KINDRED HEALTHCARE

NYSE: KND

Investor Presentation
October 2012

Kindred Healthcare

Forward-Looking Statements

This presentation includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements regarding Kindred's expected future financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital expenditures, competitive positions, growth opportunities, plans and objectives of management and statements containing the words such as "anticipate," "approximate," "believe," "plan," "estimate," "expect," "project," "could," "should," "will," "intend," "may" and other similar expressions, are forward-looking statements.

Such forward-looking statements are inherently uncertain, and stockholders and other potential investors must recognize that actual results may differ materially from Kindred's expectations as a result of a variety of factors, including, without limitation, those discussed below. Such forward-looking statements are based upon management's current expectations and include known and unknown risks, uncertainties and other factors, many of which Kindred is unable to predict or control, that may cause Kindred's actual results or performance to differ materially from any future results or performance expressed or implied by such forward-looking statements. These statements involve risks, uncertainties and other factors discussed below and detailed from time to time in Kindred's filings with the Securities and Exchange Commission (the "SEC").

In addition to the factors set forth above, other factors that may affect the Company's plans or results include, without limitation, (a) the impact of healthcare reform, which will initiate significant reforms to the United States healthcare system, including potential material changes to the delivery of healthcare services and the reimbursement paid for such services by the government or other third party payors, including reforms resulting from the Patient Protection and Affordable Care Act and the Healthcare Education and Reconciliation Act (collectively the "ACA"). Healthcare reform is affecting certain of the Company's businesses and the Company expects that it will impact all of them in some manner. There is also the possibility that implementation of the provisions expanding health insurance coverage or the entire ACA will be delayed, revised or eliminated as a result of efforts to repeal or amend the law. The U.S. Supreme Court recently upheld the constitutionality of the ACA. Future court proceedings, the 2012 presidential election and pending efforts in the U.S. Congress to repeal, amend or retract funding for various aspects of the ACA create additional uncertainty about the ultimate impact of the ACA on the Company and the healthcare industry. Due to the substantial regulatory changes that will need to be implemented by the Centers for Medicare and Medicaid Services ("CMS") and others, and the numerous processes required to implement these reforms, the Company cannot predict which healthcare initiatives will be implemented at the federal or state level, the timing of any such reforms, or the effect such reforms or any other future legislation or regulation will have on the Company's business, financial position, results of operations and liquidity, (b) the impact of the final regulations issued by CMS regarding Medicare reimbursement for long-term acute care ("LTAC") hospitals for the fiscal year beginning October 1, 2012 which, among other things, will reduce Medicare reimbursement to the Company's LTAC hospitals in 2013 and beyond by imposing a budget neutrality adjustment and modifying the short-stay outlier rules, (c) the impact of final rules issued by CMS on July 29, 2011 which significantly reduced Medicare reimbursement to nursing centers and changed payments for the provision of group therapy services effective October 1, 2011, (d) the impact of the Budget Control Act of 2011 which will automatically reduce federal spending by approximately $1.2 trillion split evenly between domestic and defense spending. At this time, the Company believes this will result in an automatic 2% reduction on each claim submitted to Medicare beginning February 1, 2013, (e) changes in the reimbursement rates or the methods or timing of payment from third party payors, including commercial payors and the Medicare and Medicaid programs, changes arising from and related to the Medicare prospective payment system for LTAC hospitals, including potential changes in the Medicare payment rules, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, and changes in Medicare and Medicaid reimbursements for the Company's LTAC hospitals, nursing and rehabilitation centers, inpatient rehabilitation hospitals and home health and hospice operations, and the expiration of the Medicare Part B therapy cap exception process, (f) the effects of additional legislative changes and government regulations, interpretation of regulations and changes in the nature and enforcement of regulations governing the healthcare industry, (g) the impact of the Medicare, Medicaid and SCHIP Extension Act of 2007, including the ability of the Company's hospitals to adjust to potential LTAC certification, medical necessity reviews and the moratorium on future hospital development, (h) the impact of the Company's significantly increased levels of indebtedness as a result of the RehabCare acquisition on the Company's funding costs, operating flexibility and ability to fund ongoing operations, development capital expenditures or other strategic acquisitions with additional borrowings, (i) the Company's ability to successfully pursue its development activities, including through acquisitions, and successfully integrate new operations, including the realization of anticipated revenues, economies of scale, cost savings and productivity gains associated with such operations, as and when planned, including the potential impact of unanticipated issues, expenses and liabilities associated with those activities, (j) the failure of the Company's facilities to meet applicable licensure and certification requirements, (k) the further consolidation and cost containment efforts of managed care organizations and other third party payors, (l) the Company's ability to meet its rental and debt service obligations, (m) the Company's ability to operate pursuant to the terms of its debt obligations, and comply with its covenants thereunder, and its ability to operate pursuant to its master lease agreements with Ventas, Inc. (n) the condition of the financial markets, including volatility and weakness in the equity, capital and credit markets, which could limit the availability and terms of debt and equity financing sources to fund the requirements of the Company's businesses, or which could negatively impact the Company's investment portfolio, (o) national and regional economic, financial, business and political conditions, including their effect on the availability and cost of labor, credit, materials and other services, (p) the Company's ability to control costs, particularly labor and employee benefit costs, (q) increased operating costs due to shortages in qualified nurses, therapists and other healthcare personnel, (r) the Company's ability to attract and retain key executives and other healthcare personnel, (s) the increase in the costs of defending and insuring against alleged professional liability and other claims and the Company's ability to predict the estimated costs related to such claims, including the impact of differences in actuarial assumptions and estimates compared to eventual outcomes, (t) the Company's ability to successfully reduce (by divestiture of operations or otherwise) its exposure to professional liability and other claims, (u) the Company's ability to successfully dispose of unprofitable facilities, (v) events or circumstances which could result in the impairment of an asset or other charges, such as the impact of the Medicare reimbursement regulations that resulted in the Company recording significant impairment charges in 2011, (w) changes in generally accepted accounting principles ("GAAP") or practices, and changes in tax accounting or tax laws (or authoritative interpretations relating to any of these matters), and (x) the Company's ability to maintain an effective system of internal control over financial reporting. Many of these factors are beyond the Company's control. The Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance. The Company disclaims any obligation to update any such factors or to announce publicly the results of any revisions to any of the forward-looking statements to reflect future events or developments.

The information being provided today is as of this date only and Kindred disclaims any obligation to update any such factors or to announce publicly the results of any revisions to any of the forward-looking statements to reflect future events or developments. Additional information concerning Kindred, including our SEC filings and a copy of this presentation, is available on our website www.kindredhealthcare.com, under the heading "Investors."

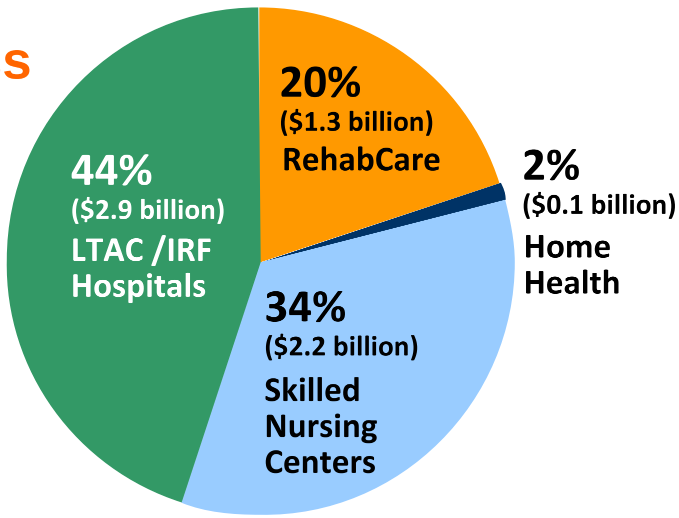
Reconciliation of non-GAAP Measures

The appendix to this presentation and our website also include reconciliations of any non-GAAP financial measures we mention in our presentations to their corresponding GAAP measures. The reconciliations on our website may be found at www.kindredhealthcare.com under the heading "Investors."

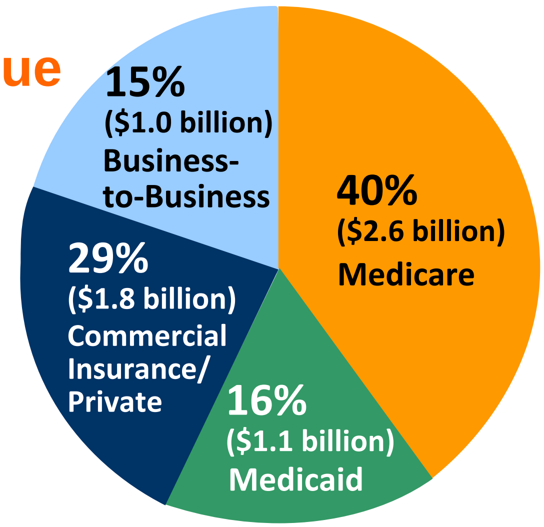
Premier Provider of Rehabilitation Services and Post-Acute Care in the United States

- $6.5 billion total revenues(1)
- 2,154 locations, 450 facilities in 46 states(2)
- 61,200 patients and residents per day(2)
- 76,000 dedicated employees(2)

Business Mix(1)



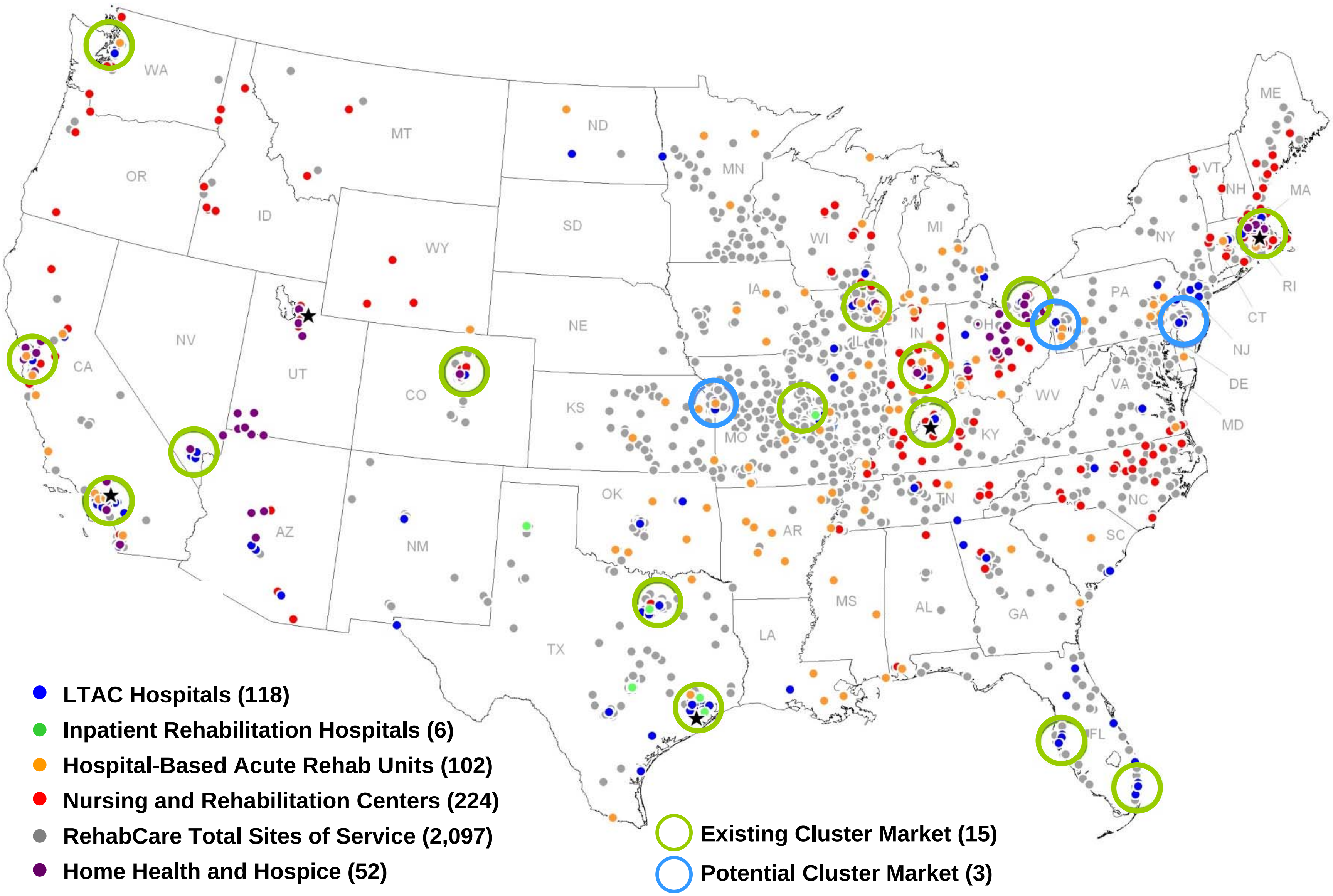
Revenue Mix(1)



(1) Revenues for the twelve months ended June 30, 2012 (before intercompany eliminations).
(2) As of June 30, 2012.

Leading Diversified Post-Acute Provider

With Focus on Developing Cluster Market Service Offerings



As of June 30, 2012

Kindred's Value Proposition/Strategic Opportunity and our "Continue The Care" Campaign

- **Be a leader in helping to coordinate and deliver high quality care at the lowest cost (particularly for those patients who are the highest users of healthcare services)**
  - By providing superior clinical outcomes in the most appropriate setting, with an approach which is patient-centered, disciplined and transparent
  - By transitioning patients home at the highest possible level of function and wellness and prevent avoidable rehospitalizations
- **Lower healthcare costs by reducing lengths of stay in acute care hospitals and throughout an episode of care**
- **Participate in the development of new care delivery and payment models**
  - To better coordinate care and manage patients with chronic conditions, including the dual-eligibles
  - To reduce avoidable rehospitalizations with our partners through our integrated care management teams and protocols

Tremendous Opportunities Exist to Better Manage Patient Care for Patients Discharged From Acute Care Hospitals

Currently there are 47.6 million Medicare beneficiaries with an estimated 7,000 individuals added to the program each day.*

35% of Medicare Beneficiaries are Discharged from Acute Hospitals to Post-Acute Care

Medicare Patients' Use of Post-Acute Services Throughout an "Episode of Care" (1)

Higher ← Intensity of Service → Lower

SHORT-TERM ACUTE CARE HOSPITALS	LONG-TERM ACUTE CARE HOSPITALS	INPATIENT REHAB	SKILLED NURSING FACILITIES	OUTPATIENT REHAB	HOME HEALTH CARE
Patients' ***first*** site of discharge after acute care hospital stay	2%	10%	41%	9%	37%
Patients' use of site during a ***90 day*** episode	2%	11%	52%	21%	61%

(1) Source: RTI, 2009: Examining Post Acute Care Relationships in an Integrated Hospital System

* Source: Kaiser Family Foundation, 2011 statehealthfacts.org, and AARP 2011 projections

Kindred Is Positioned to Help Determine the Most Appropriate Care Setting For Patients as they Continue Their Care Throughout a Post-Acute Episode

Patients Discharged From Kindred LTAC Hospitals

36%
Skilled Nursing and Rehab Centers

28% Home
18% with Home Health

5%
Inpatient Rehab Facility

Patients Discharged from Kindred Hospital-Based IRFs

77% Home
47% with Home Health

13%
Skilled Nursing and Rehab Centers

Patients Discharged from Kindred Nursing and Rehabilitation Centers

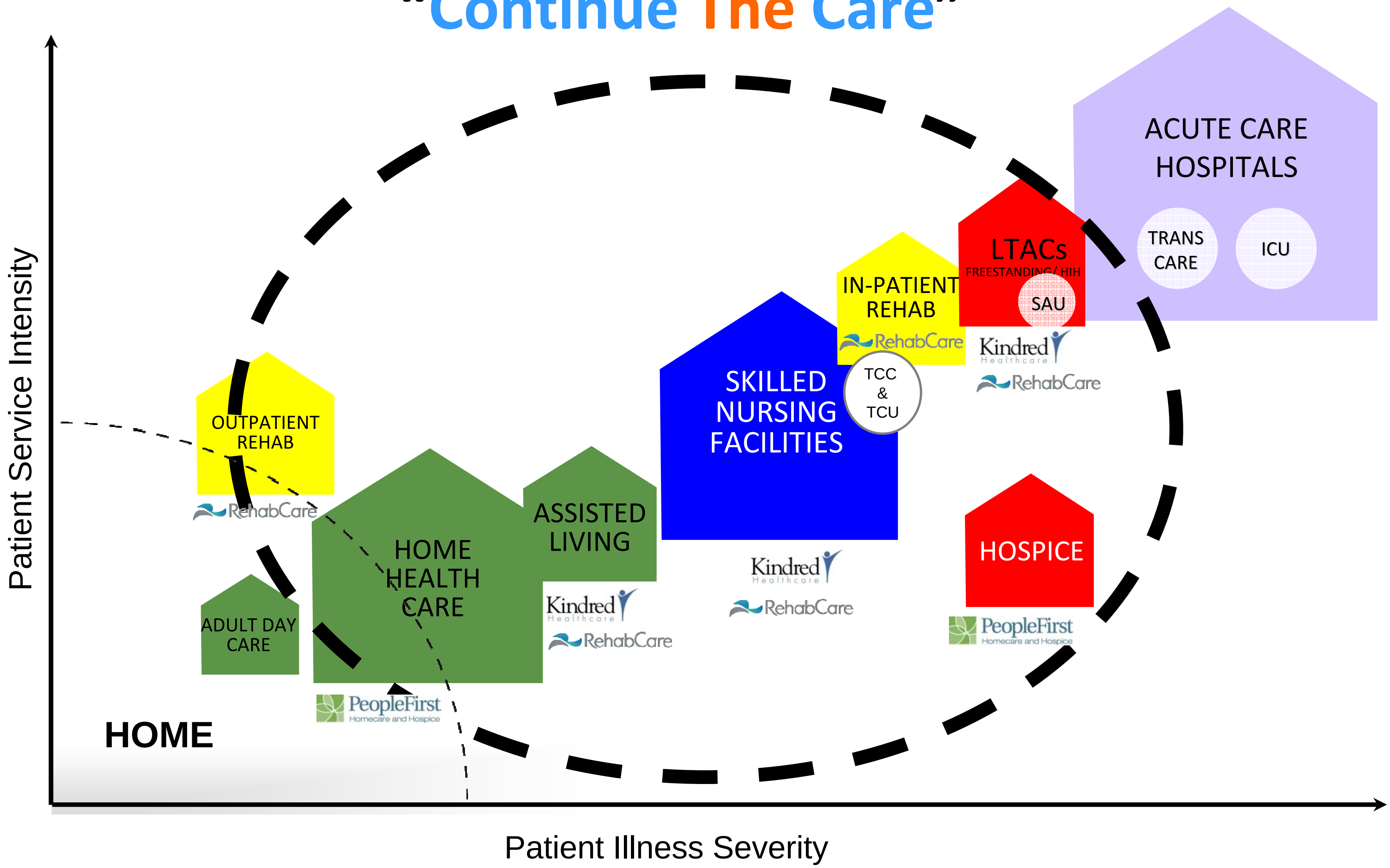
52% Home
33% with Home Health

(1) Source: Kindred Internal Data, 2011 data.

Positioned to Take Advantage of Changing Healthcare Landscape

Uniquely Positioned For Bundled Or Episodic Payment Environment

"Continue The Care"



Business Strategy

- **Success in the Core**
  - Take care of our teammates and promote performance improvement
  - Continue to improve quality and clinical outcomes
  - Promote our value proposition and grow admissions and rehab contracts
  - Execute on RehabCare synergies and other cost reduction initiatives

- **Accelerate our Cluster Market (Network Development) Strategy**
  - Develop service lines and integrated care management capabilities across the care continuum
  - Expand and integrate health system, physician and managed care relationships
  - Continue to invest in IT (electronic health record) linkages

- **Aggressively expand Home Health and Hospice Services**

- **Re-deploy Free Cash Flow, Assets, and Management Time to Cluster Markets and Higher Margin Growth Businesses (like Home Health and Hospice) as Ventas leases expire and the Company Divests Other Non-Strategic Assets**

- **Participate and Invest in New Integrated Care and Payment Models/Businesses, including ACOs and Bundled Payment Demos with Health Systems, Physician Groups and Managed Care Payors**

Development Activities 2011 – 2012

- **Home Health and Hospice**
  - Acquired a home health care provider in Chicago with two locations
  - Acquired IntegraCare Holdings, Inc., a high-quality provider of home health and hospice with 47 locations in Texas
    - With IntegraCare, the pro forma revenues for PeopleFirst Homecare and Hospice will be more than $200 million with over 100 locations

- **Transitional Care Hospitals**
  - Opened **Kindred Hospital Seattle – First Hill** (50 beds in Nov. 2011 and a 30-bed co-located Sub-acute unit in Feb. 2012)
  - Opened replacement hospital in **Dayton** in third quarter 2012 (67 beds, all private rooms) with plans to open a 37-bed co-located Sub-acute Unit in 2013
  - Replacement **Charleston** hospital scheduled to open in fourth quarter (59 beds, all private rooms with a 35-bed co-located Sub-acute Unit)

Development Activities (Continued)
2011 – 2012

- **Inpatient Rehabilitation Hospitals**
  - Newly constructed, freestanding 46-bed hospital opened in **Humble, Texas** in February 2012
  - Opened a newly constructed, freestanding 60-bed replacement hospital in **Austin, Texas** in May 2012

- **Transitional Care Centers (TCC)**
  - Opened new 120-bed TCC in **Indianapolis** in May 2011 - Bridgewater
  - Two new TCCs under development in **Indianapolis** (100 beds) and **Las Vegas** (120 beds)

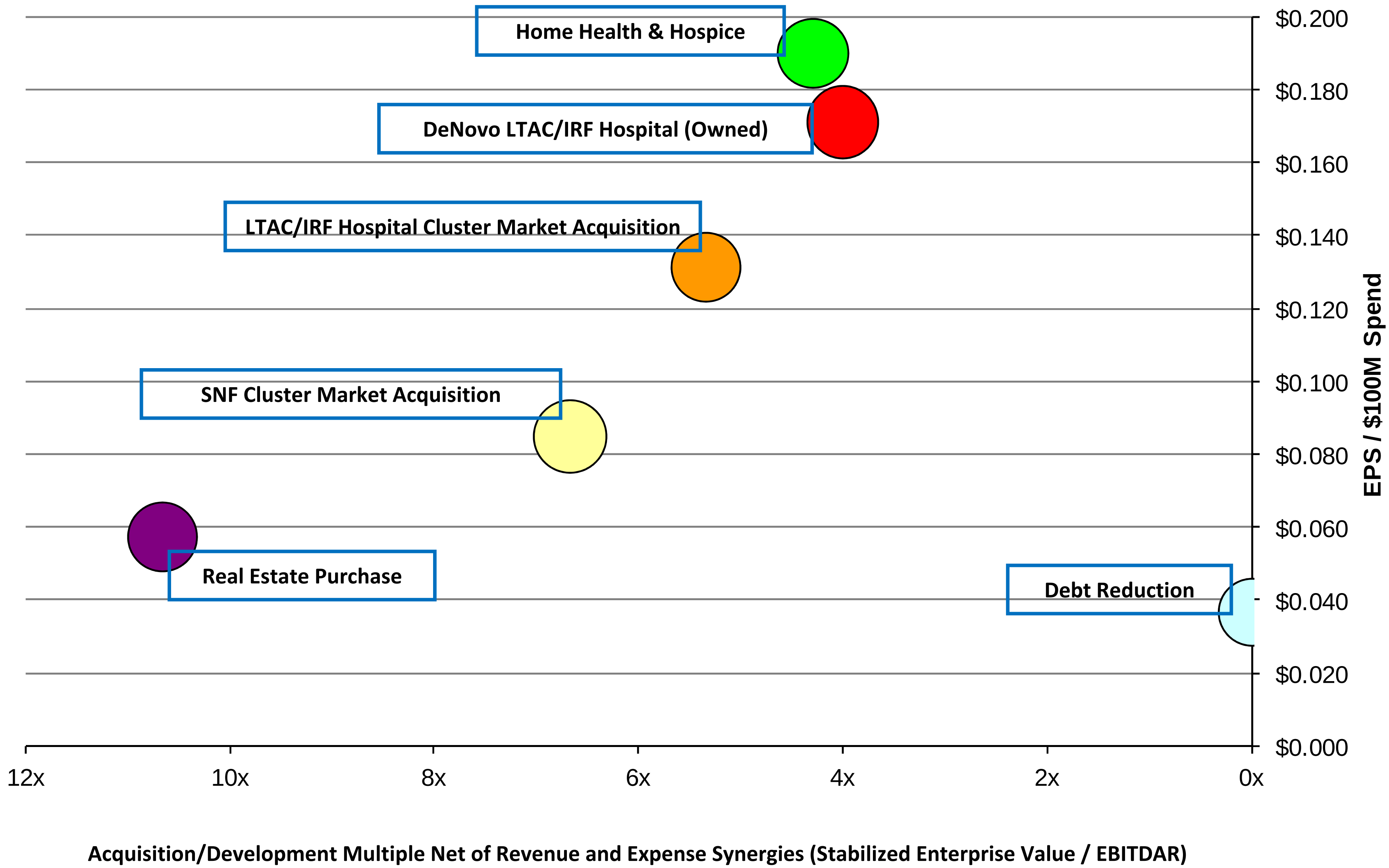
- **Purchase of Previously Leased Real Estate for approximately $76 million**
  - Kindred Hospital Richmond, March 2011 (60 beds)
  - Kindred Hospital Cleveland, Jan. 2012
(68 beds with a 40-bed co-located Sub-acute Unit)
  - Kindred Hospital Rancho, Feb. 2012 (55 beds)

Expiration of 54 Ventas-Leased Facilities Projected 2013 Full-Year Impact

($ in Millions)

Revenue	$514
EBITDAR	$66
Rent	(53)
Depr. & Amort.	(10)
Interest	(2)
Net Income	$1

Capital Investment Comparison



Earnings Guidance Ranges – Fiscal 2012*

(In millions, except per share amounts)

	As of September 14, 2012	
	Low	High
Revenues	$6,200	$6,200
Operating income	868	884
Income from continuing operations before income taxes	128	144
Available to common stockholders	71	81
Earnings per diluted share	1.35	1.55
Operating cash flows	260	280
Routine capital expenditures	135	145

* The Company's earnings guidance excludes the effect of (1) any costs associated with the closing of a regional office and three LTAC hospitals and the cancellation of a sub-acute unit project, (2) costs associated with employment-related lawsuits, (3) employee retention costs incurred in connection with the decision to allow leases to expire for 54 nursing and rehabilitation centers leased from Ventas, (4) any transaction-related charges, (5) any other reimbursement changes, (6) any acquisitions or divestitures, (7) any impairment charges, or (8) any repurchases of common stock.

Earnings Guidance Ranges – Fiscal 2013*

(In millions, except per share amounts)

	As of September 14, 2012	
	Low	High
Revenues	$5,900	$5,900
Operating income	806	825
Income from continuing operations before income taxes	117	136
Available to common stockholders	63	74
Earnings per diluted share	1.20	1.40
Operating cash flows	230	250
Routine capital expenditures	120	130

* The Company's earnings guidance (1) assumes the impact of Medicare reimbursement reductions that are expected to reduce the Company's consolidated revenues between $90 million to $100 million and further assumes the operating results of 54 nursing and rehabilitation centers currently leased from Ventas, Inc. (NYSE:VTR) are classified as discontinued operations effective January 1, 2013, and (2) excludes the effect of any other reimbursement changes, any future acquisitions or other divestitures, any impairment charges, and any repurchases of common stock.

Investment Rationale

- Each year, nearly 9 million people – 24,000 a day – are discharged from short-term acute care hospitals and require some form of post-acute care

- As the largest diversified post-acute provider, Kindred is uniquely positioned to grow and succeed in what will be an increasingly integrated healthcare delivery system

- Kindred has a track record of providing quality, cost-effective care, operational excellence and consistent levels of free cash flows

- Our experienced management team, robust technology platform, and demonstrated ability to adapt to change, together with our successful organic development strategy, offer the potential for creating significant value for shareholders over time

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Appendix

Reconciliation of Non-GAAP Measures

(In millions)

	Second quarter 2012							
		Charges						
	Before charges	Severance and employee retention	Employment-related lawsuits	Other miscellaneous costs	Transaction costs	Lease cancellation charges	Total	As reported
Income from continuing operations:								
Operating income (loss):								
Hospital division	$149.1	($0.6)	($5.0)	($2.0)	$0.0	$0.0	($7.6)	$141.5
Nursing center division	71.7	(0.7)	-	-	-	-	(0.7)	71.0
Rehabilitation division:								
Skilled nursing rehabilitation services	22.9	-	-	-	-	-	-	22.9
Hospital rehabilitation services	17.9	-	-	-	-	-	-	17.9
	40.8	-	-	-	-	-	-	40.8
Home health and hospice division	2.8	-	-	-	-	-	-	2.8
Corporate:								
Overhead	(44.7)	-	-	-	-	-	-	(44.7)
Insurance subsidiary	(0.6)	-	-	-	-	-	-	(0.6)
	(45.3)	-	-	-	-	-	-	(45.3)
Impairment charges	(0.3)	-	-	-	-	-	-	(0.3)
Transaction costs	-	-	-	-	(0.6)	-	(0.6)	(0.6)
Operating income	218.8	(1.3)	(5.0)	(2.0)	(0.6)	-	(8.9)	209.9
Rent	(106.5)	-	-	-	-	(1.1)	(1.1)	(107.6)
Depreciation and amortization	(49.8)	-	-	-	-	-	-	(49.8)
Interest, net	(26.4)	-	-	-	-	-	-	(26.4)
Income from continuing operations before income taxes	36.1	(1.3)	(5.0)	(2.0)	(0.6)	(1.1)	(10.0)	26.1
Provision for income taxes	14.7	(0.5)	(1.9)	(0.8)	(0.3)	(0.4)	(3.9)	10.8
	$21.4	($0.8)	($3.1)	($1.2)	($0.3)	($0.7)	($6.1)	$15.3

No reconciliation is necessary for the second quarter of 2011 as no charges impacted the business segment results.

Reconciliation of Non-GAAP Measures (Continued)

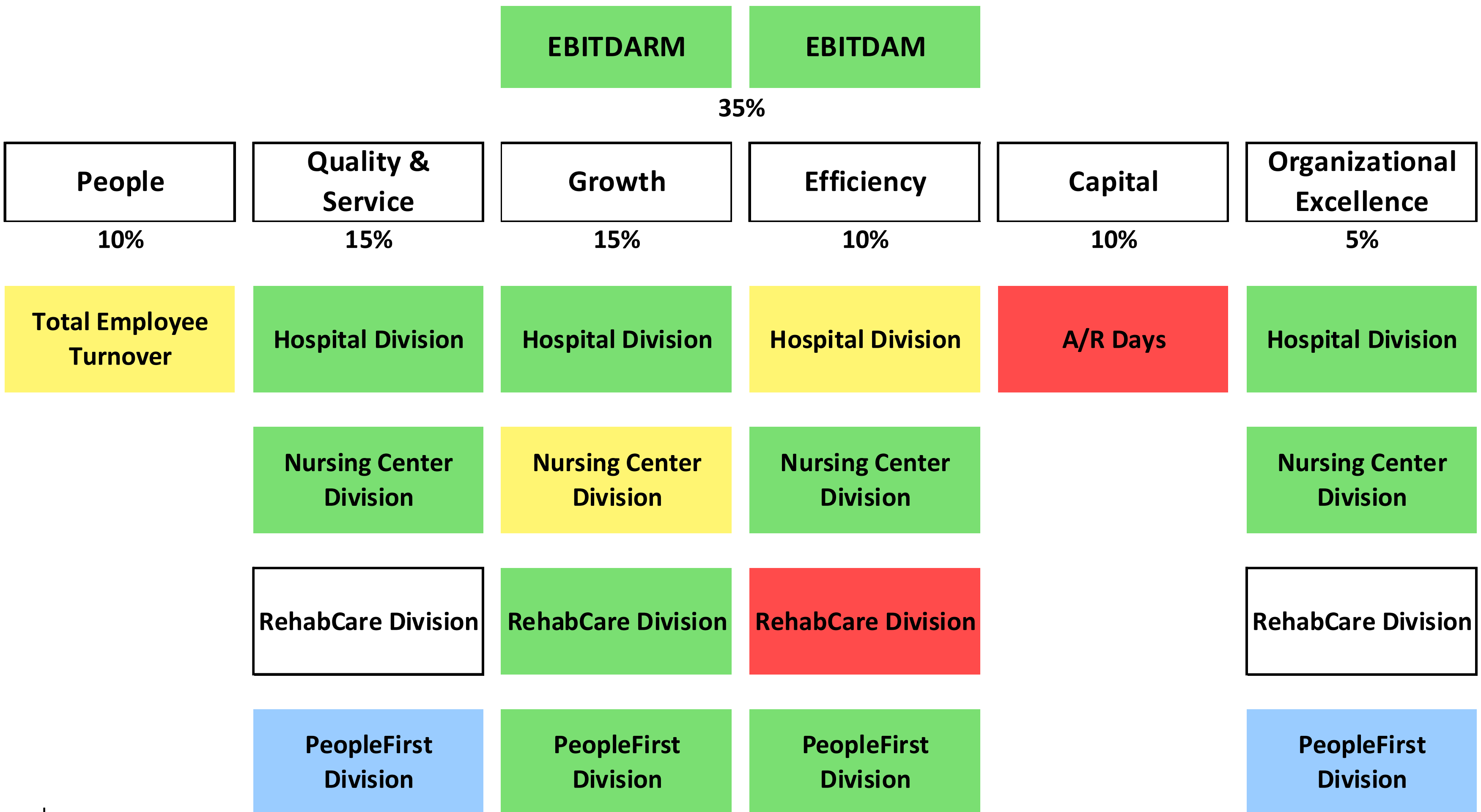
(In millions, expect per share amounts)

	Three months ended June 30, 2012	2011
Detail of charges:		
Severance and other miscellaneous costs	($3)	($15)
Lease cancellation charge	(1)	-
Employment related lawsuits	(5)	-
Transaction costs	(1)	(20)
Financing costs (in connection with RehabCare acquisition)	-	(12)
	(10)	(47)
Income tax benefit	4	17
Charges net of income taxes	(6)	(30)
Allocation to participating unvested restricted stockholders	-	-
Available to common stockholders	($6)	($30)
Weighted average diluted shares outstanding	51.7	43.2
Diluted loss per common share related to charges	($0.12)	($0.68)
Reconciliation of income from continuing operations before charges:		
Income from continuing operations before charges	$22	$24
Charges	(6)	(30)
Reported income (loss) from continuing operations	$16	($6)
Reconciliation of diluted earnings per common share from continuing operations before charges:		
Diluted earnings per common share before charges (a)	$0.41	$0.53
Charges	(0.12)	(0.68)
Other	-	0.01
Reported diluted earnings loss per common share	$0.29	($0.14)

(a) For purposes of computing diluted earnings per share, income from continuing operations before charges was reduced by $0.5 million, and $0.4 million for the three months ended June 30, 2012, and June 30, 2011, respectively, for the allocation of income to participating unvested restricted stockholders.

Consolidated Balanced Scorecard

June 2012 YTD • Performance as measured against 2012 goals



Legend
- Maximum Achieved
- Between Maximum & Target
- Between Target & Minimum
- Below Minimum
- Not Measured for Period

Hospital Division • Balanced Scorecard
June 2012 YTD • STIP Measures

			EBITDARM	EBITDAM		
			30%			
	People	Quality & Service	Growth	Efficiency	Capital	Organizational Excellence
	10%	15%	15%	15%	10%	5%
Short-Term Incentive Plan	Total Employee Turnover %	Clinical Quality Index	Admissions	Operating Cost PPD	AR Days (Non Medicare)	Re-hospitalization Rate
	CCO Turnover %	Customer Service Index	Average Daily Census	Revenue / Cost Growth Ratio		Worker's Comp Claims per FTE
		Clear Condition Out on First Follow-up	Net Revenue PPD			

Legend
- Maximum Achieved
- Between Maximum & Target
- Between Target & Minimum
- Below Minimum
- Not Measured for Period

Nursing Center Division • Balanced Scorecard

June 2012 YTD • STIP Measures

			EBITDARM	EBITDAM		
			30%			
	People	Quality & Service	Growth	Efficiency	Capital	Organizational Excellence
	10%	15%	15%	15%	10%	5%
Short-Term Incentive Plan	Employee Turnover %	Average Deficiency Index	Average Daily Census	Total Operating Expense PPD	A/R Days	Implementation of Point Click Care
	Employee Retention %	Clearing Tags on First Follow-up	Total Admissions	Total Ancillary Expense PPD		Implementation of Inter-act
		Re-hospitalization Rate	Gov't Net Revenue PPD			Implementation of Abaqis, Phase 2

Legend

- Maximum Achieved
- Between Maximum & Target
- Between Target & Minimum
- Below Minimum
- Not Measured for Period

RehabCare Division • Balanced Scorecard
June 2012 YTD • STIP Measures

Short-Term Incentive Plan

		EBITDARM	EBITDAM		
		30%			
People	Quality & Service	Growth	Efficiency	Capital	Organizational Excellence
10%	10%	20%	15%	10%	5%
Employee Turnover %	Customer Satisfaction	Total Revenue	Contribution Margin %	Days Sales Outstanding	Clinical Program Implementation
	SRS Outcomes Measurement	Net New Contracts	SRS Cost Per Minute		
	HRS OP Outcomes	SRS Revenue Per Minute			
	HRS IRF FIM Gain				
	HRS LTACH FOM Gain				

Legend
- Maximum Achieved
- Between Maximum & Target
- Between Target & Minimum
- Below Minimum
- Not Measured for Period

PeopleFirst Division • Balanced Scorecard
June 2012 YTD • STIP Measures

	People	Quality & Service	Growth	Efficiency	Capital	Organizational Excellence
			EBITDARM	EBITDAM		
			45%			
Weight	7.5%	7.5%	17.5%	7.5%	10%	5%
Short-Term Incentive Plan	Employee Turnover	Outcome Measures Exceed Averages	Total Admissions	Caseload per FTE	AR Days	Patient Satisfaction
			Average Daily Census			
			Total Billed Hours			

Legend
- Maximum Achieved
- Between Maximum & Target
- Between Target & Minimum
- Below Minimum
- Not Measured for Period

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