UPMC
LIFE CHANGING MEDICINE

UPMC Unaudited Quarterly Disclosure

For the Period Ended June 30, 2018

UPMC UNAUDITED QUARTERLY DISCLOSURE

FOR THE PERIOD ENDED JUNE 30, 2018

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The following financial data as of June 30, 2018 and for the three and six month periods ended June 30, 2018 and 2017 is derived from the interim consolidated financial statements of UPMC. The interim consolidated financial statements include all adjustments consisting of a normal recurring nature that UPMC considers necessary for a fair presentation of its financial position and the results of operations for these periods. The financial information as of December 31, 2017 is derived from UPMC's audited consolidated financial statements. Operating and financial results reported herein are not necessarily indicative of the results that may be expected for any future periods.

The information contained herein is being filed by UPMC for the purpose of complying with its obligations under Continuing Disclosure Agreements entered into in connection with the issuance of the series of bonds listed herein and disclosure and compliance obligations in connection with various banking arrangements. The information contained herein is as of June 30, 2018. Digital Assurance Certification, L.L.C., as Dissemination Agent, has not participated in the preparation of this Unaudited Quarterly Disclosure, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.

UPMC LIFE CHANGING MEDICINE

INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2018

UPMC, doing business as the University of Pittsburgh Medical Center, is one of the world's leading Integrated Delivery and Financing Systems ("IDFS"). UPMC is based in Pittsburgh, Pennsylvania and primarily serves residents of western Pennsylvania. We also draw patients for highly specialized services from across the nation and around the world. UPMC's more than 30 hospitals and more than 600 clinical locations comprise one of the largest nonprofit health systems in the United States. UPMC has three major divisions: Health Services, Insurance Services, and UPMC Enterprises.

We are committed to providing the communities that our hospitals, outpatient centers and other health care facilities serve, as well as our insurance members, with high quality, cost-effective health care while continuing to grow our business and execute on our mission to provide Life Changing Medicine. As the stewards of UPMC's community assets, we are guided by our core values of integrity, excellence, respect and teamwork. These values govern the manner in which we serve our communities and are embedded in the execution and delivery of Life Changing Medicine.

UPMC continues to make significant investments in equipment, technology, education and operational strategies designed to improve clinical quality at our hospitals and outpatient centers. As a result of our efforts, UPMC Presbyterian Shadyside is consistently ranked on the *U.S. News & World Report* Honor Roll of America's Best Hospitals. Investments in our operations and continued capital improvements are expected to become increasingly important as the competitive environment of the western Pennsylvania market and changes to health care nationally continue to progress and change the landscape of patient care and reimbursement. We build new facilities, make strategic acquisitions, and enter into joint venture arrangements or affiliations with health care businesses — in each case in communities where we believe our mission can be effectively utilized to improve the overall health of those communities.

By continually evolving and refining UPMC's world-class financial processes, we focus on achieving optimal financial results that support the continued development of our organization, as well as ongoing investment in the future of Pennsylvania. We are committed to achieving these objectives with unyielding commitments to transparency in reporting and disclosure, enterprise-wide integration, and ongoing process improvement.

The purpose of this section, Management's Discussion and Analysis ("MD&A"), is to provide a narrative explanation of our financial statements that enhances our overall financial disclosures, to provide the context within which our financial information may be analyzed, and to provide information about the quality of, and potential variability of, our financial condition, results of operations and cash flows.

Unless otherwise indicated, all financial and statistical information included herein relates to our continuing operations, with dollar amounts expressed in thousands (except for statistical information). MD&A should be read in conjunction with the accompanying unaudited consolidated financial statements.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Six Months Ended June 30	2018	2017
Operating revenues	**$ 9,253**	$ 7,521
Operating income	**$ 176**	$ 135
Operating margin	**1.9 %**	1.8%
Operating margin (including income tax and interest expense)	**0.9 %**	0.9%
(Loss) gain from investing and financing activities	**$ (41)**	$ 270
Excess of revenues over expenses	**$ 116**	$ 376
Operating EBIDA	**$ 483**	$ 387
Capital expenditures	**$ 429**	$ 302
Reinvestment ratio	**1.39**	1.20

Selected Other Information as of	June 30, 2018	December 31, 2017
Total cash and investments	**$ 7,576**	$ 7,504
Unrestricted cash and investments	**$ 5,666**	$ 5,407
Unrestricted cash and investments over long-term debt	**$ 1,500**	$ 1,471
Days of cash on hand	**116**	128
Days in net accounts receivable	**44**	39
Average age of plant	**8.9**	8.7**

*** Adjustments to comparable period to include recent affiliations*

Operating revenues for the six months ended June 30, 2018 increased $1.7 billion, or 23%, as compared to the six months ended June 30, 2017. Operating income for the six months ended June 30, 2018 increased $41 million over the same period in the prior fiscal year. Operating earnings before interest, depreciation and amortization totaled $483 million, and excess of revenues over expenses was $116 million. As of June 30, 2018, UPMC had more than $7.5 billion of cash and investments.

For the six months ended June 30, 2018:

- Hospital medical-surgical admissions and observation cases increased 23% compared to the prior year.
- Hospital outpatient revenue per workday increased 37% compared to the prior year.
- Physician service revenue per weekday increased 13% from the comparable period in the prior year, and
- Enrollment in UPMC's Insurance Services grew to over 3.4 million members as of June 30, 2018.

UPMC's gain from investing and financing activities, excluding UPMC Enterprises activity, for the six months ended June 30, 2018 was $4 million. UPMC made no material changes to its asset allocation policies during the quarter and continues to have a long-term perspective with regard to its investment activities.

BUSINESS HIGHLIGHTS

To meet the growing demand for high-quality cancer care in China, where cancer is the leading cause of death, Tahoe Hospital Management Co. Ltd. and UPMC in June 2018 announced a five-year agreement for UPMC to assist in the planning and operation of an expanded cancer center within an existing 350-bed private hospital in Beijing, the Yuho Rehabilitation Hospital, which opened in 2015. From facility planning to clinical protocols, UPMC is advising Tahoe on all aspects of operating an advanced cancer treatment center. UPMC is providing onsite assessment and recommendations by a multi-disciplinary team of UPMC experts, who will advise on facility design and equipment selection, information technology infrastructure and a staffing plan for oncology services, among other activities. Key Yuho clinical staff will receive training in Pittsburgh as the cancer center aims to meet the highest international standards. UPMC will then continue ongoing guidance on Yuho's clinical and quality assurance practices, and expects to help the cancer center with the process of achieving Joint Commission International accreditation. UPMC announced its first medical services agreement in China in 2011 with the provision of second-opinion pathology consultations to KingMed Diagnostics, the largest independent medical diagnostic laboratory in China. It has subsequently helped to create an international medical center within Xiangya Hospital of Central South University in Changsha, one of the most respected hospitals in China, and partnered with the private Macare Women's Hospital in Quanzhou to raise its standards of care.

In June 2018, the Boards of Directors of UPMC and Somerset Hospital in Somerset, Pa., signed a non-binding letter of intent to negotiate an affiliation agreement that would integrate Somerset Hospital into the UPMC System. An affiliation with UPMC would allow a greater opportunity for Somerset Hospital to grow and offer more specialty services to local patients close to their homes. UPMC and Somerset are engaging in a several-months-long due diligence, research and discussion period to work toward a definitive agreement. Subject to customary regulatory review, hospital leaders hope to complete the affiliation by the end of 2018.

In June 2018, UPMC opened a $19 million, 45,000-square-foot outpatient center in Ebensburg, Cambria County. The brand new UPMC Outpatient Center in Ebensburg represents UPMC's contemporary design for outpatient primary and multi-specialty care and diagnostic services all under one roof, maximizing patient access, convenience and experience. The outpatient center's team is working closely with colleagues at nearby UPMC Altoona and UPMC Bedford to enhance coordination of outpatient care for communities in and around Ebensburg.

In May 2018, as part of its expansion of world-class health care in Ireland, UPMC announced its acquisition of the Whitfield Clinic in Waterford, as well as full control of the cancer center that it has operated at the hospital through a joint venture since 2006. The 80-bed hospital has been renamed UPMC Whitfield. The cancer center is now UPMC Hillman Cancer Centre at Whitfield, part of UPMC's expansive network of more than 60 cancer treatment facilities, with access to the cutting-edge research and expertise available at the academic hub in Pittsburgh. Whitfield Clinic is the largest private hospital in southeast Ireland, serving a half million people primarily in five counties. UPMC Whitfield will build on its wide range of existing services, including orthopaedics, ophthalmology, oncology, endoscopy and other surgical specialties. With more than 50 consultant physicians and 180 employees, the hospital has been growing rapidly in the past five years. Also opened in 2006, the cancer center within the hospital has treated more than 17,000 patients with the most advanced radiation therapy. Recognizing a local need, physicians and the Health Service Executive partnered with UPMC to provide an advanced cancer treatment center to care for patients close to home. UPMC Hillman Cancer Centre at Whitfield is based on UPMC's "hub-and-spoke" model in which a wide range of oncology services is offered in local communities with support from UPMC's academic and clinical hub at the UPMC Hillman Cancer Center in Pittsburgh. Based on its high quality standards and patient safety, the center in Waterford has been accredited three times by the Joint Commission International since 2008.

In May 2018, the American Heart Association, together with UPMC and Philips, launched Cardeation Capital, a $30 million collaborative venture capital fund designed to spur health care innovation in heart disease and stroke care. Managed by Aphelion Capital, each of the three organizations has committed $10 million to bring products and solutions to market that address critical areas of health care delivery and health management. Cardeation Capital invests in emerging health care companies that can measurably impact the prevention and treatment of cardiovascular diseases and stroke and their risk factors, including diabetes. Aphelion Capital, a leading health care and medical technology venture capital firm, brings substantial medical and health system knowledge and extensive networks to enhance returns for the fund and the entrepreneurs in whom the fund invests over the long term.

Collaboration between UPMC and Western Maryland Health System ("WMHS") continues after the two organizations co-signed a clinical affiliation agreement in February 2018 to enhance health care services for local residents served by WMHS. Initiatives underway include providing greater local access to physician specialists, including those in cardiovascular and neurosciences, to complement existing expertise at WMHS; enhancing services for telemedicine, oncology and behavioral health; and placing UPMC family practice residents on the WMHS campus.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Six Months Ended June 30, 2018 *(in millions)*

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue	$ 5,304	$ –	$ (1,004)	$ 4,300
Insurance enrollment revenue	–	4,239	–	4,239
Other revenue	508	258	(52)	714
Total operating revenues	$ 5,812	$ 4,497	$ (1,056)	$ 9,253
Expenses:				
Salaries, professional fees and benefits	$ 3,168	$ 183	$ (13)	$ 3,338
Insurance claims expense	–	3,796	(1,004)	2,792
Supplies, purchased services and general	2,321	358	(39)	2,640
Depreciation and amortization	294	13	–	307
Total operating expenses	5,783	4,350	(1,056)	9,077
Operating income	$ 29	$ 147	–	$ 176
Operating margin %	0.5%	3.3%	–	1.9%
Operating margin % (including income tax and interest expense)	(1.8%)	4.0%	–	0.9%
Operating EBIDA	$ 323	$ 160	–	$ 483
Operating EBIDA %	5.6%	3.6%	–	5.2%

Six Months Ended June 30, 2017 *(in millions)*

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue	$ 4,210	$ –	$ (947)	$ 3,263
Insurance enrollment revenue	–	3,626	–	3,626
Other revenue	492	195	(55)	632
Total operating revenues	$ 4,702	$ 3,821	$ (1,002)	$ 7,521
Expenses:				
Salaries, professional fees and benefits	$ 2,521	$ 155	$ (16)	$ 2,660
Insurance claims expense	–	3,276	(947)	2,329
Supplies, purchased services and general	1,864	320	(39)	2,145
Depreciation and amortization	248	4	–	252
Total operating expenses	4,633	3,755	(1,002)	7,386
Operating income	$ 69	$ 66	–	$ 135
Operating margin %	1.5%	1.7%	–	1.8%
Operating margin % (including income tax and interest expense)	0.3%	1.3%	–	0.9%
Operating EBIDA	$ 317	$ 70	–	$ 387
Operating EBIDA %	6.7%	1.8%	–	5.1%

Health Services

UPMC Health Services include a comprehensive array of clinical capabilities consisting of hospitals, specialty service lines (e.g., transplantation services, woman care, behavioral health, pediatrics, cancer care and rehabilitation services), contract services (emergency medicine, pharmacy and laboratory) and 4,800 employed physicians with associated practices. Also included within Health Services are supporting foundations and UPMC's captive insurance programs. Hospital activity is monitored in four distinct groups: (i) academic hospitals that provide a comprehensive array of clinical services that include the specialty service lines listed above and serve as the primary academic and teaching centers for UPMC and are located in Pittsburgh, Pa.; (ii) community hospitals that provide core clinical services mainly to the suburban Pittsburgh, greater Erie, and the greater Altoona populations of Pennsylvania; (iii) regional hospitals that provide core clinical services to certain other areas of western and central Pennsylvania; and (iv) pre- and post-acute care capabilities that include: UPMC HomeCare, a network of home health services, and UPMC Senior Communities, the facilities of which provide a complete network of senior living capabilities in greater Pittsburgh and surrounding counties. The Health Services division also includes its international ventures which aims to bring new revenue streams into western Pennsylvania. International ventures currently include ISMETT, a transplant and specialty surgery hospital in Palermo, Italy, that has performed more than 1,600 transplants since its founding in 1999, a hospital system located in Ireland, a contract to provide remote second-opinion pathology consultations for patients in China and Singapore, a national oncology treatment and research center in Kazakhstan, as well as the Advanced Radiosurgery Center of Excellence at San Pietro FBF Hospital in Rome.

Health Services revenues of $5.8 billion increased $1.1 billion versus the prior year due to hospital affiliations and payer rate increases. Operating income of $29 million decreased versus the prior year by $40 million as the prior year benefited from non-recurring third party payer settlements.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have over 3.4 million members as of June 30, 2018. UPMC Health Plan is a health maintenance organization ("HMO") offering coverage for commercial and Medicare members. UPMC for You is also an HMO, which is engaged in providing coverage to Medical Assistance & Medicare Special Needs Plan beneficiaries. UPMC Health Network offers preferred provider organization ("PPO") plan designs to serve Medicare beneficiaries. UPMC Health Options offers PPO plan designs to serve commercial beneficiaries. UPMC for Life is a Medicare product line offered by various companies within the Insurance Services division. UPMC Work Partners provides fully insured workers' compensation, and integrated workers' compensation and disability services to employers. Community Care Behavioral Health Organization ("Community Care") is a state-licensed, risk-bearing PPO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in 39 Pennsylvania counties, including Allegheny County.

Insurance Services revenues of $4.5 billion increased $676 million versus the prior year, driven by membership growth of over 232,000. Operating income increased by $81 million, driven by higher underwriting income related to the higher membership. In the second quarter of 2018, negative adjustments were made to UPMC's Affordable Care Act ("ACA") risk adjustment accruals totaling $40 million, of which $34 million related to calendar year 2017. Notwithstanding the prior period adjustment, operating income would have increased even more significantly in 2018. The unfavorable development related to the risk adjustment is based on preliminary Statewide Risk Adjustment Model results as provided by the Pennsylvania Department of Insurance ("PID"). The goal of risk adjustment is to discourage insurers from selectively picking healthier enrollees over less healthy enrollees and the program transfers funds from non-grandfathered plans with healthier enrollees in the individual and small group markets to non-grandfathered plans with less healthy enrollees.

UPMC Enterprises

UPMC Enterprises leverages UPMC's integrated delivery and financing system capabilities to generate new revenue streams. This is accomplished by fostering new ideas for improvement in the delivery of health care, pursuing commercialization opportunities of smart technologies and developing strategic partnerships with industry leaders. Leveraging UPMC's long-standing reputation for academic and research excellence, UPMC Enterprises also sponsors the translation of basic science conducted in a research setting to its commercial use in bedside clinical practice, application in medical laboratories, or use across emerging venues where medicine is delivered. These ventures both support UPMC's core mission and help to stimulate the economy of western Pennsylvania.

UPMC Enterprises manages a portfolio that includes various internally-focused initiatives and numerous operating companies with commercially-available products and services directed toward the improvement of the delivery of health care. Unlike the Health Services and Insurance Services divisions, UPMC Enterprises' results are classified as investing and financing activity in the Statements of Operations and Changes in Net Assets, consistent with the long-term nature of developing and commercializing technology-enabled initiatives.

REVENUE METRICS – HEALTH SERVICES

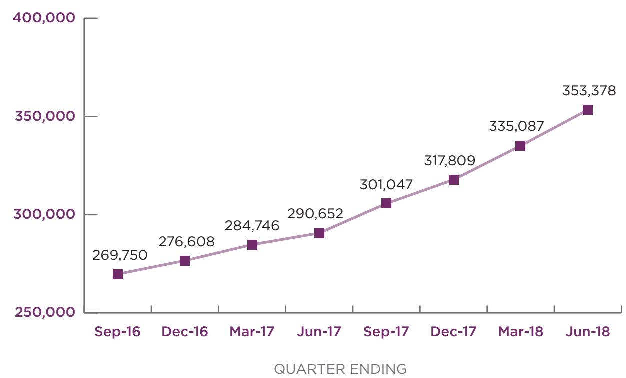
Medical-Surgical Admissions and Observation Visits

Inpatient activity as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the six months ended June 30, 2018 increased 23% compared to the same period in 2017.

For the Six Months Ended June 30

(in thousands)	**2018**	Change	2017
Academic	**64.4**	(3%)	66.6
Community	**44.8**	(1%)	45.4
Regional	**74.9**	100%	37.4
Regional excl. recent acquisitions	*38.7*	*3%*	*37.4*
Total	**184.1**	23%	149.4
Total excl. recent acquisitions	*147.9*	*(1%)*	*149.4*

Trailing Twelve-Months



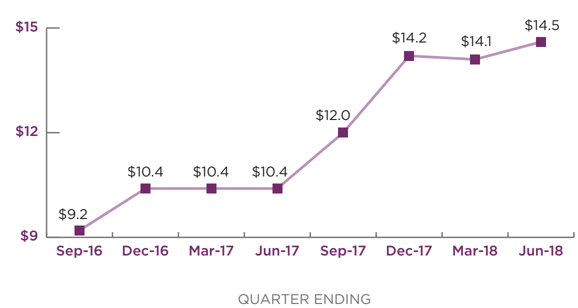
Outpatient Revenue per Workday

UPMC's outpatient activity for the six months ended June 30, 2018 as measured by average revenue per workday increased 37% compared to the same period in 2017. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Six Months Ended June 30

(in thousands)	**2018**	Change	2017
Academic	**$ 5,451**	3%	$ 5,267
Community	**2,315**	5%	2,200
Regional	**6,507**	119%	2,966
Regional excl. recent acquisitions	*3,442*	*16%*	*2,966*
Total	**$ 14,273**	37%	$ 10,433
Total excl. recent acquisitions	*11,208*	*7%*	*10,433*

Quarterly Average (in millions)



REVENUE METRICS – HEALTH SERVICES (CONTINUED)

Physician Service Revenue per Weekday

UPMC's physician activity for the six months ended June 30, 2018 as measured by average revenue per weekday increased 13% from the comparable period in 2017. Physician services activity is measured on a weekday basis.

For the Six Months Ended June 30			
(in thousands)	**2018**	Change	2017
Academic	**$ 3,541**	11%	$ 3,185
Community	**1,599**	1%	1,586
Regional	**1,258**	42%	885
Regional excl. recent acquisitions	*772*	*(13%)*	*885*
Total	**$ 6,398**	13%	$ 5,656
Total excl. recent acquisitions	*5,912*	*5%*	*5,656*

Quarterly Average (in millions)

Sources of Patient Service Revenue

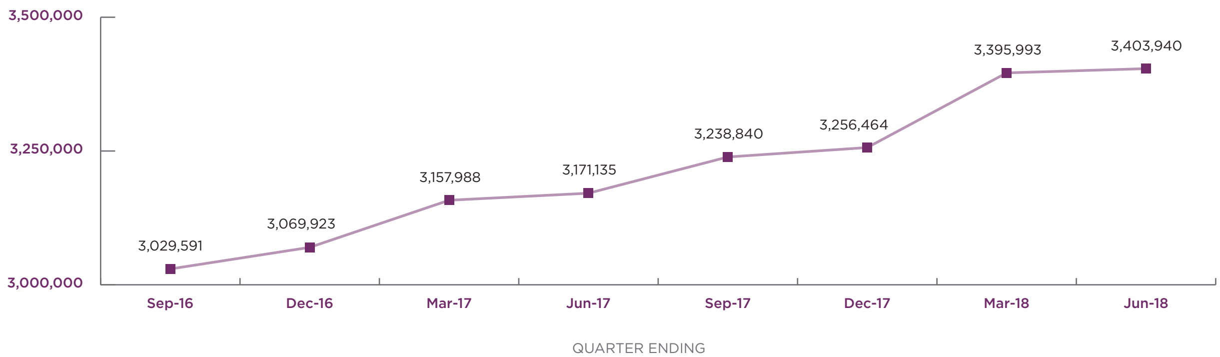
The gross patient service revenues, before explicit and implicit price concessions, of UPMC are derived from third-party payers which reimburse or pay UPMC for the services it provides to patients covered by such payers. Third-party payers include the federal Medicare Program, the federal and state Medical Assistance Program ("Medicaid"), Highmark Blue Cross Blue Shield ("Highmark") and other third-party insurers such as health maintenance organizations and preferred provider organizations. The following table is a summary of the percentage of the subsidiary hospitals' gross patient service revenue by payer.

	Six Months Ended June 30	
	2018	2017
Medicare	**47%**	46%
Medicaid	**17%**	18%
UPMC Insurance Services Commercial	**14%**	13%
National Insurers Commercial	**7%**	8%
Highmark Commercial	**7%**	8%
Other	**8%**	7%
Total	**100%**	100%

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services Division increased to 3,403,940 as of June 30, 2018, a 7% increase versus the same period in the prior year.



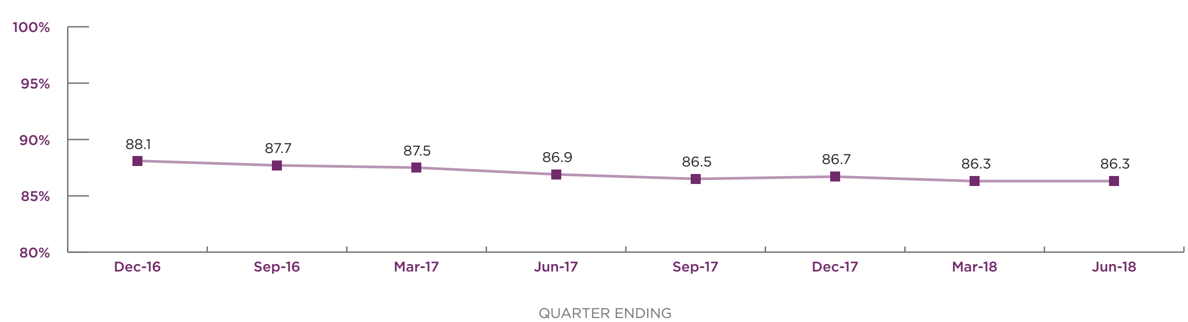
As of	**June 30, 2018**	June 30, 2017*
Commercial Health	**715,541**	699,052
Medicare	**177,920**	165,353
Medicaid	**424,117**	414,562
Sub-Total Physical Health Products	**1,317,578**	1,278,967
Community HealthChoices	**43,122**	-
Behavioral Health	**1,003,816**	985,531
Sub-Total Health Products	**2,364,516**	2,264,498
Work Partners and Life Solutions	**557,993**	467,191
Ancillary Products	**380,994**	340,943
Evolent	**100,437**	98,503
Total Membership	**3,403,940**	3,171,135

** Reclassifications were made to prior year categories to conform to current year presentation.*

Healthcare Spending Ratio

UPMC Insurance Services Medical Expense Ratio remained stable as medical expenses trended consistently with premiums.

Trailing Twelve-Months



KEY FINANCIAL INDICATORS

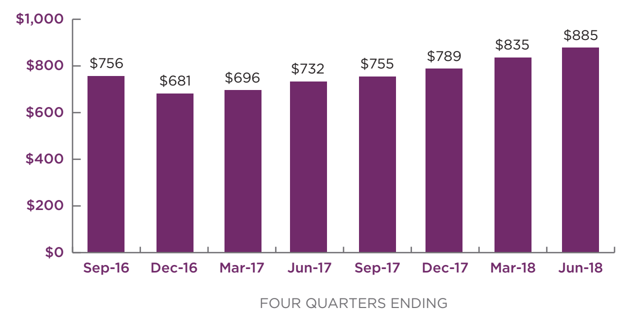
(Dollars in millions)

Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the six months ended June 30, 2018 increased as compared to the six months ended June 30, 2017.

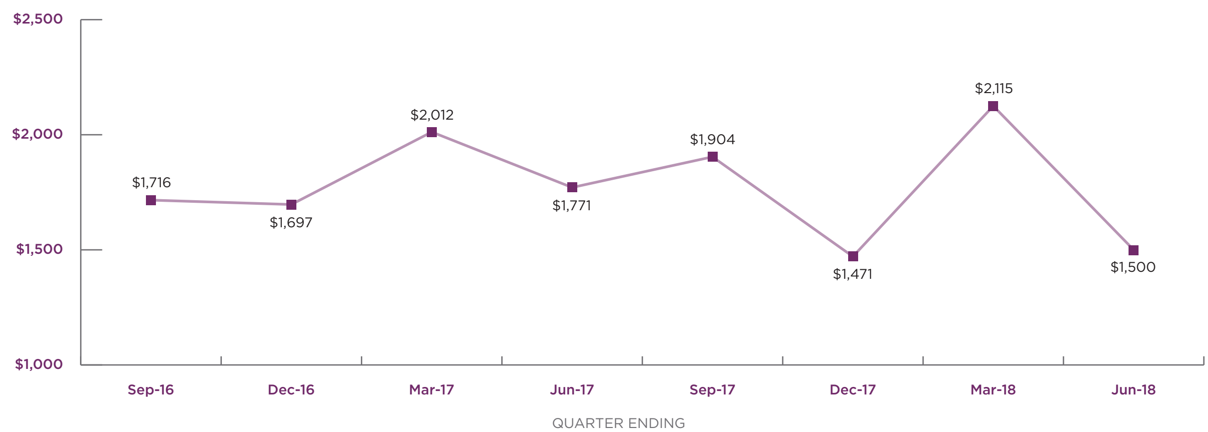
For the Six Months Ended June 30	2018	Change	2017
Operating Income	$ 176	30%	$ 135
Depreciation and Amortization	307	22%	252
Operating EBIDA	$ 483	25%	$ 387

Trailing Twelve Months EBIDA



Unrestricted Cash and Investments Over Long Term Debt

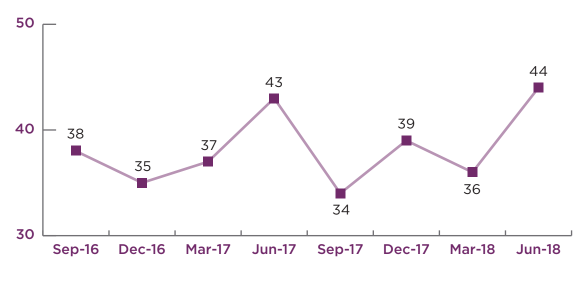
Unrestricted cash and investments over long term debt increased by $29 million as compared to December 2017. The decrease versus March was primarily driven by the timing of receipt of cash from the state of Pennsylvania's Medicaid program.



Days in Net Accounts Receivable

Consolidated Days in Accounts Receivable continue to be lower than industry averages due to UPMC's rigorous procedures in this area. Days in Accounts Receivable fluctuations are typically driven by the timing of payment from the state of Pennsylvania's Medicaid program.

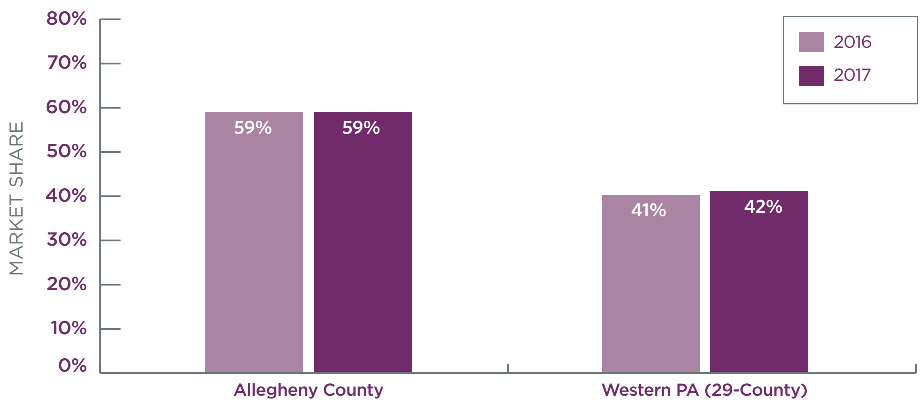
By Division	2018 Balance	Days	
		Jun 30, 2018	Dec 31, 2017
Health Services	$ 1,254	43	45
Insurance Services	1,111	45	29
Consolidated	$ 2,365	44	39



Market Share

The chart below shows the change in UPMC's estimated inpatient market share for calendar years 2016 and 2017 by service area[1]. This is the most recent market share data currently available.

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE
AS OF DECEMBER 31[2]



(1) UPMC's two service areas are (1) Allegheny County, and (2) a 29-county region which also includes Armstrong, Beaver, Bedford, Blair, Butler, Cambria, Cameron, Centre, Clarion, Clearfield, Crawford, Elk, Erie, Fayette, Forest, Greene, Huntingdon, Indiana, Jefferson, Lawrence, McKean, Mercer, Potter, Somerset, Venango, Warren, Washington and Westmoreland counties.

(2) Excludes psychiatry and substance abuse discharges.

ASSET AND LIABILITY MANAGEMENT

During the six months ended June 30, 2018, UPMC's investment portfolio returned 0.6%. As of June 30, 2018, UPMC utilized 147 ongoing external investment managers including 48 traditional managers, nine hedge fund managers and 90 private capital managers. UPMC is also invested with an additional 80 legacy private capital and hedge fund managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of 7.8%, 6.2% and 7.4% for the trailing one-, three- and five-year periods. As of June 30, 2018, 66% of UPMC's investment portfolio could be liquidated within three days.

UPMC's annualized cost of capital during the period was 3.35%. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, the ongoing costs of variable rate debt and the cash flow impact of derivative contracts. As of June 30, 2018, the interest rates on UPMC's long-term debt were approximately 72% fixed and 28% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 2.11%. The annualized interest cost for the fixed rate debt was 3.75%. UPMC has a revolving credit facility which expires in July 2019 and has a borrowing limit of $500 million. As of June 30, 2018, UPMC had approximately $76 million in Letters of Credit outstanding under the credit facility leaving $424 million available to fund operating and capital needs, of which none was drawn. As of June 30, 2018, UPMC had $3 million of unsecured Letters of Credit not included in the revolving credit facility.

In April 2017, credit facilities of $19 million (increased to $150 million from May 15 to August 14 on an annual basis) and $50 million were opened with PNC Bank National Association and Huntington National Bank, respectively, both with expiration dates in April 2022. Both of these credit facilities support the Insurance Services Division. As of June 30, 2018, there was $150 million drawn on the PNC Bank National Association credit facility and $50 million drawn on the Huntington National Bank credit facility, both related to the timing of payments from the state of PA's Medicaid program.

The table below compares reported Investing and Financing Activity for the six months ended June 30, 2018 and 2017 by type.

Investing and Financing Activity by Type

Six Months Ended June 30	**2018**	2017
(in thousands)		
Realized gains	**$ 151,734**	$ 151,138
Interest and dividends, net of fees	**45,731**	28,932
Realized investment revenue	**$ 197,465**	$ 180,070
Unrealized losses on derivative contracts	**(412)**	(593)
Other unrealized (losses) gains	**(110,113)**	210,730
Investment revenue	**$ 86,940**	$ 390,207
Loss on extinguishment of debt	**-**	(24)
Interest expense	**(83,284)**	(65,662)
UPMC Enterprises activity	**(45,024)**	(54,963)
(Loss) gain from investing and financing activities	**$ (41,368)**	$ 269,558

Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of June 30, 2018, UPMC had approximately $454 million of cash and cash equivalents on hand to fund operations and capital expenditures, and borrowing availability under the credit facilities was $624 million to fund operating and capital needs, of which $200 million was drawn.

Operating EBIDA was $483 million for the six months ended June 30, 2018, compared to $387 million for the six months ended June 30, 2017. Net cash provided by operating activities was $289 million in the six months ended June 30, 2018 compared to $41 million provided by operating activities in the six months ended June 30, 2017.

Key sources and uses of cash from investing activities for the six month period ended June 30, 2018 include capital expenditures of $429 million, as well as $10 million to acquire ownership interests in and fund businesses. Major capital projects included construction and improvements on UPMC Jameson, UPMC Susquehanna - Emergency Department Expansion and the UPMC Outpatient Center in Ebensburg. Major Information Services projects included enhancements that are advancing UPMC's leading clinician centric computing environment, technology infrastructure that supports UPMC's diversified digital environment, investments in enterprise data analytics and other technologies that are transforming the consumer experience across the spectrum of health care.

UTILIZATION STATISTICS

PERIOD ENDED JUNE 30, 2018

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, sub-acute and rehabilitation patient activity for the six months ended June 30, 2018 and 2017.

	Six Months ended June 30	
	2018	2017*
Licensed Beds	**8,717**	6,834
BEDS IN SERVICE		
Medical-Surgical	**4,821**	4,003
Psychiatric	**432**	419
Rehabilitation	**260**	258
Skilled Nursing	**1,392**	1,028
Total Beds in Service	**6,905**	5,708
PATIENT DAYS		
Medical-Surgical	**662,353**	547,000
Psychiatric	**70,144**	67,206
Rehabilitation	**40,368**	37,784
Skilled Nursing	**225,148**	182,199
Total Patient Days	**998,013**	834,189
Average Daily Census	**5,514**	4,609
Observation Days	**65,667**	54,902
Obs Average Daily Census	**363**	303
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	**135,964**	107,861
Observation Cases	**48,185**	41,511
Subtotal	**184,149**	149,372
Psychiatric	**6,169**	6,090
Rehabilitation	**2,755**	2,623
Skilled Nursing	**2,722**	2,379
Total Admissions and Observation Cases	**195,795**	160,464
Overall Occupancy	**85%**	86%
AVERAGE LENGTH OF STAY		
Medical-Surgical	**4.9**	5.1
Psychiatric	**11.4**	11.0
Rehabilitation	**14.7**	14.4
Skilled Nursing	**82.7**	76.6
Overall Average Length of Stay	**6.8**	7.0
Emergency Room Visits	**573,812**	436,892
TRANSPLANTS (DOMESTIC)		
Liver	**68**	73
Kidney	**126**	111
All Other	**179**	155
Total	**373**	339
OTHER POST-ACUTE METRICS		
Home Health Visits	**372,542**	377,633
Hospice Care Days	**103,089**	95,655
Outpatient Rehab Visits (CRS)	**331,309**	328,607

** Reclassifications were made to prior year categories to conform to current year presentation.*

OUTSTANDING DEBT

PERIOD ENDED JUNE 30, 2018
(IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	$ 43,557
	UPMC	2007A	67,190
	UPMC	2007B	64,625
	UPMC	2008A	33,310
	UPMC	2008 Notes	80,977
	UPMC	2009A	324,554
	UPMC	2010A	82,401
	UPMC	2010B	97,984
	UPMC	2010C	50,000
	UPMC	2010D	150,000
	UPMC	2010F	95,000
	UPMC	2011A	82,266
	UPMC	2017D	499,634
Monroeville Finance Authority	UPMC	2012	332,925
	UPMC	2013B	63,858
	UPMC	2014B	48,601
	UPMC	2015A Note	66,036
Pennsylvania Economic Development Financing Authority	UPMC	2013A	117,121
	UPMC	2014A	305,026
	UPMC	2015B	124,938
	UPMC	2016	260,742
	UPMC	2017A	464,486
	UPMC	2017C	134,602
Erie County Hospital Authority	Hamot Health Foundation	2010A	11,208
	Hamot Health Foundation	2010C	970
Pennsylvania Higher Educational Facilities Authority	UPMC	2010E	210,347
Lycoming County Authority	Susquehanna Health System	2009	145,286
	The Williamsport Hospital	2011	15,556
Tioga County Industrial Development Authority	Laurel Health System	2010	7,629
	Laurel Health System	2011	5,988
Dauphin County General Authority	Pinnacle Health System	2009A	55,360
	Pinnacle Health System	2012A	137,421
	Pinnacle Health System	2016A	108,711
	Pinnacle Health System	2016B	89,255
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	11,339
	Hanover Hospital	2015	24,674
Potter County Hospital Authority	UPMC	2018A	22,988
None	UPMC	2011B	99,562
	UPMC	2017B	99,146
	UPMC	2018B	583
	Susquehanna Health Innovation Center	New Market Tax Credit	16,981
	Hanover Hospital	ACNB Note	826
	UPMC/Susquehanna Health System	Swap Liabilities	8,110
	Various - Capital Leases and Loans		124,232
Total			**$ 4,786,005**

Includes original issue discount and premium, Deferred Financing Costs, and other.

Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED JUNE 30, 2018

DEBT SERVICE COVERAGE RATIO

(Dollars in Thousands)

	Trailing Twelve-Month Period Ended June 30, 2018
Net Income	$ 1,007,746
ADJUSTED BY:	
Net Unrealized Losses from Period [1]	16,461
Depreciation and Amortization [1]	598,137
Loss on Defeasance of Debt [1]	553
Inherent Contribution [1]	(632,362)
Other Non-operating Income – Property Impairments[2]	3,301
Realized Investment Impairments [2]	(33,203)
Interest Expense	157,191
Revenues Available for Debt Service	$ 1,117,824
Historical Debt Service Requirements – 2007 MTI	$ 378,766
Debt Service Coverage Ratio – 2007 MTI	2.95X
Historical Debt Service Requirements – All Debt and Leases	$ 405,999
Debt Service Coverage Ratio – All Debt and Leases	2.75X

LIQUIDITY RATIO AS OF JUNE 30, 2018

Unrestricted Cash and Investments	$ 5,666,062
Master Trust Indenture Debt	$ 4,511,722
Unrestricted Cash to MTI Debt	**1.26**

(1) *Non-Cash.*

(2) *Reflects ultimate realization of previously impaired cost-based investments.*

I hereby certify to the best of my knowledge that, as of June 30, 2018, UPMC is in compliance with the applicable covenants contained in the financing documents for the bonds listed on the cover hereof and all applicable bank lines of credit and no Event of Default (as defined in any related financing document) has occurred and is continuing.

C. Talbot Heppenstall, Jr.
Treasurer
UPMC

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED JUNE 30, 2018

REVIEW REPORT OF INDEPENDENT AUDITORS

The Board of Directors
UPMC
Pittsburgh, Pennsylvania

We have reviewed the condensed consolidated financial information of UPMC, which comprise the condensed consolidated balance sheet as of June 30, 2018, and the related condensed consolidated statements of operations and changes in net assets for the three and six month periods ended June 30, 2018 and 2017, and condensed consolidated cash flows for the six month periods ended June 30, 2018 and 2017.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the condensed financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Report on Condensed Consolidated Balance Sheet as of December 31, 2017

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of UPMC as of December 31, 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the six months then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 26, 2018. In our opinion, the accompanying condensed consolidated balance sheet of UPMC as of December 31, 2017, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

Ernst & Young LLP

Pittsburgh, Pennsylvania
August 16, 2018

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(IN THOUSANDS)

		June 30 2018		As of December 31 2017
CURRENT ASSETS				
Cash and cash equivalents	$	**454,345**	$	529,631
Patient accounts receivable		**1,023,103**		1,030,668
Other receivables		**1,342,033**		849,451
Securities lending collateral		**191,882**		–
Other current assets		**340,426**		325,617
Total current assets		**3,351,789**		2,735,367
Board-designated, restricted, trusteed and other investments		**7,121,683**		6,974,329
Beneficial interests in foundations and trusts		**540,953**		529,739
Net property, buildings and equipment		**5,229,649**		5,069,609
Other assets		**517,198**		503,529
Total assets	$	**16,761,272**	$	15,812,573
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$	**559,820**	$	615,655
Accrued salaries and related benefits		**747,440**		684,865
Current portion of insurance reserves		**572,859**		564,209
Current portion of long-term obligations		**343,600**		445,126
Payable under securities lending agreements		**191,882**		–
Other current liabilities		**926,450**		450,697
Total current liabilities		**3,342,051**		2,760,552
Long-term obligations		**4,442,405**		4,508,413
Long-term insurance reserves		**329,337**		325,496
Other noncurrent liabilities		**350,199**		292,996
Total liabilities		**8,463,992**		7,887,457
Unrestricted net assets		**7,226,394**		6,871,804
Restricted net assets		**1,070,886**		1,053,312
Total net assets		**8,297,280**		7,925,116
Total liabilities and net assets	$	**16,761,272**	$	15,812,573

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (UNAUDITED)

(IN THOUSANDS)

	Six Months Ended June 30		Three Months Ended June 30	
	2018	2017	**2018**	2017
UNRESTRICTED NET ASSETS				
Net patient service revenue	**$ 4,299,747**	$ 3,263,148	**$ 2,193,350**	$ 1,622,558
Insurance enrollment revenue	**4,239,459**	3,626,357	**2,110,594**	1,845,564
Other revenue	**714,150**	631,598	**369,574**	320,011
Total operating revenues	**9,253,356**	7,521,103	**4,673,518**	3,788,133
Expenses:				
Salaries, professional fees and employee benefits	**3,338,423**	2,659,875	**1,686,456**	1,344,595
Insurance claims expense	**2,791,896**	2,329,277	**1,396,372**	1,166,724
Supplies, purchased services and general	**2,639,751**	2,144,500	**1,352,077**	1,088,049
Depreciation and amortization	**307,290**	252,866	**154,355**	126,033
Total operating expenses	**9,077,360**	7,386,518	**4,589,260**	3,725,401
Operating income	**175,996**	134,585	**84,258**	62,732
Inherent contribution	**(6,859)**	(26,925)	**(12,849)**	(28,325)
Other non-operating expense	**-**	522	**-**	522
Income tax expense	**(12,077)**	(2,077)	**(7,797)**	(459)
After-tax income	**$ 157,060**	$ 106,105	**$ 63,612**	$ 34,470
Investing and financing activities:				
Investment revenue	**86,940**	390,207	**41,826**	148,624
Interest expense	**(83,284)**	(65,662)	**(41,898)**	(33,007)
Loss on extinguishment of debt	**-**	(24)	**-**	-
UPMC Enterprises activity:				
Portfolio company revenue	**40,367**	15,186	**5,616**	6,618
Portfolio company and development expense	**(85,391)**	(70,149)	**(50,884)**	(36,334)
(Loss) gain from investing and financing activities	**(41,368)**	269,558	**(45,340)**	85,901
Excess of revenues over expenses	**115,692**	375,663	**18,272**	120,371
Other changes in unrestricted net assets	**20,098**	181,702	**(3,720)**	177,916
Change in unrestricted net assets	**135,790**	557,365	**14,552**	298,287
RESTRICTED NET ASSETS				
Contributions and other changes	**2,784**	25,185	**1,926**	26,337
Net realized and unrealized gains on restricted investments	**17,226**	8,430	**4,488**	4,370
Assets released from restriction for operations and capital purchases	**(13,650)**	(4,265)	**(2,682)**	(2,809)
Change in beneficial interest	**11,214**	29,528	**4,830**	23,762
Change in restricted net assets	**17,574**	58,878	**8,562**	51,660
Change in net assets	**153,364**	616,243	**23,114**	349,947
Cumulative effect of change in accounting principle	**218,800**	-	**-**	-
Net assets, beginning of period	**7,925,116**	6,038,782	**8,274,166**	6,305,078
Net assets, end of period	**$ 8,297,280**	$ 6,655,025	**$ 8,297,280**	$ 6,655,025

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

	Six Months Ended June 30	
	2018	2017
OPERATING ACTIVITIES		
Change in net assets	**$ 153,364**	$ 616,243
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**307,290**	252,872
Change in beneficial interest in foundations	**(11,214)**	(29,528)
Restricted contributions and investment revenue	**(20,010)**	(33,615)
Unrealized losses (gains) on investments	**110,113**	(210,355)
Realized gains on investments	**(151,734)**	(151,138)
Net change in non-alternative investments	**96,032**	(45,442)
Inherent contribution	**6,859**	26,925
Changes in operating assets and liabilities:		
Accounts receivable	**(485,017)**	(567,765)
Other current assets	**(206,691)**	5,801
Accounts payable and accrued liabilities	**6,740**	75,074
Insurance reserves	**12,491**	67,486
Other current liabilities	**467,635**	156,453
Other noncurrent liabilities	**57,203**	(126,959)
Other operating changes	**(53,755)**	4,486
Net cash provided by operating activities	**289,306**	40,538
INVESTING ACTIVITIES		
Purchase of property and equipment (net of disposals)	**(427,520)**	(298,281)
UPMC Enterprises investments in joint ventures	**(10,000)**	(25,000)
Net change in investments designated as nontrading	**(15,741)**	6,633
Net change in alternative investments	**41,364**	58,558
Net change in other assets	**(5,135)**	15,371
Net cash used in investing activities	**(417,032)**	(242,719)
FINANCING ACTIVITIES		
Repayments of long-term obligations	**(217,503)**	(127,459)
Borrowings of long-term obligations	**249,933**	97,537
Restricted contributions and investment income	**20,010**	8,615
Net cash provided by (used in) financing activities	**52,440**	(21,307)
Net change in cash and cash equivalents	**(75,286)**	(223,488)
Cash and cash equivalents, beginning of period	**529,631**	896,935
Cash and cash equivalents, end of period	**$ 454,345**	$ 673,447
SUPPLEMENTAL INFORMATION		
Capital lease obligations incurred to acquire assets	**$ 1,732**	$ 9,977

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

1. BASIS OF PRESENTATION

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code (the "Code") as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the world's leading integrated delivery and financing systems. UPMC comprises nonprofit and for-profit entities offering medical and health-care-related services, including health insurance products. Closely affiliated with the University of Pittsburgh ("University") and with shared academic and research objectives, UPMC partners with the University's Schools of the Health Sciences to deliver outstanding patient care, train tomorrow's health care specialists and biomedical scientists, and conduct groundbreaking research on the causes and course of disease.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. The accompanying unaudited interim consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. For further information, refer to the audited consolidated financial statements and notes thereto as of and for the six month period ended December 31, 2017.

2. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. Effective January 1, 2018, UPMC has elected the modified retrospective application for the adoption of the guidance to all contracts under the scope of the guidance and there was no material impact to UPMC related to its existing revenue streams. For further information on the impact of adoption of ASU 2014-09 see Note 3. These updates supersede almost all existing revenue recognition guidance under GAAP, with certain exceptions, including an exception for UPMC's premium revenue recorded in the insurance enrollment revenue line item on the condensed consolidated statement of operations and changes in net assets, which will continue to be accounted for in accordance with the provisions of Accounting Standards Codification, or ASC, Topic 944, *Financial Services - Insurance*.

Periods prior to adoption have been displayed to conform with the net presentation of a single net patient service revenue total in the condensed consolidated statement of operations and changes in net assets. Previously, the three and six month periods ended June, 30, 2017 included separate lines for net patient service revenue prior to provision for bad debts of $1,711,955 and $3,408,569, provision for bad debts of $89,397 and $145,421, and net patient service revenue less provision for bad debts of $1,622,558 and $3,263,148, respectively. Subsequent to adoption of this standard, amounts historically reported as provision for bad debts are implicit price concessions as described in Note 3.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments*, which requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in excess of revenues over expenses unless the investments qualify for the new practicability exception. With early adoption permitted, UPMC adopted the new standard as of January 1, 2018, and applied the standard prospectively as required. As a result of the adoption, UPMC recorded an increase in board-designated, restricted, trusteed and other investments and unrestricted net assets in its consolidated balance sheet of approximately $218,800 as of January 1, 2018. The adjustment impacted net assets, beginning of period as of January 1, 2018, by this amount and resulted in net assets after the cumulative effect of change in accounting principle as of January 1, 2018, of $8,143,916.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. This amends current guidance that requires only capital leases to be recognized on the lessee balance sheet. ASU 2016-02 will also require additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for for reporting periods beginning after December 15, 2018 with early adoption permitted. UPMC is currently evaluating the impact that the guidance will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*, which will require not-for-profit entities to revise financial presentation to include: net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk, information on investment expenses and returns, and the presentation of operating cash flows. The standard aims to help the reader of the financial statements to better understand the financial position of the organization and enhance consistency among similar organizations. ASU 2016-02 is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. UPMC is currently evaluating the impact that the adoption of ASU 2016-14 will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This new guidance requires the disaggregation of the service cost component from the other components of net benefit cost. The service cost component of net benefit cost is to be reported in the same line item on the consolidated statement of operations as other compensation costs arising from services rendered by the pertinent employees, while the other components of net benefit cost are to be presented in the consolidated statement of operations separately, outside a subtotal of operating income. The amendments also provide explicit guidance to allow only the service cost component of net benefit cost to be eligible for capitalization. This new guidance is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with the adoption of the change in presentation of net benefit cost in the consolidated statement of operations to be applied retrospectively, and the change in capitalization for only service cost applied prospectively. The guidance allows a practical expedient that permits the use of the amounts disclosed in the retirement benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. UPMC is assessing the overall impact this guidance will have on its consolidated financial statements.

3. REVENUE

Net patient service revenue

UPMC's net patient service revenue is reported at the amount that reflects the consideration to which UPMC expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and include an estimate of variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, UPMC bills the patients and third-party payers several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by UPMC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. UPMC believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to inpatient services. UPMC measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and UPMC does not believe it is required to provide additional goods or services to the patient.

(IN THOUSANDS)

The majority of UPMC's services are rendered to patients with third party coverage. Reimbursement under these programs for all payers is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents and the contracts UPMC has with commercial payers also provide for retroactive audit and review of claims. Agreements with third-party payers typically provide for payments at amounts less than established charges. Generally patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. UPMC also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. UPMC estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments arising from a change in the transaction price were not significant in the six months ended June 30, 2018 or 2017.

Consistent with UPMC's mission, care is provided to patients regardless of their ability to pay. UPMC has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts UPMC expects to collect based on its collection history with those patients. Patients who meet UPMC's criteria for charity care are provided care without charge or at amounts less than established rates and UPMC has determined it has provided an implicit price concession. Price concessions including charity care are not reported as revenue.

The composition of net patient service revenue for the six months ended June 30, 2018 and 2017, primarily resulting from patients in the western Pennsylvania region, are as follows:

Six Months Ended June 30	**2018**	2017
Medicare	**42%**	39%
Commercial	**35%**	38%
Medicaid	**15%**	16%
Self-pay/other	**8%**	7%
	100%	100%

Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

Insurance enrollment revenue

UPMC's insurance subsidiaries (collectively, "Health Plans") provide health care services on a prepaid basis under various contracts. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services, which represents the performance obligation. Health care premium payments received from UPMC's members in advance of the service period are recorded as unearned revenues.

Insurance enrollment revenues include commercial, Medicare, Medicaid and behavioral health contracts. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. UPMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the programs. As a result, there is at least a reasonable possibility that recorded estimates will change.

Other revenue

UPMC's other revenue consists of various contracts related to its Health Services and Insurance Services divisions. These contracts vary in duration and in performance obligations. In evaluating these contracts for compliance with ASU 2014-09, there were no changes to the nature, timing or extent of revenues previously recognized or how revenues are recognized prospectively. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collections can be reasonably assured.

4. FAIR VALUE MEASUREMENTS

As of June 30, 2018, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents and certain board-designated, restricted, trusteed, and other investments and derivative instruments. Certain of UPMC's alternative investments are measured using either the cost or equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, includes:

Level 1: Quoted prices for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, and mortgage and asset-backed securities.

Other investments measured at fair value represent funds included on the consolidated balance sheets that are reported using the net asset value practical expedient as prescribed by ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value ("NAV") information provided by the general partner. Fair value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to the balance sheet date. With the adoption of ASC 2016-01, *Financial Instruments*, certain of UPMC's alternative investments are now utilizing NAV to calculate fair value and are included in other investments in the following tables.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2018

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	$ 1,004,796	$ 1,362,421	$ -	$ -	$ 2,367,217
Domestic equity	378,557	15,823	-	-	394,380
Securities lending collateral	191,882	-	-	-	191,882
Securities on loan	240,069	-	-	-	240,069
International equity	422,190	-	-	-	422,190
Public real estate	77,601	-	-	-	77,601
Commodities	3,941	-	-	-	3,941
Long/short equity	55,791	25,607	-	-	81,398
Absolute return	43,287	-	-	-	43,287
Derivative instruments	-	349	-	-	349
Other investments	-	-	-	3,002,939	3,002,939
Total assets measured at fair value on a recurring basis	$ 2,418,114	$ 1,404,200	$ -	$ 3,002,939	$ 6,825,253
LIABILITIES					
Derivative instruments	$ -	$ (8,110)	$ -	$ -	$ (8,110)
Total liabilities measured at fair value on a recurring basis	$ -	$ (8,110)	$ -	$ -	$ (8,110)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2017

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	$ 1,252,761	$ 1,045,736	$ -	$ -	$ 2,298,497
Domestic equity	767,448	22,122	-	-	789,570
International equity	422,480	586	-	-	423,066
Public real estate	73,989	-	-	-	73,989
Long/short equity	64,430	2,580	-	-	67,010
Absolute return	34,417	-	-	-	34,417
Commodities	4,107	-	-	-	4,107
Derivative instruments	-	1,552	-	-	1,552
Other investments	-	-	-	1,686,148	1,686,148
Total assets measured at fair value on a recurring basis	$ 2,619,632	$ 1,072,576	$ -	$ 1,686,148	$ 5,378,356
LIABILITIES					
Derivative instruments	$ -	$ (8,901)	$ -	$ -	$ (8,901)
Total liabilities measured at fair value on a recurring basis	$ -	$ (8,901)	$ -	$ -	$ (8,901)

5. FINANCIAL INSTRUMENTS

Substantially all of UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as investment revenue in the consolidated statements of operations and changes in net assets. UPMC's investments in debt and equity securities that are donor-restricted assets are designated as nontrading. Unrealized gains and losses on donor-restricted assets are recorded as changes in restricted net assets in the consolidated statements of operations and changes in net assets. Gains and losses on the sales of securities are determined by the average cost method. Realized gains and losses are included in investment revenue in the consolidated statements of operations and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations. Cash and cash equivalents and investments recorded at fair value aggregate $7,087,367 and $5,906,435 at June 30, 2018 and December 31, 2017, respectively.

Investments in limited partnerships that invest in nonmarketable securities are primarily recorded at fair value using the NAV practical expedient if the ownership percentage is less than 5% and are reported using the equity method of accounting if the ownership percentage is greater than 5%. At June 30, 2018 and December 31, 2017, UPMC had $488,661 and $1,597,525 of alternative investments that are not measured at fair value.

UPMC participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheet. Total collateral is required to have a market value between 102% and 105% of the market value of securities loaned. As of June 30, 2018, securities loaned, of which UPMC maintains ownership, totaled $240,069 and total collateral (cash and noncash) received related to the securities loaned was $249,882.

6. DERIVATIVE INSTRUMENTS

UPMC uses derivative financial instruments to manage exposures on its debt and investments. By using derivatives to manage these risks, UPMC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivatives. When the fair value of a derivative is positive, the counterparty owes UPMC, which creates credit risk for UPMC. When the fair value of a derivative is negative, UPMC owes the counterparty and, therefore, it does not incur credit risk. UPMC minimizes the credit risk in derivatives by entering into transactions that require the counterparty to post collateral for the benefit of UPMC based on the credit rating of the counterparty and the fair value of the derivative. If UPMC has a derivative in a liability position, the counterparty bears UPMC's credit risk and fair market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

UPMC maintains interest rate swap programs on certain of its debt in order to manage its interest rate risk. To meet this objective, UPMC entered into various interest rate swap agreements. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The following table summarizes UPMC's interest rate swap agreements:

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at June 30, 2018	Notional Amount at Dec 31, 2017
Floating to fixed	2025	3.6%	68% one-month LIBOR	**$ 89,025**	$ 89,025
Floating to fixed	2018	1.2925%	70% one-month LIBOR	**15,556**	16,389
Basis	2021	SIFMA Index [1]	67% three-month LIBOR plus .2077%	**21,340**	27,955
Basis	2037	SIFMA Index [1]	67% three-month LIBOR plus .3217%	**46,095**	46,095
				$ 172,016	$ 179,464

[1] *The SIFMA Index is a 7-day high-grade market index comprised of tax-exempt variable rate demand obligations.*

UPMC has also entered into equity-related derivative instruments to manage the asset allocation in its investment portfolio. Under the equity index swap agreements UPMC pays a fixed income-like return and receives an equity-like return. The notional amount of these swaps is based upon UPMC's target asset allocation.

The following table summarizes UPMC's equity swap agreements:

Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at June 30, 2018	Notional Amount at Dec 31, 2017
2018	One-month LIBOR plus .415%	S&P 500 Total Return Index	**-**	100,000
2018	One-month LIBOR plus .37%	S&P 500 Total Return Index	**-**	100,000
2018	Three-month LIBOR plus .1300%	MSCI EAFE Daily Total Return [1]	**-**	100,003
2019	One-month LIBOR plus .385%	S&P 500 Total Return Index	**100,000**	-
			$ 100,000	$ 300,003

[1] *The MSCI EAFE Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.*

Pursuant to master netting arrangements, UPMC has the right to offset the fair value of amounts recognized for derivatives, including the right to reclaim or obligation to return cash collateral from/to counterparties. The fair values of the Company's derivative financial instruments are presented below, representing the gross amounts recognized as of June 30, 2018 and December 31, 2017 which are not offset by counterparty or by type of item hedged:

	June 30, 2018	Dec 31, 2017
Other assets	**$ 349**	$ 1,552
Long-term obligations	**(8,110)**	(8,901)
	$ (7,761)	$ (7,349)

(IN THOUSANDS)

The accounting for changes in the fair value (i.e., unrealized gains or losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. None of UPMC's derivatives outstanding as of June 30, 2018 and December 31, 2017 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activities as investment revenue in the consolidated statements of operations and changes in net assets. Certain of UPMC's derivatives contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivatives could request payment or demand immediate and ongoing full overnight collateralization on derivatives in net liability positions.

7. PENSION PLANS

UPMC and its subsidiaries maintain defined benefit pension plans (the "Plans"), defined contribution plans and nonqualified pension plans that cover substantially all of UPMC's employees. Benefits under the Plans vary and are generally based upon the employee's earnings and years of participation.

The components of net periodic pension cost for the Plans are as follows:

	Six Months Ended June 30	
	2018	2017
Service cost	**$ 59,588**	$ 49,878
Interest cost	**38,844**	35,762
Expected return on plan assets	**(82,740)**	(66,912)
Recognized net actuarial loss	**10,940**	27,082
Amortization of prior service credit	**(2,628)**	(2,520)
Net periodic pension cost	**$ 24,004**	$ 43,290

8. CONTINGENCIES

On October 9, 2012, UPMC received a Civil Investigative Demand ("CID") from the Department of Justice ("DOJ") that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. UPMC timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ's investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately $2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators' lawsuit, which was also unsealed on July 27, 2016. In their Second Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act violations, by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. On March 27, 2018, the Court granted UPMC's motion to dismiss all claims with prejudice. Relators have filed a notice of appeal. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

On September 3, 2014, Highmark Inc. and Keystone Health Plan West, Inc. sued UPMC and various UPMC hospitals and physician practices in the Court of Common Pleas of Allegheny County, Pennsylvania, asserting claims for breach of contract and declaratory judgment related to oncology billing. On March 24, 2015, the Court denied UPMC's preliminary objections to that Complaint. On December 7, 2017, the plaintiffs filed a Second Amended Complaint that dropped the UPMC hospitals as defendants and added a new defendant and new claims against the remaining physician practices. UPMC has answered the Second Amended Complaint and filed counterclaims against Highmark. The ultimate outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

In May 2015, PCS sued UPMC Health Network, UPMC Benefit Management Services, UPMC Health Benefits, and a PCS competitor in the United States District Court for the Western District of Pennsylvania, asserting four antitrust related claims. In August 2015, PCS filed an amended complaint, removing UPMC Health Network and adding UPMC, a Pennsylvania nonprofit nonstock corporation as a party. Discovery is ongoing. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

On November 20, 2017, the Pennsylvania Office of Attorney General filed a Petition to Enforce Consent Decree, contending that UPMC's decision to non-renew its existing Highmark Medicare Advantage agreements for all of calendar year 2019 violated UPMC's Consent Decree. The Commonwealth Court granted the OAG's Petition on January 29, 2018. On July 18, 2018, the Pennsylvania Supreme Court reversed the Commonwealth Court and ruled in UPMC's favor. The ultimate outcome and effect on UPMC's financial statements are unknown.

9. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to June 30, 2018 through August 16, 2018, the date the unaudited interim consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements that have not been recorded.