2003 Annual Report

Health Management Associates, Inc.

Steadfast commitment . . .

HEALTH MANAGEMENT ASSOCIATES, INC. (NYSE: HMA) is a premier operator of acute care, non-urban hospitals located primarily in the southeastern and southwestern United States. It focuses on non-urban America because many of those communities are underserved medically, have populations that are growing faster than the national average, and offer competitive advantages compared to major urban areas.

HMA is a turnaround specialist for non-urban hospitals. It acquires and then revitalizes hospitals in growing communities with populations of 30,000 to 400,000 that have a clear demographic need. Ideally, these hospitals are also located in states with Certificate of Need regulations, have an established physician base, and are available at reasonable prices.

HMA's strategy is to:

- Provide dynamic leadership
- Invest capital to bring hospital facilities and their equipment up to the most modern standards
- Recruit physicians, including sub-specialists, that expand their hospitals' breadth of services in response to community need
- Introduce proven hospital practices that improve the quality of care during a patient's stay and optimize the utilization of resources.

This strategy has proven extremely successful. Since 1991, HMA has acquired 38 hospitals, increasing its total hospital count, as of November 1, 2003, to 52 in 16 states and its licensed beds from 1,593 to 7,540. From 1991 through fiscal year-end 2003, HMA's revenues rose more than 10-fold to $2.6 billion from $245 million while net earnings increased nearly 24-fold to $283 million from $12 million.

At fiscal year-end 2003, HMA common stock was owned by approximately 1,500 shareholders of record, including several hundred institutional investors. More than 3.7 million shares were owned by employees in the 401-k plan, which attests to the confidence HMA employees have in its management and the future of the company. HMA currently pays a quarterly dividend of two cents per common share.

Contents

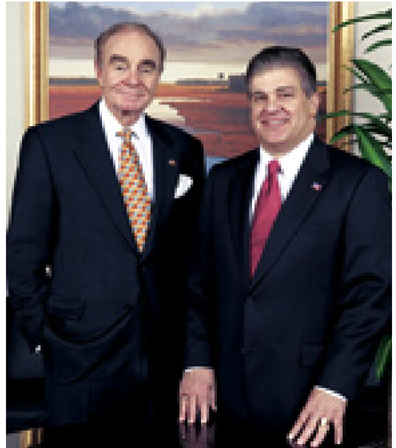
2 Report to Shareholders
4 The Year in Review
14 Acquisitions
17 The HMA Difference
18 Community Involvement
19 Corporate Governance
20 Hospital Locations
21 Report of Management/ Forward Looking Statements
24 Consolidated Financial Statements
28 Notes to Consolidated Financial Statements
40 Corporate Information
41 Directors and Officers

Financial Highlights (in thousands, except per share items)

	Year ended September 30,		
	2003	2002	Percent Change
Operating Data			
Net patient service revenue	$ 2,560,576	$ 2,262,601	+ 13.2
Costs and expenses	2,097,499	1,855,930	+ 13.0
Income before income taxes	458,736	405,662	+ 13.1
Net income	283,424	246,436	+ 15.0
Net income per share:			
Basic	$1.19	$1.02	+ 16.7
Diluted	$1.13	$0.97	+ 16.5
Performance Data			
Return on revenue	11.1%	10.9%	
Return on average equity	19.0%	19.0%	

	September 30,		
	2003	2002	Percent Change
Year-end Data			
Total assets	$ 2,979,487	$ 2,364,317	+ 26.0
Working capital	820,373	422,043	+ 94.4
Short-term debt	9,447	7,609	+ 24.2
Long-term debt	924,713	650,159	+ 42.2
Stockholders' equity	1,637,075	1,346,752	+ 21.6
Book value per common share	$6.82	$5.65	+ 20.7
Number of employees	24,000	23,000	+ 4.3

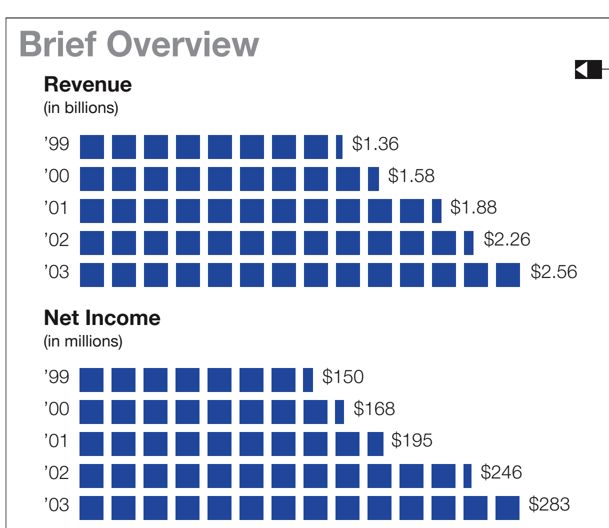
The news is excellent. For the 15th consecutive year, our revenue and earnings exceeded those of the previous year. For fiscal year 2003, our revenue was up 13 percent to $2.6 billion, and net income rose even faster—up 15 percent to $283 million. Earnings per share (diluted) advanced 17 percent to $1.13 compared with $0.97 for fiscal year 2002. These strong results reflect our continued focus on delivering high quality health care in non-urban communities with a proven demographic need.



William J. Schoen, Chairman, (left) and Joseph V. Vumbacco, President and CEO

Unique to the hospital industry, HMA employs a decentralized approach to hospital management, while maintaining centralized financial controls through the implementation of our proprietary Pulse System™ management information technology. Our local leadership teams, who have access to HMA's considerable corporate resources and expertise, make the day-to-day operational decisions in our hospitals. This strategy has earned HMA the reputation as one of the best hospital operators in the nation, based on both our Quality Service Management ratings and our industry leading operating margins.

Our consistent record of unprecedented success during the past 15 years can be traced to two standards that pervade every aspect of our operations. We put quality first and apply it consistently to every aspect of our operations.



We seek to attract the best and brightest people to join our organization. We examine every detail when evaluating hospital acquisition prospects, and we then invest our capital wisely to transform HMA hospitals into some of the finest hospitals in the nation. We also pursue physician and nurse recruitment with the same intensity. Finally, our time-tested, proprietary Pulse System™ is employed at every HMA hospital, creating uniformity, familiarity and consistency of information technology. This enables us to consolidate financial data efficiently, greatly improving the integration of new acquisitions.

The net effect of our focus on quality and consistency is profound. Patients who once went to distant urban hospitals for medical treatment now return to their community hospitals in increasing numbers each year. These increased patient volumes transform once struggling hospitals into vibrant medical centers that become a source of pride in every community we enter.

The secret to our success is quite simple. People want quality health care, and they want to receive that care in their own community. This is precisely the goal we continue to achieve.

Quality Hospital Performances

Improvements in patient care at HMA hospitals also continued last year. During fiscal 2003, the Joint Commission on Accreditation of Health Care Organizations (JCAHO) reviewed 22 HMA hospitals and gave them an average score of 94. This average score exceeded our objective of 90 or better and further indicates the increasing level of quality that can be found in HMA hospitals. In addition, we continue to meet and exceed the expectations of our patients as their Quality Service Management satisfaction scores averaged 96 of a possible 100 points.

These scores attest to the efficacy of our "Quality First" efforts and indicate our ability to consistently improve the level of hospital care at HMA hospitals, even during periods of rapid growth.

“The consistent delivery of high quality health care remains our primary focus; from that focus has grown fifteen consecutive years of increased operating earnings.”

—William J. Schoen, Chairman

Acquisitions

Acquisitions serve to accelerate our growth, and fiscal year 2003 proved another good year for acquisitions. We acquired four hospitals during the past fiscal year and completed the purchase of five more hospitals on November 1, 2003. These nine hospitals should provide material growth in subsequent years and deliver the cash flow needed to grow the company in future years.

Moreover, there is no shortage of acquisition prospects. Cost pressures and financial market conditions continue to adversely affect hospital operations at many community hospitals throughout the nation. Many hospitals lack the resources needed to cope with these financial pressures and are losing physicians and patients as a result. In those instances where our disciplined acquisition criteria are met, we will act accordingly with a financial and managerial commitment to revitalize and restore medical excellence to the community.

Improved Financing

We took advantage of the prevailing interest rates last year by issuing $575 million (gross proceeds) of 1.5% Convertible Senior Subordinated Notes due 2023 and used $311 million of those proceeds to redeem an earlier issue of 3.0% Convertible Senior Subordinated Notes due 2020. These two transactions removed 14.5 million shares from our diluted number of shares outstanding, effectively doubling the amount of the financing while maintaining the same annual interest expense. The remaining proceeds from the issuance have been used to partially fund the five hospital acquisitions completed on November 1, 2003.

New Hospital For Collier County, Florida

After a thorough review, demonstrating conclusively that the Collier County community, home to HMA’s corporate headquarters in Naples, Florida, was medically underserved, the State of Florida’s Agency for Health Care Administration approved our application to build a 100-bed hospital in Collier County. This is a wonderful opportunity for us to bring additional high quality hospital care to Collier County, the second-fastest growing community in the nation.

We are presently in the planning stages to build a state-of-the-art hospital that will be a premier health care facility in the Naples area.

Outlook

We believe our immediate outlook is promising and the longer term even more so as our recent acquisitions gain momentum and attract increasing patient volumes through better quality health care. The facts are compelling. Our hospitals continue to serve more patients each year. Based on community need, we recruit more doctors to serve our communities every year, and we provide our physicians with upgraded facilities and equipment to enable them to practice modern-day medicine more effectively.

In addition, our nation’s population continues to age, triggering an increased demand for health care. As “baby-boomers” demand more health care services, and migrate to non-urban communities in greater numbers, HMA has positioned itself to be the hospital provider of choice. Congress recently passed watershed legislation providing hospitals with additional reimbursement, effectively addressing the existing reimbursement disparity between urban and rural hospital providers. While this legislation may assist some hospitals, the complexity of reimbursement, cost pressures and increasing capital needs will continue to overwhelm many stand-alone non-urban hospitals. Their present condition provides us with unprecedented acquisition opportunities to select the best from among many. Our financial condition and credit standing are excellent, allowing us to simultaneously upgrade our present hospitals and make additional acquisitions.

To conclude, we would like to express our gratitude to our physicians, nurses and health care professionals whose steadfast dedication to the delivery of high quality health care and enduring compassion for our patients continue to make HMA the finest non-urban hospital provider in the nation.

We believe the best for HMA is yet to come.

William J. Schoen, Chairman

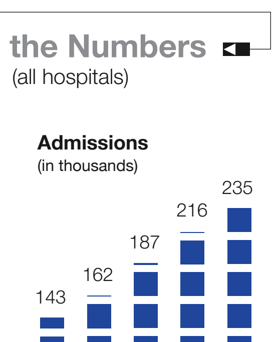
Joseph V. Vumbacco, President and CEO

Naples, Florida
December 12, 2003

the Numbers

(all hospitals)

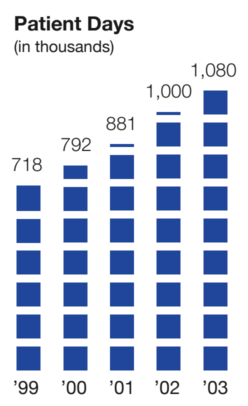
Admissions
(in thousands)



Emergency Room Visits
(in thousands)

476
557
645
813
914
'99 '00 '01 '02 '03

Patient Days
(in thousands)



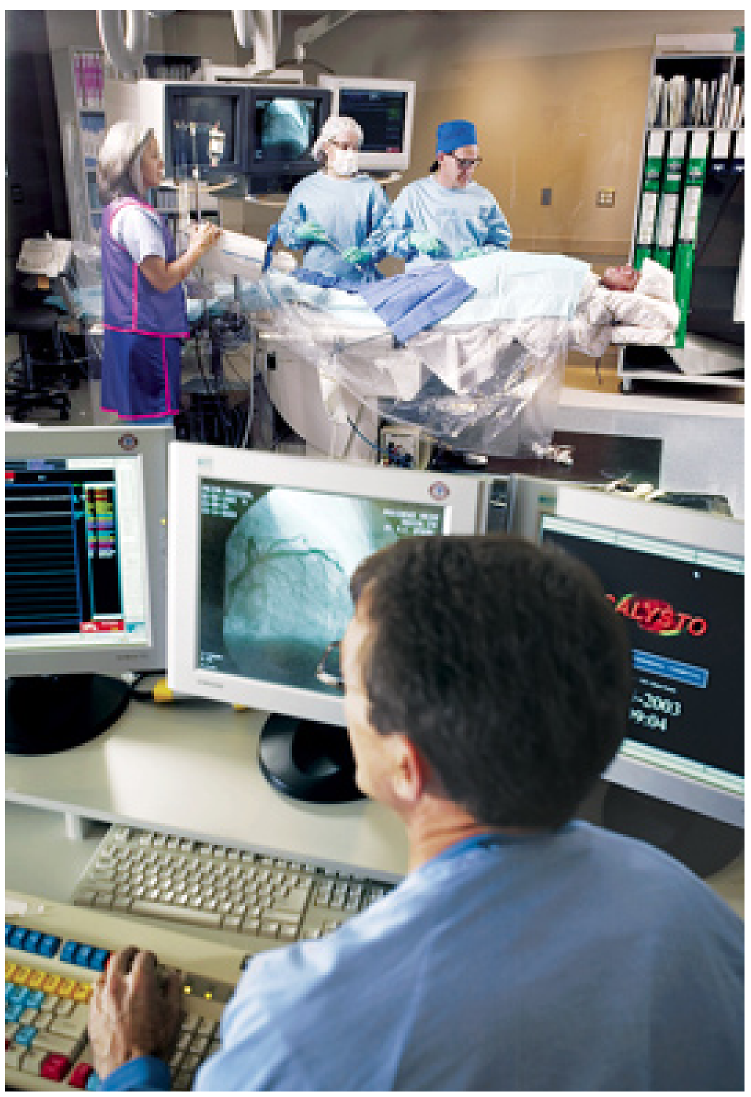
OPERATING PRINCIPLES

Quality and consistency guide every action we take. Quality can be seen in our attention to detail when building or remodeling our hospitals, in our development and implementation of our own information technology systems, and in our investment in state-of-the-art medical equipment. Our commitment to quality also extends to the things that cannot be seen: rigorous accounting standards, thoroughness in evaluating acquisition prospects, lasting commitments to the communities we serve, and the care we take when recruiting and working with our physicians, nurses and staff. The sum total of our efforts, and the truest form of quality, is meeting and exceeding our patients' and physicians' expectations.

Consistency is also evident throughout HMA. All HMA hospitals use the same accounting system and function under one proprietary management information system, the Pulse System™, which is a rarity among hospital management companies. This homogeneity gives us an extremely accurate picture of each hospital's operating status on a daily basis. Having this information timely and uniformly enables us to manage effectively and project future cash flows and earnings with a better degree of accuracy.

HMA applies a decentralized management approach with centralized financial controls to its hospital operations. Local leadership teams, comprised of the hospital's Chief Executive Officer, Chief Financial Officer and Chief Nursing Officer, are responsible for the day-to-day operation of their respective facility, while being able to draw on additional expertise and management resources from the corporate office. ■

The 2003 annual report salutes the 7,800 physicians who treated hundreds of thousands of patients at our 47 hospitals during the year. Our focus on quality care, excellent facilities, talented administration and compassionate, dedicated employees, coupled with attractive non-urban communities with a proven demographic need, are key reasons physicians join our medical staffs. (Clarksdale, MS)



◀ We invested more than $166 million in replacement hospitals, expansion projects and advanced medical equipment last year to enable our physicians to perform at their best in our community hospitals. These equipment purchases are ongoing and reflect continuing quality improvements.

By equipping our hospitals with state-of-the-art medical technology, our staff physicians no longer feel the need to send many of their patients to large, urban hospitals for treatment. (Yakima, WA)

Hospital Operations—2003 compared with 2002

Consolidated revenues for the year, which include the results of four hospitals acquired during the year, increased $300 million to $2.6 billion when compared to 2002. Total admissions rose 8.9 percent to more than 235,000. Patient days increased 80,000 to approximately 1.1 million from 1.0 million, and emergency room (ER) visits grew 5.4 percent to 914,000.

Same hospitals, which are hospitals we have operated for at least twelve months, increased their revenue by 7.9 percent, crossing over the $2 billion mark for the first time in the history of the company to finish the year at $2.25 billion. Contributing to this outstanding revenue growth was a 2.9 percent increase in same hospital admissions, a 2.8 percent increase in same hospital adjusted admissions, which adjust admissions for outpatient activity, and a 5.1 percent increase in same hospital ER visits. This increased patient load also increased our same hospital occupancy levels to 47.7 percent from 47.1 percent in 2002. Successful physician recruiting and a continued focus on ER services were instrumental to achieving our volume growth.

We modernize our hospitals to provide better health care and to attract more physicians with needed sub-specialties. That combination helps to address the communities' needs and leads to increased patient volumes.

Our same hospital patient growth last year illustrated our ability to reduce patient outmigration trends while at the same time serving the population growth in our communities, particularly the growth in the elderly population. By providing a broader range of health care services through the investment in health care technology and physician recruitment, residents in our communities no longer have to seek health care elsewhere.

We invested $30 million last year to begin construction and development of two of the four replacement hospitals we have planned. We modernized or expanded every hospital during the year by adding capacity or advanced diagnostic and treatment equipment, with substantially all of those capital expenditures being financed internally through cash flow from operations.

We also recruited more than 300 physicians in 2003, a 36 percent increase from 2002, which increased the number of practicing physicians on staff at our hospitals to 7,800. Recruited physicians were comprised of both specialists and family practice physicians. Based on the need in the respective HMA community they joined, these physicians are often providing new medical services previously unavailable at those hospitals. The combination of upgrading our hospitals, building replacement facilities and proactively recruiting needed physicians, is a long-standing HMA strategy and a key component to 15 consecutive years of growth.

▶ Physician recruitment is a key component of HMA's success. Based on an outside independent review, local HMA administrators work together with existing physicians to recruit doctors to add services and meet the needs of our communities. (Clarksdale, MS)

- **Revenue Mix**

Our revenue mix was very similar to the previous year. Commercial insurance and other sources comprised 47 percent; Medicare — 35 percent; Medicaid — 9 percent; and private pay — 9 percent.

Inasmuch as a portion of our private pay and commercial insurance patients includes senior citizens, it becomes apparent that HMA hospitals provide a substantial amount of care to the elderly. This is because many HMA hospitals are located in Sunbelt areas of the U.S. where older, retired people typically concentrate.

From complex surgery to rehabilitation, HMA's hospitals are equipped to deliver a full range of our health care services for our patients, allowing them to receive their health care close to home. (Milton, FL)

- **Hospital Staff — Nurses**

Our Chief Nursing Officers (CNOs) displayed effective leadership throughout the past year by skillfully adapting to the challenges of an ongoing national nursing shortage. By improving hospital working conditions, fostering relationships with local nursing schools, and in many cases rolling up their sleeves to deliver personal patient care, our CNOs redefined the role of nursing leadership. Our NurseSelect™ internal nursing agency and our focus on improving staff working conditions in our hospitals significantly reduced turnover rates and improved morale in 2003, which resulted in better care for our patients.

NurseSelect™ is HMA's proprietary nursing staff agency, and was initiated in four HMA markets, Mesquite, TX, Lancaster, PA, Jackson, MS and Yakima, WA. By offering a competitive alternative for nurses seeking greater flexibility of scheduling, our CNOs effectively managed NurseSelect™ to stabilize the nursing staffs in these markets and markedly reduce payroll expense, by reducing outside nursing agency use.

- **Proprietary systems**

Our Pulse System™ proprietary information system continues to offer HMA advantages from both a cost and integration perspective. Developed by HMA over the last 18 years, the Pulse System™ is installed and operational in all HMA hospitals from the moment we acquire them. While providing uniform and familiar data in an operational format for management, the Pulse System™ also speeds acquisition integration. In addition, costing approximately one-half of one percent of net revenue, the Pulse System™ operates at a fraction of the cost of other hospital information systems while providing accurate data in a user-friendly, consistent format. ■

HOSPITAL VALIDATIONS – 2003

The superior quality of the health care services provided at HMA hospitals is documented year after year by independent third parties.

Consistent Progress

At Fiscal Year-end September 30	Number of Hospitals	Admissions (000s)	ER Visits (000s)	Number of Beds	Patient Days (000s)	Occupancy
1995	21	64	298	2,282	340	44%
1999	36	144	498	4,665	718	47%
2003	47	235	914	6,479	1,080	49%

The Joint Commission on Accreditation of Health Care Organizations (JCAHO) inspected 22 HMA hospitals last year. Despite more stringent guidelines adopted by the JCAHO in 2002, our surveyed hospitals received an average grade of 94 out of a possible score of 100, a documented increase in quality from the average score of 92 we received in 2002. Other examples include:

- Our Community Hospital of Lancaster (Lancaster, PA) received its first accreditation by the JCAHO last year. Prior to HMA's acquisition in 1999, it had been operating for more than 50 years without JCAHO accreditation, and within four years of HMA's acquisition of the facility, it became fully accredited. This illustrates the quality initiatives HMA brings to every hospital it operates.

- Our East Georgia Regional Medical Center's Cardiopulmonary Services Unit (Statesboro, GA) received a perfect score of 100 from the JCAHO last year and was awarded its Gold Seal of Approval™ for its outstanding achievement.

- Our Woman's Hospital at River Oaks (Flowood, MS) received a JCAHO score of 98 out of 100, reflecting our commitment to delivering quality women's health care services.

- Our Charlotte Regional Medical Center (Punta Gorda, FL) was named by Solucient, Inc., an Evanston, Illinois-based health care information company, to its list of the 100 Top Cardiovascular Hospitals in the nation for the fourth time. That same hospital was also honored by Florida Medical Quality Assurance, Inc. for its "Outstanding Medicare Project Participation." This award is given for the breadth and quality of services provided to Medicare and Medicaid participants in Florida.

- Solucient also placed two other HMA hospitals – Jamestown Regional Medical Center (Jamestown, TN) and Williamson Memorial Hospital (Williamson, WV) – on its list of the nation's Top 100 Hospitals. This is the first time each hospital has been named to Solucient's Top 100 list.

- The laboratory at our Williamson Memorial Hospital in Williamson, WV, received a score of 98 from the JCAHO at its recent biennial examination and certification. ■

Appraisals by Patients

Although the objective measurements of independent rating agencies are important, we also seek the subjective evaluations of our patients. We want to know how they perceive the quality of our hospitals' services. To learn this, we ask them to fill out a confidential survey when they are discharged. The surveys, which are tabulated by an unaffiliated organization, ask patients for their opinions about everything — their medical treatment, the personal attention our staff devoted to their concerns, the overall admissions process, room cleanliness, and the quality of our hospital food, to name just a few.

These patient responses are the basis of our entire Quality Service Management program. No other data on overall quality is reviewed more carefully by management.

Last year, patients surveyed rated our hospitals' services "good or excellent" 96 percent of the time. The results of these surveys are an important tool for administrators, physicians and hospital staff. They are also one of the many measures that influence staff compensation. ■

Financial Data — Fiscal Year-end 2003

- **Best Balance Sheet in the Industry**

The strength of our balance sheet is the result of superior operational management, consistent earnings performance, and conservative financial management. Working capital totaled more than $820 million, with cash alone representing 145 percent of all current liabilities.

Our debt-to-total capitalization was 36 percent, the lowest in the publicly traded hospital management company industry. In addition, our "A-minus" debt rating from Standard and Poor's is the highest investment grade rating in our industry. This credit rating enabled us to issue $575 million (gross proceeds) of convertible notes at a 1.5 percent interest rate and retire $311 million of outstanding convertible debentures with a 3.0 percent yield to maturity.

Our consistent earnings performance

◀ The leadership of our Chief Nursing Officers, together with our in-house nurse employment agency, NurseSelect™, improved the morale of our nurses, reduced hiring costs and nurse turnover, and helped to control staffing costs—ultimately improving patient care in our hospitals. (pictured: HMA's Chief Nursing Officers; Peter M. Lawson, Executive Vice President; Joseph V. Vumbacco, President and Chief Executive Officer and Jon P. Vollmer, Executive Vice President)

continues to deliver outstanding internally generated cash flow. This strong cash flow, year after year, helps fund acquisitions, physician recruiting and capital expenditures, which are key components of our business strategy. Our ability to internally fund the majority of our growth is uncommon in the industry. ■

Capital Improvements

During fiscal 2003, we invested a total of $166 million to build new hospitals, expand and upgrade others and add state-of-the-art medical equipment throughout our system. The following is a summary of our accomplishments:

- **Replacement Hospitals**

We broke ground in October 2002 on a 144-bed replacement hospital for Community Hospital of Lancaster (Lancaster, PA) to replace an aging facility we acquired in 1999. It will feature a state-of-the-art emergency department, the latest in diagnostics, surgical inpatient and outpatient suites, luxurious patient rooms and a separate women's health pavilion. These additions will increase the size of this hospital by about one-third. Estimated completion is expected in summer 2004.

We completed plans to build a new hospital to replace the present Brooksville Regional Hospital (Brooksville, FL). The new hospital, which will be located about three miles from the old location, will be a 91-bed state-of-the-art facility that will include a vast array of the very latest in medical equipment. Construction is expected to begin in early 2004.

Fast Facts

10%

HMA's nursing turnover rate as of September 30, 2003, down from 20%+ only 18 months ago.

94

HMA's average JCAHO score for 22 hospitals surveyed in 2003, up from the average score of 92 HMA received in 2002.

$49 million

HMA's average expenditure during each of the past five years to purchase state-of-the-art medical equipment for its hospitals, exclusive of renovations and construction.

- **Hospital Expansions**

We also completed the 9,300 square-foot expansion of the surgery department at our Carolina Pines Regional Medical Center (Hartsville, SC). This expansion included the addition of two operating rooms and a new outpatient staging area.

In keeping a promise we made when we acquired Jamestown Regional Medical Center (Jamestown, TN) in 2002, we broke ground last April on a 23,000 square foot addition for a new emergency room department and a new surgery department. The new ER will include eight exam rooms, two of which will be equipped for cardiac treatment and trauma care. The new surgery department will feature four surgery suites and a six-bed pre-operative area and a six-bed post-operative and recovery area. An intensive care unit (ICU) is also planned.

HMA's investment in General Electric's Hawkeye V3 Nuclear Camera provides physicians and patients at Yakima Regional Medical & Heart Center with technology found in only a few hospitals in all of Washington State. (Yakima, WA)

HMA also renovated the former pediatrics unit at Highlands Regional Medical Center (Sebring, FL) and converted it into a state-of-the-art 16-bed ICU. It is now the largest such ICU in Highlands County.

We totally renovated the radiology department at Lehigh Regional Medical Center (Lehigh Acres,

Santa Rosa Medical Center's new 40,000 square foot medical office building in Milton, Florida, offers convenient access to the hospital for newly recruited physicians. (Milton, FL)

FL). New furniture, floors, walls and artwork give an entire new appearance to the department. More significant was the investment in new medical equipment that transformed this department into an advanced diagnostic and treatment center.

HMA also renovated the surgical department at the Lower Keys Medical Center hospital (Key West, FL) last August. The renovation expanded the department to seven units from three and included the addition of a variety of advanced medical technology such as new lighting, operating tables, anesthesia equipment, laparoscopic towers and sterilization equipment.

- **Medical Equipment**

Our Midwest Regional Medical Center (Midwest City, OK) was equipped with General Electric's 1.5T MRI scanner. It delivers the fastest, most concise imagery available in conventional MRI technology today. The hospital's Renaissance Women's Center was also equipped with a GE 4D Ultrasound unit, allowing expectant mothers to view their unborn child in three dimensions and also capture the baby's actual movements. The new unit represents the difference between video photography and a still photograph. Through this revolutionary technology, the infant's three-dimensional image is continuously updated. This constant updating enables the attending physician to track the baby's development throughout its gestation period.

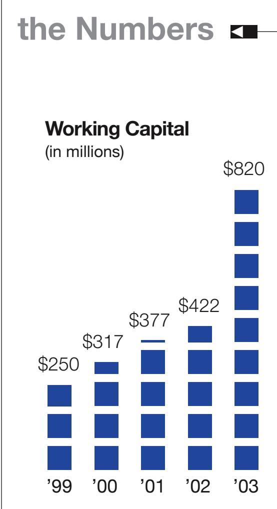
We installed a new Spiral/Helical CT scanner within the radiology department at our Lehigh Regional Medical Center (Lehigh Acres, FL). It reduces scanning time from minutes to mere seconds. It also renders outstanding images that enable 3D imaging construction. Other equipment installations included a cardiovascular ultrasound unit, a nuclear medicine camera that improves diagnostic reliability, and a digital fluoroscopy unit that enables physicians to perform invasive procedures never before offered at this hospital.

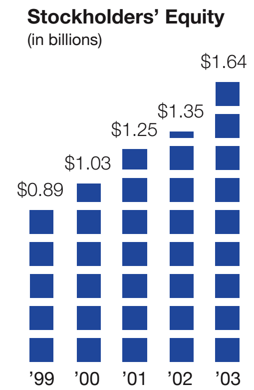
At our Stringfellow Memorial Hospital (Anniston, AL), we installed the new GE Sigma Infinity 1.5T MRI system last January. In addition to routine MRI scans, the new system facilitates advanced applications such as vascular and cardiac imaging as well as spectroscopy. Stringfellow Memorial is now able to deliver the most advanced patient care with cost-effective technology. In the first month of its installation, a total of 160 scans were performed.

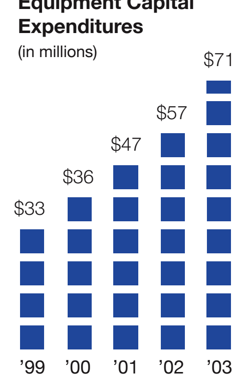
At our Paul B. Hall Regional Medical Center (Paintsville, KY) we installed a state-of-the-art mammography system for early detection of breast cancer. The new system employs technology that provides optimum image quality at a low radiation dosage.

We purchased GE's Innova 2000 Cardiac

the Numbers







Catherization Lab for our Medical Center of Mesquite (Mesquite, TX). This system provides increased visualization of small vessel obstructions, decreases X-ray dosing by 50 percent, and reduces procedural time. It gives our staff cardiologists and the residents of Mesquite and the surrounding communities access to one of the most modern and technologically advanced systems in Texas.

We also installed a GE Precision 500D Digital Radiology and Fluoroscopy System in the radiology department at our Sandhills Regional Medical Center (Hamlet, NC). Considered by many as the most advanced fluoroscopy system in medicine today, it is entirely computer-based, which facilitates inexpensive software updates as technology advances. Only two hospitals in North Carolina presently use this technology.

The company's capital expenditures budget for fiscal 2004 is targeted between $155 and $165 million, with the focus on patient care equipment, replacement hospitals and expansion projects to increase capacity. ■

Physician Recruiting Accelerates

We work closely with community leaders and existing staff physicians, as well as utilizing an independent community needs assessment, to readily identify what medical services are needed for any given community. As a result, we recruited more than 300 physicians in 2003 compared with approximately 220 in 2002. Based on community need, recruited specialists and sub-specialists help broaden the breadth of hospital services in a given market, reducing outmigration and allowing residents to receive more of their health care close to home.

Outstanding hospital operations generate the cash flow needed to reinvest in our communities, thereby reducing the reliance on outside sources of financing — in effect self-funding our growth.

Once these needs are determined, our local hospital administrative teams invite physician candidates and their families to visit our hospitals and communities. These visits enable physicians to discover whether the local community is a good fit personally and professionally, and whether their specialized medical skills will match the health care needs of a given community. These visits also help them to evaluate the likelihood of their building a viable practice from the community's existing patient base.

Spending more time with our patients than any other health care professional, HMA nurses are committed to professional excellence and the delivery of high quality care to our patients. (Milton, FL)

In addition to the improved quality of life smaller communities typically offer, physician candidates are also attracted by the ready access they will have to the state-of-the-art medical equipment in an HMA hospital. This is why we invest heavily in our facilities and install up-to-date medical technology. We want our doctors to have the ability to practice sophisticated medicine in comfortable, well-equipped surroundings rather than the frenzied atmosphere of a large urban hospital.

Physician recruiting is an ongoing program at all our hospitals. It grows more successful each year as the number of openings and locations increase naturally as we acquire more hospitals and address the needs of our growing markets. This growth automatically provides our physician candidates with a greater range of choices. ■

the Numbers

36%

The increase in recruited physicians at HMA hospitals in 2003 compared with 2002.

7,800

The number of physicians on HMA's medical staffs throughout the company, as of September 30, 2003.

96%

Average Quality Service Management score. HMA patients surveyed rated the care they received as "good or excellent" 96% of the time.

HMA acquired four non-urban hospitals in fiscal year 2003, adding operations in our 15th state, Washington State. On November 1, 2003, HMA completed the acquisition of five additional hospitals, increasing our licensed bed capacity to 7,540 beds and adding operations in our 16th state, Missouri. (Yakima, WA)

> "Without exception, the quality of health care has improved in every community we have entered."
>
> —Joseph V. Vumbacco, President & CEO

Acquired Hospitals

We completed the acquisition of four hospitals during fiscal 2003. Soon after the end of the year, on November 1, 2003, we completed the acquisition of five additional non-urban hospitals. For fiscal 2003, we increased the number of hospitals to 47 from 43 and the licensed bed capacity to 6,479 from 5,988. These acquisitions also mark our initial entry into Washington State, giving us a presence in 15 states nationwide.

Canton, Mississippi. On December 31, 2002, we completed the acquisition of the 67-bed Madison Regional Medical Center in Canton, Mississippi, the county seat for Madison County, the fastest growing county in the state. Prospects for growth are exceptional. Nissan Motors opened a 3.5 million square foot manufacturing plant in Canton last July. It is expected to generate as many as 5,300 new jobs.

Yakima & Toppenish, Washington. Located in central Washington State, Yakima Regional Medical and Heart Center, a 226-bed facility in Yakima and the 63-bed Toppenish Community Hospital, in Toppenish, serve a growing service area of approximately 250,000 residents, offering the region's only open-heart surgical services. Yakima Regional was recently honored by *Money Magazine* as one of the nation's best cardiac hospitals. Both of these hospitals, which were acquired on August 15, 2003, offer HMA a tremendous opportunity to continue the tradition of delivering high quality health care to the residents of central Washington.

Monroe, Georgia. In September 2003, we completed the transaction to acquire the 135-bed Walton Regional Medical Center in Monroe, Georgia. It is a sole community provider located in north central Georgia's Walton County. Since 1990, Walton County's population has grown at twice the rate of the state of Georgia's average growth rate. To accommodate the rapidly expanding health care needs in this area, we will build a state-of-the-art replacement hospital to replace the existing facility.

Only a month after our fiscal year 2003 ended, HMA acquired five non-urban hospitals from subsidiaries of Tenet Healthcare Corporation, Inc. As a result of these acquisitions, we added a total of 1,061 licensed beds and initiated operations in Missouri, our 16th state. All are located in non-urban communities with proven demographic needs for health care services.

Crystal River, Florida. Seven Rivers Regional Medical Center, with approximately 135 physicians on staff, is a 128-bed acute-care hospital that serves a non-urban area with a growing population of approximately 60,000. In 2001, it was named a "Top 100 Hospital" by Solucient, Inc.

Tullahoma, Tennessee. Harton Regional Medical Center, with approximately 175 physicians on staff, is a 137-bed acute care hospital that serves a growing population of nearly 85,000 residents.

Lebanon, Tennessee. University Medical Center, with approximately 165 physicians on staff, is a 257-bed, two-campus, acute care hospital that serves a growing population of approximately 104,000.

Poplar Bluff, Missouri. Three Rivers Regional Medical Center, with approximately 141 physicians on staff, is a 423-bed, two campus acute care hospital with a primary service area of approximately 81,000 residents.

Kennett, Missouri. Twin Rivers Regional Medical Center, with approximately 57 physicians on staff, is a 116-bed acute care hospital with a primary service area of approximately 40,000 residents.

Our Acquisition Strategy

We continue with the same disciplined acquisition strategy, looking for hospitals that are in growing, non-urban communities with populations ranging from 30,000 to 400,000. We seek medically underserved communities located in geographic areas that are attractive to the elderly and retirees.

Acquisition Climate

The opportunity to acquire hospitals remains favorable. Many community hospitals continue to lose their traditional patient base to large, urban hospitals. This is because hospitals in non-urban communities are facing aging facilities,

inadequate physician specialty representation, nursing shortages, operational inefficiencies and lack of capital sufficient to bring about needed changes. Oftentimes, the primary cause is a lack of capital. Many community hospitals do not have the funds to upgrade themselves to meet the costly demands of 21st century medicine. They have neither the physical facilities nor the equipment to attract the physicians they need to keep their patient base intact. Consequently, many residents are forced to turn to large, urban hospitals for treatment, even though they may be many miles distant, inconvenient and overcrowded.

The demand for health care services is growing in America, particularly in non-urban areas. HMA is poised to be the provider of choice in these communities.

Acquisition Approach

Faced with increasing deficits and shrinking patient loads, hospital trustees and community leaders are often faced with difficult choices. Fortunately, HMA's 26-year history of improving the quality of health care and increasing the breadth of services in our communities is a welcome light in the storm for struggling hospitals seeking relief. Understanding the impact of change, HMA works closely with employees, physicians and local officials to allay the typical concerns: employment issues, quality concerns, and loss of local control. Open, honest communication is an HMA hallmark. We invite those concerned to contact their peers in any HMA community and share their questions with those who have experienced the HMA difference. Two key questions are frequently asked: "Did HMA keep their promises?" and "Did the quality of health care improve after HMA began serving the area?" We are pleased to report that the answers to both questions have been answered resoundingly. "Yes."

Ongoing investment in HMA communities is necessary to attract both patients and physicians. With excellent financial strength and input from our physicians, employees and patients, HMA's collaborative efforts yield outstanding health care facilities. (Milton, FL)

HMA hospitals place special emphasis on their emergency room operations. First impressions of hospital ER care count greatly in smaller communities. More than half of all admitted patients to HMA hospitals arrive initially at the ER entrance, making the ER the real "front door" to our hospitals. (Midwest City, OK)

THE HMA DIFFERENCE

Within days following an acquisition, we introduce our time-tested proprietary programs to revitalize that hospital. They include:

- **The Pulse System™**. HMA's proprietary information system that provides our local hospital management teams with the consistent information needed to improve the quality and efficiency of delivering health care. Included in this system are accounting and tracking systems that bring order to a hospital's operations and promote efficient use of resources. Clinical and physician access systems are also highlighted, improving ancillary department operations and physician proficiency.

- **Nurse First**. This is a quality-driven program for ER patients, which comprise more than half of all HMA hospital admissions. A visit to an HMA emergency room is often the first contact a patient makes with one of our hospitals, and first impressions matter greatly, especially in smaller communities.

  To assure that every ER visit is as pleasant as possible, well-qualified and dedicated registered nurses are chosen and then given additional training in ER duties. They have a high level of emergency medical expertise and an innate ability to handle very intense and emotional situations with a compassionate and calming demeanor. Such nurses are present at our hospitals 24 hours a day.

Fast Facts

2 Hours

Average emergency room encounter time at HMA hospitals, three to four hours shorter than the national average.

700,000 +

The number of MedKey™ cards in circulation at HMA hospitals as of September 30, 2003.

1,080,000

Number of days patients spent in HMA hospitals in fiscal 2003.

- **ProMed.** This is a computer-accessed diagnostic tool that helps doctors assess a patient's condition, formulate a diagnosis and suggest a course of treatment. When combined with the "Nurse First" program, our hospitals have been able to meet and often exceed our internal goal of providing an emergency department encounter in two hours or less, which is 50 to 75 percent better than the national average of five to six hours.

- **MedKey™.** This is a bar-coded identification card that our hospitals provide local residents free of charge. It contains relevant patient information that streamlines the admission and registration process, and, in certain instances, can help speed medical treatment.

  MedKey™ cards are increasing rapidly because we heavily promote this program in each community when we acquire a hospital. At year-end, more than 700,000 cards were in use. ■

HMA's Quality Service Management program allows patients to rate the quality of their hospital care. No other quality measure is more closely reviewed by management. (Yakima, WA)

Community Involvement

HMA insists that each hospital and its staff become an integral part of the community where it operates. Staff members routinely serve on local school boards, Boys and Girls Clubs, civic organizations, chambers of commerce, and health related charities, including the March of Dimes, American Cancer Society, and the American Heart Association among others. In addition, our hospitals host many free health fairs to educate residents about health related issues and provide screenings that include tests for diabetes, hypertension and respiratory ailments.

For example, last year Fishermen's Hospital (Marathon, FL) conducted between 250 and 300 blood pressure tests on Saturdays to assist with preventative health care. Sebastian River Medical Center (Sebastian, FL) hosted a Women's Health Expo that included information on sleep disorders, weight loss, cancer, bone density and acid reflux disease. Lee Regional Medical Center (Pennington Gap, VA) presented each soldier from a local national guard unit headed for Kuwait with Bibles, food, phone cards, hygiene bags and gift certificates. River Oaks Hospital (Flowood, MS) launched a literacy campaign to educate the parents of newborns about the decisive role they play in the development of their children. Upstate Carolina Medical Center (Gaffney, SC) conducted one of the most successful blood donation drives in its history.

On the fund-raising front, River Oaks Health System was named the top fund-raising team for the 2003 March of Dimes Walkathon, raising more than $17,000; at the same event in Meridian, MS, Riley Hospital's WomanCare BirthPlace unit raised $10,000.

Finally, HMA and corporate employees partnered with the local Collier County Habitat for Humanity Chapter to donate $200,000 and construct five new homes to help address the lack of affordable housing in southwest Florida. ■

CORPORATE GOVERNANCE at HMA is an ongoing discipline that is rigorously monitored at all levels within the company. The company's Board of Directors is ultimately responsible to the shareholders and investment community for the accuracy and completeness of its financial statements, adherence to strategic objectives, and maintenance of ethical and regulatory compliance. Continued effective corporate governance is essential to ensure the trust of our patients, physicians, employees, vendors, payors and shareholders alike, in order to lead HMA to enduring success.

The Board meets at least four times a year, and delegates specific responsibilities to the following board committees: Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and an Executive Committee. In addition, the Board has adopted a Code of Business Conduct and Ethics to govern the conduct of all employees, officers and non-employee board members.

Audit Committee

The Audit Committee assists the Board in the oversight of the accounting and financial reporting processes, internal control procedures and independent audits of HMA's financial statements. This committee is comprised of four independent Board members, with at least one of whom is deemed a financial expert, and is required to meet a minimum of four times a year.

Compensation Committee

The Compensation Committee has direct responsibility for reviewing and approving HMA's goals and objectives relevant to the compensation of the Chief Executive Officer and other executive officers, and the evaluation of these executives in light of those goals and objectives. This committee is comprised of three independent Board members and is required to meet a minimum of three times a year.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is charged with shaping HMA's corporate governance. In addition, this committee is charged with enhancing the quality of the Board by identifying and recommending qualified individuals to become directors. This committee is comprised of three independent Board members and is required to meet a minimum of three times a year.

Executive Committee

The Executive Committee is empowered to take actions and have such responsibilities as the Board may determine from time to time, except for matters that are the responsibilities of another committee. This committee is comprised of five Board members and will meet such number of times per year as the Board may determine.

Board of Directors (left to right): Kenneth D. Lewis, Robert A. Knox, Donald E. Kiernan, William C. Steere, Jr., Joseph V. Vumbacco, William J. Schoen, Randolph W. Westerfield, Kent P. Dauten and William E. Mayberry.

Our philosophy is that HMA does not stand apart from society; we are an integral part of the communities we serve, and the collective policies and actions of each HMA hospital and employee must constantly seek to assure HMA's reputation by conducting business in a manner that is consistent with the highest ethical standards and in compliance with all applicable laws.

Additional information pertaining to HMA's corporate governance, including Board committee charters, Corporate Governance Principles, and the Code of Business Conduct and Ethics can be found on the HMA website located at http://www.hma-corp.com under the Investor Relations section. ■

Hospital Locations
(at November 1, 2003)

Alabama
Riverview Regional Medical Center, Gadsden
Stringfellow Memorial Hospital, Anniston

Arkansas
Crawford Memorial Hospital, Van Buren
Southwest Regional Medical Center, Little Rock

Florida
Brooksville Regional Hospital, Brooksville
Charlotte Regional Medical Center, Punta Gorda
Fishermen's Hospital, Marathon
Heart of Florida Regional Medical Center, Greater Haines City
Highlands Regional Medical Center, Sebring
Lehigh Regional Medical Center, Lehigh Acres
Lower Keys Medical Center, Key West
Pasco Regional Medical Center, Dade City
SandyPines, Tequesta
Santa Rosa Medical Center, Milton
Sebastian River Medical Center, Sebastian
Seven Rivers Regional Medical Ctr., Crystal River
Spring Hill Regional Hospital, Spring Hill
University Behavioral Center, Orlando

Georgia
East Georgia Regional Medical Ctr., Statesboro
Walton Regional Medical Center, Monroe

Kentucky
Paul B. Hall Regional Medical Center, Paintsville

Mississippi
Biloxi Regional Medical Center, Biloxi
Central Mississippi Medical Center, Jackson
Madison Regional Medical Center, Canton
Natchez Community Hospital, Natchez
Northwest Mississippi Regional Medical Center, Clarksdale
Rankin Medical Center, Brandon
Riley Hospital, Meridian
River Oaks Hospital, Flowood
Woman's Hospital at River Oaks, Flowood

Missouri
Three Rivers Regional Medical Ctr., Poplar Bluff
Twin Rivers Regional Medical Center, Kennett

North Carolina
Davis Regional Medical Center, Statesville
Franklin Regional Medical Center, Louisburg
Lake Norman Regional Medical Ctr., Mooresville
Sandhills Regional Medical Center, Hamlet

Oklahoma
Medical Center of Southeastern Oklahoma, Durant
Midwest Regional Medical Center, Midwest City

Pennsylvania
Carlisle Regional Medical Center, Carlisle
Community Hospital of Lancaster, Lancaster
Lancaster Regional Medical Center, Lancaster

South Carolina
Carolina Pines Regional Medical Ctr., Hartsville
Upstate Carolina Medical Center, Gaffney

Tennessee
Harton Regional Medical Center, Tullahoma
Jamestown Regional Medical Ctr., Jamestown
University Medical Center, Lebanon

Texas
The Medical Center of Mesquite, Mesquite
Mesquite Community Hospital, Mesquite

Virginia
Lee Regional Medical Center, Pennington Gap

Washington
Toppenish Community Hospital, Toppenish
Yakima Regional Medical & Heart Center, Yakima

West Virginia
Williamson Memorial Hospital, Williamson

To Our Shareholders and Other Interested Parties
Health Management Associates, Inc.

The management of Health Management Associates, Inc., (the "Company") is responsible for the preparation, presentation, and integrity of the consolidated financial statements and other information included in this annual report. The financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States and, as such, include amounts based on management's best estimates and judgements.

The financial statements have been audited by Ernst & Young LLP, independent auditors. Their audits were made in accordance with auditing standards generally accepted in the United States and included such reviews and tests of the Company's internal accounting controls as they considered necessary.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance at reasonable cost that Company assets are protected against loss or unauthorized use and that transactions and events are properly recorded.

The Board of Directors, through its Audit Committee, comprised solely of independent directors who are not employees of the Company, meets with management and the independent auditors to assure that each is properly discharging its respective responsibilities. The independent auditors have free access to the Audit Committee, without management present, to discuss the results of their work and their assessment of the adequacy of internal accounting controls and the quality of financial reporting.

Forward Looking Statements

Certain statements contained in this report, including, without limitation, statements containing the words "believes," "anticipates," "intends," "expects" and words of similar import, constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may include projections of revenues, income or loss, capital expenditures, capital structure, or other financial items, statements regarding the plans and objectives of management for future operations, statements of future economic performance, statements of the assumptions underlying or relating to any of the foregoing statements, and other statements which are other than statements of historical fact.

Statements made through this report are based on current estimates of future events, and the Company has no obligation to update or correct these estimates. Readers are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially as a result of these various factors.

William J. Schoen
Chairman of the Board

Robert E. Farnham
Senior Vice President and
Chief Financial Officer

October 21, 2003

Consolidated Financial Statements

Report of Independent Certified Public Accountants	23
Consolidated Balance Sheets	24
Consolidated Statements of Income	25
Consolidated Statements of Stockholders' Equity	26
Consolidated Statements of Cash Flows	27
Notes to Consolidated Financial Statements	28

Board of Directors and Stockholders
Health Management Associates, Inc.

We have audited the accompanying consolidated balance sheets of Health Management Associates, Inc. as of September 30, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Management Associates, Inc. at September 30, 2003 and 2002 and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for the excess of cost over acquired net assets during the year ended September 30, 2002.

Ernst & Young LLP

Ernst & Young LLP
Tampa, Florida
October 21, 2003, except
for Note 12, as to which the
date is November 1, 2003

Consolidated Balance Sheets

(in thousands)

	September 30, 2003	September 30, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 395,338	$ 123,736
Accounts receivable, less allowances for doubtful accounts of $151,015 and $138,616 at September 30, 2003 and 2002, respectively	492,787	418,264
Accounts receivable – other	34,467	36,163
Supplies, at cost	65,342	59,412
Prepaid expenses and other assets	57,905	19,622
Funds held by trustee	17,470	2,628
Deferred income taxes	30,027	35,961
Total current assets	1,093,336	695,786
Property, plant and equipment:		
Land and improvements	94,141	78,879
Buildings and improvements	1,077,638	964,100
Leaseholds	116,327	104,672
Equipment	617,818	518,129
Construction in progress	77,227	57,563
	1,983,151	1,723,343
Less: accumulated depreciation and amortization	(555,436)	(441,561)
Net property, plant and equipment	1,427,715	1,281,782
Funds held by trustee	15,924	1,450
Excess of cost over acquired net assets, net	397,825	342,113
Deferred charges and other assets	44,687	43,186
	$2,979,487	$2,364,317
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 136,136	$ 132,228
Accrued payroll and related taxes	48,560	39,397
Accrued expenses and other liabilities	63,401	61,381
Due to third party payors	10,019	21,900
Income taxes – currently payable	5,400	11,228
Current maturities of long-term debt	9,447	7,609
Total current liabilities	272,963	273,743
Deferred income taxes	48,984	17,861
Other long-term liabilities	58,402	42,793
Long-term debt	924,713	650,159
Minority interests in consolidated entities	37,350	33,009
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000 shares authorized	—	—
Common stock, Class A, $.01 par value, 750,000 shares authorized, 262,705 and 261,067 shares issued September 30, 2003 and 2002, respectively	2,627	2,611
Additional paid-in-capital	399,782	373,214
Retained earnings	1,535,322	1,271,583
	1,937,731	1,647,408
Less: treasury stock, 22,500 shares at both September 30, 2003 and 2002, respectively	(300,656)	(300,656)
Total stockholders' equity	1,637,075	1,346,752
	$2,979,487	$2,364,317

See accompanying notes.

Consolidated Statements of Income

(in thousands, except per share data)

	Year ended September 30,		
	2003	2002	2001
Net patient service revenue	$2,560,576	$2,262,601	$1,879,801
Costs and expenses:			
Salaries and benefits	989,075	874,729	710,535
Supplies and other	741,487	650,852	535,926
Provision for doubtful accounts	186,826	172,430	143,923
Depreciation and amortization	109,864	95,328	90,646
Rent expense	50,401	47,048	40,850
Interest, net	14,915	15,543	19,970
Writeoff of deferred financing costs	4,931	—	—
Non-cash charge for retirement benefits and write down of assets held for sale	—	—	17,000
Total costs and expenses	2,097,499	1,855,930	1,558,850
Income before minority interests and income taxes	463,077	406,671	320,951
Minority interests in earnings of consolidated entities	4,341	1,009	—
Income before income taxes	458,736	405,662	320,951
Provision for income taxes	175,312	159,226	125,973
Net income	$ 283,424	$ 246,436	$ 194,978
Net income per share:			
Basic	$ 1.19	$ 1.02	$ .80
Diluted	$ 1.13	$ .97	$ .76
Dividends per share	$ .08	$ —	$ —
Weighted average number of shares outstanding:			
Basic	239,086	241,298	244,425
Diluted	255,884	260,641	264,351

See accompanying notes.

Consolidated Statements of Stockholders' Equity

(in thousands)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance at September 30, 2000	255,357	$2,554	$308,834	$ 830,169	$(111,491)
Exercise of stock options and issuance of stock incentive plan shares	2,717	27	25,245	—	—
Income tax benefit from exercise of stock options and issuance of stock incentive plan shares	—	—	6,113	—	—
Purchase of treasury stock, at cost	—	—	—	—	(2,780)
Net income	—	—	—	194,978	—
Balance at September 30, 2001	258,074	2,581	340,192	1,025,147	(114,271)
Exercise of stock options and issuance of stock incentive plan shares	2,993	30	14,629	—	—
Income tax benefit from exercise of stock options and issuance of stock incentive plan shares	—	—	18,393	—	—
Purchase of treasury stock, at cost	—	—	—	—	(186,385)
Net income	—	—	—	246,436	—
Balance at September 30, 2002	261,067	2,611	373,214	1,271,583	(300,656)
Exercise of stock options and issuance of stock incentive plan shares	1,638	16	21,248	—	—
Income tax benefit from exercise of stock options and issuance of stock incentive plan shares	—	—	5,320	—	—
Payment of dividends	—	—	—	(19,685)	—
Net income	—	—	—	283,424	—
Balance at September 30, 2003	262,705	$2,627	$399,782	$1,535,322	$(300,656)

See accompanying notes.

Consolidated Statements of Cash Flows

(in thousands)

	Year ended September 30,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	$ 283,424	$ 246,436	$ 194,978
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	109,864	95,328	90,646
Provision for doubtful accounts	186,826	172,430	143,923
Minority interest in earnings of consolidated entities	4,341	1,009	—
(Gain) loss on sale of fixed assets	(826)	62	(6)
Change in deferred income taxes	37,057	(8,585)	(6,600)
Write-off of deferred financing costs	4,931	—	—
Charges for retirement benefits and write down of assets held for sale	—	—	17,000
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(265,830)	(209,972)	(149,288)
Supplies	(3,973)	(4,656)	(9,993)
Prepaid expenses and other assets	(38,383)	479	(257)
Deferred charges and other assets	2,168	(1,035)	(6,018)
Accounts payable	5,666	29,746	13,315
Accrued expenses and other liabilities	(6,504)	7,915	2,053
Income taxes – currently payable	(509)	28,260	5,347
Other long-term liabilities	15,610	(3,281)	1,055
Net cash provided by operating activities	333,862	354,136	296,155
Cash flows from investing activities:			
Acquisition of facilities, net of cash acquired and purchase price adjustments	(126,477)	(300,179)	(100,894)
Additions to property, plant and equipment	(165,571)	(116,047)	(73,473)
Proceeds from sale of property, plant and equipment	1,260	41,074	3,357
(Increase) decrease in funds held by trustee	(29,316)	(395)	884
Proceeds from sale of minority interests in consolidated entities	—	32,000	—
Net cash used in investing activities	(320,104)	(343,547)	(170,126)
Cash flows from financing activities:			
Proceeds from long-term borrowings	575,805	479,314	35,591
Principal payments on debt	(318,318)	(263,482)	(129,098)
Purchase of treasury stock, at cost	—	(186,385)	(2,780)
Proceeds from issuance of common stock	21,264	14,659	25,272
Payment of interest on debentures	(1,222)	(1,222)	(1,222)
Payment of dividends	(19,685)	—	—
Net cash provided by (used in) financing activities	257,844	42,884	(72,237)
Net increase in cash and cash equivalents	271,602	53,473	53,792
Cash and cash equivalents at beginning of year	123,736	70,263	16,471
Cash and cash equivalents at end of year	$ 395,338	$ 123,736	$ 70,263
Supplemental schedule of noncash investing and financing activities:			
Fair value of assets acquired (including cash)	$ 132,419	$ 292,456	$ 63,049
Consideration: Cash paid	119,136	291,435	59,436
Liabilities assumed	$ 13,283	$ 1,021	$ 3,613

See accompanying notes.

1. Business and summary of significant accounting policies

Health Management Associates, Inc. (the "Company"), through its subsidiary companies, substantially all of which are wholly-owned, provides health care services to patients in owned and leased facilities primarily in the southeast and southwest United States. The Company consistently applies the following significant accounting policies:

a. Principles of consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are controlled by the Company through majority voting control. All significant intercompany accounts and transactions have been eliminated.

b. Cash equivalents. The Company considers all highly liquid investments purchased with a maturity of less than three months to be cash equivalents. The Company's cash equivalents consist principally of investment grade instruments.

c. Property, plant and equipment. Property, plant and equipment are carried at cost and include major expenditures which increase their values or extend their useful lives. Depreciation and amortization are computed using the straight-line method based on estimated useful lives. Estimated useful lives for buildings and improvements range from twenty to forty years and for equipment range from three to ten years. Leaseholds are amortized on a straight-line basis over the terms of the respective leases. Depreciation expense was $105.0 million, $91.9 million and $77.3 million for the years ended September 30, 2003, 2002 and 2001, respectively.

d. Excess of cost over acquired net assets, net and deferred charges and other assets. Prior to October 1, 2001, excess of cost over acquired net assets (goodwill) had been amortized on a straight-line basis over lives ranging from three to twenty-five years. As of October 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The transition provisions of SFAS No. 142 required the completion of a transitional impairment test within six months of adoption of SFAS No. 142. The Company tests goodwill annually for impairment. There was no goodwill impairment for the years ended September 30, 2003, 2002 or 2001. During the year ended September 30, 2001, the Company recorded $9.2 million of goodwill amortization expense which reduced earnings by $5.5 million (net of tax expense of approximately $3.7 million) or approximately $0.02 per share on a diluted basis.

Deferred charges and other assets consist principally of deferred financing costs and certain non-productive assets held for sale. The financing costs are being amortized over the life of the related debt. The accumulated amortization of deferred financing costs was $2.5 million and $4.5 million at September 30, 2003 and 2002, respectively.

Certain long-lived assets may become impaired, requiring a write down of the assets to their estimated fair values. The Company periodically reviews future cash flows related to these assets and, if necessary, will reduce such assets to their estimated fair values.

e. Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

f. Net patient service revenue and cost of revenue. The Company recognizes gross patient service charges on the accrual basis in the period that services are rendered. Net patient service revenue represents gross patient service charges less provisions for contractual adjustments. Approximately 57%, 59% and 59% of gross patient service charges for the years ended September 30, 2003, 2002 and 2001, respectively, related to services rendered to patients covered by the Medicare and Medicaid programs. Payments for services rendered to patients covered by these programs are generally less than billed charges. Provisions for contractual adjustments are made to reduce the charges to these patients to estimated receipts based upon the programs' principles of payment/reimbursement (either prospectively determined or retrospectively determined costs). Final settlements under these programs are subject to administrative review and audit, and provision is currently made for adjustments which may result. Such adjustments were not material to the Company's operations for the years ended September 30, 2003, 2002, and 2001. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates may change in the future. Revenues and receivables

from government programs are significant to the Company's operations, but the Company does not believe that there are significant credit risks associated with these government programs.

The Company grants credit without collateral to its patients, most of whom are local to the area where the hospitals reside and are insured under third-party payor agreements. The Company does not charge interest on accounts receivable. The credit risk for non-government program concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services. Accounts receivable are reported net of an estimated allowance for uncollectible accounts in the accompanying financial statements.

Estimates for contractual allowances under managed care health plans are based primarily on the payment terms of contractual arrangements such as predetermined rates per diagnosis, per diem rates or discounted fee for service rates.

Net patient service revenue is presented net of provisions for contractual adjustments and other allowances of $5,427 million, $4,121 million and $2,981 million for the years ended September 30, 2003, 2002 and 2001, respectively, in the accompanying consolidated statements of income. In the ordinary course of business, the Company renders services in its facilities to patients who are financially unable to pay for their hospital care. The value of these services to patients who are unable to pay is not material to the Company's consolidated results of operations.

The Company's presentation of costs and expenses does not differentiate between cost of revenues and non-cost of revenues because substantially all of the Company's costs and expenses are related to providing health care services. Furthermore, the Company believes that the natural classification of expenses is a more meaningful presentation of the Company's cost of doing business.

g. Accounts receivable and provision for doubtful accounts. The collection of receivables from third party payors and patients is the Company's primary source of cash and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payer has paid, but patient responsibility amounts (generally deductibles and co-payments) remain outstanding. Provisions for doubtful accounts are estimated based primarily upon the age of the patients' account, the patients' economic ability to pay and the effectiveness of collection efforts. Accounts receivable balances are routinely reviewed in conjunction with historical collection rates and other economic conditions which might ultimately affect the collectibility of patient accounts when considering the adequacy of the amounts recorded as allowances for doubtful accounts. Accounts receivable are written off after collection efforts have been followed in accordance with the Company's policies. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts while subsequent recoveries are netted against provision for doubtful accounts expense. Significant changes in payer mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the Company's collection of accounts receivable, cash flows and results of operations.

h. Professional liability insurance claims. Accruals for self-insured professional liability risks are determined using asserted and unasserted claims identified by the Company's incident reporting system and actuarially-determined estimates based both on industry and the Company's historical loss payment patterns and have been discounted to their present value using a discount rate of 4.5%. Although the ultimate settlement of these accruals may vary from these estimates, the Company believes that the amounts provided in the consolidated financial statements are adequate. If actual payments of claims exceed the Company's projected estimates of claims, the insurance accruals could be materially adversely affected.

i. Funds held by trustee. Funds held by trustee consist primarily of investments held by the Company's insurance subsidiary to be used to pay losses and loss expenses of the insurance subsidiary. The current and long-term classification of these funds is based on the projected timing of the corresponding professional liability claims payments. These funds are primarily invested in short-term mutual and money market funds.

j. Minority interests in consolidated entities. The consolidated financial statements include all assets, liabilities, revenues and expenses of majority-owned, but less than 100% owned, entities controlled by the Company. Accordingly, the Company has recorded minority interests in the earnings and equity of such entities.

k. Income taxes. The Company accounts for income taxes under SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). Deferred income tax assets and liabilities are determined based upon the difference between financial reporting and tax bases of assets and liabilities and

1. Business and summary of significant accounting policies, continued

are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse (see Note 5). Management must make estimates in recording the Company's provision for income taxes, including determination of deferred tax assets and deferred tax liabilities and any valuation allowance that might be required against the deferred tax asset. Management believes that future income will enable the Company to realize these benefits in the future. Therefore, the Company has not recorded a valuation allowance against the deferred tax asset.

The Company operates in multiple states with varying tax laws. The Company is subject to both federal and state audits of tax returns. Management must make estimates to determine that tax reserves are adequate to cover any potential audit adjustments. Actual results of audits, if any, could vary from the estimates recorded by management.

l. Earnings per share. Earnings per share is based on the weighted average number of common and common equivalent shares (stock options and convertible debt) outstanding during the periods presented. (see Note 7)

m. Segment reporting. The Company's business of providing health care services to patients in owned and leased facilities comprises a single reportable operating segment under SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information.*

n. Guarantees. The Company has committed to provide certain financial assistance pursuant to recruiting agreements with various physicians practicing in the communities that the Company serves. In consideration for a physician relocating to one of its communities in need of the physician's services, the Company may advance money to the physician in order for such physician to establish his or her practice. The Company had committed to advance approximately $13.3 million as of September 30, 2003. The actual amount of such commitments is dependent upon the financial results of each physician's private practice during the guarantee period, which generally does not exceed twelve months. The net amounts advanced under these recruiting agreements at the end of the individual's guarantee period are considered loans and are generally forgiven pro rata over a period of 36 months contingent upon the physician continuing to practice in the respective community. The Company expenses these advances on a straight-line basis as they are paid over the guarantee period.

o. Stock compensation. The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). Under APB 25, since the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. As a result, pro forma disclosure of alternative fair value accounting is required under SFAS No. 123, *Accounting for Stock-Based Compensation*, utilizing an option valuation model.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows (in thousands, except per share data):

Year Ended September 30,	2003	2002	2001
Net income, as reported	$283,424	$246,436	$194,978
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(10,206)	(11,175)	(10,441)
Pro forma net income	$273,218	$235,261	$184,537
Pro forma earnings per share:			
Basic – as reported	$ 1.19	$ 1.02	$ .80
Basic – pro forma	$ 1.14	$ .97	$ .75
Diluted – as reported	$ 1.13	$ .97	$ .76
Diluted – pro forma	$ 1.08	$ .91	$ .72

The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2003, 2002 and 2001: (i) risk-free interest rate of 2.34%, 4.60%, and 5.51%; (ii) .4% dividend yield for 2003, no dividends for

2002 and 2001; (iii) volatility factor of the expected market price of the Company's common stock of .529, .536, and .489; (iv) and weighted-average expected lives of the options of 5, 5 and 7 years. The weighted-average fair value of options granted in 2003, 2002, and 2001 was $8.59, $10.23, and $9.59, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

p. Recent Accounting Pronouncements. In November 2002, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34* ("FIN 45"). FIN 45 elaborated on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable, on a prospective basis, to guarantees issued or modified after December 31, 2002. The Company's adoption of FIN 45 did not have a material effect on its consolidated financial statements. (see Note 1.n.)

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51* ("FIN 46"). FIN 46 requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. FIN 46 also requires disclosure about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and to existing entities in the first fiscal year or interim period ending after December 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company's adoption of FIN 46 is not expected to have a material effect on its consolidated financial statements.

On January 1, 2003, the Company adopted SFAS No. 145 *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("SFAS No. 145"). SFAS No. 145 rescinds SFAS No. 4 *Reporting Gains and Losses From Extinguishment of Debt*. SFAS No. 145 requires any gains or losses on extinguishment of debt that do not meet the criteria in Accounting Principles Board Opinion No. 30 *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* for classification as an extraordinary item shall be classified in income from operations. The Company incurred a writeoff of deferred financing costs related to the early extinguishment of debt in the fourth quarter of the year ended September 30, 2003. This writeoff of deferred financing costs loss was recorded in income from operations pursuant to the requirements of SFAS No. 145.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—an amendment of FASB Statement No. 123* ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for annual and interim periods beginning after December 15, 2002. The Company has elected not to change to the fair value based method of accounting for stock-based employee compensation, therefore, the adoption of SFAS No. 148 did not have an impact on the Company's consolidated financial position or consolidated results of operations.

q. Reclassifications. Certain amounts have been reclassified in prior years to conform with the current year presentation.

2. Acquisitions and dispositions

During the year ended September 30, 2003, the Company acquired certain assets of four hospitals through purchase agreements for $119.1 million in cash and the assumption of $13.3 million in liabilities. During the year ended September 30, 2002, the Company acquired certain assets of two hospitals and the stock of three hospitals through purchase agreements for $226.2 million in cash and the assumption of $1.0 million in liabilities. During the year ended September 30, 2001, the Company acquired certain assets of two hospitals through purchase agreements for $59.4 million in cash and the assumption of $3.6 million in liabilities. The foregoing acquisitions were accounted for by the Company using the purchase method of accounting. The allocation of the purchase price was determined by the Company at acquisition based upon available information and is subject to further refinement.

As part of a group purchase of four hospitals during the year ended September 30, 2002, the Company acquired one acute care hospital and sold it on the same day for $40.0 million in cash.

The operating results of the above hospitals have been included in the accompanying consolidated statements of income from the date of each respective hospital's acquisition. The following unaudited pro forma combined summary of operations of the Company for each of the years in the three year period ended September 30, 2003 give effect to the operation of the hospitals purchased in the years ended September 30, 2003, 2002 and 2001 as if the acquisitions had occurred as of October 1, 2001, 2000 and 1999, respectively:

Year Ended September 30,	2003	2002	2001
	(in millions, except per share data)		
Net patient service revenue	$ 2,700.7	$ 2,559.0	$ 2,301.5
Net income	$ 277.4	$ 242.2	$ 181.9
Net income per share – Basic	$ 1.16	$ .99	$ .74
Net income per share – Diluted	$ 1.10	$ .94	$ .71

The changes in the carrying amount of goodwill are as follows (in millions):

September 30,	2003	2002
Balance at beginning of the year	$ 342,113	$ 251,315
Goodwill acquired during the year	43,697	98,861
Impairment losses	—	—
Goodwill written off related to disposals	—	—
Adjustments to purchase price allocation	12,015	(8,063)
Balance at end of year	$ 397,825	$ 342,113

3. Long-term debt

The Company's long-term debt consists of the following (in thousands):

September 30,	2003	2002
Revolving Credit Agreements (a)	$ —	$ —
Zero-Coupon Convertible Senior Subordinated Debentures due 2020 at 3%, net of discount of $184.9 million at September 30, 2002 (b)	—	303,274
Zero-Coupon Convertible Senior Subordinated Notes due 2022 at 0.875%, net of discount of $48.8 million and $51.2 million at September 30, 2003 and 2002, respectively (b)	281,211	278,757
1.50% Convertible Senior Subordinated Notes due 2023 (b)	575,000	—
Mortgage notes, secured by real and personal property (c)	10,345	10,417
Various mortgage and installment notes and debentures, some secured by equipment, at interest rates ranging from prime plus 1% to 6%, payable through 2009	34,283	28,368
Industrial Revenue Bond Issue	4,770	5,190
Capitalized lease obligations (see Note 4)	28,551	31,762
	934,160	657,768
Less current maturities	9,447	7,609
	$924,713	$650,159

a. Revolving Credit Agreements. The Company currently has a 5-year $450 million Credit Agreement (the "Credit Agreement") due November 30, 2004. The Credit Agreement is a term loan agreement which permits the Company to borrow under an unsecured revolving credit loan at any time through November 30, 2004, at which time the agreement terminates and all outstanding amounts become due and payable. The Company may choose a Base Rate Loan (prime interest rate) or a Eurodollar Rate Loan. The interest rate for a Eurodollar Rate Loan is currently the LIBOR interest rate plus 1.00 percent, and will increase or decrease in relation to a change in the Company's credit rating. Monthly or quarterly interest payments are required depending on the type of loan chosen by the Company. The interest rate at September 30, 2003 and 2002 was 2.1% and 2.8%, respectively. As of September 30, 2003 and 2002, there were no amounts outstanding under the Credit Agreement. In October 2003, the Company borrowed $275.0 million under the Credit Agreement to partially finance the acquisition of certain hospitals. (see Note 12)

The Company also has a $15 million unsecured revolving credit commitment with a bank. The $15 million credit commitment is a working capital commitment which is tied to the Company's cash management system and renews annually on November 1. Currently, interest on any outstanding balance is payable monthly at a fluctuating rate not to exceed the bank's prime rate less .25%. The interest rate at September 30, 2003 and 2002 was 3.75% and 4.5%, respectively. As of September 30, 2003 and 2002, there were no amounts outstanding under this credit commitment.

In addition, the Company is obligated to pay certain commitment fees based upon amounts available for borrowing during the terms of the credit agreements described above.

The credit agreements described above contain covenants which, without prior consent of the banks, limit certain activities, including those relating to mergers, consolidations and the Company's ability to secure additional indebtedness, make guarantees, grant security interests and declare dividends. The Company must also maintain minimum levels of consolidated tangible net worth, debt service coverage and interest coverage. At September 30, 2003 and 2002, the Company was in compliance with these covenants.

b. Subordinated Convertible Notes and Debentures. On August 16, 2000, the Company sold $488.8 million face value of Zero-Coupon Subordinated Convertible Debentures due 2020 (the "Debentures") for gross proceeds of $287.7 million. The Debentures were to mature on August 16, 2020, unless converted or redeemed earlier. The Debentures were convertible into the Company's common stock at a conversion rate of 29.5623 shares of common stock for each $1,000 principal amount of the Debentures. Interest on the Debentures was payable semiannually in arrears on August 16 and February 16 of each year at a rate of .25% per year on the principal amount at maturity. The rate of cash interest and accrual of original issue discount represented a yield to maturity of 3% per year calculated from August 16, 2000. The Company redeemed all of the Debentures on August 16, 2003 for $310.8 million in cash, the accreted value of the debentures. A writeoff of $4.9 million for the unamortized, remaining deferred financing costs related to the Debenture issuance was recorded in the fourth quarter of fiscal 2003.

On January 28, 2002, the Company sold $330.0 million in face value of Zero-Coupon Convertible Senior Subordinated Notes due 2022 (the "2022 Notes") for gross proceeds of approximately $277.0 million. The 2022 Notes are the Company's general unsecured obligations and are subordinated in right of payment to the Company's existing and future senior indebtedness that is not, by its terms, expressly subordinated or equal in right of payment to the 2022 Notes. The 2023 Notes, discussed below, rank equally with the 2022 Notes. The 2022 Notes mature on January 28, 2022, unless converted or redeemed earlier. Upon the occurrence of certain events, the 2022 Notes are convertible into the Company's common stock at a conversion rate of 32.1644 shares of common stock for each $1,000 principal amount of the 2022 Notes (subject to adjustment in certain events). The equivalent number of shares associated with the conversion of the 2022 Notes become dilutive (and thus included in the Company's earnings per share calculation) when the Company's common stock trades at a level of $31.33 for at least 20 trading days of the 30 trading days prior to the conversion or when the 2022 Notes otherwise become convertible. The accrual of the original issue discount on the 2022 Notes represents a yield to maturity of 0.875% per year calculated from January 28, 2002, excluding any contingent interest which could be payable under the terms of the 2022 Notes.

3. Long-term debt, continued

Holders may require the Company to purchase all or a portion of their 2022 Notes on January 28, 2005, January 28, 2007, January 28, 2012 and January 28, 2017 for a purchase price per note of $862.07, $877.25, $916.40 and $957.29, respectively, plus accrued and unpaid interest to each purchase date. The Company is required to pay cash for all 2022 Notes so purchased on January 28, 2005. The Company may choose to pay the purchase price in cash or common stock or a combination of cash and common stock for purchases on or after January 28, 2007. In addition, if the Company undergoes certain types of fundamental changes on or before January 28, 2007, each holder may require the Company to purchase all or a portion of such holder's 2022 Notes. The Company may redeem all or a portion of the 2022 Notes at any time on or after January 28, 2007. The Company has reserved approximately 10.6 million shares of common stock for issuance in the event the 2022 Notes are converted.

On July 29 and August 8, 2003, the Company sold an aggregate of $575.0 million in face value of 1.50% Convertible Senior Subordinated Notes due 2023 (the "2023 Notes"). The 2023 Notes were sold at their principal face amount, plus accrued interest from July 29, 2003. The sale of the 2023 Notes resulted in net proceeds to the Company of approximately $563.5 million. The Company used approximately $310.8 million of the proceeds to redeem all of its Debentures in August 2003. The 2023 Notes are general unsecured obligations and are subordinated in right of payment to the Company's existing and future senior indebtedness that is not expressly subordinated or equal in right of payment to the 2023 Notes. The 2022 Notes, which are discussed above, rank equally with the 2023 Notes. The 2023 Notes mature on August 1, 2023, unless they are converted or redeemed earlier. Upon the occurrence of certain events, the 2023 Notes become convertible into shares of the Company's common stock at a conversion rate of 36.5097 shares of common stock for each $1,000 principal amount of 2023 Notes converted (subject to adjustment in certain events). The equivalent number of shares associated with any conversion of the 2023 Notes will become dilutive (and thus included in the Company's earnings per share calculation) when the Company's common stock trades at a level of $36.097 for at least 20 out of 30 trading days prior to the conversion of the 2023 Notes or the 2023 Notes otherwise become convertible. Upon certain conditions, contingent interest could be paid by the Company.

Holders may require the Company to purchase all or a portion of their 2023 Notes on August 1, 2006, August 1, 2008, August 1, 2013 and August 1, 2018 for a purchase price per note equal to 100% of its principal face amount, plus accrued but unpaid interest. The Company is required to pay cash for all 2023 Notes so purchased on August 1, 2006. The Company may choose to pay the purchase price in cash or common stock or a combination of cash and common stock for purchases on or after August 1, 2008. In addition, if the Company undergoes certain types of fundamental changes on or before August 1, 2008, each holder of the 2023 Notes may require the Company to purchase all or a portion of such holder's 2023 Notes. The Company may choose to pay the purchase price in cash or common stock or a combination of cash and common stock. In addition, the Company may redeem all or a portion of the 2023 Notes at any time on or after August 5, 2008 for a redemption price per note equal to its principal face amount, plus accrued but unpaid interest. The Company may choose to pay the redemption price in cash or common stock or a combination of cash and common stock. The Company has reserved approximately 21.0 million shares of common stock for issuance in the event the 2023 Notes are converted.

c. Mortgage Notes. The Company had three mortgage notes outstanding at September 30, 2003 and four mortgage notes outstanding at September 30, 2002. The mortgage notes are secured by all the real and personal property related to certain Company facilities with an aggregate net book value of $53.3 million and $64.5 million at September 30, 2003 and 2002, respectively. The mortgage notes are payable in various installments with maturity dates ranging through 2007 and carry interest rates ranging from prime (4.0% and 4.75% at September 30, 2003 and 2002, respectively) to 11.5%.

As of September 30, 2003 and 2002, the quoted market price for the 2022 Notes was approximately $293.7 million and $287.9 million, respectively. As of September 30, 2003, the quoted market price for the 2023 Notes was approximately $603.8 million. The fair value of the other debt included above, based on available market information, approximates its carrying value.

Maturities of long-term debt and capital leases for the next five fiscal years and thereafter are as follows (in thousands):

2004	$ 9,447
2005	8,785
2006	7,936
2007	16,143
2008	4,280
Thereafter	$887,569

The Company paid interest of $28.1 million, $7.4 million, and $14.9 million for the years ended September 30, 2003, 2002 and 2001, respectively. Capitalized interest was $.6 million for the year ended September 30, 2003. There was no capitalized interest for the years ended September 30, 2002 and 2001.

4. Leases

The Company leases real estate properties, equipment and vehicles under cancelable and non-cancelable leases. Future minimum operating and capital lease payments, including amounts relating to leased hospitals, are as follows at September 30, 2003 (in thousands):

	Operating			Capital	
September 30,	Real Property	Real Property Master Leases	Equipment	Real Property and Equipment	Total
2004	$ 7,747	$ 4,842	$ 25,779	$ 5,724	$ 44,092
2005	7,094	4,938	18,267	5,270	35,569
2006	6,018	4,985	11,944	4,599	27,546
2007	5,509	5,034	6,465	3,442	20,450
2008	4,876	5,084	2,884	2,950	15,794
Thereafter	20,184	41,445	977	34,020	96,626
Total minimum payments	$ 51,428	$ 66,328	$ 66,316	56,005	$240,077
Less amounts representing interest				(27,454)	
Present value of minimum lease payments				$ 28,551	

The Company entered into several real property master leases with certain non-affiliated entities in the ordinary course of business during the year ended September 30, 2003. These leases are for buildings on or near hospital property that the Company subleases to third parties. Amounts received as rental income are offset against the expense. The Company has not engaged in any transaction with an unconsolidated entity that is reasonably likely to affect liquidity.

The following summarizes amounts related to assets leased by the Company under capital leases (in thousands):

September 30,	2003	2002
Cost	$ 80,615	$ 76,819
Less accumulated amortization	(21,674)	(16,729)
Net book value	$ 58,941	$ 60,090

The Company entered into capitalized leases for equipment of $2.9 million, $5.9 million and $4.0 million for the years ended September 30, 2003, 2002 and 2001, respectively.

5. Income taxes

The significant components of the provision for income taxes are as follows (in thousands):

Year ended September 30,	2003	2002	2001
Federal:			
Current	$125,706	$144,017	$114,109
Deferred	33,299	(11,322)	(6,731)
Total Federal	159,005	132,695	107,378
State:			
Current	12,548	28,794	19,823
Deferred	3,759	(2,263)	(1,228)
Total State	16,307	26,531	18,595
Total	$175,312	$159,226	$125,973

5. Income taxes, continued

An analysis of the Company's effective income tax rates is as follows:

Year ended September 30,	2003		2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent
Statutory income tax rate	$160,558	35.0%	$141,982	35.0%	$112,333	35.0%
State income taxes, net of Federal benefit	16,077	3.5	15,824	3.9	12,628	3.9
Other items (each less than 5% of computed tax)	(1,323)	(.3)	1,420	.4	1,012	.4
Total	$175,312	38.2%	$159,226	39.3%	$125,973	39.3%

The tax effects of temporary differences that give rise to significant portions of the Federal and state deferred income tax assets and liabilities are comprised of the following (in thousands):

September 30,	2003	2002
Deferred income tax assets:		
Allowance for doubtful accounts	$ 22,152	$ 27,417
Accrued liabilities	17,435	14,645
Self insurance liability risks	14,547	17,505
Other	6,932	3,606
	61,066	63,173
Less: Valuation allowance	—	—
Net deferred income tax assets	61,066	63,173
Deferred income tax liabilities:		
Depreciable assets	(66,675)	(38,441)
Accrued liabilities and other	(13,348)	(6,632)
Net deferred income tax (liability) asset	$ (18,957)	$ 18,100

SFAS No. 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a valuation allowance is not necessary as of September 30, 2003 and 2002, respectively.

Income taxes paid (net of refunds) amounted to $174.7 million, $139.7 million, and $126.1 million for the years ended September 30, 2003, 2002 and 2001, respectively.

6. Retirement plans

The Company has a defined contribution retirement plan which covers substantially all eligible employees at its hospitals and the corporate office. This plan includes a provision for the Company to match a portion of employee contributions. Total retirement program expense under this plan was $6.7 million, $6.0 million and $4.5 million for the years ended September 30, 2003, 2002 and 2001, respectively.

In addition, the Company maintains a supplemental retirement plan for certain Company executives which provides for predetermined annual payments to these executives after the attainment of age 62, if still employed by the Company at that time. These payments generally continue for the remainder of the executive's life. (see Note 10)

7. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

Year ended September 30,	2003	2002	2001
Numerator:			
Numerator for basic earnings per share–net income	$283,424	$246,436	$194,978
Effect of interest expense on convertible debt	4,900	5,419	5,346
Numerator for diluted earnings per share	$288,324	$251,855	$200,324

Year ended September 30,	2003	2002	2001
Denominator:			
Denominator for basic earnings per share–weighted average shares	239,086	241,298	244,425
Effect of dilutive securities:			
Employee stock options	4,131	4,894	5,477
Convertible debt	12,667	14,449	14,449
Denominator for diluted earnings per share	255,884	260,641	264,351
Basic earnings per share	$ 1.19	$ 1.02	$ .80
Diluted earnings per share	$ 1.13	$ .97	$ .76

Outstanding options to purchase 2.7 million, 2.8 million, and 1.2 million shares of the Company's common stock were not included in the computation of earnings per share for the years ended September 30, 2003, 2002, and 2001, respectively, because the options' exercise prices were greater than the average market price of the Company's common stock.

8. Stockholders' equity

The Company has a 1991 Stock Option Plan, a 1993 Stock Option Plan and a 1996 Executive Incentive Compensation Plan for the granting of options to its key employees to purchase common stock. All options granted have 10 year terms and vest and become fully exercisable at the end of either 3 or 4 years of continued employment.

Pertinent information covering the plans is summarized below:

	Shares (in thousands)	Price Range	Weighted Average Price
Balance at September 30, 2000	21,833	$ 1.24-21.63	$10.87
Granted	2,804	16.60-21.25	16.62
Exercised	(2,553)	1.24-13.00	9.99
Terminated	(1,506)	12.13-21.63	13.38
Balance at September 30, 2001	20,578	2.07-21.63	11.59
Granted	1,808	19.10-19.95	19.93
Exercised	(2,847)	2.07-19.63	4.41
Terminated	(320)	8.25-21.63	18.17
Balance at September 30, 2002	19,219	2.07-21.63	13.33
Granted	2,023	18.56	18.56
Exercised	(1,490)	2.07-21.63	12.22
Terminated	(417)	12.13-21.63	17.77
Balance at September 30, 2003	19,335	$ 4.49-21.63	$13.89

Stock options exercisable at September 30, 2003, 2002, and 2001 were 14,336, 14,073, and 15,144 at weighted average exercise prices of $12.51, $12.14, and $10.35, respectively.

The following table summarizes information concerning currently outstanding and exercisable options:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.49 - $12.13	5,166,000	4.0	$ 8.87	4,737,000	$ 8.58
$12.72 - $17.13	9,471,000	5.1	$13.74	8,184,000	$13.30
$18.56 - $21.63	4,698,000	8.2	$19.71	1,415,000	$21.13

At September 30, 2003, there were approximately 11.2 million shares of common stock reserved for future issuance under the plans. In addition, the Company has granted options for shares of its common stock to seven non-employee directors. At September 30, 2003, there were approximately 170,000 options outstanding at exercise prices ranging from $4.49 to $21.63 per share, expiring in 2004 through 2013.

8. Stockholders' equity, continued

The Company also has a Stock Incentive Plan for corporate officers and management staff. This plan provides for the awarding of additional compensation to key personnel in the form of Company common stock. Under this plan, stock will be issued to the grantee four years after the date of grant, provided the individual is still an employee of the Company. At September 30, 2003, there were approximately 450,000 shares reserved under the plan, for which the Company has recorded $2.9 million, $2.9 million and $2.0 million of compensation expense for the years ended September 30, 2003, 2002 and 2001, respectively.

In September 2001, the Board of Directors approved a stock repurchase program to repurchase up to 5,000,000 shares of the Company's common stock. On January 29, 2002, the Company announced that it had completed the stock repurchase program by purchasing a total of 5,000,000 shares of its common stock at an average purchase price of $19.29 per share.

In February 2002, the Board of Directors approved a stock repurchase program to repurchase up to 5,000,000 shares of the Company's common stock. On August 8, 2002, the Company announced that it had completed the stock repurchase program by purchasing a total of 5,000,000 shares of its common stock at an average purchase price of $18.54 per share.

At September 30, 2003 and 2002, there were approximately 10.6 million shares of common stock reserved for future issuance upon the conversion of the Company's 2022 Notes. At September 30, 2003, there were approximately 21.0 million shares of common stock reserved for future issuance upon the conversion of the Company's 2023 Notes.

9. Professional liability risks

Through September 30, 2002, the Company was insured for professional liability risks under a "claims-made" basis policy, whereby each claim was covered up to $1.0 million per occurrence, subject to a $100,000 deductible (with an annual deductible cap of $6.1 million). Liabilities in excess of these amounts were covered through a combination of limits provided by commercial insurance companies and a self-insurance program.

Accruals for self-insured professional liability risks are determined using asserted and unasserted claims identified by our incident reporting system and actuarially-determined estimates based both on industry and our own historical loss payment patterns and have been discounted to their present value using a discount rate of 4.5%. Although the ultimate settlement of these accruals may vary from these estimates, the Company believes that the amounts provided in the consolidated financial statements are adequate. If actual payments of claims exceed the Company's projected estimates of claims, the insurance accruals could be materially adversely affected.

Effective October 1, 2002, in response to difficulty in obtaining primary insurance from commercial companies at reasonable rates, the Company formed a wholly-owned insurance subsidiary in order to self-insure a greater portion of its primary professional and general liability risk. The captive subsidiary insures risk up to $1.0 million per claim and $3.0 million in the aggregate per hospital and substantially all of the Company's approximately 165 employed physicians, and further acts as an excess insurer for all hospitals in combination with three commercial insurance companies. If actual payments of claims exceed projected estimates of claims, the Company's insurance accruals for the insurance subsidiary could be materially adversely affected.

10. Non-cash charge

The amount recorded as a non-cash charge of $17.0 million during the year ended September 30, 2001 consists of $13.6 million for the present value of the future costs of retirement benefits granted to the Company's chairman pursuant to an agreement which became effective January 2, 2001 and $3.4 million for the write down of two hospital assets held for sale in conjunction with their respective replacement. The two hospital assets that were written down were facilities for which replacement facilities were completed in June 1999 and March 2000. The charge for the write down of these facilities was recorded in the Company's quarter ended March 31, 2001. During the period between completion of the new facilities and the recording of the charge, the Company was in the process of evaluating its options for the sale of the facilities that had been replaced. During the quarter ended March 31, 2001, the Company finalized its plans for the old facilities and obtained the information necessary to estimate the loss on sale.

11. Commitments

A number of hospital renovation and/or expansion projects were underway at September 30, 2003. None of these projects are individually significant nor do they represent a significant commitment in total at September 30, 2003. In addition, the Company plans to replace three of its existing hospitals (Brooksville, Florida; Carlisle, Pennsylvania; and Lancaster, Pennsylvania) and build one new hospital (Naples, Florida) over the next four years. As of September 30, 2003, the construction cost of these four hospitals is expected to be approximately $190.0 million. Regulatory approval, subject to appeal, to begin construction on all these hospitals has been granted. The Company is also obligated to construct a new facility at its Monroe, Georgia location within the next five years. The cost for this hospital has not yet been determined.

12. Subsequent events

On October 28, 2003, the Company's Board of Directors declared a quarterly cash dividend of $0.02 per share of the Company's common stock payable on December 1, 2003 to stockholders of record at the close of business on November 7, 2003.

On November 1, 2003, the Company acquired five non-urban hospitals from Tenet Healthcare Corporation. The five hospitals included Seven Rivers Community Hospital, a 128-bed hospital located in Crystal River, Florida; Harton Regional Medical Center, a 137-bed hospital located in Tullahoma, Tennessee; University Medical Center, a two-campus 257-bed hospital located in Lebanon, Tennessee; Three Rivers Healthcare, a two-campus 423-bed hospital located in Poplar Bluff, Missouri; and Twin Rivers Regional Medical Center, a 116-bed hospital located in Kennett, Missouri. The aggregate cost of this acquisition was approximately $515.0 million. This transaction was financed through a combination of cash on hand and through borrowing $275.0 million under the Company's Credit Agreement.

13. Quarterly data (unaudited)

Years ended September 30, 2003 and 2002 (in thousands, except per share data):

	Quarter				Year Ended
	First	Second	Third	Fourth	Sept. 30
2003					
Net patient service revenue	$609,419	$646,472	$647,127	$657,558	$2,560,576
Income before income taxes	$ 97,784	$127,989	$124,482	$108,481	$ 458,736
Net income	$ 59,656	$ 78,065	$ 75,921	$ 69,782	$ 283,424
Net income per share:					
Basic	$ .25	$ .33	$ .32	$ .29	$ 1.19
Diluted	$ .24	$ .31	$ .30	$ .28	$ 1.13
Weighted average number of shares:					
Basic	238,589	238,673	239,108	239,965	239,086
Diluted	257,255	256,993	257,379	251,863	255,884
2002					
Net patient service revenue	$495,821	$579,948	$592,476	$594,356	$2,262,601
Income before income taxes	$ 83,072	$113,965	$109,665	$ 98,960	$ 405,662
Net income	$ 50,466	$ 69,236	$ 66,616	$ 60,118	$ 246,436
Net income per share:					
Basic	$ .21	$ .29	$ .28	$ .25	$ 1.02
Diluted	$ .20	$ .27	$ .26	$ .24	$ .97
Weighted average number of shares:					
Basic	243,649	241,259	241,227	239,052	241,298
Diluted	263,365	260,661	260,821	257,740	260,641

Corporate Headquarters
5811 Pelican Bay Boulevard, Suite 500
Naples, Florida 34108-2710
(239) 598-3131

Internet Address
www.hma-corp.com

Annual Report to the SEC
The Company's annual report, filed with the Securities and Exchange Commission (SEC) on Form 10-K, and other filings with the SEC, may be obtained by writing to the Company at its address listed above. Additional information filed by the Company with the SEC is available by accessing the Company's website at www.hma-corp.com.

Annual Meeting
Shareholders are cordially invited to attend the Annual Meeting of Shareholders, which will be held at 1:30 p.m. on February 17, 2004, at the Philharmonic Center for the Arts, Daniels Pavilion, 5833 Pelican Bay Blvd., Naples, Florida, 34108.

Management urges all shareholders to vote their proxies and thus participate in the decisions that will be made at this meeting.

Transfer Agent
Wachovia Bank, N.A.
1525 West W. T. Harris Boulevard
Mail Code 3C3NC1153
Charlotte, North Carolina 28288
(800) 829-8432

For change of name, address, or to replace lost stock certificates, write or call the Transfer Agent's Securities Transfer Division.

Securities Analyst Contact
John C. Merriwether
Vice President of Financial Relations
(239) 598-3104

NYSE Symbol
HMA

Independent Certified Public Accountants
Ernst & Young LLP
Tampa, Florida

Common Stock Price Range and Dividend Information
At September 30, 2003, there were 240,205,209 shares outstanding and approximately 1,500 shareholders of record.

The range of high and low prices for the past eight quarters ended September 30, 2003, is shown below.

Fiscal Year Ended	Price Range	
September 30	2003	2002
1st Quarter	$22.70 - $16.50	$21.00 - $17.44
2nd Quarter	$19.41 - $15.89	$21.00 - $17.00
3rd Quarter	$20.10 - $16.51	$22.99 - $19.50
4th Quarter	$22.89 - $17.39	$20.75 - $16.24

Analyst Coverage
Avondale Partners
Banc of America Securities
CIBC World Markets
Credit Suisse/First Boston
Deutsche Bank Securities
Dowling & Partners
Goldman, Sachs & Co.
J.P. Morgan Securities
Jefferies & Company
Lehman Brothers
Merrill Lynch & Co.
Morgan Stanley
Raymond James
SG Cowen Securities Corporation
UBS
Wachovia Securities

Board of Directors

William J. Schoen,
Chairman, Health Management Associates, Inc.

Joseph V. Vumbacco,
President and Chief Executive Officer
Health Management Associates, Inc.

Kent P. Dauten,
President, Keystone Capital, Inc.

Donald E. Kiernan,
Senior Executive Vice President and CFO
SBC Communications, Inc. (retired)

Robert A. Knox,
Senior Managing Director
Cornerstone Equity Investors, L.L.C.

Kenneth D. Lewis,
Chairman, Chief Executive Officer and President
Bank of America Corporation

William E. Mayberry, M.D.,
President and Chairman of the
Board of Governors, Mayo Clinic (retired)

William C. Steere, Jr.,
Chairman of the Board Emeritus
Pfizer Inc.

Randolph W. Westerfield, PhD,
Dean of the Marshall School of Business,
University of Southern California

Corporate Officers

William J. Schoen, Chairman

Joseph V. Vumbacco,
President and Chief Executive Officer

Robert E. Farnham,
Senior Vice President–Finance and
Chief Financial Officer

Timothy R. Parry, Senior Vice President,
General Counsel and Corporate Secretary

Peter M. Lawson, Executive Vice President

Jon P. Vollmer, Executive Vice President

Senior Vice Presidents

Gary C. Bell
Frederick L. Drow*
James L. Jordan*
Kenneth M. Koopman*
Stanley D. McLemore*
Stephen L. Midkiff
Johnny A. Owenby*

Vice Presidents

James A. Barber
David L. Beardsley
C. Scott Campbell
J. Michael Mastej
Daniel W. McAdams, Jr.
John C. Merriwether
Larry A. Smith
Page H. Vaughan

* Effective January 1, 2004

Corporate Officers (left to right): Robert E. Farnham, Joseph V. Vumbacco, Peter M. Lawson, William J. Schoen, Jon P. Vollmer and Timothy R. Parry

DESIGN, PHOTOGRAPHY AND PRODUCTION: WWW.ANNUALREPORTSINC.COM

HEALTH MANAGEMENT ASSOCIATES, INC.
5811 PELICAN BAY BOULEVARD
SUITE 500
NAPLES, FLORIDA 34108-2710
TEL. 239/598-3131
www.hma-corp.com