income (Loss) as a % of Revenue	2.8%	0.7%	2.0%	2.0%	2.2%	

Key Balance Sheet Items	2012E	2013E	2014E	2015E	2016E	2012E - 2016E Δ
Cash and Investments	$6,854	$7,226	$7,458	$7,252	$7,659	$805
Property and Equipment, net	626	557	626	573	553	(72)
Debt	1,118	1,322	1,254	599	599	(519)
Reserves	5,444	5,444	5,763	6,090	6,464	1,020
RBC						

"No Transaction" Case

(Assumes UPMC is In-Network in January 2015)

($ in millions)

Highmark Inc. Income Statement	2012E	2013E	2014E	2015E	2016E	CAGR
Subscription Revenue						
Net Patient Service Revenue						
Management Services Revenue						
Other Operating Revenue						
Total Operating Revenue	$14,866	$15,503	$16,316	$15,889	$15,830	1.6%
Claims Expense						
Operating Expense						
Total Operating Expense	$14,405	$15,185	$15,915	$15,514	$15,476	1.8%
Plus: Change in PDR	1	-	-	-	-	
Operating Income	$462	$318	$401	$375	$354	(6.4%)
Investment Results						
Net Assets of BCBSD Acquired						
Other Expense						
Equity Income of Subs/Affiliates						
Income Before Income Tax	$546	$38	$431	$427	$419	(6.4%)
Income Tax Provision (Benefit)	134	134	196	213	209	
Net Income	$413	($96)	$235	$214	$210	(15.5%)
Operating Margin %	3.1%	2.1%	2.5%	2.4%	2.2%	
Net Income (Loss) as a % of Revenue	2.8%	(0.6%)	1.4%	1.3%	1.3%	

Key Balance Sheet Items	2012E	2013E	2014E	2015E	2016E	2012E - 2016E Δ
Cash and Investments	$6,854	$6,415	$6,620	$6,851	$6,956	$102
Property and Equipment, net	626	557	529	483	470	(156)
Debt	1,118	722	654	599	599	(518)
Reserves	5,444	5,242	5,462	5,667	5,861	418
RBC						

Source: Highmark projections.

Transaction Impact on Highmark's RBC

Highmark has projected that its RBC would be in the [redacted]% - [redacted]% range if the Transaction is not consummated, versus in the [redacted]% - [redacted]% range if the Transaction is consummated.

Highmark's RBC in Transaction Case

2012E 2013E 2014E 2015E 2016E

Highmark's RBC in "No Transaction" Case

2012E 2013E 2014E 2015E 2016E

Source: Highmark financial projections.

Transaction Impact on Highmark's Credit Profile

Highmark's estimated impact of a "No Transaction" scenario on Highmark's credit profile is shown below.

Highmark's Credit Profile in Transaction Case

($ in millions)

	Moody's Guidelines[1]			Transaction Case				
Key Credit Metrics	A	Baa	Ba	2012E	2013E	2014E	2015E	2016E
Goodwill and Intangible Assets as a % of Equity[2]	25%-35%	35%-50%	50%-80%	16.6%	15.4%	14.5%	13.6%	12.8%
EBITDA Margin (3 year weighted average)[3][4]	8%-5%	5%-3%	3%-1%	3.7%	3.3%	3.3%	3.1%	3.4%
Adjusted Debt to Capital[5]	30%-40%	40%-50%	50%-65%	17.0%	19.5%	17.9%	9.0%	8.5%
Adjusted Debt to EBITDA[6]	1.0x-1.5x	1.5x-2.5x	2.5x-3.5x	2.0x	3.1x	2.3x	1.1x	1.0x

Highmark's Credit Profile in "No Transaction" Case

($ in millions)

	Moody's Guidelines[1]			"No Transaction" Case				
Key Credit Metrics	A	Baa	Ba	2012E	2013E	2014E	2015E	2016E
Goodwill and Intangible Assets as a % of Equity[2]	25%-35%	35%-50%	50%-80%	16.6%	16.0%	15.3%	14.6%	14.1%
EBITDA Margin (3 year weighted average)[3][4]	8%-5%	5%-3%	3%-1%	3.7%	3.3%	3.3%	3.0%	3.1%
Adjusted Debt to Capital[5]	30%-40%	40%-50%	50%-65%	17.0%	12.1%	10.7%	9.6%	9.3%
Adjusted Debt to EBITDA[6]	1.0x-1.5x	1.5x-2.5x	2.5x-3.5x	2.0x	1.7x	1.3x	1.2x	1.3x

Source: Highmark projections and Moody's Rating Methodology for U.S. Health Insurance Companies, May 2011.

(1) Per Moody's Rating Methodology for U.S. Health Insurance Companies, May 2011.
(2) For Highmark, calculated as (Goodwill and Other Intangibles, Net) / (GAAP Total Reserves).
(3) For Highmark, calculated as 3-year average EBITDA margin per 2009 – 2011 GAAP Audit Reports.
(4) Assumes Depreciation & Amortization to be 0.72% of Total Operating Revenue in 2012E – 2016E, consistent with the average ratio for 2010A – 2011A per GAAP Audit Reports.
(5) For Highmark, calculated as Debt / (Debt plus GAAP Total Reserves).
(6) For Highmark, calculated as Debt / EBITDA, assuming Depreciation & Amortization to be 0.72% of Total Operating Revenue in 2012E – 2016E, consistent with the average ratio for 2010A – 2011A per GAAP Audit Reports.

C. Projected Financial Impact on WPAHS

Blackstone

Historical Balance Sheet and Income Statement

WPAHS' historical financial statements indicate significant and consistent financial difficulties since 2007.

WPAHS' Historical Balance Sheet

($ in millions)

	Year Ended June 30, 2007A	2012*
Cash, Cash Equivalents and Short-term Investments	$84	199
Property and Equipment, Net	579	394
Other Assets(1)	717	675
Total Assets	$1,380	$1,268
Long-Term Debt	833	895
Accrued Pension Obligation	129	279
Other Liabilities(2)	272	329
Total Liabilities	**$1,234**	**$1,503**
Total Net Assets / (Deficit)	**$146**	**($235)**
Total Liabilities and Reserves	$1,380	$1,268

Note: Pension "Obligation in Excess of Assets" was $279 million as of 6/30/2012.*

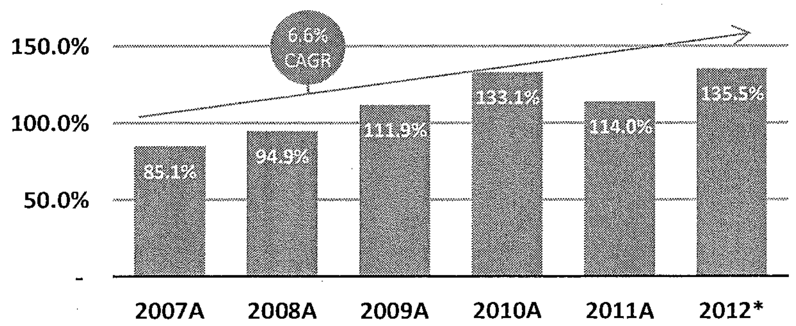
WPAHS' Historical Income Statement

($ in millions)

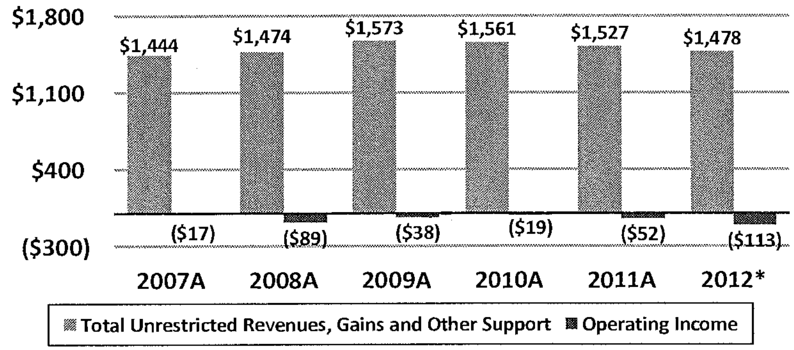
	Year Ended June 30, 2007A	2012*
Total Unrestricted Revenues, Gains and Other Support(3)	**1,444**	**1,478**
Salaries, Wages and Fringe Benefits	827	866
Other Operating Expenses	634	724
Total Expenses	**1,461**	**1,591**
Operating Income	($17)	($113)
(Deficiency)/Excess of Revenues over Expenses	($79)	($38)
Operating Margin	*(1.2%)*	*(7.6%)*
Excess Margin	*(5.5%)*	*(2.6%)*
Bad Debt as a Percentage of Net Patient Revenue	*(3.1%)*	*(5.5%)*

Includes Highmark Unrestricted Payments of $58 million in FY2012

WPAHS Debt / Total Capitalization(4) 2007 – 2012



WPAHS Revenue(3) and Operating Income 2007 – 2012



Source: WPAHS.
*Per WPAHS 2012 Unaudited Financial Statements, which can be found at: http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf.
(1) "Other Assets" includes Net Patient Accounts Receivable, Other Receivables, Inventory, Assets Limited or Restricted as to Use, Other Current Assets and Other Non-Current Assets.
(2) "Other Liabilities" includes Accounts Payable, Other Current Liabilities and Other Non-Current Liabilities.
(3) Net of "Provision for Bad Debts."
(4) Total Capitalization is calculated as the sum of Long-Term Debt and Total Net Assets / (Deficit).

Overview of WPAHS Debt

As of June 30, 2012, WPAHS had $894.7 million of total debt.

Descriptions of WPAHS Debt Tranches

1. **Allegheny County Hospital Development Authority (ACHDA) Series 2007 A Bonds**
   - Maturity: Through November 15, 2040
   - Interest Rate: Ranges from 5.000% to 5.375%, including a net unamortized premium of $4,605 at June 30, 2012

2. **Floating Rate Restructuring Certificates (FRRC)**
   - Payable based on attainment of defined income and cash levels
   - Maturity: June 30, 2030
   - Interest Rate: 3-month LIBOR plus 0.25%

3. **Series 2006 B Health Facilities Revenue Notes**
   - Payable in monthly interest and principal payments
   - Maturity: October 1, 2015
   - Interest Rate: Ranges from 4.55% to 4.61%

4. **Series 2006 A Health Facilities Revenue Notes**
   - Payable in monthly interest and principal payments
   - Maturity: December 1, 2016
   - Interest Rate: 5.25%

5. **Highmark Notes Payable**
   - Payable in two $50,000 payments with interest payable semi-annually
   - Maturity: Due in 2023 and 2024
   - Interest Rate: Prime rate plus 2.00% (5.25% at June 30, 2012)

6. **Equipment Notes**
   - Payable in monthly interest and principal payments
   - Maturity: June 1, 2016
   - Interest Rate: Ranges from 7.00% to 7.55%

7. **Mortgage Loan**
   - Maturity: Through 2026
   - Interest Rate: Ranges from 5.12% to 7.55%

Overview of WPAHS Debt (as of 6/30/2012)(1)

($ in thousands)

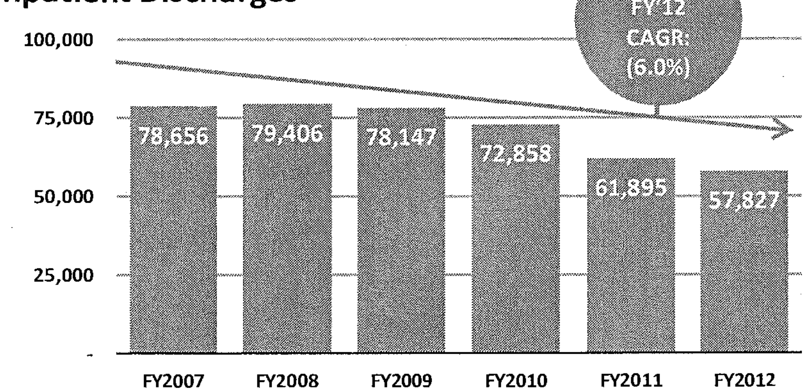
Tranche	Principal
1 Allegheny County Hospital Development Authority (ACHDA) Series 2007 A Bonds	$725,775
2 Floating Rate Restructuring Certificates (FRRC)	37,084
3 Series 2006 B Health Facilities Revenue Notes	18,450
4 Series 2006 A Health Facilities Revenue Notes	1,811
5 Highmark Notes Payable	100,000
6 Equipment Notes	8,516
7 Mortgage Loan	3,066
Total WPAHS Debt	**$894,702**

Source: WPAHS 2012 Unaudited Financial Statements, which can be found at: http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf.
(1) Per WPAHS Notes to Consolidated Financial Statements in WPAHS 2012 Unaudited Financial Statements.

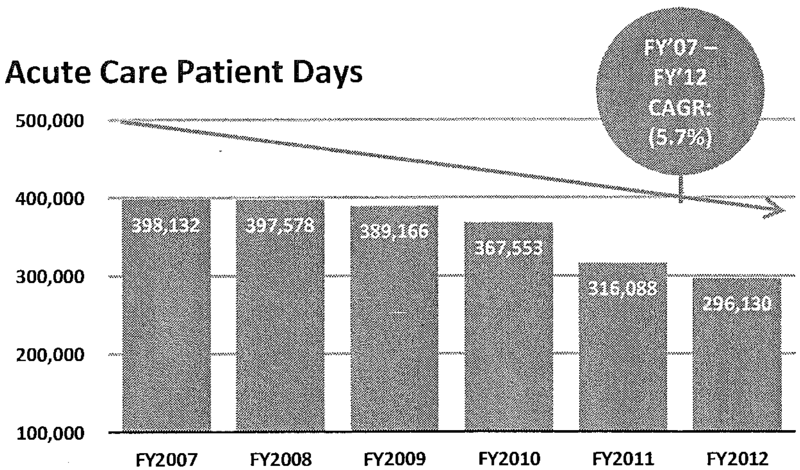
Key Historical WPAHS Operating Trends

WPAHS historical operating metrics shown below convey deteriorating performance since 2007.

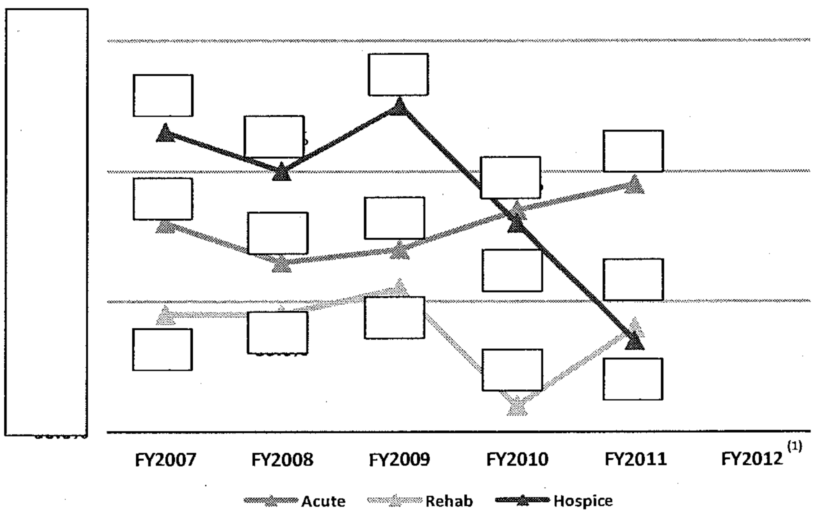
Inpatient Discharges



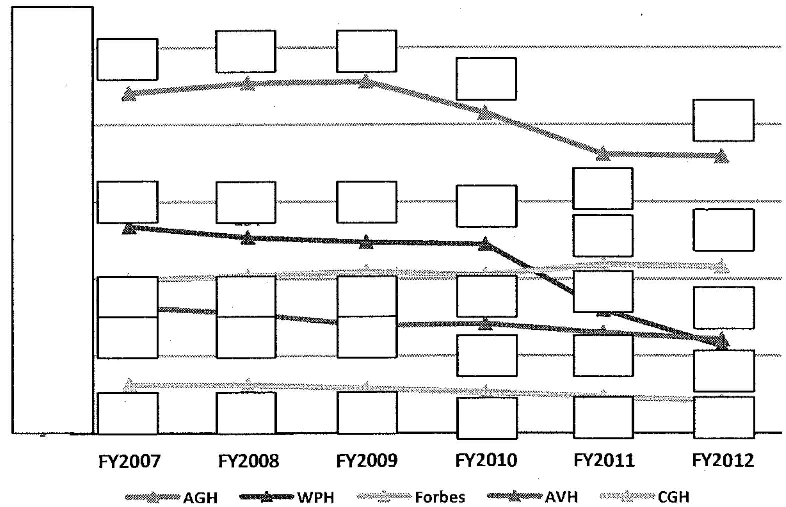
Acute Care Patient Days



Historical Occupancy Rates



Average Daily Census



Source [redacted] WPAHS.

(1) 2012 Not Available.

Summary of WPAHS Credit Ratings

WPAHS is presently rated by Moody's Investor Service (or "Moody's"), Standard & Poor's (or "S&P"), and Fitch Ratings (or "Fitch"). Following is an abbreviated summary of these credit rating agency's recent evaluations of WPAHS.

	Past			Most Recent
Moody's Investors Service	**2/3/2011** – Moody's downgrades bond rating on WPAHS' outstanding bonds to B2 from B1 and affirms its negative outlook, citing accelerating volume declines, weaker than expected operating performance, and risks and costs associated with the operational restructuring	**11/22/2011** – Moody's downgrades WPAHS' bond rating to Caa1 from B2 and affirms its negative outlook, citing the severity of WPAHS' financial status and the notion that without the financial support of Highmark (Baa2/stable), WPAHS would have been forced to restructure earlier in the year, which may have resulted in a bond payment default	**9/28/2012** – Moody's places WPAHS' Caa1 bond rating under review for possible downgrade following announcement of termination of agreement with Highmark	**11/13/2012 – Moody's downgrades WPAHS' bond rating from Caa1 to Ca; Outlook remains negative, reflecting the severity of WPAHS' financial status and likelihood of a restructuring or bankruptcy filing**
Standard & Poor's	**11/15/2011** – S&P affirms 'B+' bond rating of WPAHS' pending approval of Highmark Inc. Transaction; a positive outlook is likely once the parties receive all approvals and the Affiliation Agreement is consummated with evidence that Highmark's strategies have resulted in improved finances and stabilized volume at WPAHS	**5/21/2012** – S&P downgrades WPAHS' bond rating to 'B-' from 'B+', citing deterioration in WPAHS's overall finances	**9/28/2012** – S&P places WPAHS' 'B-' rating on CreditWatch Negative	**12/4/2012 – S&P lowers WPAHS' credit rating from 'B-' to 'CC', citing weak financial condition, likelihood of bankruptcy / restructuring and deterioration of affiliation with Highmark**
Fitch Ratings	**6/29/2011** – Fitch places WPAHS 'BB-' bonds on Rating Watch Evolving, indicating that the rating may be raised, lowered or affirmed, citing the announcement of a potential acquisition by Highmark Inc.	**12/23/2011** – Fitch downgrades WPAHS bonds to 'B+' from 'BB-' with an evolving outlook, citing the significant deterioration in operating performance in fiscal 2011 and first quarter of 2012, primarily driven by a drop in volume and physician losses	**10/25/2012** – Fitch downgrades WPAHS to 'CCC' from 'B+', reflecting the likelihood of debt restructuring, coupled with heightened uncertainty about the progress of WPAHS's affiliation with Highmark	**1/11/2013 – Fitch downgrades WPAHS from 'CCC' to 'C', citing that a negotiated debt restructuring appears to be inevitable to forestall insolvency, given WPAHS's financial deterioration and the failure of WPAHS and Highmark to complete the proposed merger**

Source: Moody's, S&P, Fitch Ratings, and Factiva.

Context of WPAHS Financial Projections

The current financial projections for WPAHS were developed by Highmark with the assistance of an external accounting and consulting firm and in consultation with WPAHS.

Context Regarding WPAHS's Financial Projections

- Highmark engaged A&M in February of 2010 to conduct a high-level assessment of WPAHS (or "the System")
- In conjunction with this engagement, A&M developed a prototype turnaround plan for WPAHS, which included financial projections
  - These projections were developed without sanctioned input from WPAHS as the projections were developed prior to the signing of the Affiliation Agreement
- A&M professionals were instituted as interim senior management in WPAHS November 2011
- Highmark later engaged an additional external accounting and consulting firm in May of 2012 to assist in developing WPAHS financial projections that were reflective of evolving market conditions and to replace the previously developed A&M projections
  - Highmark had limited access to WPAHS interim senior management team for development of the projections filed with the PID in July 2012
- Highmark issued updated financial projections in January 2013 (Highmark's "Base Case" projections)
- WPAHS has declined requests from Blackstone to comment on the reasonableness of Highmark's Base Case projections. Accordingly, WPAHS has expressed no opinion regarding the projections prepared by Highmark

2/10/2011: A&M engaged by Highmark to conduct WPAHS assessment

11/4/2011: A&M publishes WPAHS turnaround plan

5/4/2012: External firm engaged by Highmark to assist in preparation of WPAHS financial projections

7/1/2012: Highmark completed updated WPAHS financial projections

1/16/2013: Highmark completed revised updated WPAHS financial projections

2011 2012 2013

WPAHS Bond Tender Transaction

Highmark has committed to provide $300 million of secured loans to WPAHS, and also plans to initiate a tender offer for WPAHS' 2007A bonds.

- The $300 million in secured loans to WPAHS represent 50% of the second funding commitments and 100% of the third, fourth and fifth funding commitments
- $709.7 million of the principal value of the 2007A bonds remain an obligation of WPAHS
  - At issuance, WPAHS received $752.4 million in proceeds
  - The bonds bear an average coupon of 5.25% and require an average annual debt service of ~$48 million
- Highmark will purchase the bonds at a discounted price of $0.875 per $1.00 for all bonds tendered
  - Highmark estimates that ~80% of the outstanding bonds will be tendered and the bonds will be carried on Highmark's balance sheet at a value of $496 million
- Highmark will borrow the funds necessary to purchase the bonds
  - Highmark will pledge, as collateral for this loan, its own cash, cash equivalents and marketable securities
- Highmark has agreed to defer interest and principal payments from WPAHS on the tendered bonds through July 2015
  - WPAHS will be provided with covenant relief on the tendered securities
- Highmark projects that WPAHS will complete a tax-exempt bond offering in July 2015 in order to buy back the bonds from Highmark

Total Affiliation-Related WPAHS Debt

($ in millions)

Type of Debt	Amount
50% of 2nd Funding - Loan (10/31/2011)	$50.0
3rd Funding - Loan (4/27/2012)	50.0
4th Funding - Loan (At Close, on or before 4/30/2013)	100.0
5th Funding - Loan (Later of Close or 4/1/2014)	100.0
Total WPAHS Loans	**$300.0**
Tender Offer Assumptions	
Principal Oustanding	$709.7
Percentage of Bondholders that Tender	76.7%
Discount to Par on Tendered Bonds	12.5%
Amount Paid to Tendering Bondholders	$476.5
Percentage of Bondholders that do not Tender	23.3%
Discount to Par on Non-Tendered Bonds	-
Amount Paid to Non-Tendering Bondholders	$165.1
Accrued Interest Paid to Bondholders	$4.8
Total Amount Paid to Bondholders	**$646.4**
Total Affiliation-Related WPAHS Debt	**$946.4**

Source: Highmark and H2C.

Highmark Base Case Projected WPAHS Income Statement

Highmark developed financial projections for WPAHS for the period 2013 – 2017 as presented below (i.e. the "Base Case" projections for WPAHS).

WPAHS Projection Approach

- The projections at right were based on historical WPAHS operational and financial results, management's ongoing and planned initiatives, initiatives being undertaken by Highmark to improve financial performance and reflect the proposed tender offer for the 2007A bonds
- Revenue was forecasted based on inpatient, outpatient and professional fee net revenue
  - Inpatient net revenue was calculated as a product of forecasted inpatient discharges and net revenue per case on a facility-by-facility
  - Outpatient net revenue was calculated as a product of forecasted outpatient registrations and net revenue per case on a facility-by-facility basis
- Operating expenses were forecasted using an assumed amount of fixed cost and variable cost comprising each operating expense category
  - Fixed costs were projected to increase based on estimated inflation factors
  - Variable costs were projected based on a derivative of patient volume and increased by an estimated inflation factor

($ in millions)	Projected Income Statement				
	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Inpatient Net Revenue					
Outpatient Net Revenue					
Professional Fee Net Revenue					
Total Net Patient Revenue	$1,559	$1,757	$2,050	$2,273	$2,356
Provision for Bad Debts					
Other Operating Revenue					
Net Assets Released from Restrictions					
Total Revenue and Gains	$1,548	$1,736	$2,015	$2,227	$2,309
Salaries, Wages, and Fringe Benefits					
Professional Fees & Purchased Services					
System Wide Services					
Supplies & Drugs					
General and Administrative					
Depreciation & Amortization					
Interest Expense					
Restructuring					
Total Operating Expense	($1,657)	($1,774)	($1,957)	($2,123)	($2,216)
Impairment Loss					
Operating Income / (Loss)					
(+) Depreciation & Amortization					
(+) Interest Expense					
EBIDA	$3	$83	$192	$265	$271
Investment Income					
Gifts & Donations					
Highmark Unrestricted Payments					
Other Gain / (Loss)					
Net Income	($97)	($26)	$72	$181	$111
Selected Operational Metrics					
EBIDA Margin	*0.2%*	*4.8%*	*9.5%*	*11.9%*	*11.8%*
Operating Margin	*(7.0%)*	*(2.2%)*	*2.9%*	*4.7%*	*4.0%*
Net Income Margin	*(6.3%)*	*(1.5%)*	*3.6%*	*8.1%*	*4.8%*
Bad Debt as % of Net Patient Revenue	*5.5%*	*5.5%*	*5.5%*	*5.4%*	*5.4%*
Salaries/Benefits as % of Net Patient Rev.	*60.0%*	*56.6%*	*52.1%*	*49.7%*	*49.1%*

Source: Highmark financial projections for WPAHS as of 1/16/2013.

Highmark Base Case Projected WPAHS Balance Sheet

Highmark's Base Case projected WPAHS balance sheet is shown below.

($ in millions)	Projected Balance Sheet				
	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Assets					
Cash, Cash Equivalents and Short Term Investments[1]					
Due (to) from Restricted Funds					
Current Debt Service Funds					
Receivables					
Inventories					
Prepaid Expenses & Other Current Assets					
Total Current Assets					
Board Designated Funds					
Other Assets Restricted As to Use					
Assets Restricted As to Use					
PPE, Net					
Other Assets, Net					
Long Term Assets					
Total Assets	$1,298	$1,376	$1,502	$1,613	$1,719
Liabilities & Net Assets					
Accounts Payable					
Accrued Expenses					
Due to (from) Affiliates, Net					
Total Current Liabs (excl CP's of LT Liabs)					
Long-term Debt					
Deferred Revenue					
Self Insurance Liabilities					
Accrued Pension Obligation					
Other Noncurrent Liabilities					
Total Liabilities	**$1,541**	**$1,645**	**$1,698**	**$1,628**	**$1,624**
Total Net Assets (Deficit)	**($243)**	**($268)**	**($197)**	**($16)**	**$95**
Total Liabities and & Net Assets	$1,298	$1,376	$1,502	$1,613	$1,719
Selected Operational Metrics					
Accounts Receivable (Days)	*32.8*	*26.5*	*27.7*	*26.7*	*26.6*
Average Payment Period (Days)	*26.4*	*26.6*	*29.2*	*28.9*	*29.2*
Cushion Ratio [2][3]	*5.2x*	*5.4x*	*6.1x*	*5.6x*	*7.9x*
Cash-to-Debt	*30.1%*	*26.8%*	*34.4%*	*41.1%*	*51.2%*
Debt-to-Capitalization	*132.9%*	*132.2%*	*121.3%*	*101.6%*	*91.5%*
Debt-to-Total Revenue	*63.3%*	*63.5%*	*55.6%*	*46.6%*	*44.3%*

Source: Highmark projections for WPAHS as of 1/16/2013.

(1) Includes "Short Term Investments," while "Cash and Cash Equivalents" on pages 68, 70 and 82 do not include "Short Term Investments."

(2) "Cushion Ratio" is defined by Moody's as "Unrestricted Cash and Investments as a % of Estimated Future Peak Debt Service."

(3) "Future Peak Debt Service" assumed to be equal to annual debt service requirements per Highmark's projections.

Highmark Base Case Impact on WPAHS' Credit Metrics

Moody's and S&P publish operating and financial median metrics for not-for-profit hospital systems; these metrics provide an indication of the potential impact the Transaction may have on WPAHS' credit profile, on the basis of Highmark's Base Case financial projections for WPAHS.

Comparison of WPAHS to Moody's and S&P Guidelines

Category	Moody's Median for Baa-rated Not-for-Profit Hospitals(1)(3)	S&P's Median for A-rated Not-for-Profit Healthcare Systems(2)(3)	WPAHS: FY2013E - FY2017E				
			FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Operating Margin	1.0%	2.5%	(7.0%)	(2.2%)	2.9%	4.7%	4.0%
Excess Margin	3.3%	3.7%	(6.3%)	(1.5%)	3.6%	8.1%	4.8%
Operating Cash Flow Margin / EBITDA Margin	7.5%	10.7%	0.2%	4.8%	9.5%	11.9%	11.8%
Bad Debt Expense as a % of Net Patient Revenue	6.1%	5.4%	5.5%	5.5%	5.5%	5.4%	5.4%
Salaries & Benefits as a % of Net Patient Revenue	NA	53.3%	60.0%	56.6%	52.1%	49.7%	49.1%
Capital Expenditures as a % of Depreciation & Amortization	90.0%	128.3%	126.9%	204.5%	100.0%	100.0%	100.0%
Cushion Ratio(4)(5)	9.6x	14.1x	5.2x	5.4x	6.1x	5.6x	7.9x
Long Term Debt to Total Capitalization	51.4%	43.4%	132.9%	132.2%	121.3%	101.6%	91.5%
Debt to Total Revenue	40.6%	NA	63.3%	63.5%	55.6%	46.6%	44.3%
Maximum Annual Debt Service Coverage	3.1x	3.6x	0.3x	1.7x	3.2x	4.5x	4.3x
Days Cash on Hand	116.6	157.8	81.6	76.4	85.7	86.2	99.1

= Metric is worse than the lower of Moody's and S&P's medians

= Metric is better than one or both of Moody's and S&P's medians

- **Note: WPAHS metrics are compared to the median metrics for Highmark's current ratings**

Source: Highmark projections for WPAHS as of 1/16/2013; Moody's Report on U.S. Not-for-Profit Hospitals, August 30, 2011; and S&P's Report on U.S. Not-for-Profit Health Care Systems, August 2, 2011.
(1) Per Moody's Report on U.S. Not-for-Profit Hospitals, August 30, 2011.
(2) Per S&P's Report on U.S. Not-for-Profit Health Care Systems, August 2, 2011.
(3) Moody's and S&P median ratings selected for comparison to show WPAHS discrepancy relative to Highmark's credit rating.
(4) "Cushion Ratio" is defined by Moody's as "Unrestricted Cash and Investments as a % of Estimated Future Peak Debt Service" and is defined by S&P as "Cash as a % of Annual Debt Service."
(5) "Future Peak Debt Service" assumed to be equal to annual debt service requirements per Highmark's projections for WPAHS.

Highmark Base Case Volume Projections for WPAHS

Patient volume is the key driver of WPAHS' projected financial performance. Highmark's Base Case patient volume projections for WPAHS, based on Highmark volume initiatives, are described below.

1. **Physician Alignment:** Highmark projects to affiliate with approximately [redacted] incremental physicians by June 30, 2015, each of whom is expected to generate an average of [redacted] discharges per year
2. **Employed Physician Out-of-System Referral Practices:** WPAHS allows its employed physicians to admit patients to non-WPAHS facilities. As WPAHS' operations stabilize, Highmark projects aligned physicians to increase in-system referrals
3. **Physician Organization:** The PO hired [redacted] (net) additional physicians since June 30, 2012. The number of physicians is assumed to remain constant thereafter. Highmark also projects opportunity for improvements in the volume of patients seen by physicians
4. **Expiration of UPMC Provider Contract:** Projections assume the contract between Highmark and UPMC will expire on December 31, 2014. As a result, current Highmark members will no longer have in-network access to UPMC facilities and UPMC-employed physicians from January 2015 onward, leading to an increase in WPAHS utilization

WPAHS Projected Volume by Category

Category	FY2011A	FY2012A	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E	2015E % of Incremental Volume Above Baseline
Baseline Volume	61,486	56,644	56,644	56,644	56,644	56,644	56,644	
Adjustment to Actual	-	-	(1,032)	-	-	-	-	
Revised Baseline Volume	61,486	56,644	55,611	56,644	56,644	56,644	56,644	
1 Physician Alignment								
2 Employed Phys. Out-of-System Referral Practices								
3 Physician Organization								
4 Expiration of UPMC Provider Contract								
5 New Highmark Products								
6 IDN Impact and Declining Population								
7 UPMC East Hospital Opening								
8 West Penn Hospital Reopening								
Total WPAHS Volume (Post-Physician Impact)	**61,486**	**57,455**	**58,928**	**68,274**	**80,297**	**88,304**	**89,624**	*100.0%*

Source: Highmark projections for WPAHS as of 1/16/2013.

Highmark Base Case Volume Projections for WPAHS (cont'd.)

5 **New Highmark Products:** Highmark has created new products in an effort to reduce healthcare costs borne by its members. The Highmark Accountable Care Organization ("ACO") and Community Blue Products were launched in 2012

6 **IDN Impact and Declining Population:** If the proposed Affiliation is approved, WPAHS and Highmark intend to strengthen initiatives to integrate the delivery of care. As a result, Highmark projects that there will be a reduction in inpatient admissions based on improved standards of practice. Further, Highmark projects a small decline in the market population

7 **UPMC East Hospital Opening:** On July 2, 2012, UPMC opened a new acute care hospital in close proximity to WPAHS' Forbes Regional Hospital, a member of the WPAHS system

8 **West Penn Hospital Reopening:** In February of 2012, West Penn Hospital reopened its Emergency Department and plans to reopen its Cardiology services in 2013. Highmark forecasts that WPH's volume levels will return to historical levels by

WPAHS Projected Volume by Category

Category	FY2011A	FY2012A	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E	2015E % of Incremental Volume Above Baseline
Baseline Volume	61,486	56,644	56,644	56,644	56,644	56,644	56,644	
Adjustment to Actual	-	-	(1,032)	-	-	-	-	
Revised Baseline Volume	61,486	56,644	55,611	56,644	56,644	56,644	56,644	
1 Physician Alignment								
2 Employed Phys. Out-of-System Referral Practices								
3 Physician Organization								
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Total WPAHS Volume (Post-Physician Impact)	**61,486**	**57,455**	**58,928**	**68,274**	**80,297**	**88,304**	**89,624**	*100.0%*

Source: Highmark projections for WPAHS as of 1/16/2013.

Highmark Base Case WPAHS Volume Projection Vulnerabilities

Blackstone notes the following vulnerabilities with respect to Highmark's Base Case volume projections for WPAHS.

Volume Vulnerabilities by Category

1. **Physician Alignment:** The cost of achieving alignment with physicians may be greater than anticipated, and the number of discharges generated by each newly-employed physician may be less than anticipated
2. **Employed Physician Out-of-System Referral Practices:** Mechanisms for altering referral patterns of WPAHS-aligned physicians lack specificity and may be hindered by cultural resistance within WPAHS
3. **Physician Organization:** Plans for physician productivity improvement initiatives lack specificity and may encounter cultural resistance within WPAHS
4. **Expiration of UPMC Provider Contract:** Highmark plans to continue seeking a contract extension with UPMC beyond 2014, which may result in materially reduced volumes at WPAHS
5. **New Highmark Products:** Community Blue and ACO participation may fall below projections; Community Blue was previously marketed by Highmark without favorable results
6. **IDN Impact and Declining Population:** The impact of declining population in the Western Pennsylvania region and the success of Highmark's plans to shift care to lower cost outpatient settings may be greater than Highmark anticipates
7. **UPMC East Hospital Opening:** Limited data exists upon which to gauge the impact from the opening of UPMC East
8. **West Penn Hospital Reopening:** Increased discharges from WPH may be uncertain given the numerous changes to service levels at the facility in recent years

WPAHS Projected Volume by Category

Category	FY2011A	FY2012A	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Baseline Volume	61,486	56,644	56,644	56,644	56,644	56,644	56,644
Adjustment to Actual	-	-	(1,032)	-	-	-	-
Revised Baseline Volume	61,486	56,644	55,611	56,644	56,644	56,644	56,644
1 Physician Alignment							
2 Employed Phys. Out-of-System Referral Practices							
3 Physician Organization							
4 Expiration of UPMC Provider Contract							
5 New Highmark Products							
6 IDN Impact and Declining Population							
7 UPMC East Hospital Opening							
8 West Penn Hospital Reopening							
Total WPAHS Volume (Post-Physician Impact)	**61,486**	**57,455**	**58,928**	**68,274**	**80,297**	**88,304**	**89,624**

In addition to the vulnerabilities noted at left, the following should also be considered:

- Providers across the Western Pennsylvania region have noted declines in discharge volumes in late 2012 and early 2013 attributed to a potentially sustained shift from admissions to observation cases
- Cultural barriers to changes in physician behavior may be encountered at WPAHS, particularly given that the system has historically been viewed as having restrictions on referral practices
- WPAHS market share ceded to competitors may be difficult to regain, particularly in light of potential dynamic responses from competitors

Source: Highmark projections for WPAHS as of 1/16/2013.

Ms. Guerin-Calvert's View of Highmark Base Case WPAHS Volume Assumptions

Blackstone notes the below commentary from Ms. Guerin-Calvert of Compass Lexecon with respect to projected WPAHS patient volume.

"With regard to volume projections and cost savings, the success of Highmark's affiliation with WPAHS depends critically on the ability of the IDN to attract large numbers of inpatients away from UPMC to WPAHS. I have reviewed the foundation and bases for the shifting of inpatient volume to WPAHS projected by Grant Thornton, with key inputs provided by Highmark. I find there is a great deal of uncertainty underlying many of the key assumptions supporting these projections and some appear to be unreasonable or lacking in credibility given market conditions. I point these out here because they materially affect the overall assessment:

- A critical factor in the IDN's success is the ability to develop incentive-based mechanisms that align physicians, hospitals, and the insurer to provide more efficient care locations for treating patients, and to guide patients to make better healthcare choices. Highmark has provided details of its Community Blue product (a limited network) that it markets as a lower cost plan to consumers. In my view, Highmark's Community Blue and ACA products have characteristics necessary to appeal to consumers. Whether consumers will switch in large numbers to adopt these more attractively priced, but narrower-choice products remains to be seen, and therefore, remain a source of great uncertainty in Highmark achieving its IDN savings.
- Highmark and its consultant, Grant Thornton, do not incorporate any dynamic response by competing hospitals to the projected loss of volume likely at their respective hospitals from UPE's IDN/WPAHS strategy. This materially affects the robustness and credibility of the WPAHS volume and financial projections. The projections also assume that any Highmark contract with UPMC would not include any prohibitions or limitations on consumer choice initiatives, such as anti-tiering and anti-steering provisions. This assumption is the driving force behind attaining incremental discharges as in the Without UPMC Affiliation scenario.
- If UPMC is out-of-network, Highmark assumes that 90% of utilization of UPMC by Highmark's remaining enrollees will shift to WPAHS or other hospitals in certain of its IDN initiatives, and on the whole, about $\square$% across all initiatives. Should Highmark fall short in achieving these projections, this would represent an overstatement of cost savings such as Highmark's oncology shift and utilization shift IDN savings from UPMC out-of-network."

Given the vulnerabilities listed on the previous page and the vulnerabilities noted by Ms. Guerin–Calvert of Compass Lexecon above, with which Blackstone concurs, the PID requested that Highmark run a scenario, referred to herein as the "Downside Case," to reflect a 50% decrease in projected incremental patient volume at WPAHS.

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

D. WPAHS Downside Scenario

Blackstone

WPAHS Downside Case Projections

The PID requested a set of projections for WPAHS demonstrating the financial impact to WPAHS if incremental gains in discharge volume per the Base Case are reduced by 50%.

Key Assumptions of the WPAHS Downside Case, as Requested by Blackstone and Prepared by Highmark

- Highmark's provider contract with UPMC is extended, which causes the projected increase in volume associated with the expiration of Highmark's UPMC provider contract to be removed
- The projected decline in patient volumes at Forbes is fully retained
- Projected increases in patient volumes related to all other initiatives are reduced by 50%
- No refinancing of Highmark's WPAHS bond holdings in 2015
- Debt service coverage remains below 3.0x, resulting in cancellation of interest to Highmark on its loans to WPAHS
- Days cash on hand falls below 35 during FY2017, necessitating additional funding from Highmark in the amount of $38.6 million

Note: The Downside Case projections do not reflect any actions or response that WPAHS management would take to mitigate the reduced incremental patient volumes in the theoretical scenario in which these specific volume levels are achieved

WPAHS Downside Case *($ in millions)*

Income Statement	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Total Net Patient Revenue	$1,532	$1,634	$1,773	$1,870	$1,929
Provision for Bad Debts					
Other Operating Revenue					
Net Assets Released from Restrictions					
Total Revenue and Gains	$1,522	$1,620	$1,753	$1,848	$1,905
Total Operating Expense	($1,645)	($1,718)	($1,829)	($1,922)	($2,002)
Operating Income / (Loss)					
(+) Depreciation & Amortization					
(+) Interest Expense					
EBIDA	($10)	$23	$58	$74	$73
Net Income	($111)	($87)	($65)	($64)	($87)
Balance Sheet					
Cash and Cash Equivalents					
Other Current Assets					
Assets Restricted As to Use					
PPE					
Other Long-Term Assets					
Total Assets	$1,282	$1,292	$1,263	$1,231	$1,213
Total Current Liabs (excl. CP of LT Liabs)					
Long-Term Debt					
Accrued Pension Obligation					
Other Non-Current Liabilities					
Total Liabilities	$1,538	$1,635	$1,671	$1,702	$1,772
Total Net Assets (Deficit)	($256)	($343)	($407)	($471)	($559)
Total Liabilities & Net Assets	$1,282	$1,292	$1,263	$1,231	$1,213
Selected Operational Metrics					
EBIDA Margin	(0.7%)	1.4%	3.3%	4.0%	3.8%
Operating Margin	(8.1%)	(6.1%)	(4.3%)	(4.0%)	(5.1%)
Net Income Margin	(7.3%)	(5.4%)	(3.7%)	(3.5%)	(4.6%)
Bad Debt as % of Net Patient Revenue	5.5%	5.5%	5.4%	5.4%	5.4%
Salaries/Benefits as % of Net Patient Rev.	60.7%	59.2%	56.7%	55.4%	54.9%
Cash-to-Debt	29.0%	20.3%	16.1%	12.2%	9.5%
Debt-to-Capitalization	135.4%	145.1%	157.0%	170.1%	186.5%
Debt-to-Total Revenue	64.3%	68.1%	64.0%	61.9%	63.2%
Days Cash on Hand	80	64	52	42	36
Debt Service Coverage	0.0x	0.6x	1.1x	1.3x	1.4x

Source: Highmark financial projections for WPAHS as of 3/7/2013.

WPAHS Downside Case vs. Base Case

The WPAHS Downside Case, relative to Highmark's Base Case Transaction scenario that assumes UPMC is out-of-network beyond 2014, results in considerably less patient volume and diminished financial performance at WPAHS.

WPAHS Income Statement: Base Case vs. Downside

($ in millions)

Base Case UPMC-Out of Network Post-2015	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E	Cum. '13 - '17
Total Revenue and Gains	$1,548	$1,736	$2,015	$2,227	$2,309	$9,835
Total Operating Expense	(1,657)	(1,774)	(1,957)	(2,123)	(2,216)	(9,727)
Operating Income / (Loss)	($109)	($38)	$58	$104	$93	$108
EBIDA	$3	$83	$192	$265	$271	$814
Net Income	($97)	($26)	$72	$181	$111	$241
Memo:						
Total Volume	**58,928**	**68,274**	**80,297**	**88,304**	**89,624**	**NA**

Downside Case	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E	Cum. '13 - '17
Total Revenue and Gains	$1,522	$1,620	$1,753	$1,848	$1,905	$8,648
Total Operating Expense	(1,645)	(1,718)	(1,829)	(1,922)	(2,002)	(9,115)
Operating Income / (Loss)	($123)	($98)	($76)	($74)	($96)	($467)
EBIDA	($10)	$23	$58	$74	$73	$217
Net Income	($111)	($87)	($65)	($64)	($87)	($413)
Memo:						
Total Volume						

Downside Case vs. Base Case UMPC-Out of Network Post-2015: Surplus / (Deficit)	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E	Cum. '13 - '17
Total Revenue and Gains	($26)	($116)	($262)	($380)	($403)	($1,188)
Total Operating Expense	12	56	128	202	214	612
Operating Income / (Loss)	($14)	($60)	($134)	($178)	($190)	($576)
EBIDA	($13)	($60)	($134)	($190)	($199)	($597)
Net Income	($14)	($61)	($136)	($245)	($198)	($654)
Memo:						
Total Volume						

WPAHS Balance Sheet: Base Case vs. Downside

($ in millions)

Base Case UPMC-Out of Network Post-2015	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Cash & Cash Equivalents	$295	$296	$385	$426	$524
Total Assets	1,298	1,376	1,502	1,613	1,719
Long-term Debt	$979	$1,103	$1,121	$1,037	$1,023
Accrued Pension Obligation	252	216	216	216	216
Total Liabilities	1,541	1,645	1,698	1,628	1,624
Total Net Assets (Deficit)	(243)	(268)	(197)	(16)	95

Downside Case	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Cash & Cash Equivalents	$284	$224	$181	$139	$115
Total Assets	1,282	1,292	1,263	1,231	1,213
Long-term Debt	$980	$1,103	$1,121	$1,143	$1,204
Accrued Pension Obligation	252	215	215	215	215
Total Liabilities	1,538	1,635	1,671	1,702	1,772
Total Net Assets (Deficit)	(256)	(343)	(407)	(471)	(559)

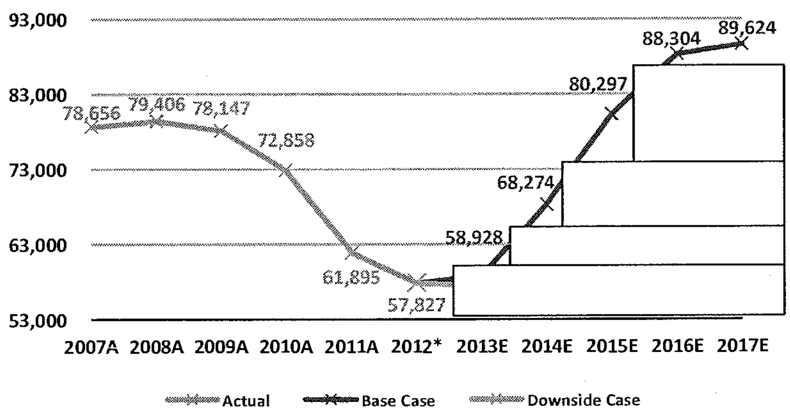
Downside Case vs. Base Case UMPC-Out of Network Post-2015: Surplus / (Deficit)	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Cash & Cash Equivalents	($11)	($72)	($204)	($287)	($409)
Total Assets	(16)	(84)	(239)	(382)	(506)
Long-term Debt	$0	($0)	$0	$106	$182
Accrued Pension Obligation	(0)	(1)	(1)	(1)	(1)
Total Liabilities	(3)	(10)	(28)	73	147
Total Net Assets (Deficit)	(13)	(74)	(211)	(455)	(654)

Source: Highmark financial projections for WPAHS as of 1/16/2013 and 3/7/2013.

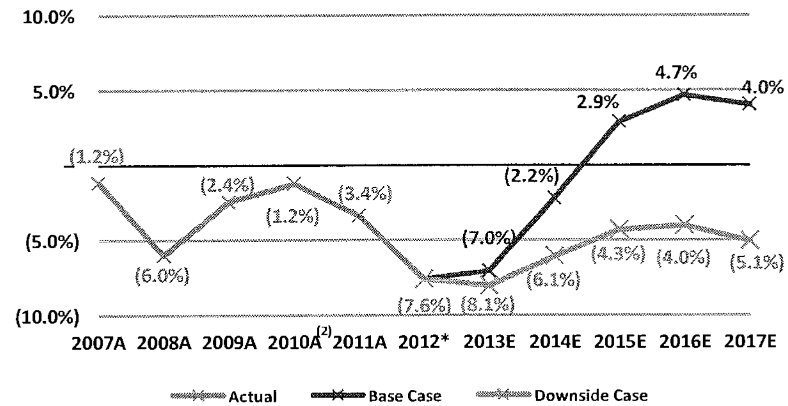
WPAHS Downside Case vs. Base Case (cont'd.)

Below is a comparison of 2007 – 2012 actual results for select WPAHS financial metrics compared to the Base Case and Downside Case projections for 2013 – 2017.

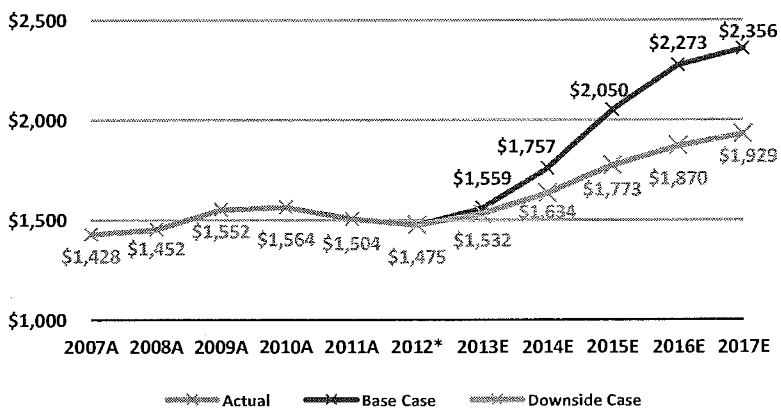
Inpatient Discharges



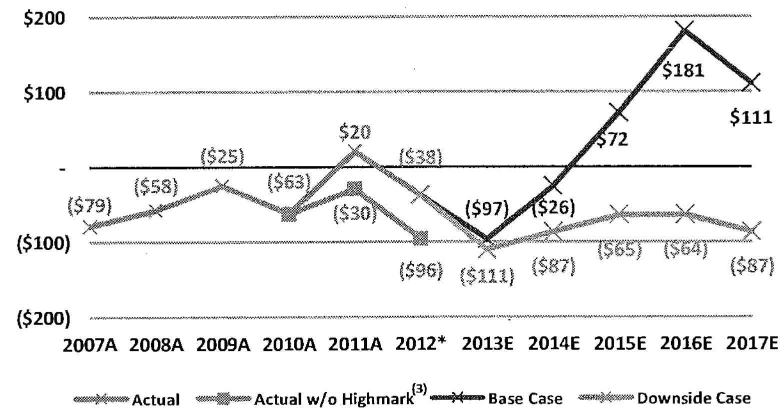
Operating Margin(1)



Total Net Patient Revenue
($ in millions)



Net Income
($ in millions)



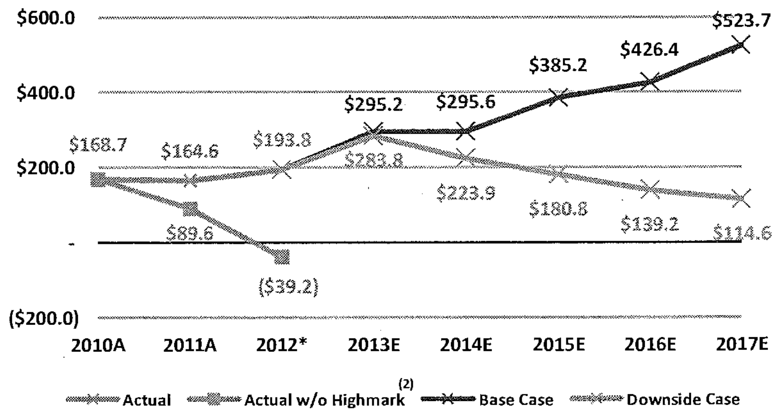
Source: WPAHS 2007 – 2011 Audited Financial Statements; WPAHS 2012 Unaudited Financial Statements; Highmark financial projections as of 1/16/2013 and 3/7/2013.
*Per WPAHS 2012 Unaudited Financial Statements, which can be found at: http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf.

(1) Historical operating margins are calculated using "Total Revenue and Gains" net of "Provision for Bad Debts" in order to conform with the presentation of Highmark's 2013 – 2017 projected Operating Margins.
(2) Operating Income used for Operating Margin calculation excludes Impairment Loss of $71 million in 2010.
(3) Removes the effect of Highmark's unrestricted grants to WPAHS of $50 million in 2011A and $58 million in 2012*. Does not adjust for Highmark's 2011A advance of $25 million to WPAHS, since it was not accounted for as revenue to WPAHS.

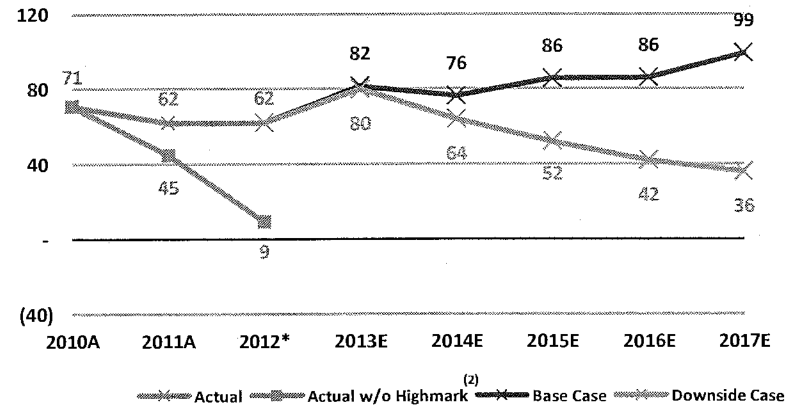
WPAHS Downside Case vs. Base Case (cont'd.)

Below is a comparison of 2007 – 2012 actual results for select WPAHS financial metrics compared to the Base Case and Downside Case projections for 2013 – 2017.

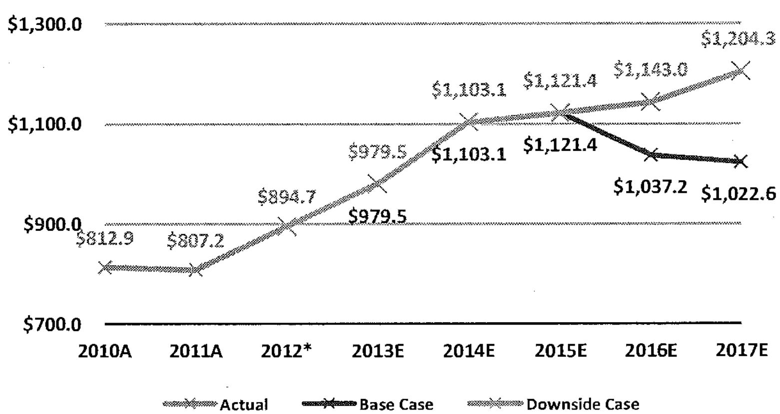
Cash and Cash Equivalents
($ in millions)



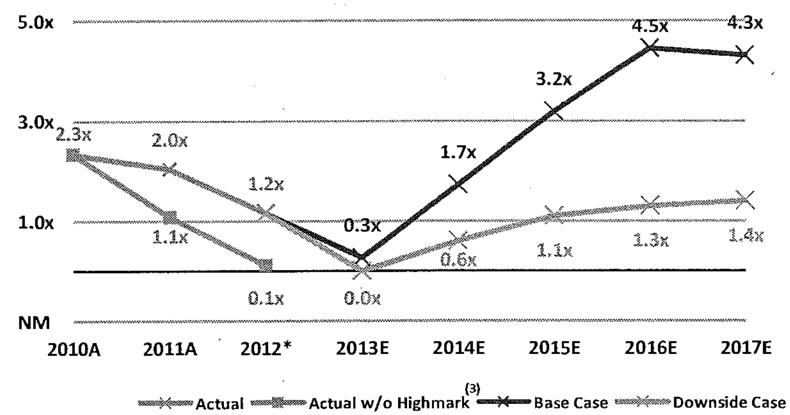
Days Cash on Hand(1)



Total Debt
($ in millions)



Debt Service Coverage



Source: WPAHS 2007 – 2011 Audited Financial Statements; WPAHS 2012 Unaudited Financial Statements; Highmark financial projections as of 1/16/2013 and 3/7/2013.
*Per WPAHS 2012 Unaudited Financial Statements, which can be found at: http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf.
(1) Total Cash Available for Days Cash on Hand Calculation includes Cash and Cash Equivalents, Short Term Investments, Board Designated Funds and any Additional Funding Requirements.
(2) Removes the cumulative effect of Highmark's unrestricted grants and loans to WPAHS of $75 million by 2011A and $233 million by 2012*.
(3) Removes the effect of Highmark's unrestricted grants to WPAHS of $50 million in 2011A and $58 million in 2012*. Does not adjust for Highmark's 2011A advance of $25 million to WPAHS, since it was not accounted for as revenue to WPAHS.

Potential Highmark Downside Contingency Actions for WPAHS

Highmark has developed potential contingency actions in the event of a WPAHS Downside Case scenario. Any revenue increases, cost decreases or sale proceeds associated with these contingency actions were excluded from the Downside Case financial projections for purposes of conservatism.

- Highmark management believes a scenario that assumes a 50% reduction in the growth of discharges at WPAHS is highly unlikely, but in the event of such an outcome, Highmark has described the following contingency actions that could be enacted at WPAHS:
  - **Efficiency improvements and revenue opportunities**, which Highmark estimates can improve EBIDA by an estimated ~$[redacted] million per year (less than [redacted]% of WPAHS' operating expenses)
  - **Right-size the cost structure of Physician Organization** [redacted] which Highmark believes can save approximately [redacted] million per year, net of lost revenue
  - **Defer or reduce capital expenditures**; Highmark anticipates that management could conserve an estimated $[redacted] million and $[redacted] million of CapEx in [redacted] and [redacted], respectively
  - **Reduce / eliminate unfunded research** that currently costs ~$[redacted] million per year
  - **Sell non-core assets** that are associated with, but not critical to, WPAHS' hospital operations, [redacted] for estimated proceeds ranging from [redacted] million
  - **Restructure compensation and benefits** [redacted]
  - **Outsource selected departments**, [redacted] to improve financial performance by an estimated $[redacted] - $[redacted] million per year
- If the above contingency actions were insufficient to turn around an ailing WPAHS, Highmark could elect to **increase its reimbursement rates to WPAHS;** Highmark estimates that it could increase reimbursement rates to WPAHS by up to $[redacted] million annually, beginning in [redacted], which may partially be passed through to Highmark policyholders

Source: Highmark as of 3/7/2013.

WPAHS Downside Case Impact on Highmark

Highmark's projected income statement and balance sheet, assuming the WPAHS Downside Case projections, are shown below.

- Highmark estimates the following impact to its financial projections resulting from a WPAHS Downside Case scenario compared to the Transaction / "UPMC-Out" Case
  - **Revenue:** Beginning in 2014, revenue improves as a result of increased enrollment and a reversion of the health margins to the historical norm associated with stability in the insurance and provider markets. This impact is more pronounced in 2015 when UPMC would have been out-of-network in the Base Case
  - **Operating Expense:** Similar to revenue, operating expenses are higher as a result of increased enrollment partially offset by the ability to leverage fixed costs
  - **Cash and Investments:** Cash and Investments are lower in the WPAHS Downside scenario in 2014 driven by the write-down of WPAHS investments ($193m); in 2015 and 2016, Cash and Investments are higher driven by Highmark continuing to secure financing to hold the WPAHS bonds beyond July 1, 2015
  - **Debt:** Debt is $600 million higher in the WPAHS Downside scenario as Highmark would need to continue to secure financing to continue holding the WPAHS bonds beyond July 1, 2015, which is the base case assumption
  - **Reserves:** Reserves are lower in the WPAHS Downside scenario in 2014 and 2015, driven by the write-down of WPAHS investments ($193m) partially offset by the improvement in operating results when UPMC remains in-network. By 2016, the improvement in operating results offsets the write-off of WPAHS investments

Highmark Projections in WPAHS Base Case (UPMC Out-of-Network Post 2015)

($ in millions)	2012E	2013E	2014E	2015E	2016E
Income Statement					
Total Operating Revenue[1]	$14,867	$15,614	$16,663	$16,563	$17,538
Total Operating Expense	(14,405)	(15,300)	(16,233)	(16,136)	(17,044)
Operating Income	**$462**	**$314**	**$430**	**$427**	**$493**
Net Income	**$413**	**$106**	**$334**	**$336**	**$390**
Balance Sheet					
Cash and Investments	$6,854	$7,226	$7,458	$7,252	$7,659
Debt	1,118	1,322	1,254	599	599
Reserves	5,444	5,444	5,763	6,090	6,464
RBC					

Highmark Projections in WPAHS Downside Case (UPMC In-Network Post 2015)

($ in millions)	2012E	2013E	2014E	2015E	2016E
Income Statement					
Total Operating Revenue[1]	$14,865	$15,614	$16,833	$17,970	$18,736
Total Operating Expense	(14,405)	(15,300)	(16,385)	(17,389)	(18,103)
Operating Income	**$460**	**$314**	**$448**	**$582**	**$633**
Net Income	**$413**	**$106**	**$222**	**$443**	**$486**
Balance Sheet					
Cash and Investments	$6,854	$7,226	$7,364	$7,876	$8,451
Debt	1,118	1,322	1,254	1,199	1,199
Reserves	5,444	5,444	5,651	6,085	6,555
RBC					

Downside Case (UPMC-In) vs. Base Case (UPMC-Out): Surplus / (Deficit)

($ in millions)	2012E	2013E	2014E	2015E	2016E
Income Statement					
Total Operating Revenue	($2)	-	$171	$1,407	$1,199
Total Operating Expense	-	-	(152)	(1,253)	(1,059)
Operating Income	**($2)**	-	**$19**	**$155**	**$140**
Net Income	-	-	**($112)**	**$108**	**$96**
Balance Sheet					
Cash and Investments	-	-	($95)	$624	$792
Debt	-	-	-	600	600
Reserves	-	-	(113)	(5)	91
RBC					

Source: Highmark financial projections as of 3/7/2013.
(1) Net of Change in Premium Deficiency Reserves.

WPAHS Downside Impact on Highmark's Credit Profile

Highmark's projected impact of a WPAHS Downside scenario on Highmark's credit profile is shown below.

Highmark's Credit Profile in "Transaction" Base Case

($ in millions)

	Moody's Guidelines[1]			Transaction Case				
Key Credit Metrics	A	Baa	Ba	2012E	2013E	2014E	2015E	2016E
Goodwill and Intangible Assets as a % of Equity[2]	25%-35%	35%-50%	50%-80%	16.6%	15.4%	14.5%	13.6%	12.8%
EBITDA Margin (3 year weighted average)[3][4]	8%-5%	5%-3%	3%-1%	3.7%	3.3%	3.3%	3.1%	3.4%
Adjusted Debt to Capital[5]	30%-40%	40%-50%	50%-65%	17.0%	19.5%	17.9%	9.0%	8.5%
Adjusted Debt to EBITDA[6]	1.0x-1.5x	1.5x-2.5x	2.5x-3.5x	2.0x	3.1x	2.3x	1.1x	1.0x

Highmark's Credit Profile in WPAHS Downside

($ in millions)

	Moody's Guidelines[1]			WPAHS Downside Case Impact on Highmark				
Key Credit Metrics	A	Baa	Ba	2012E	2013E	2014E	2015E	2016E
Goodwill and Intangible Assets as a % of Equity[2]	25%-35%	35%-50%	50%-80%	16.6%	15.4%	14.7%	13.6%	12.6%
EBITDA Margin (3 year weighted average)[3][4]	8%-5%	5%-3%	3%-1%	3.7%	3.3%	3.4%	3.5%	3.9%
Adjusted Debt to Capital[5]	30%-40%	40%-50%	50%-65%	17.0%	19.5%	18.2%	16.5%	15.5%
Adjusted Debt to EBITDA[6]	1.0x-1.5x	1.5x-2.5x	2.5x-3.5x	2.0x	3.1x	2.2x	1.7x	1.6x

(1) Per Moody's Rating Methodology for U.S. Health Insurance Companies, May 2011.
(2) For Highmark, calculated as (Goodwill and Other Intangibles, Net) / (GAAP Total Reserves), per 2011 GAAP Balance Sheet.
(3) For Highmark, calculated as 3-year average EBITDA margin per 2009 – 2011 GAAP Audit Reports.
(4) Assumes Depreciation & Amortization to be 0.72% of Total Operating Revenue in 2012E – 2016E, consistent with the average ratio for 2010A – 2011A.
(5) For Highmark, calculated as Debt / (Debt plus GAAP Total Reserves).
(6) For Highmark, calculated as Debt / EBITDA per 2011 GAAP Audit Report.

E. Summary Conclusions: Financial Impact on Highmark

Blackstone

Summary Conclusions: Highmark's Financial Stability

Blackstone notes the following conclusions with respect to the Transaction's impact on Highmark's financial stability:

- Highmark considers the total amount of capital commitments associated with its IDN Plan to be $1.0 billion. An all-inclusive calculation would value the total amount of capital commitments to be $1.8 billion, with the potential for up to $2.4 billion when accounting for WPAHS' unfunded pension liabilities and other unsecured liabilities
- Of the $1.8 billion in total IDN capital commitments, approximately $1.2 billion has been, or will have been, funded regardless of the PID's decision with respect to the Form A, resulting in $646 million of capital commitments that are contingent upon the Transaction's approval
- Taken as a whole, Highmark's $1.8 billion of IDN capital commitments will result in a material change in Highmark's financial profile as a significant portion of Highmark's current balance of net liquid assets will be converted into illiquid, highly concentrated and, in the case of WPAHS, high-risk investments
- With respect to Highmark's projections for WPAHS, we note the following:
  - Highmark's Base Case projections for WPAHS appear to be optimistic given the financial, reputational and cultural challenges facing WPAHS, the ongoing regional decline in demand for inpatient services and the potential for a significant competitive response from UPMC and other area providers
  - Highmark's Downside Case projections appear reasonable as a potential outcome for patient volumes and financial performance at WPAHS and indicate that Highmark's investments into WPAHS face substantial doubt as to the likelihood of full recovery

Continued on Next Page

Summary Conclusions: Highmark's Financial Stability (cont'd.)

Blackstone notes the following conclusions with respect to the Transaction's impact on Highmark's financial stability:

- Taken as a whole, Highmark's IDN strategy will materially decrease its liquidity and will reduce the quality of its investment portfolio
  - Analysis of Highmark's projected financial position under ordinary circumstances (i.e. moderate growth and maintenance of historical operating margin levels for its insurance franchise) indicate that the Transaction on its own is not likely to jeopardize Highmark's financial stability
  - It remains possible, however, that when combined with possible adverse operational and financial conditions caused by unforeseen external circumstances, the Transaction could materially lessen Highmark's financial flexibility and capacity to respond to such circumstances
  - Given the uncertain nature of potential changes to (a) the overall economy, (b) investment portfolio performance, (c) actions taken by strategic competitors and (d) the state and federal regulatory environment, including implementation of the Affordable Care Act, we cannot conclude that Highmark's total IDN capital commitments will not, in the long term, potentially jeopardize the financial stability of Highmark, absent the imposition of certain safeguards
- Given the above, the PID may wish to consider the following types of conditions related to Highmark's financial stability:
  - Conditions requiring a remediation plan for WPAHS if the hospital system's financial performance is not turned around by a specified date
  - Conditions limiting distributions from Highmark to UPE based upon certain thresholds, which may include RBC, credit ratings or other triggering metrics
  - Conditions limiting the amount of capital that may be expended by Highmark in the form of unrestricted grants to 501(c)3 organizations
  - Conditions limiting the amount of capital that Highmark may commit in the context of an acquisition, affiliation, asset purchase or other business alliance to entities whose primary business is not health insurance and/or which would not be structured as a subsidiary of Highmark, without providing the PID with consent and/or notification subject to specified standards of review

V. Costs and Benefits to Policyholders

Blackstone

Summary of Risks and Analyses: Cost vs. Benefits to Policyholders

The Transaction's costs and benefits to policyholders were assessed as follows:

Potential Concerns Noted:

Value of Assets Received by Highmark in Exchange for IDN Investments and Expenditures

1. The tangible value of financial assets received by Highmark may be significantly less than the $1.8 billion of capital Highmark has committed to the IDN Plan, primarily due to the speculative nature of investments made into WPAHS

Potential Policyholder Benefits

1. Savings realized by Highmark and its policyholders in the cost of care generated by the planned WPAHS and IDN investments are based upon plans that have limited precedent and may be less effective and/or more expensive than Highmark anticipates

2. IDN spending may generate "franchise" benefits to Highmark in the form of increased enrollment, market share and revenue compared to a No-Transaction scenario. Declines in the cost of care for Highmark's policyholders, however, may not match the cost of investments made by Highmark in its IDN strategy. This may particularly be the case if Highmark is unable to implement product designs that are likely to incentivize members to choose lower cost care options

Analyses Performed:

- Reviewed Highmark's financial exposure to WPAHS, on both a contingent and non-contingent basis
- Assessed the total amount of potential value available to repay Highmark's anticipated loan and bond investments in WPAHS under different operating scenarios and at different points in time
- Compared Highmark's total financial exposure to WPAHS with the amount that Highmark may recover on its investments in WPAHS, resulting in a range of potential implied net losses to Highmark (the "WPAHS Value Gap"), on both a contingent and non-contingent basis
- Reviewed Highmark's financial exposure to non-WPAHS elements of the IDN Plan
- Assessed the potential tangible financial value received by Highmark in exchange for its investments into non-WPAHS elements of the IDN Plan
- Compared Highmark's total financial exposure to non-WPAHS elements of the IDN Plan WPAHS with the potential tangible financial value received by Highmark in exchange for its investments into non-WPAHS elements of its IDN Plan, resulting in a range of potential implied net losses to Highmark ("the IDN Value Gap"), on both a contingent and non-contingent basis
- Reviewed Highmark's plans to derive financial benefits for policyholders via reduced cost of care and reduced insurance premiums ("IDN Savings")
- Reviewed the assessment of the potential IDN Savings, including the likelihood of generating such savings given the potential for varying levels of future discharge volume at WPAHS, by Ms. Guerin–Calvert of Compass Lexecon
- Compared the potential total Transaction-related Value Gap to the potential IDN Savings

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.

A. Highmark's Financial Costs and Benefits

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		6/30/2015	
	Low Value[2]	High Value[3]	Low Value[2]	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		6/30/2015	
	Low Value[2]	High Value[3]	Low Value[2]	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

($ in millions)	Potential Highmark Financial Exposure to Total IDN: Total IDN Capital Commitments	Non-Transaction-Contingent IDN Capital Commitments	Remaining Transaction-Contingent IDN Capital Commitments	Potential Highmark Recovery of Financial Exposure to Total IDN: 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.

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 % 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 %

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.

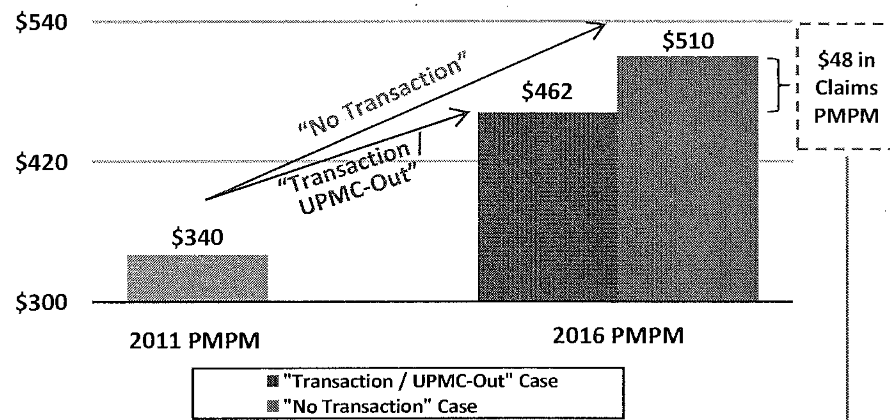
Highmark's Projected Claims Savings

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.

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	Benefit to Highmark
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)	Cost to Policyholders
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	Benefit to Policyholders
2016 Annual Run-Rate IDN Savings(4)	$0 (baseline)	$503m	$317m	
UPMC Contract?	Yes	No	Yes	
Consumer Choice Initiatives Allowed?	Yes	Yes	Yes	

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.

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

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

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

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

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."

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

VIII. Appendix

Blackstone

A. Supplemental Financial Information

Blackstone

Overview of Highmark Combined Debt

Highmark had approximately $1.1 billion in debt as of 12/31/2012, with $903 million being obligations of core insurance entities and $215 million being obligations of entities whose debt obligations are not guaranteed by the core insurance entities.

Overview of Highmark Combined Debt and Debt-like Obligations as of 12/31/2012
($ in millions)

Tranche	Maturity	Interest Rate	Principal
Unsecured Senior Notes	August 15, 2013	6.80%	$305.5
Unsecured Senior Notes	May 15, 2021	4.75%	348.8
Unsecured Senior Notes	May 15, 2041	6.13%	248.4
Total Debt of Core Regulated Insurance Entities			$902.7
HVHC Revolving Credit Facility	June 1, 2016	LIBOR plus 1.75%	$210.1
HVHC Capital Leases	Through 2017	Ranges from 6.00% to 17.60%	4.4
HWV Capital Leases	Through June 2016	Ranges from 5.19% to 17.60%	0.5
Total Debt of Non Core Entities			$215.0
Total Highmark Debt			$1,117.7

Source: Highmark

Highmark Liquidity Position as of December 31, 2012

Excluding balances from entities that are not cross-collateralized with Highmark's primary insurance entities regulated by the PID, Highmark reported approximately $3.0 billion of net liquid assets in excess of liabilities at 12/31/12, comprising approximately 58% of Highmark's reported total net worth.

Highmark Modified Combined Balance Sheet

	as of 12/31/2012					
($ in millions)	15-Entity Combined Highmark	Less: HVHC	Less: HWV	Less: HDE	Plus: HVHC / HWV / HDE Eliminations	12-Entity Modified Combined Highmark[1]
Cash[2]	$1,153.1					$986.9
Unearned Revenue	(291.8)					(275.2)
Amounts Held For Others	(603.2)					(506.1)
Net Cash	**$258.1**					**$205.6**
Available for Sale Securities	5,218.8					4,615.0
Net Securities Lending	-					-
Receivables	2,454.3					2,146.9
Gross Liquid Assets	**$7,931.2**					**$6,967.5**
Claims	(2,401.9)					(2,191.3)
Benefit Plan Liabilities	(334.7)					(248.9)
Other Payables	(875.8)					(653.7)
Net Working Capital	**$4,318.8**					**$3,873.6**
Total Debt	**($1,117.7)**					**($902.8)**
Net Liquid Assets	**$3,201.1**					**$2,970.8**
Investments In Subs. and Affiliates	490.4					1,555.9
Provider Investments	-					-
Tax Receivable (Payable)	41.3					38.4
Deferred Tax Asset (Liability)	104.8					83.2
Premium Deficiency Reserve	(155.9)					(155.9)
Semi-Liquid Assets	**$480.6**					**$1,521.6**
Unrealized Gains (Losses)	78.5					64.8
Net PP&E	624.2					384.6
Goodwill and Intangibles	906.4					145.8
Other Assets[3]	200.2					69.0
Non-Liquid Assets	**$1,809.3**					**$664.2**
Total Net Worth	**$5,491.0**					**$5,156.6**
Net Liquid Assets as % of Total Net Worth						*57.6%*

(1) Note that "Modified Combined Highmark" excludes HVHC, HWV, and HDE entities because Highmark's core group of insurance entities offering commercial health insurance in Pennsylvania do not guarantee their debts and there is no cross-collateralization of debt.

(2) Includes Cash Surrender Value of $75 million.

(3) Excludes Cash Surrender Value of $75 million.

Highmark's Total IDN Capital Commitment

Highmark's total capital commitment related to the provider strategy may exceed $1.8 billion.

Highmark's Capital Commitment in the Transaction Scenario

($ in millions)

WPAHS

1st Funding - Grant (6/28/2011)	$50.0
50% of 2nd Funding - Grant (10/31/2011)	50.0
Transfer to WPAHS at Close (formerly Med School Grant)	75.0
Total WPAHS Grants	$175.0
50% of 2nd Funding - Loan (10/31/2011)	50.0
3rd Funding - Loan (4/27/2012)	50.0
4th Funding - Loan (At Close, on or before 4/30/2013)(1)	100.0
5th Funding - Loan (Latter of Close or 4/1/2014)	100.0
Total WPAHS Loans	$300.0
Total WPAHS Grants and Loans	**$475.0**
Tender Offer for WPAHS 2007A Bonds(2)	646.4
Other Grants to WPAHS (Cash Advance and A&M Fees)(3)	33.0
Total WPAHS Financial Exposure(4)	**$1,154.4**
WPAHS Unfunded Pension Liability as of 1/31/2013	274.2
Other Liabilities as of 1/31/2013(5)	315.0

Physician Network

Unrestricted Grant to UPE for Non-WPAHS Purposes	$94.0
Highmark Payments to PLZ for Participation in Network	123.0
MSO Development Expense	8.0
Total Physician Network Grants	$225.0
Highmark Loan to and - for Physician Affiliations	83.0
Total Physician Network Financial Exposure	**$308.0**

Community Hospitals / Outpatient Services

Highmark Unrestricted Grant to JRMC	$75.0
Highmark Capex Grant to JRMC(6)	100.0
Highmark Unrestricted Payments to SVHS	30.0
Highmark Capex Grant to SVHS	5.0
/ Center of Innovation	5.0
Total Community Hospital / Outpatient Services Grants	**$215.0**
Highmark Loan to Provider PPI LLC (Formation of GPO)	18.0
JRMC Guarantee Provisions	NA
Total Comm. Hospital / Outpatient Services Financial Exposure	**$233.0**

Medical Malls

Highmark Line of Credit to HMPG to Finance Medical Malls	$107.0
HMPG Investments - for Real Estate Acquisitions(7)	32.0
Total Medical Malls Financial Exposure	**$139.0**

Estimated Highmark Total Financial Commitment: $1.834 billion(4)

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.

(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. Also assumes Highmark pays accrued interest and purchases the remainder of the bonds at par.

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

(4) Does not include WPAHS' unsecured liabilities of $589.2 million, of which $274.2 million is WPAHS' unfunded pension liability, and does not include contingent liabilities, as of 1/31/2013.

(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) $100m represents the maximum potential capital expenditures grant to JRMC, of which Highmark projections assume $45m will be funded.

(7) 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.

A. Supplemental Financial Information

Detail of Adjustments to Highmark's 12-Entity Modified Combined Balance Sheet

Non-Transaction-Contingent Adjustments[1]

($ in millions)

Non-Transaction-Contingent Adjustments	
Cash: Adjustments in 2013 and Beyond	
Grants to WPAHS (Surplus Transfer to WPAHS at Closing)	($33.6)
50% of 4th Funding Commitment - Escrow (At Closing, on or before 4/30/2013)	(50.0)
Grants to JRMC[2]	(175.0)
Grants to SVHS	(35.0)
Undefined Community Hospital/Outpatient Services Development/Partnerships	(191.4)
Additional Unrestricted Grant to UPE for Non-WPAHS Purposes	(94.0)
Highmark Payments to PLZ in Exchange for Participation in Network	(120.0)
Highmark Line of Credit to HMPG to Finance Medical Malls	(107.0)
Total Non-Transaction Contingent Adjustments to Cash	**($806.0)**
Provider Investments: Adjustments in 2013 and Beyond	
Highmark Line of Credit to HMPG to Finance Medical Malls	$107.0
Total Non-Transaction Contingent Adjustments to Provider Investments	**$107.0**
Total Net Worth: Adjustments in 2013 and Beyond:	
Grants to WPAHS (Surplus Transfer to WPAHS at Closing)	($33.6)
50% of 4th Funding Commitment - Escrow (At Closing, on or before 4/30/2013)	(50.0)
Grants to JRMC[2]	(175.0)
Grants to SVHS	(35.0)
Undefined Community Hospital/Outpatient Services Development/Partnerships	(191.4)
Additional Unrestricted Grant to UPE for Non-WPAHS Purposes	(94.0)
Highmark Payments to PLZ in Exchange for Participation in Network	(120.0)
Total Non-Transaction Contingent Adjustments to Total Net Worth	**(699.0)**

Transaction-Contingent Adjustments[1]

($ in millions)

Transaction-Contingent Adjustments	
Cash: Adjustments in 2013 and Beyond	
Grants to WPAHS (Surplus Transfer to WPAHS at Closing)	($41.4)
Community Hospital/Outpatient Services Development/Partnerships - Not Spent	191.4
50% of 4th Funding Commitment - Loan (At Closing, on or before 4/30/2013)	(50.0)
5th Funding Commitment - Loan (Latter of Closing or 4/1/2014)	(100.0)
Total Transaction Contingent Adjustments to Cash	-
Total Debt: Adjustments in 2013 and Beyond	
Tender Offer for WPAHS 2007A Bonds[3]	$646.4
Total Transaction-Contingent Adjustments to Total Debt	**$646.4**
Provider Investments: Adjustments in 2013 and Beyond	
50% of 4th Funding Commitment - Escrow Becomes Loan	$50.0
50% of 4th Funding Commitment - Loan	50.0
5th Funding Commitment - Loan (Latter of Closing or 4/1/2014)	100.0
Tender Offer for WPAHS 2007A Bonds[3]	$646.4
Total Transaction Contingent Adjustments to Provider Investments	**$846.4**
Total Net Worth: Adjustments in 2013 and Beyond:	
Grants to WPAHS (Surplus Transfer to WPAHS at Closing)	($41.4)
Community Hospital/Outpatient Services Development/Partnerships - Not Spent	191.4
50% of 4th Funding Commitment - Escrow Becomes Loan	50.0
Total Transaction Contingent Adjustments to Total Net Worth	**$200.0**

(1) Adjustments exclude impact of WPAHS's unfunded pension liability of $274m, other unsecured liabilities of $315m and contingent liabilities as of 1/31/2013. Adjustments also exclude Highmark's Transaction-related expenditures prior to 12/31/2012.

(2) $175m includes the maximum potential capital expenditures commitment of $100m to JRMC, versus Highmark's projections, which assume a $45m capital expenditures grant to JRMC (and a total JRMC commitment of $120m).

(3) 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.

A. Supplemental Financial Information

Timing Details of Highmark's IDN Grants and Investments

Schedule of Highmark's Planned IDN Grants and Investments Over Time

($ in millions)

	Total Transaction Capital Commitments	- Capital Outlay Prior to 12/31/2012	= Capital Outlay in 2013 and Beyond	- Non-Transaction-Contingent Capital Commitments in 2013 and Beyond	= Transaction-Contingent Capital Commitments in 2013 and Beyond
1st Funding Commitment - Grant (6/28/2011)	$50.0	($50.0)	-	-	-
50% of 2nd Funding Commitment - Grant (10/31/2011)	50.0	(50.0)	-	-	-
Other Grants to WPAHS (Cash Advance and A&M Fees)(1)	33.0	(33.0)	-	-	-
Surplus Transfer to WPAHS at Closing (previously Medical School Grant)	75.0	-	75.0	(33.6)	41.4
4th Funding - Escrow(2)	-	-	-	(50.0)	(50.0)
Total WPAHS Grants	**$208.0**	(133.0)	75.0	(83.6)	(8.6)
Additional Unrestricted Grant to UPE for Non-WPAHS Purposes	$94.0	-	$94.0	($94.0)	-
Highmark Payments to PLZ in Exchange for Participation in Network	123.0	(3.0)	120.0	(120.0)	-
MSO Development Expense	8.0	(8.0)	-	-	-
Highmark Unrestricted Grant to JRMC	75.0	-	75.0	(75.0)	-
Highmark Capex Grant to JRMC(3)	100.0	-	100.0	(100.0)	-
Highmark Unrestricted Payment to SVHS	30.0	-	30.0	(30.0)	-
Highmark Capex Grant to SVHS	5.0	-	5.0	(5.0)	-
[redacted] / Center of Innovation	5.0	(5.0)	-	-	-
HMPG Investments - for Real Estate Acquisitions(4)	32.0	(32.0)	-	-	-
Undefined Community Hospital Development/Partnerships	-	-	-	(191.4)	(191.4)
Total Non-WPAHS Grants	**$472.0**	(48.0)	$424.0	($615.4)	($191.4)
Total Grants	**$680.0**	**($181.0)**	**$499.0**	**($699.0)**	**($200.0)**
50% of 2nd Funding Commitment - Loan (10/31/2011)	$50.0	(50.0)	-	-	-
3rd Funding Commitment - Loan (4/27/2012)	50.0	(50.0)	-	-	-
4th Funding Commitment - Loan (At Closing, on or before 4/30/2013)(5)	100.0	-	100.0	-	100.0
5th Funding Commitment - Loan (Latter of Closing or 4/1/2014)	100.0	-	100.0	-	100.0
Total WPAHS Loans	**$300.0**	($100.0)	$200.0	-	$200.0
Tender Offer for WPAHS 2007A Bonds(6)	646.4	-	$646.4	-	$646.4
Total WPAHS Debts	**$946.4**	**($100.0)**	**$846.4**	-	**$846.4**
Total Grants and WPAHS Debts	**$1,626.4**	**($281.0)**	**$1,345.4**	**($699.0)**	**$646.4**
Highmark Line of Credit to HMPG to Finance Medical Malls	$107.0	-	107.0	(107.0)	-
Highmark Loan to [redacted] and [redacted] - for Physician Affiliations	83.0	(83.0)	-	-	-
Highmark Loan to Provider PPI LLC (Formation of GPO)	18.0	(18.0)	-	-	-
Total Other UPE Loans	**$208.0**	**($101.0)**	**$107.0**	**($107.0)**	-
Total Grants and Highmark Loans	**$1,834.4**	**($382.0)**	**$1,452.4**	**($806.0)**	**$646.4**
WPAHS Unfunded Pension Liability as of 1/31/2013	$274.2	-	274.2	-	274.2
Other WPAHS Unsecured Liabilities as of 1/31/2013(7)	315.0	-	315.0	-	315.0
Total Grants and WPAHS Liabilities, Including Unfunded Pensions	**$2,423.6**	**($382.0)**	**$2,041.6**	**($806.0)**	**$1,235.6**

(1) Includes $25 million cash advance paid to WPAHS for West Penn Hospital and Allegheny General Hospital on 4/18/2011 and $8 million unrestricted payment to WPAHS for fees to Alvarez & Marsal paid on 4/18/2012.
(2) 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.
(3) $100m represents the maximum potential capital expenditures grant to JRMC, of which Highmark projections assume $45m will be funded.
(4) 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.
(5) 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.
(6) 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.
(7) 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.

Highmark and WPAHS Projected Financials in the Transaction / "UPMC-In" Scenario

Highmark Projections: Transaction / "UPMC-In" Scenario

($ in millions)

Income Statement - GAAP Basis	2012E	2013E	2014E	2015E	2016E
Subscription Revenue					
Net Patient Service Revenue					
Management Services Revenue					
Other Operating Revenue					
Total Operating Revenue	**$14,866**	**$15,614**	**$16,833**	**$17,970**	**$18,736**
Claims Expense					
Operating Expense					
Total Operating Expense	**($14,405)**	**($15,300)**	**($16,385)**	**($17,389)**	**($18,103)**
Operating Income	**$461**	**$314**	**$448**	**$582**	**$634**
Change in PDR					
Adjusted Operating Income					
Investment Results					
Net Assets of BCBSD Acquired					
Other Expense					
Equity Income of Subs/Affiliates					
Income Before Income Tax	$544	$234	$516	$671	$729
Income Tax Provision (Benefit)	(132)	(128)	(169)	(229)	(246)
Net Income	**$413**	**$106**	**$347**	**$442**	**$483**
Operating Margin %	*3.1%*	*2.0%*	*2.7%*	*3.2%*	*3.4%*
Net Income (Loss) as a % of Revenue	*2.8%*	*0.7%*	*2.1%*	*2.5%*	*2.6%*

Key Balance Sheet Items	2012E	2013E	2014E	2015E	2016E
Cash and Investments	$6,854	$7,226	$7,489	$7,400	$7,972
Property and Equipment, net	626	557	626	573	553
Goodwill and Other Intangibles	904	838	833	828	828
Debt	1,118	1,322	1,254	599	599
Reserves	5,444	5,444	5,776	6,209	6,676
RBC					

WPAHS Projections in Transaction / "UPMC-In" Scenario(1)

($ in millions)

Income Statement	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
Total Net Patient Revenue	**$1,559**	**$1,757**	**$1,986**	**$2,142**	**$2,223**
Provision for Bad Debts					
Other Operating Revenue					
Net Assets Released from Restrictions					
Total Revenue and Gains	**$1,548**	**$1,736**	**$1,954**	**$2,104**	**$2,183**
Total Operating Expense	**($1,657)**	**($1,774)**	**($1,927)**	**($2,062)**	**($2,152)**
Operating Income / (Loss)					
(+) Depreciation & Amortization					
(+) Interest Expense					
EBIDA	**$3**	**$83**	**$160**	**$203**	**$209**
Net Income	($97)	($26)	$40	$118	$46
Balance Sheet					
Cash and Cash Equivalents					
Other Current Assets					
Assets Restricted As to Use					
PPE					
Other Long-Term Assets					
Total Assets	$1,298	$1,376	$1,462	$1,509	$1,551
Total Current Liabs (excl. CP of LT Liabs)					
Long-Term Debt					
Accrued Pension Obligation					
Other Non-Current Liabilities					
Total Liabilities	**$1,541**	**$1,645**	**$1,690**	**$1,619**	**$1,615**
Total Net Assets (Deficit)	**($243)**	**($268)**	**($228)**	**($110)**	**($64)**
Total Liabilities & Net Assets	$1,298	$1,376	$1,462	$1,509	$1,551
Selected Operational Metrics					
EBIDA Margin	*0.2%*	*4.8%*	*8.2%*	*9.6%*	*9.6%*
Operating Margin	*(7.1%)*	*(2.2%)*	*1.4%*	*2.0%*	*1.4%*
Net Income Margin	*(6.3%)*	*(1.5%)*	*2.1%*	*5.6%*	*2.1%*
Bad Debt as % of Net Patient Revenue	*5.5%*	*5.5%*	*5.5%*	*5.4%*	*5.4%*
Salaries/Benefits as % of Net Patient Rev.	*60.0%*	*56.6%*	*53.0%*	*51.3%*	*50.6%*
Cash-to-Debt	*30.1%*	*26.8%*	*31.9%*	*32.4%*	*36.1%*
Debt-to-Capitalization	*133.0%*	*132.2%*	*125.5%*	*111.9%*	*106.7%*
Debt-to-Total Revenue	*63.3%*	*63.5%*	*57.4%*	*49.3%*	*46.8%*
Days Cash on Hand	*82*	*76*	*82*	*73*	*76*
Debt Service Coverage	*0.3x*	*1.7x*	*2.7x*	*3.6x*	*3.3x*

Source: Highmark financial projections as of 3/7/2013.
(1) As prepared by Highmark.

Blackstone's Modified Recovery Analysis for the Base Case Scenario

H2C analyzed the recoverable value of Highmark's investments into WPAHS at various future dates based on projected financial metrics and priority of claims. The analysis below builds upon H2C's analysis, but also includes the potential impact of Highmark having to pay unsecured creditors (including the PBGC), who may pursue Highmark for claims and damages in a restructuring scenario.

Total Due to Highmark Calculation

($ in millions)

	1/31/2013 LTM	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Remaining Principal on WPAHS 2007A Bonds[3]	$641.6	$641.6	$641.6	$641.6	$641.6	$641.6
Other Highmark Secured Loans to WPAHS	100.0	200.0	300.0	300.0	300.0	300.0
Accrued Interest[4]	4.8	4.8	4.8	4.8	4.8	4.8
Total Due to Highmark	**$746.4**	**$846.4**	**$946.4**	**$946.4**	**$946.4**	**$946.4**

Total Unsecured Liabilities

($ in millions)

	Amount
WPAHS Unfunded Pension Liability as of 1/31/2013[1]	$274.2
Other Unsecured Liabilities as of 1/31/2013[2]	315.0
Total Unsecured Liabilities	**$589.2**

Blackstone's Modified Recovery Calculation – Base Case Scenario

($ in millions)

	1/31/2013 LTM	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Total Revenue	$1,637.9	$1,633.5	$1,832.9	$2,127.6	$2,351.1	$2,436.3
Multiple of Revenue	0.35x	0.35x	0.35x	0.35x	0.35x	0.35x
Available Proceeds	**$573.3**	**$571.7**	**$641.5**	**$744.7**	**$822.9**	**$852.7**
Plus: Cash and Investments	174.6	373.9	374.3	463.9	505.1	602.4
Total Proceeds	**$747.9**	**$945.6**	**$1,015.8**	**$1,208.6**	**$1,328.0**	**$1,455.1**
Mortgage	(27.7)	(27.7)	(23.3)	(12.0)	(2.5)	(2.3)
503(b)(9) Claims	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
Bankruptcy Costs	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Net Recoverable Pre-Unsecured Other Claims	**$640.2**	**$837.9**	**$912.5**	**$1,116.6**	**$1,245.5**	**$1,372.8**
Assumed PBGC Settlement	-	-	-	-	-	-
Other Unsecured Settlement[2]	-	-	-	-	-	-
Total Unsecured Settlement	-	-	-	-	-	-
Total Net Proceeds	**$640.2**	**$837.9**	**$912.5**	**$1,116.6**	**$1,245.5**	**$1,372.8**
Implied Highmark Recovery $	$640.2	$837.9	$912.5	$946.4	$946.4	$946.4
Implied Highmark Loss $	(106.2)	(8.5)	(33.9)	-	-	-
Implied Highmark Recovery %	85.8%	99.0%	96.4%	100.0%	100.0%	100.0%
Implied Unsecured Recovery $	-	-	-	$170.2	$299.1	$426.4
Implied Unsecured Recovery %	-	-	-	32.9%	56.6%	79.3%

Total Net Proceeds Sensitivity at 6/30/2015

Multiple of Revenue

Total Unsecured Settlement as a % of Total Unsecured Liabilities	0.300x	0.325x	0.350x
0%	1,010	1,063	1,117
25%	881	934	987
50%	752	805	858
75%	622	676	729
100%	493	546	600

Implied Highmark Loss Sensitivity at 6/30/2015

Multiple of Revenue

Total Unsecured Settlement as a % of Total Unsecured Liabilities	0.300x	0.325x	0.350x
0%	-	-	-
25%	(65)	(12)	-
50%	(195)	(142)	(88)
75%	(324)	(271)	(218)
100%	(453)	(400)	(347)

Source: Highmark report as of 1/16/2013 and H2C's Fairness Opinion, date 2/5/2013.

(1) Per Highmark's projected WPAHS balance sheet as of 1/31/2013.

(2) Includes Deferred Revenue, Self-Insurance Liabilities and Other Liabilities; Assumes Accrued Salaries and Vacation are assumed by the buyer and Floating Rate Restructuring Certificates are extinguished.

(3) 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.

(4) Assumes 45 days of Accrued Interest, based on a principal of $709.7m and interest rate of 5.375%, per H2C's Fairness Opinion.

Blackstone's Modified Recovery Analysis for the Downside Scenario

Highmark's potential financial recovery in the WPAHS Downside scenario in 2015 is estimated to be $476 million, assuming a 0.3x revenue multiple and a 50% settlement to unsecured creditors.

Total Due to Highmark Calculation

($ in millions)

	1/31/2013 LTM	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Remaining Principal on WPAHS 2007A Bonds[3]	$641.6	$641.6	$641.6	$641.6	$641.6	$641.6
Other Highmark Secured Loans to WPAHS[4]	100.0	200.0	300.0	300.0	300.0	328.6
Accrued Interest[5]	4.8	4.8	4.8	4.8	4.8	4.8
Total Due to Highmark	$746.4	$846.4	$946.4	$946.4	$946.4	$975.0

Blackstone's Modified Recovery Calculation – Downside Scenario

($ in millions)

	1/31/2013 LTM	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Total Revenue	$1,637.9	$1,606.4	$1,709.5	$1,849.6	$1,948.8	$2,009.4
Multiple of Revenue	0.30x	0.30x	0.30x	0.30x	0.30x	0.30x
Available Proceeds	**$491.4**	**$481.9**	**$512.9**	**$554.9**	**$584.6**	**$602.8**
Plus: Cash and Investments	174.6	362.5	302.6	259.5	217.9	193.3
Total Proceeds	**$666.0**	**$844.4**	**$815.5**	**$814.4**	**$802.5**	**$796.1**
Mortgage	(27.7)	(27.7)	(23.3)	(12.0)	(2.5)	(2.3)
503(b)(9) Claims	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
Bankruptcy Costs	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Net Recoverable Pre-Unsecured Other Claims	**$558.3**	**$736.7**	**$712.2**	**$722.4**	**$720.0**	**$713.8**
Assumed PBGC Settlement	(137.1)	(126.1)	(107.4)	(107.4)	(107.4)	(107.4)
Other Unsecured Settlement[2]	(157.5)	(127.4)	(131.8)	(139.4)	(143.4)	(146.9)
Total Unsecured Settlement	(294.6)	(253.5)	(239.2)	(246.7)	(250.8)	(254.3)
Total Net Proceeds	**$263.7**	**$483.3**	**$473.0**	**$475.7**	**$469.3**	**$459.6**
Implied Highmark Recovery $	$263.7	$483.3	$473.0	$475.7	$469.3	$459.6
Implied Highmark Loss $	(482.7)	(363.1)	(473.4)	(470.7)	(477.1)	(515.4)
Implied Highmark Recovery %	35.3%	57.1%	50.0%	50.3%	49.6%	47.1%
Implied Unsecured Recovery $	$294.6	$253.5	$239.2	$246.7	$250.8	$254.3
Implied Unsecured Recovery %	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%

Total Unsecured Liabilities

($ in millions)

	Amount
WPAHS Unfunded Pension Liability as of 1/31/2013[1]	$274.2
Other Unsecured Liabilities as of 1/31/2013[2]	315.0
Total Unsecured Liabilities	**$589.2**

Total Net Proceeds Sensitivity at 6/30/2015

Multiple of Revenue

Total Unsecured Settlement as a % of Total Unsecured Liabilities	0.300x	0.325x	0.350x
0%	722	769	815
25%	599	645	692
50%	476	522	568
75%	352	399	445
100%	229	275	321

Implied Highmark Loss Sensitivity at 6/30/2015

Multiple of Revenue

Total Unsecured Settlement as a % of Total Unsecured Liabilities	0.300x	0.325x	0.350x
0%	(224)	(178)	(132)
25%	(347)	(301)	(255)
50%	(471)	(424)	(378)
75%	(594)	(548)	(502)
100%	(717)	(671)	(625)

Source: Highmark report as of 3/7/2013 and H2C's "Forecast Scenarios Comparison," dated March 2013.
(1) Per Highmark's WPAHS balance sheet as of 1/31/2013.
(2) Includes Deferred Revenue, Self-Insurance Liabilities and Other Liabilities; Assumes Accrued Salaries and Vacation are assumed by the buyer and Floating Rate Restructuring Certificates are extinguished.
(3) 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.
(4) Highmark is assumed to fill WPAHS' funding gap of $28.6 million in 2017 in the Downside scenario.
(5) Assumes 45 days of Accrued Interest, based on a principal of $709.7 million and interest rate of 5.375%, per H2C's Fairness Opinion.

B. H2C Fairness Opinion

Blackstone

H2C Fairness Opinion

On February 5, 2013, H2C Securities, Inc. ("H2C") rendered an opinion concerning the fairness of Highmark's purchase of the WPAHS 2007A bonds and making the secured loans under the Affiliation Agreement, from a financial point of view, on behalf of the subscribers and policyholders of Highmark. H2C concluded that, as of the date of their report, Highmark's purchase of the 2007A bonds and making the secured loans are fair, from a financial point of view, to Highmark's subscribers and policyholders.

- **H2C used the following analysis in arriving at its conclusions:**
  - Ability of WPAHS to pay the principal and interest on the 2007A Bonds and the Loans during the FY2013 – FY2017 forecast period
  - Evaluation of WPAHS' credit profile at the end of the financial forecast and the likelihood that WPAHS can refinance its bonds without Highmark support, or with limited Highmark support
  - Analysis of the value under a discounted cash flow and projected value of WPAHS to support the market value of the 2007A Bonds, the Loans and the unrestricted grants
  - Recovery analysis of Highmark's purchase of the 2007A Bonds and the Loans under a restructuring in each of the years ended June 30, 2013, 2014, 2015, 2016 and 2017, including a review of precedent transactions for distressed facilities
- **H2C's opinion concluded that:**
  - WPAHS can cover the principal and interest on the 2007A bonds and the secured loans over the projection period, and WPAHS should be able to access the capital markets and refinance the 2007A bonds without Highmark support, or with limited Highmark support
  - Using a discounted cash flow analysis, WPAHS has an equity value range of ($37m) - $363m and, when factoring in restricted assets, WPAHS has an adjusted equity value range of $229m - $629m
  - Using a range of revenue and EBITDA multiples, WPAHS has an equity value range of $671m - $1.4bn and, when factoring in restricted assets, WPAHS has an adjusted equity value range of $935m - $1.6bn
  - Under a recovery analysis through restructuring based on the proposed security structure, the 2007A bonds and the secured loans have a recovery of 87% to 99% from FY2013 – FY2014, with 100% recovery in FY2015 – FY2017

Source: H2C's Fairness Opinion, dated 2/5/2013.

C. Overview of JRMC Transaction

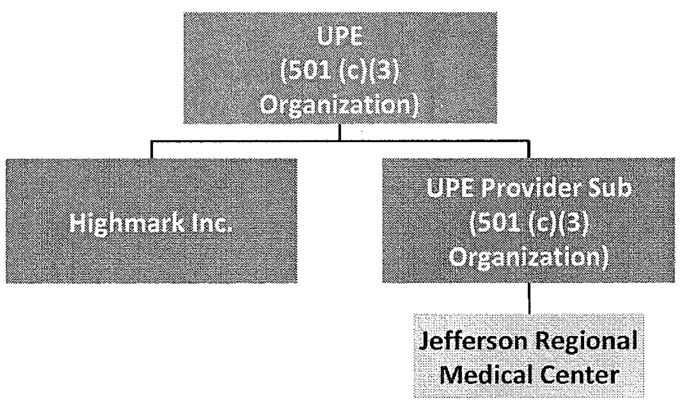
Blackstone

Overview of JRMC Transaction

UPE, UPE Provider Sub and Highmark entered into an Affiliation Agreement with Jefferson Regional Medical Center ("JRMC"), Jefferson Regional Medical Center Foundation ("JRMC Foundation") and various JRMC subsidiaries on August 13, 2012. The JRMC transaction closed on March 1, 2013.

Structure and Pro Forma Governance

- UPE Provider Sub is JRMC's sole corporate member
- Current members of JRMC's Board of Directors will each serve on initial Board post-closing
- 75% of voting Board members perpetually will be appointed by UPE
- 25% of voting Board members initially will be appointed by JRMC
- Number of JRMC appointees will decline over time to six members who will make up a self-perpetuating class of directors
  - Two of these directors will be President and Vice President of JRMC medical staff
  - One of these directors will be a Sister of the religious community of the Sisters of St. Joseph



Funding and Other Commitments

- Highmark will make a grant of up to $100 million to JRMC to fund JRMC capital expenditures
- Highmark will, subject to certain limitations, guarantee JRMC's payment of debt, pensions and other liabilities or provide the same financial support through another structured solutions
- Highmark will make a $75 million grant contribution to the JRMC foundation
- UPE Provider Sub intends to bring tertiary care to JRMC
- Highmark has committed to maintain JRMC staffing levels

Overview of JRMC Transaction (cont'd.)

JRMC Projection Assumptions

- Baseline inflation assumption (Net Patient Revenue and operating expenses) % per year
  - Operating Expenses are %of revenue
-
- In 2014, JRMC is expected to realize a $ m increase in revenue
  - Using a 50/50 assumption for fixed / variable costs results in a ~$ m improvement in EBITDA compared to 2013
- Depreciation expense is expected to increase with the additional $100m in capex with the Affiliation
- Investment results are expected to remain low based on interest rate assumptions as well as additional investments in capex, increase in 2016
- Tax Rate (501(c)(3)) is 0%
- A/R is ~ % of Net Patient Service Revenue based on the 2012 Budgeted ratio
- A/P is ~ % of operating expense based on the 2012 Budgeted ratio
- Debt is assumed to be reduced by debt payments of $ m per year
- Other assets and benefit plan liabilities are held constant

JRMC Historical and Projected Financial Metrics

($ in millions)

	June 30,		December 31,			
	2011A	2012A	2013E	2014A	2015E	2016E
Income Statement						
Net Patient Service Revenue						
Other Operating Revenue						
Total Operating Revenue						
Operating Expense						
EBITDA	$17.2	$20.0	$20.1	$32.6	$36.6	$37.6
Depreciation Expense						
Total Operating Expense						
Operating Gain	($0.1)	$2.9	$3.0	$7.6	$8.4	$6.2
Investment Results						
Interest Expense						
Gifts, Donations and Contrbs.						
Other Income / (Expense)						
Pre-Tax Income (Loss)						
Income Tax Provision						
Net Income (Loss)	$13.4	$3.0	$2.6	$6.7	$7.1	$5.4
EBITDA Margin	*6.4%*	*7.1%*	*6.9%*	*9.9%*	*10.7%*	*10.5%*
Operating Margin	*0.0%*	*1.0%*	*1.0%*	*2.3%*	*2.5%*	*1.7%*
Net Income Margin	*4.9%*	*1.1%*	*0.9%*	*2.0%*	*2.1%*	*1.5%*
Balance Sheet						
Cash and Investments						
Accounts Receivable						
Property and Equipment, Net						
Other Assets						
Total Assets	$319.7	$317.6	$365.0	$371.6	$375.7	$378.7
Total Debt						
Benefit Plan Liabilities						
Other Liabilities(1)						
Total Liabilities	$201.5	$243.8	$243.6	$243.5	$240.5	$238.1
Net Assets / Equity	$118.2	$73.8	$121.4	$128.1	$135.2	$140.6

Source: Highmark financial projections.
(1) 2012A "Other Liabilities" include $34.8 million of "Current Liabilities" and $17.8 million of "Non-Current Liabilities."

D. Overview of SVHS Transaction

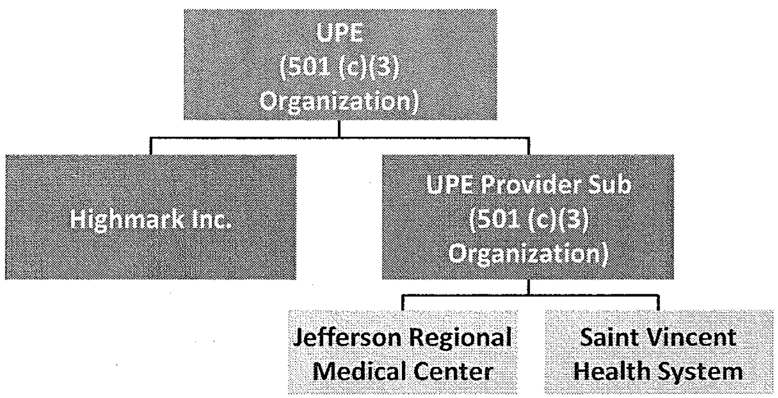
Blackstone

Overview of SVHS Transaction

Highmark and Saint Vincent Health System ("SVHS") have signed a binding Affiliation Agreement.

Structure and Pro Forma Governance

- UPE Provider Sub will become SVHS's sole corporate member
- It is presently contemplated that the Pro Forma SVHS Board will be 75% appointed by UPE and 25% appointed by SVHS – with input from Highmark and UPE



Funding and Other Commitments

- Highmark will make a $10 million payment to the Sisters of St. Joseph of Northwestern Pennsylvania
- Highmark will make a $5 million payment to SVHS to support capital projects
- Highmark will make a $20 million contribution to SVHS
- Highmark has committed to supporting SVHS' long-term capital plan including assistance with capital sourcing and budgeting
- Highmark has committed to providing assistance to SVHS in extending or replacing its existing lines of credit
- Highmark has stated that, for three years post-closing, it will not transfer any cash or investments of SVHS to any other Highmark-controlled entity

Overview of SVHS Transaction (cont'd.)

SVHS Projection Assumptions

- Net Patient Service Revenue: anticipating a shift away from inpatient care to ambulatory, physician, in-home and other non-hospital ways to keep people healthy
- Other revenue is based on high-level assumptions about the expected run-off of the Meaningful Use funding, partially offset by inflation on other items
- Operating expenses are expected to increase with inflation at 2% per year, partially offset by $ m in expense savings through affiliation (IT, insurance, HR, finance, etc.)
- Depreciation is based on the assumed balance between assets falling off the amortization tables and new capex
- Investment results based on the expected continuation of very low rates on short and intermediate term fixed income investments
- Change in A/R is a function of change in total revenue
- PPE is held constant with the exception of the additional $5m contribution from Highmark
- Change in A/P and accrued expenses is a function of change in operating expenses
- Debt paydown assumed to be consistent with the paydown between 2012 and 2011
- Contributions from Highmark are assumed to be booked in 2013 as follows:
  - General Balance Sheet: $20m
  - Capex: $5m

SVHS Historical and Projected Financial Metrics

($ in millions)

	June 30,		December 31,			
	2011A	2012A	2013E	2014A	2015E	2016E
Income Statement						
Net Patient Service Revenue						
Other Operating Revenue						
Total Operating Revenue						
Operating Expense						
EBITDA	$4.8	$16.2	$12.9	$21.4	$25.0	$25.8
Depreciation Expense						
Total Operating Expense						
Operating Gain	($9.0)	$1.6	($1.1)	$7.4	$11.0	$11.8
Investment Results						
Interest Expense						
Gifts, Donations and Contrbs.						
Other Income / (Expense)						
Pre-Tax Income (Loss)						
Income Tax Provision						
Net Income (Loss)	($11.0)	($5.3)	($6.8)	$1.7	$5.2	$6.1
EBITDA Margin	1.5%	4.9%	4.1%	6.6%	7.5%	7.5%
Operating Margin	-2.8%	0.5%	-0.3%	2.3%	3.3%	3.4%
Net Income Margin	-3.4%	-1.6%	-2.1%	0.5%	1.6%	1.8%
Balance Sheet						
Cash and Investments						
Accounts Receivable						
Property and Equipment, Net						
Other Assets						
Total Assets	$338.4	$325.4	$339.1	$339.0	$343.6	$349.2
Total Debt						
Benefit Plan Liabilities						
Other Liabilities(1)						
Total Liabilities	$246.7	$280.8	$276.3	$274.5	$273.9	$273.4
Net Assets / Equity	$91.6	$44.6	$62.8	$64.5	$69.7	$75.8

Source: Highmark financial projections.
(1) 2012A "Other Liabilities" include $46.8 million of "Current Liabilities" and $22.8 million of "Non-Current Liabilities."

E. Overview of Other Provider Capital Commitments

Blackstone

Overview of Other Provider Capital Commitments

Summary of Highmark 'Other Provider Capital Commitments' Process

- The process of evaluating physician practices for acquisitions, affiliations and network participation included: an assessment of geographic and specialty gaps in Highmark's provider network (assuming Highmark's contract with UPMC is terminated), collection of historical financial data, productivity levels and legal documents for potential candidates for affiliation or acquisition, and, in some cases, third party valuation analysis
  - To establish physician employment compensation, Highmark used benchmarking data developed by the Medical Group Management Association and peer comparison
- The process regarding the assessment of medical malls and ambulatory surgery centers involved internal Highmark personnel (Actuarial, Finance and Real Estate Departments), outside management consultants and real estate valuation experts
  - Financial projections and a business plan were developed in order to: assess optimal locations for medical mall facilities and understand capital requirements, volume/revenue estimates, pricing and cost structures
- Highmark engaged an outside consulting firm to help evaluate the need for a group purchasing organization ("GPO") and distribution center within the IDN strategy.
  - A work group, consisting of internal Highmark personnel and external consultants, was formed and financial modeling was undertaken to assess the financial impact of undertaking an investment in the development of a GPO
- Execution on each of these strategies involved, depending on the level of investment required, approval from either Highmark's Board of Directors or the Board's Network Strategy Committee

Highmark's Financial Commitments in the Transaction Scenario

($ in millions)

Funding Recipient	Amount
Total Grants and UPE Loans	$1,834.4
Less: WPAHS Commitments[1]	(1,154.4)
Less: JRMC Commitments[2]	(175.0)
Less: SVHS Commitments	(35.0)
Other Provider Spending Subtotal	**$470.0**
Breakdown of Other Provider Spending:	
Other UPE Grants	
Unrestricted Grant to UPE for Non-WPAHS Purposes	$94.0
Highmark Payments to PLZ for Participation in Network	123.0
MSO Development Expense	8.0
/ Center of Innovation	5.0
HMPG Investments - for Real Estate Acquisitions[3]	32.0
Other UPE Loans	
Highmark Loan to - for Physician Affiliations	$83.0
Highmark Loan to Provider PPI LLC (Formation of GPO)	18.0
Highmark Line of Credit to HMPG to Finance Medical Malls	107.0
Total	**$470.0**

Source: Highmark.

(1) WPAHS capital outlays include $475 million Funding Commitment, $646 Tender Offer for WPAHS Series 2007A Bonds (assuming 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, and assuming that Highmark pays accrued interest and purchases the remainder of the bonds at par, and $33 million in grants to WPAHS for Cash Advances and A&M Fees.

(2) JRMC spending includes $75 million Unrestricted Grant to JRMC and maximum potential capital expenditures grant to JRMC of $100 million; Highmark's projections use $45 million capital expenditures grant.

(3) 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.

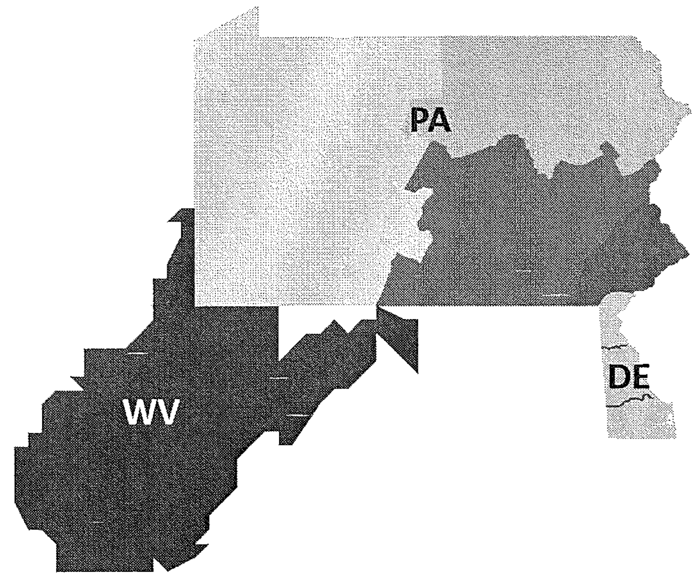
F. Overview of Highmark

Blackstone

Highmark Overview

Highmark is incorporated as a non-profit corporation and operates as a hospital plan and a professional health services plan in the Commonwealth of Pennsylvania. As a licensee of the Blue Cross and Blue Shield Association, Highmark underwrites various indemnity and managed care health insurance products.

- Highmark is one of 10 largest health insurance companies in the U.S. in terms of membership and is one of the largest not-for-profit Blue Plans
- As of December 2011, Highmark offered the nation's:
  - Seventh largest Medicare Advantage plans by membership
  - Third largest vision managed care by membership
  - Third largest optical retail chain by revenue
  - Sixth largest dental insurance by membership
  - Third largest Stop Loss by gross premium
- The company holds an "A" rating from Standard & Poor's and A.M. Best for its balance sheet, capitalization and market position



Historical Financial Results

The following represents Highmark's Combined GAAP financial results for years 2007 – 2011.

Highmark's Combined GAAP Financial Results 2007 - 2011
($ in millions)

	Year Ended December 31,				
	2007	2008	2009	2010	2011
Premium Revenue	$10,252	$11,020	$11,541	$12,294	$12,475
Management Services Revenue	622	626	653	685	716
Vision Revenue	963	1,077	1,126	1,159	1,205
Other Revenue	189	198	213	216	232
Total Operating Revenue	**12,026**	**12,921**	**13,534**	**14,354**	**14,628**
Claims Incurred	9,045	9,692	10,223	10,605	10,849
Operating Expenses	2,749	2,978	3,138	3,266	3,410
Total Operating Expenses	**11,794**	**12,671**	**13,362**	**13,871**	**14,259**
Operating Income	$232	$250	$172	$483	$370
Net Investment Income	235	160	148	143	142
Net Realized Gain (Loss) on Investments	164	(79)	13	99	7
Gain on Sale of Business Interests	–	–	–	–	–
Interest Expense	(68)	(61)	(53)	(42)	(53)
Change in Premium Deficiency Reserves	(2)	(107)	(8)	(46)	11
Income before Income Taxes	**559**	**163**	**272**	**637**	**476**
Income Tax Provision	184	69	84	174	31
Net Income	$375	$94	$188	$463	$445
Medical Loss Ratio	88.2%	88.0%	88.6%	86.3%	87.0%
Administrative Expense Ratio	22.9%	23.1%	23.2%	22.8%	23.3%
Operating Income Margin	1.9%	1.9%	1.3%	3.4%	2.5%
Net Income Margin	3.1%	0.7%	1.4%	3.2%	3.0%

Note: Sub totals may differ from the sum of amounts shown by +/- 1 due to rounding of decimal places not displayed

Source: Highmark.

GAAP Balance Sheet

As of December 31, 2011, Highmark had total assets of $10.6 billion and total reserves of $5.0 billion.

Highmark Combined Balance Sheet – GAAP Basis

($ in millions)

	As of December 31,				
	2007A	2008A	2009A	2010A[1]	2011A
Cash and Cash Equivalents	$1,019	$803	$989	$1,143	$1,116
Investments	3,919	3,459	3,733	4,161	5,064
Accounts Receivable	1,310	1,545	1,580	1,709	1,922
Property and Equipment, Net	354	402	471	489	539
Goodwill and Other Intangibles, Net	830	821	810	852	904
Other Assets	1,494	1,691	1,106	1,046	1,074
Total Assets	$8,926	$8,720	$8,688	$9,399	$10,619
Claims Outstanding	1,763	1,822	1,897	1,945	2,078
Unearned Subscription Revenue	360	274	282	317	315
Debt	800	778	795	626	1,120
Other Liabilities	2,026	2,296	1,519	1,886	2,145
Total Liabilities	$4,949	$5,169	$4,494	$4,774	$5,657
Accumulated Other Comprehensive Income	106	(414)	42	9	(99)
General Reserves	3,871	3,965	4,153	4,615	5,060
Total Reserves	$3,977	$3,551	$4,195	$4,625	$4,961
Total Liabilities and Reserves	$8,926	$8,720	$8,688	$9,399	$10,619

Note: Sub totals may differ from the sum of amounts shown by +/- 1 due to rounding of decimal places not displayed

Source: Highmark.

(1) Certain 2010 balances were reclassified to conform to the 2011 presentation.

Overview of Highmark Entities

Highmark's financials are comprised of 15 legal entities.

Subsidiaries

Keystone Health Plan West (KHPW)

- Health maintenance organization (HMO) offering commercial, Medicare Advantage (Security Blue) and direct pay coverage to individuals and groups in the 29 county region of Western Pennsylvania

HM Health Insurance Company (HHIC)

- HHIC conducts both direct written and assumed business
  - Direct Written Business
    - Small group market (2-50 members) in Western and Central Pennsylvania and a portion of direct pay guaranteed issue conversion business in Pennsylvania
    - West Virginia Medicare Advantage PPO employer group and direct pay business
    - Medicare Part D prescription drug coverage
  - Assumed Business
    - Effective January 1, 2011, HHIC assumed the remainder of the Pennsylvania insured business of Highmark Inc., with the exception of Medicare Advantage and certain social mission products, through a 100% coinsurance reinsurance agreement; this agreement was terminated on January 1, 2013

Highmark Senior Resources (HSR)

- HSR is not currently active

Highmark West Virginia Inc. (HWV)

- HWV is a nonprofit health service corporation in West Virginia providing or administering insurance coverage, including commercial group and direct pay. HWV also provides coverage to members of the Federal Employees Health Benefits Program

United Concordia Companies, Inc. (UCCI)

- UCCI is one of the nation's largest dental insurers, covering more than 8 million members in the United States and worldwide through a network of more than 72,000 participating dentists

Overview of Highmark Entities (cont'd.)

Subsidiaries (cont'd.)

HVHC Inc.

- HVHC is a for-profit holding company for a portfolio of vision companies including Davis Vision, Inc., Viva Optique, Inc. and Visionworks of America, Inc.
  - Davis Vision, Inc.
    - Davis Vision has been one of the nation's leading vision benefits companies for nearly 50 years. Davis Vision's national provider network includes more than 30,000 independent ophthalmologists and optometrists
  - Viva Optique, Inc. (Viva)
    - Viva has steadily grown to become a worldwide leader in ophthalmic frames and sunglasses distribution and manufacturing.
    - Major brands include GUESS and Harley Davidson
    - In addition to its U.S. operations, Viva currently has six direct sales offices in the United Kingdom, France, Brazil, Canada, Japan and Hong Kong. The company has global distribution in more than 90 countries
  - Visionworks of America, Inc. (Visionworks)
    - Visionworks operates over 500 retail optical stores in 40 states, and is the largest U.S. owned retail vision specialty chain

HM Insurance Group, Inc. (HMIG)

- HMIG is a recognized leader in excess loss and reinsurance, including employer stop-loss, provider excess, workers comp and HMO reinsurance. HMIG also offers a product portfolio of health risk solutions that includes HM Worksite Advantage (critical illness, accident, disability income and term life insurance)
- Through HM Life Insurance Company and HM Life Insurance Company of New York, HMIG holds licenses in 50 states and the District of Columbia and is supported by 24 regional sales offices across the country

Overview of Highmark Entities (cont'd.)

Subsidiaries (cont'd.)

Real Estate Group (Standard Property Corporation (SPC) / Jenkins Empire Associates (JEA))

- Standard Property manages real estate for Highmark and its subsidiary companies and affiliates and is responsible for the acquisition, management, leasing and disposal of real estate and related assets, along with the design, construction and furnishings of office and related space
- Jenkins Empire Associates owns and operates Highmark's Fifth Avenue Place Building in downtown Pittsburgh

HCI, Inc. (HCI)

- HCI is a for profit stock corporation domiciled in Vermont serving as a captive insurance company
- HCI is used to insure certain risks (errors & omissions and directors & officers coverage) for Highmark and its subsidiaries

Highmark Ventures Inc. (HVI)

- HVI is a wholly owned for-profit subsidiary that invests in venture capital investments for strategic operating purposes

Affiliates

Gateway Health Plan (Gateway)

- Gateway is a 50% owned affiliate that Highmark jointly owns with Mercy Health Plan
- Gateway provides managed care services to Medicaid recipients in 22 counties across Pennsylvania as well as insurance to individuals eligible for both Medicaid and Medicare under a Medicare Advantage contract with CMS in 27 Pennsylvania counties

First Priority Health (FPH) / First Priority Life Insurance Company (FPLIC)

- FPH and FPLIC are 40% owned affiliates that Highmark jointly owns with Blue Cross of Northeastern PA
- Both companies offer commercial and direct pay insurance to members located in Northeastern PA

G. Overview of West Penn Allegheny Health System

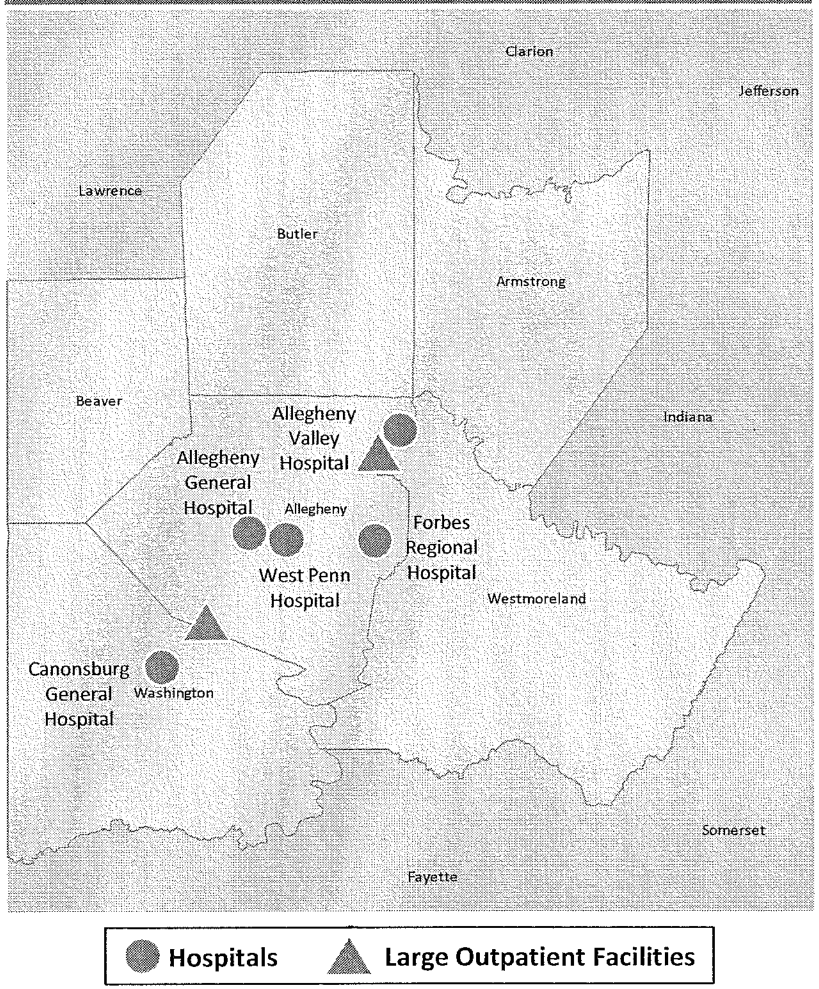
Blackstone

West Penn Allegheny Health System Overview

West Penn Allegheny Health System ("WPAHS" or "the System") is a regional health provider serving Allegheny, Armstrong, Butler, Beaver, Washington, and Westmoreland counties.

- WPAHS is the 2nd largest healthcare provider in the Greater Pittsburgh market
  - Five acute care hospitals operating ~1,600 inpatient beds and providing a full range of clinical services
  - The System's hospitals have over 1,700 physicians on the Medical Staff and the Physician Organization (or "PO") employs 600+ physicians
  - Provides training for 450 medical residents and 250 nursing and allied health students annually
  - ~11,000 employees
  - Provides over $4 billion of economic value to the communities served[1]
  - ~17% of inpatient market share (vs. ~41 % market share of UPMC) in Greater Pittsburgh
  - Major provider of critical community medical services such as Level I trauma, neonatal intensive care, and burn care

Location of WPAHS Facilities in Six County Region



Source: WPAHS.
(1) Per Hospital and Health System of Pennsylvania Report, April 2011.

Brief History and Reputational Highlights

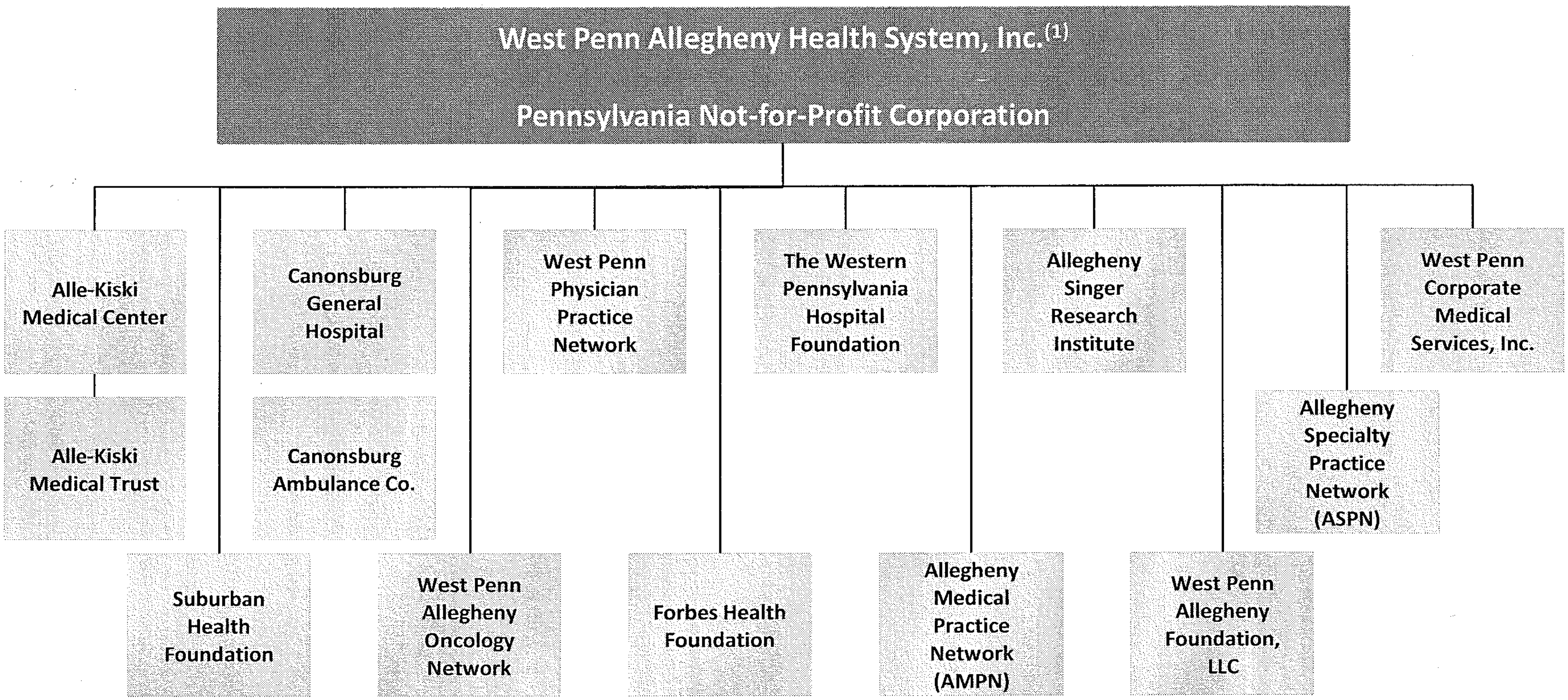
WPAHS was formed in 2000 and its current structure is an affiliation of five hospitals.

- Selected Facility highlights include[1]:
  - **Allegheny General Hospital ("AGH")** – established in 1885 (Licensed Beds: 631; FY2012 Discharges:
    - Site of State's first trauma program, heart valve replacement surgery and CT scan; first or among first in country to perform heart transplantation, deep brain stimulation for Parkinson's, robotic kidney nephrectomy, prostate cryosurgery, spine microdiscectomy and air medical transportation
    - Ranked among nation's top 50 programs in cardiology and heart surgery, gastroenterology and orthopedics; offers Spine Surgery Center of Excellence, Primary Stroke Center and Comprehensive Epilepsy Center
  - **West Penn Hospital ("WPH")** – established in 1848 (Licensed Beds: 268; FY2012 Discharges:
    - Pittsburgh's first chartered public hospital and one of the nation's first teaching hospitals, region's first designated Magnet Hospital for nursing excellence
  - **Forbes Regional Hospital ("FRH")** – established in 1978 (Licensed Beds: 350; FY2012 Discharges:
    - Serves Pittsburgh's eastern suburbs and western Westmoreland County; one of region's busiest emergency departments
    - Certified Chest Pain and Stroke Centers; Forbes Regional Heart Surgery Program; Joint and Spine and Women's and Infants Centers
  - **Allegheny Valley Hospital ("AVH")** – established in 1909 (Licensed Beds: 258; FY2012 Discharges:
    - Offers a broad spectrum of inpatient and outpatient programs, including medical and surgical services, psychiatric care, geriatric, cardiology, cancer care and orthopedics
  - **Canonsburg General Hospital ("CGH")** – established in 1904 (Licensed Beds: 104; FY2012 Discharges:
    - Advanced diagnostic and treatment services accessible on inpatient and outpatient basis; 16-bed inpatient rehabilitation unit; advanced orthopedics

(1) Source: WPAHS.

Corporate Organizational Overview

WPAHS' legal organizational structure is depicted below. Upon closing, UPE Provider Sub, a separate non-profit entity, will be the sole member of West Penn Allegheny Health System, Inc.



Source: Highmark.
(1) WPAHS operates Allegheny General Hospital, the Western Pennsylvania Hospital and Forbes Regional Hospital.

Historical Financial Results

The following represents WPAHS' financial results for years 2007 – 2012.

WPAHS Consolidated Income Statement

($ in millions)

	Year Ended June 30,					
	2007A	2008A	2009A	2010A	2011A	2012*
Net Patient Service Revenue	$1,428	$1,452	$1,552	$1,564	$1,504	$1,475
Provision for Bad Debts	(44)	(40)	(40)	(69)	(69)	(81)
Other Revenue	54	57	57	62	87	81
Net Assets Released from Restrictions	7	5	5	4	5	4
Total Unrestricted Revenues, Gains and Other Support	**1,444**	**1,474**	**1,573**	**1,561**	**1,527**	**1,478**
Salaries, Wages and Fringe Benefits	827	871	893	858	849	866
Patient Care Supplies	286	293	299	299	275	280
Professional Fees and Purchased Services	106	117	149	156	158	164
General and Administrative	131	146	142	152	171	166
Depreciation and Amortization	62	69	55	74	61	66
Interest	49	67	74	41	38	40
Restructuring	–	–	–	–	27	9
Total Expenses	**1,461**	**1,563**	**1,612**	**1,580**	**1,579**	**1,591**
Operating Income	($17)	($89)	($38)	($19)	($52)	($113)
Impairment Loss	–	–	–	(71)	–	–
Investment Income	23	30	12	26	18	14
Gifts and Donations	–	1	1	1	51	59
Loss on Debt Refinancing	(85)	–	–	–	–	–
Gain from divestiture	–	–	–	–	10	–
Gain (Loss) in Joint Venture Investment	–	–	–	–	(6)	2
(Deficiency)/Excess of Revenues over Expenses	($79)	($58)	($25)	($63)	$20	($38)

Source: WPAHS 2007 – 2011 Audited Financial Statements, and WPAHS 2012 Unaudited Financial Statements.
*Per WPAHS 2012 Unaudited Financial Statements, which can be found at: http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf.

Balance Sheet

As of June 30, 2012, WPAHS had total assets of $1.3 billion and total liabilities of $1.5 billion.

WPAHS Consolidated Balance Sheet

($ in millions)

	Year Ended June 30,					
	2007A	2008A	2009A	2010A	2011A	2012*
Cash and Cash Equivalents	$84	$79	$122	$169	$165	$194
Short-term Investments	–	1	6	5	5	5
Net Patient Accounts Receivable	188	171	170	161	132	137
Other Receivables	22	12	9	25	33	25
Inventory	25	27	27	24	23	21
Property and Equipment, Net	579	427	407	319	369	394
Assets Limited or Restricted as to Use	397	490	436	435	431	401
Other Current Assets	12	14	17	22	33	15
Other Noncurrent Assets	73	71	59	59	56	75
Total Assets	$1,380	$1,292	$1,253	$1,218	$1,247	$1,268
Current Portion of Long-Term Debt	4	4	13	13	15	16
Long-Term Debt	829	826	813	800	792	879
Accrued Pension Obligation	129	125	222	298	196	279
Accounts Payable	65	86	79	107	85	87
Other Current Liabilities	95	99	97	85	134	104
Other Noncurrent Liabilities	112	108	116	118	123	138
Total Liabilities	$1,234	$1,247	$1,341	$1,421	$1,346	$1,503
Net Assets (Deficit):						
Unrestricted	(153)	(230)	(312)	(435)	(357)	(481)
Temporarily Restricted	37	33	28	26	23	23
Permanenty Restricted	263	242	196	207	234	223
Total Net Assets / (Deficit)	$146	$45	($88)	($202)	($99)	($235)
Total Liabilities and Reserves	$1,380	$1,292	$1,253	$1,218	$1,247	$1,268

Source: WPAHS 2007 – 2011 Audited Financial Statements, and WPAHS 2012 Unaudited Financial Statements.
*Per WPAHS 2012 Unaudited Financial Statements, which can be found at: http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf.