TRINITY HEALTH
Novi, Michigan

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SUBJECT: Trinity-Health – Quarterly Newsletter

Dear Sir/Madam:

Fiscal Year 2007-Third Quarter Results

Trinity Health's consolidated operating income for the nine months ended March 31, 2007 totaled $266 million, $30 million higher than for the first nine months of FY 2006. The operating margin was 5.5%, up from 5.2% during the same period of the prior year. These results include the impact of favorable unusual items of $21 million in FY 2007 and $35 million in FY 2006. Excluding unusual items, the operating margins for the first nine months of FY 2007 and FY 2006 were 5.1% and 4.5% respectively. The operating cash flow margin before unusual items was 11.9% for the first nine months of FY 2007 compared to 10.9% during the same period of the prior year.

Operating revenue increased 6.3% from the same period in the prior year, with annualized revenue at $6.4 billion. Operating expenses increased 5.6% from prior year due primarily to a 3% increase in labor expenses and a 9.3% increase in supply expenses.

Net income increased to $462 million during the nine months of FY 2007 from $437 million during the same period last year while the net margin remained unchanged at 9.2%. The year-over-year improvement was due to improved operations and strong investment performance. Although we have experienced several years of strong investment returns, we continue to experience significant fluctuations in the capital markets that will likely impact future returns.

During the nine-month period ended March 31, 2007, net assets increased $599 million to $5 billion. Days cash on hand increased nine days to 220 days despite $194 million of supplemental contributions to the pension plan in March. During this same period, the ratio of cash to debt increased from 148% to 152%, the ratio of debt to capitalization decreased from 33.5% to 31.9%, and the debt to cash flow decreased from 3.2 to 2.7.

Although margins are strong, key areas of concern continue to include outpatient volumes, productivity, supply costs and bad debt expense.

Corporate Highlights – Third Quarter 2007

The Board of Directors unanimously elected, and the Catholic Health Ministry Directors unanimously ratified the election of **Patrick G. Hays** to be Trinity Health's new Board Chair. He succeeds William Kreykes, who will continue to serve on the board after fulfilling the maximum three-year

term as board chair. Mr. Hays is Adviser to Management and Clinical Professor at the University of Southern California, retired President and CEO of the Blue Cross Blue Shield Association and was the founding President and CEO of Sutter Health in Sacramento, California. Mr. Hays has been a board member since Trinity Health was formed in 2000.

In support of Trinity Health's Strategic Plan, leaders from across the system gathered in Chicago in February for a summit on "**Managing Mission and Margin**," where they shared innovative approaches that promote growth, collaboration, and improved operating performance and service excellence.

Trinity Health assembled 83 chief executives, trustees, advocacy liaisons and corporate staff from 19 Ministry Organizations in Washington, D.C., for **Advocacy Action Day** on March 28-29. It was the fourth time since 2004 that Trinity Health and its advocacy partner, Catholic Healthcare Partners (Cincinnati) met with dozens of senators and representatives to help influence health care legislation. The visit coincided with the introduction of the **Communities Building Access Act (HR 1683),** introduced March 27 in the U.S. House of Representatives by Peter Hoekstra (R-MI) and Bart Stupak (D-MI). The proposal would provide $45 million in federal grants to spark locally focused solutions to the national issue. Trinity Health and CHP were instrumental in drafting the legislation.

President and CEO Joseph Swedish's speech outlining Trinity Health's **three-year, seven-point diversity strategy** was enthusiastically received at a breakfast sponsored by the Institute for Diversity in Health Management, part of the American College of Healthcare Executives (ACHE) 2007 Congress on Healthcare Leadership, held in New Orleans on March 21. The diversity and inclusion strategy is designed to advance the vision of developing a culturally competent organization that can better address and eradicate the divergence in health care experienced by minorities.

Trinity Health was the only health system in the nation to be honored at the Corporate University Xchange Awards for **Excellence and Innovation in Corporate Learning**. Trinity Health received the Best Practice Award for Leadership Development.

More than $1.65 million in grants was awarded in the first two cycles of Trinity Health's **Call to Care community health initiative**. The grants support nine programs that are focused on eliminating disparities and chronic illnesses in nine locations in Michigan, Iowa and Ohio.

Trinity Health has entered into a non-binding agreement to sell its **half-interest in St. Joseph's Healthcare (**SJH) in Clinton Township, Michigan to Henry Ford Health System, based in Detroit. As joint-venture partners, the two health systems have each owned 50 percent of SJH since 1990. The agreement between the two health care systems provides the structure for an in-depth review of the proposed purchase. The goal is to complete the due diligence and, if the decision is made to proceed, to finalize the agreement by early summer.

The **sale of Care Choices HMO and Preferred Choices PPO** to Priority Health was finalized April 1, following approval by the State of Michigan Office of Financial and Insurance Services. Priority Health, based in Grand Rapids, Michigan, is a non-profit organization owned by three health care systems.

On March 16-19, St. Joseph Mercy Oakland (Pontiac, Mich.) became the 10th Ministry Organization to go live with **Genesis**, Trinity Health's state-of-the-art clinical and revenue cycle system.

The **Supply Chain Information System (SCIS)** using Lawson software was activated in February at Mercy Medical Center – Dubuque (Dubuque, Iowa). This was Trinity Health's 12th site to launch SCIS.

In April, Trinity Health's Home Office became the 10th location to launch PeopleSoft, Trinity Health's **Human Resources Management System (HRMS)**.

Ministry Organization Highlights – Third Quarter 2007

Several **Mercy Home Care** agencies across the system have been named to the 2006 Home Care Elite list. The list names Medicare-certified agencies whose performance measures in quality, improvement and financial performance are among the top 25 percent of providers nationwide. Additionally, the 2006 HomeCare Elite report indicates those providers ranked in the top 500 of providers nationwide. The 2006 Home Care Elite includes: Mercy Home Care – Cadillac (also a top 500), Mercy Homecare and Hospice – Clinton (also a top 500). Mercy Home Care – Grayling, Mercy Home Care – Mason City (also a top 500), Mercy Home Care – Port Huron, and Mercy Home Care – Sioux City.

Mercy Hospital – Grayling (Mich.) opened a new Emergency Department, which more than triples the size of the previous ED. The $6.3 million structure – built in part with $2.3 million in community gifts – includes 15 private treatment rooms, two trauma rooms and a three-shower decontamination room.

Mercy Medical Center – North Iowa (Mason City) was named one of the top performers in the groundbreaking Centers for Medicare and Medicaid Services (CMS) / Premier Inc. pay-for-performance project that rewards hospitals for delivering higher quality care in five clinical areas. Mercy-North Iowa will receive a bonus payment of $125,000 from CMS, which awarded incentive payments of $8.7 million to 115 top-performing hospitals.

Mount Carmel Health System (Columbus, Ohio) was honored as a 2006 Care Science Select Practice Customer Leader in the treatment of Acute Myocardial Infarction with Percutaneous Coronary Intervention (PCI) excluding Bypass or Valve Surgery.

The Co-generation Plant at **Saint Agnes Medical Center** (Fresno, Calif.) surpassed $10.6 million in energy cost savings – more than paying for the $10.1 million project, which came online in April 2001.

Saint Alphonsus Regional Medical Center (Boise, Idaho) installed a new energy-saving heating, ventilation and air conditioning unit with the help of a grant from Idaho Power, which awarded the hospital $80,000 to reduce energy costs. The previous system cost approximately $140,000 annually in electricity; that number has now been cut in half.

Saint Joseph Mercy Health System (Ann Arbor, Mich.) opened the doors to the operating room of the future – a new 60,000-square-foot Surgery Pavilion that is designed to adapt to the changing nature of health care technology. The pavilion provides patients with immediate access to the most advanced treatment options and surgical procedures being conducted anywhere.

Additionally, Saint Joseph Mercy Health System has purchased the revolutionary **CyberKnife® Robotic Radiosurgery System.** The first health care system in the state of Michigan to offer the CyberKnife System to patients seeking cancer treatment, SJMHS will have one of only 50 units nationwide. This advanced radiosurgery system non-invasively treats cancers anywhere in the body, procedures that are otherwise impossible with existing radiosurgical technologies that focus only on treating the brain.

Saint Joseph Regional Medical Center (South Bend, Ind.) and the Rehabilitation Institute of Chicago announced a strategic partnership that will expand access to world-class physical medicine and rehabilitation services to the citizens of north central Indiana.

Saint Mary's Health Care (Grand Rapids, Mich.) and Michigan State University finalized their agreement regarding Saint Mary's role in the MSU medical school move to Grand Rapids. The agreement includes joint recruitment of specialists and researchers, as well as broad involvement of Saint Mary's medical staff as faculty.

Representatives of Trinity Health senior management will be participating in the "Non-Profit Health Care Investor Conference" sponsored by the American Hospital Association, Healthcare Financial Management and Citigroup in New York on May 22-23. The conference will take place at the Sheraton New York Hotel and Trinity Health will be making its investor presentation at 11:30 a.m. on May 22nd in the Metropolitan Ballroom East. We hope you can attend the presentation and the question and answer session that will immediately follow.

We appreciate your continued support of Trinity Health.

Sincerely,

Edward Chadwick
Senior Vice President and Chief Financial Officer

Attachments

TRINITY HEALTH
SUMMARY CONSOLIDATED BALANCE SHEETS
($ in millions)

ASSETS	June 30, 2006 (AUDITED)	March 31, 2007 (UNAUDITED)
CURRENT ASSETS:		
Cash, cash equivalents, and investments	$ 1,606	$ 1,639
Security lending collateral	251	290
Accounts receivable	762	820
Inventory, prepayments and other	155	157
Total current assets	2,774	2,906
ASSETS LIMITED OR RESTRICTED AS TO USE:		
Held by trustees under bond indenture agreements	234	192
Self-insurance, benefit plans and other	394	383
By Board	1,552	1,809
By donors	138	150
Total assets limited or restricted as to use	2,318	2,534
PROPERTY AND EQUIPMENT, NET	2,728	2,898
OTHER LONG-TERM ASSETS	399	674
TOTAL ASSETS	$ 8,219	$ 9,012

LIABILITIES AND NET ASSETS	June 30, 2006 (AUDITED)	March 31, 2007 (UNAUDITED)
CURRENT LIABILITIES:		
Commercial paper	$ 20	$ 20
Current portion of long-term debt	56	50
Accounts payable and other	715	693
Payable under security lending agreements	251	290
Total current liabilities	1,042	1,053
LONG-TERM DEBT, NET OF CURRENT PORTION	2,064	2,195
OTHER LONG-TERM LIABILITIES	605	639
Total liabilities	3,711	3,887
EXTERNAL FINANCIAL INTEREST	122	140
NET ASSETS:		
Unrestricted	4,253	4,843
Restricted	133	142
Total net assets	4,386	4,985
TOTAL LIABILITIES AND NET ASSETS	$ 8,219	$ 9,012

TRINITY HEALTH
SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN UNRESTRICTED NET ASSETS
($ in millions)

	NINE MONTHS ENDED March 31, 2006 (UNAUDITED)	NINE MONTHS ENDED March 31, 2007 (UNAUDITED)
UNRESTRICTED REVENUE	$ 4,501	$ 4,784
EXPENSES:		
Labor expenses	2,212	2,278
Supplies	738	807
Purchased services	561	606
Depreciation and amortization	232	251
Provision for bad debts	161	181
Interest	56	69
Other	340	347
Total expenses	4,300	4,539
OPERATING INCOME BEFORE UNUSUAL ITEMS	201	245
UNUSUAL ITEMS:		
Arbitration settlement	35	-
Lawsuit settlement	-	21
OPERATING INCOME	236	266
NON-OPERATING ITEMS, PRIMARILY INVESTMENT EARNINGS:	201	196
EXCESS OF REVENUE OVER EXPENSES	437	462
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Change in net unrealized gains on marketable securities	77	126
Change in market value of interest rate swaps	12	(10)
Other	16	12
INCREASE IN UNRESTRICTED NET ASSETS	$ 542	$ 590