HCA

Hospital Corporation of America

Annual Report to Shareholders

2004

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Company Profile and Mission and Values Statement

HCA is one of the leading health care service companies in the United States. As of December 31, 2004, the Company operated 189 hospitals and 92 freestanding surgery centers, including seven hospitals and eight freestanding surgery centers operated by equity method joint ventures. The Company's facilities are located in 23 states, England and Switzerland. As of December 31, 2004, the Company had approximately 191,400 employees.

Above all else, we are committed to the care and improvement of human life. In recognition of this commitment, we will strive to deliver high quality, cost-effective health care in the communities we serve. In pursuit of our mission, we believe the following value statements are essential and timeless:

1. We recognize and affirm the unique and intrinsic worth of each individual.
2. We treat all those we serve with compassion and kindness.
3. We act with absolute honesty, integrity and fairness in the way we conduct our business and the way we live our lives.
4. We trust our colleagues as valuable members of our health care team and pledge to treat one another with loyalty, respect, and dignity.

HCA Financial Highlights as of and for the Years Ended December 31

(Dollars in millions, except per share amounts)	2004	2003
Results of Operations		
Revenues	$ 23,502	$ 21,808
Net income (a)	$ 1,246	$ 1,332
Diluted earnings per share (a)	$ 2.58	$ 2.61
Shares used in computing diluted earnings per share (in thousands)	483,663	510,874
Financial Position		
Assets	$ 21,465	$ 21,063
Working capital	$ 1,509	$ 1,654
Long-term debt, including amounts due within one year	$ 10,530	$ 8,707
Minority interests in equity of consolidated entities	$ 809	$ 680
Stockholders' equity	$ 4,407	$ 6,209
Ratio of debt to debt plus common and minority equity	67%	56%
Other Data (b)		
Number of hospitals at end of period	182	184
Licensed beds at end of period	41,852	42,108
Average daily census	22,493	22,234
Admissions	1,659,200	1,635,200
Outpatient revenues as a percentage of total patient revenues	38%	37%
Emergency room visits (c)	5,219,500	5,160,200
Outpatient surgeries	834,800	814,300

a) The operating results for 2004 include a favorable change in the provision for doubtful accounts totaling $46 million pretax, or $0.06 per diluted share, a favorable change in the professional liability reserves of $59 million pretax, or $0.07 per diluted share, an adverse impact from hurricanes Charley, Frances, Ivan and Jeanne of ($40) million pretax, or ($0.05) per diluted share, an impairment of long-lived assets of ($12) million pretax, or ($0.02) per diluted share, and a favorable $19 million, or $0.04 per diluted share, reduction in the effective income tax rate. In addition, HCA purchased 62.9 million shares of its common stock during the fourth quarter of 2004. The operating results for 2003 include a favorable settlement with the Federal government, net of investigation related costs, of $33 million pretax, or $0.04 per diluted share, gains on sales of facilities of $85 million pretax, or $0.10 per diluted share, and an impairment of long-lived assets of ($130) million pretax, or ($0.16) per diluted share.

b) Excludes data for seven hospitals in 2004 and 2003 that are not consolidated (accounted for using the equity method) for financial reporting purposes.

c) Emergency room visits for 2003 were restated to conform to the 2004 presentation.

The terms "HCA" or the "Company" as used in this Annual Report refer to HCA Inc. and its affiliates, unless otherwise stated or indicated by context. The term "facilities" refers to entities owned or operated by subsidiaries or affiliates of HCA. References herein to "HCA employees" or to "our employees" refer to employees of affiliates of HCA.

Dear Shareholder,

Last year, 2004, certainly stands as one of the most difficult in terms of operating environment that Richard or I have experienced in our healthcare careers. While we expected the negative impact caused by reductions in Medicare outliers (some $97 million dollars off the bottom line for the year compared to 2003), we could not foresee a nationwide trend of flat admissions, increased utilization of our emergency services by the uninsured, and four hurricanes in Florida, a state which accounts for approximately 26% of our revenues. However, in the face of these very negative factors, our hospital management teams did an excellent job in managing expenses, particularly labor and supplies. In addition, our patient safety and quality improvement strategies contributed to reductions in our malpractice expense during the year.

Despite the lackluster EPS performance resulting from the negative trends discussed above, HCA still generated a record $3.05 billion in cash flows from operations. We believe the hallmark of this year was the successful deployment of this cash to create both present and future shareholder value.

First, we committed $1.5 billion of cash to capital investment in our existing markets. This represented an average of $36,000 per bed, among the highest in the industry, and assured our facilities were creating enough capacity and technological sophistication to support our future growth. During the year, we added more than 340 beds to our existing hospitals, constructed one new hospital with 130 beds, significantly increased emergency department and outpatient services, and expanded diagnostic and surgery facilities in many of our hospitals.

We believe a well reasoned, but aggressive, capital spending plan is critical for our future. Our analysis estimates that U.S. hospitals can expect a compound annual growth rate in admissions over the next 10 years of about 1.5%. Because HCA is located in larger urban and suburban markets with faster population growth rates

"Patient safety and quality improvement continue to be our number one priority this year and into the future."

Jack O. Bovender, Jr.,
Chairman and CEO

than the nation as a whole, we believe our growth rates will be 40-50 basis points higher, yielding an expected compound annual growth rate of about 1.9% to 2.0%. We believe our strong cash flows, coupled with an effective capital spending plan, will allow us to take advantage of these strong demographic trends.

Second, in January 2004, HCA's Board of Directors increased the quarterly dividend from $.02 per share to $.13 per share, a 550% increase. In January 2005, the Company announced an additional $.02 per share increase in the quarterly dividend, a 15.4% increase. This dividend represents a payout rate in excess of 20% of 2004 earnings. We believe a reasonable dividend payout is an attractive and important means of providing total shareholder return over time.

Third, during the fourth quarter of 2004, we completed a $2.5 billion modified "Dutch" auction tender offer by repurchasing a total 62.9 million shares at an average cost of $39.89, representing 13% of the Company's outstanding common stock. During the last seven years, we have repurchased approximately 312

"We are confident we are implementing the right strategies which will create value and growth, both now and in the future."

Richard M. Bracken,
President and COO

million shares at an average cost of $32.13 per share, for a total cost of over $10 billion. We will continue to use share repurchase when appropriate as a strategy to manage share count and at times when we feel the share price is undervalued.

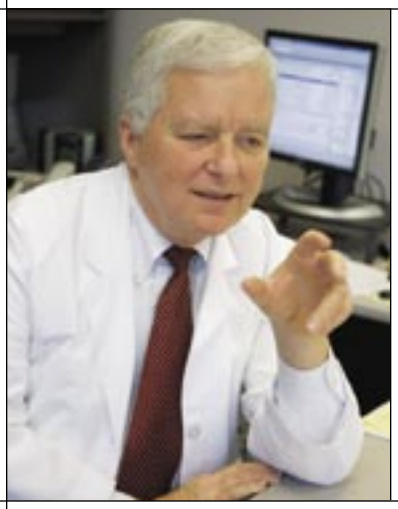
As we move into the next three years, we face substantial challenges, most of which can also represent substantial opportunities if we approach them in the right way. The 45 million uninsured in this country certainly represent one of these substantial challenges. We have taken a leadership position in addressing this issue in both governmental and business forums, advocating aggressive public and private initiatives to address the problem. Hospitals are bearing the brunt of providing care for the uninsured population and certainly cannot solve this problem by themselves.

Shareholder Letter | *continued on p.6*

HCA, a leader in patient safety

Under the leadership of Senior Vice President-Quality and Medical Director, Dr. Frank M. Houser, HCA has invested more than $300 million in patient safety and quality initiatives since 1997. Perinatal Safety, Electronic Medication Administration Record (eMAR) & Barcoding and Electronic Physician Order Management (ePOM) are just a few of the many ways HCA is leveraging its hospitals' clinical expertise and Company resources to improve patient safety and quality at its 189 facilities.

HCA's Quality Review System (QRS), for example, helps maintain quality standards by measuring and reporting clinical performance of HCA's hospitals. QRS serves as an early warning system to identify potential issues



"At HCA, we are using the combined knowledge and expertise of hundreds of caregivers from across the country to develop evidence-based programs to improve patient safety. It's our belief that better, safer healthcare is more cost effective care."

Dr. Frank Houser, M.D.

in individual hospitals to help ensure compliance with HCA standards as well as those of external review agencies. Through this system, quality standards at every HCA hospital are surveyed at least every 18 months.

Dr. Houser's team has also worked closely with organizations like the Leapfrog Group, the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), the Centers of Medicare and Medicaid Services (CMS) and the National Quality Forum to help improve the U.S. healthcare system by establishing meaningful quality measurements for the public reporting of hospital quality data.

The architect of HCA's industry-leading Patient Safety program is Frank M. Houser, M.D., Senior Vice President-Quality and Medical Director. A pediatrician and former Public Health Director of the Georgia Department of Human Resources, Dr. Houser is a recognized expert on clinical quality measurement.

"We have intensified our efforts and investment in outpatient services, which will become an increasingly greater part of our business over the next several years."

Richard M. Bracken

In 2004, HCA did more than its part in taking care of the uninsured. *Business Week*, in its annual issue on charitable giving by publicly traded companies, recognized HCA as the number one company for in-kind giving due to our having provided over $821 million in charity care to patients in 2003. In December 2004, HCA received approval from the Centers for Medicare and Medicaid Services ("CMS") to begin implementing our new uninsured discount policy. This program, which provides a discount to the uninsured for non-elective procedures, is similar to the discount provided to our managed care customers and will go far in helping to make our services more affordable for these uninsured individuals.

Since approximately 75% of our uninsured admissions originate in the emergency department, enhanced patient evaluations and improved case management are important components of our ongoing strategies to manage these expenses. Coupled with improved collection processes implemented at our hospitals and 10 Patient Account Service Centers, we are beginning to mitigate some of our bad debt problems. Of particular importance are our improved upfront collections procedures, increased collections of patient copays and deductibles, and required deposits for nonemergency patients.

Addressing the uninsured issue nationally is not enough if HCA does not address it within its own workforce. This year we instituted the Employee Health Assistance Fund for those employees whose salary and family size place them at or below 100% of the Federal Poverty level. It is available for both full-time and part-time employees. For those who qualify, HCA pays the employee portion of the health insurance premium as well as the employer part. An example of a participant in the program is a single mother working full time who could not afford coverage for herself and her three children. She now has coverage for the first time and is very thankful for the program and the "peace of mind" she now has.

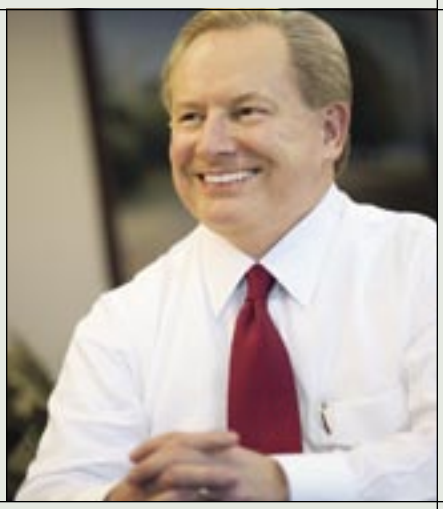
We hope to use this as an example to encourage other businesses to find ways to provide health insurance for their lowest paid workers.

In 2005, as well as into the foreseeable future, we are very concerned about the exploding cost of medical devices, particularly orthopedic implants. We have been very pleased with our supply chain initiatives over the last four years and there is no doubt these initiatives have held down cost increases in many areas of our business. Our regionalized purchasing and warehousing have taken significant costs out of the logistics of the supply chain. Nevertheless, we continue to experience difficulty in reducing the rate of cost increases in medical devices. This year we will concentrate on artificial hips and knees, as well as spinal cages. We will deploy several strategies, including reducing the number of vendors used by our hospitals, thereby increasing the volume discounts we receive on these purchases. We are also asking CMS for permissison to include our orthopedic physicians in a savings sharing program as a way to enlist their help in controlling these ever burgeoning costs.

We would be remiss if we did not address the public policy issues surrounding these medical devices. Since we own and operate hospitals in Europe, we are able to compare prices for these devices across national borders. These comparisons can be startling. For instance, the same artificial knee, made by the same manufacturer on the same production line in Indiana, costs 46% more at our Centennial Medical Center in Nashville than it does at our Princess Grace Hospital in London. This price differential is sustainable, of course, only because of the U.S. ban on reimportation of medical devices. This price differential not only makes its way into managed care pricing, but also, through cost reports, into Medicare payments. Thus, through higher medical premiums

“We believe HCA has the best assets in the industry, and is located in many of the fastest growing markets in the country, giving us significant organic growth opportunities.”

Jack O. Bovender, Jr.



and higher governmental medical costs, U.S. business and the American tax payer are underwriting the cost of medical care across much of the globe.

As we discussed last year, we have intensified our efforts and investment in outpatient services. In addition to building an operations infrastructure to help manage the Company's existing outpatient services, we have made significant progress in developing new outpatient business, particularly in the areas of outpatient surgery and imaging. In 2004, we bought 10 imaging centers (four consolidating and six nonconsolidating through our HealthOne partnership) and opened or acquired five new surgery centers, bringing our total ambulatory surgery centers to 92 in 16 states. We expect a rapid acceleration of outpatient development in 2005-2006. Currently, we anticipate we will acquire or develop eight to 10 surgery centers and 20 to 30 imaging centers over the next two years. Outpatient services will become an increasingly greater part of our business over the next several years.

Perinatal Safety

Caregivers at HCA hospitals deliver more than 200,000 babies every year. With that responsibility in mind, HCA has developed its Perinatal Safety program. The goal of the program is to improve clinical care provided to mothers and their babies, from pregnancy to the critical days following childbirth. Working with nurses and physicians from across the country as well as prominent healthcare organizations, HCA is combining its vast hospital-based expertise with the latest research and emerging technologies to advance leading clinical practices and improve outcomes for mothers and newborns.

- HCA is the nation's first major healthcare system to require its obstetrics programs to screen newborns for elevated levels of bilirubin in order to prevent kernicterus
- Using protocols similar to those in the aviation industry, HCA has developed standards for the safe use of high-alert medications frequently used during pregnancy
- Today, every nurse in HCA's 124 obstetrics programs receives fetal heart monitor training to help them quickly identify potential signs of fetal distress

While we discussed our patient safety and quality improvement activities at some length in last year's letter, we want to reiterate this continues to be our number one priority this year and into the future. A significant portion of our capital dollars, as well as human resources, will be invested in this critical area. This year, we will complete the deployment in all our hospitals of the Electronic Medication Administration Record (eMAR), a barcoding system which has reduced medication errors by about 30% where it has been implemented. The Electronic Physician Order Management System (ePOM) is currently under pilot and will eventually be available throughout the Company's affiliated hospitals.

We are in the process of redesigning our physician credentialing processes to ensure, in an even more disciplined way, that only appropriately qualified doctors are added to our medical staffs. We are also continually refining and improving

eMAR & Barcoding

Electronic Medication Administration Record (eMAR) & Barcoding uses wireless barcoding technology to ensure that the right dosage of the right medication is delivered to the right patient, at the right time, through the right route. The system employs individually packaged and coded medications, mobile scanners, barcoded patient armbands and electronic medication records to assure accurate medication administration for every patient. Based on national error rates, it is estimated that eMAR & Barcoding prevented more than 20,000 serious medication errors in 2004. We expect that the system will be in every HCA hospital in 2005.

our Quality Review System which allows us to look at specified indicators across all hospitals in the system to identify outliers needing corrective action.

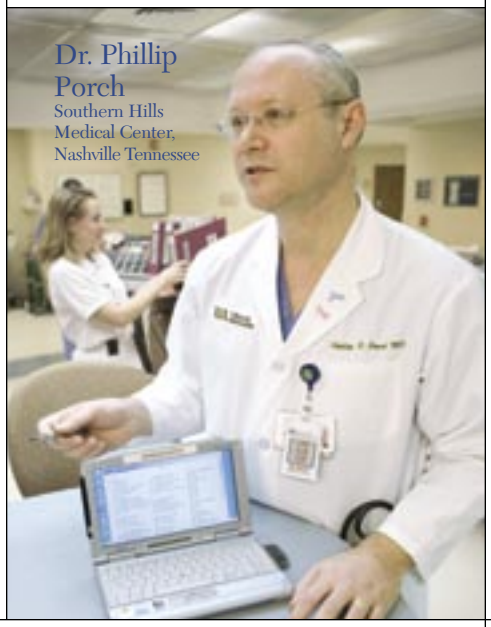
During 2004, we launched our HCA Cardiovascular Centers of Excellence Program, designed to recognize hospitals that excel in cardiovascular care. The program merges all aspects of service, such as management of chest pain, surgical outcomes, congestive heart failure management, and patient satisfaction, into a quantifiable recognition program. All aspects of the program are evidence based. Facilities designated as Centers of Excellence or Hospitals of Merit will share practices that will enhance patient care throughout HCA. Over time, we expect to establish Centers of Excellence in additional specialties as well.

It may seem obvious to say the population of the country is becoming much more diverse at an ever increasing pace. However, it may not seem so obvious that this is particularly true in HCA's markets which are primarily located in the Southeast, Southwest, and West. We believe our hospital leadership and workforce should reflect this diversity and HCA should actively promote the growth and expansion of women and minority owned businesses in our markets. Our present diversity activities are concentrated in four areas: increasing the diversity representation on our hospital boards of trustees, developing a talent pool of qualified candidates for promotion into hospital chief operating officer and chief executive officer positions, increasing our supply and equipment purchases from women and minority owned businesses, and increasing our contracting with women and minority owned contractors, subcontractors, architectural, and

ePOM

Electronic Physician Order Management (ePOM) enables physicians to submit computerized medical orders for patients using specially designed clinical software. The ePOM system improves medication safety by warning against the possibility of drug interactions, allergy or overdose, keeping up with new drugs as they are introduced into the market, eliminating confusion among drugs with similar names and improving communication between physicians and pharmacists. More than 400 physicians helped develop this system, which will be in use in 14 facilities in 2005.

"HCA has invested significant time and resources to create ePOM. As one of hundreds of physicians who helped develop this system, I believe this technology will make physician order entry safer and improve communication between physicians and pharmacists."



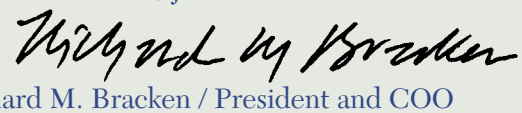
Dr. Phillip Porch
Southern Hills Medical Center, Nashville Tennessee

engineering firms. We have made significant progress in all these areas in the last two years, but not as much as we need or want. We will continue to weave this critically important goal of increased diversity into all aspects of our business.

While HCA faces many challenges this year and in the years to come, we are confident the opportunities are even greater. We are also confident we have identified and are implementing the right strategies which will create value and growth, both now and in the future. We believe we have the best assets in the industry and are investing significant capital to keep them the best. Our hospitals are located in many of the fastest growing large markets in the country, giving us significant organic growth opportunities over the next 10 years. We are stepping up our investments in outpatient care significantly and we believe this will bolster our growth in these fast growing markets. We believe we have effective strategies to control our costs. It is our belief that the relentless pursuit of patient safety and improved quality will, over time, give us a distinct advantage in the marketplace.

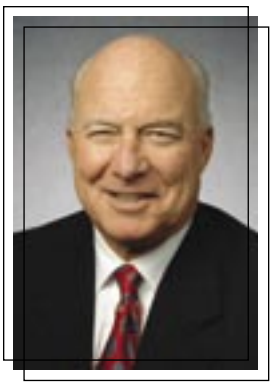
Sincerely,

Jack O. Bovender, Jr. / Chairman and CEO



Richard M. Bracken / President and COO

HCA Board of Directors



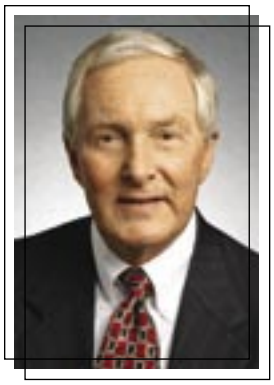
C. Michael Armstrong
Retired Chairman, Comcast Corporation

Magdalena H. Averhoff, M.D.
Practicing Physician

Jack O. Bovender, Jr.
Chairman and Chief Executive Officer, HCA

Richard M. Bracken
President and Chief Operating Officer, HCA

Martin Feldstein
Professor of Economics, Harvard University
President and CEO, National Bureau
of Economic Research



Thomas F. Frist, Jr., M.D.
Chairman Emeritus, HCA

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Retired Vice Chairman, Bechtel Group, Inc.
Retired Managing Partner,
McKinsey & Company, Inc.

Glenda A. Hatchett
Host of Syndicated Television Court Show,
"Judge Hatchett" / Retired Chief Judge,
Fulton County Juvenile Court

Charles O. Holliday, Jr.
Chairman and Chief Executive Officer,
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T. Michael Long
Partner, Brown Brothers Harriman & Co.

John H. McArthur
Retired Dean, Harvard University Graduate
School of Business Administration

Kent C. Nelson
Retired Chairman and Chief Executive
Officer, United Parcel Service

Frank S. Royal, M.D.
Practicing Physician

Harold T. Shapiro
President Emeritus, Princeton University

HCA Inc. Selected Financial Data as of and for the Years Ended December 31

(Dollars in millions, except per share amounts)	2004	2003	2002	2001	2000
Summary of Operations:					
Revenues	$ **23,502**	$ 21,808	$ 19,729	$ 17,953	$ 16,670
Salaries and benefits	**9,419**	8,682	7,952	7,279	6,639
Supplies	**3,901**	3,522	3,158	2,860	2,640
Other operating expenses	**3,797**	3,676	3,341	3,238	3,208
Provision for doubtful accounts	**2,669**	2,207	1,581	1,376	1,255
(Gains) losses on investments	**(56)**	(1)	2	(63)	(123)
Equity in earnings of affiliates	**(194)**	(199)	(206)	(158)	(126)
Depreciation and amortization	**1,250**	1,112	1,010	1,048	1,033
Interest expense	**563**	491	446	536	559
Government settlement and investigation related costs	**—**	(33)	661	327	902
Gains on sales of facilities	**—**	(85)	(6)	(131)	(34)
Impairment of investment securities	**—**	—	168	—	—
Impairment of long-lived assets	**12**	130	19	17	117
Loss on retirement of debt	**—**	—	—	28	—
	21,361	19,502	18,126	16,357	16,070
Income before minority interests and income taxes	**2,141**	2,306	1,603	1,596	600
Minority interests in earnings of consolidated entities	**168**	150	148	119	84
Income before income taxes	**1,973**	2,156	1,455	1,477	516
Provision for income taxes	**727**	824	622	591	297
Reported net income	**1,246**	1,332	833	886	219
Goodwill amortization, net of income taxes	**—**	—	—	69	73
Adjusted net income	$ **1,246**	$ 1,332	$ 833	$ 955	$ 292
Basic earnings per share:					
Reported net income	$ **2.62**	$ 2.66	$ 1.63	$ 1.69	$ 0.39
Goodwill amortization, net of income taxes	**—**	—	—	0.13	0.13
Adjusted net income	**$ 2.62**	$ 2.66	$ 1.63	$ 1.82	$ 0.52
Shares used in computing basic earnings per share (in thousands)	**475,620**	501,799	511,824	524,112	555,553
Diluted earnings per share:					
Reported net income	$ **2.58**	$ 2.61	$ 1.59	$ 1.65	$ 0.39
Goodwill amortization, net of income taxes	**—**	—	—	0.13	0.13
Adjusted net income	$ **2.58**	$ 2.61	$ 1.59	$ 1.78	$ 0.52
Shares used in computing diluted earnings per share (in thousands)	**483,663**	510,874	525,219	538,177	567,685
Cash dividends declared per common share	$ **0.52**	$ 0.08	$ 0.08	$ 0.08	$ 0.08
Financial Position:					
Assets	$ **21,465**	$ 21,063	$ 18,741	$ 17,730	$ 17,568
Working capital	**1,509**	1,654	766	957	312
Long-term debt, including amounts due within one year	**10,530**	8,707	6,943	7,360	6,752

HCA Inc. Selected Financial Data as of and for the Years Ended December 31

(Dollars in millions, except per share amounts)	2004	2003	2002	2001	2000
Financial Position (continued):					
Minority interests in equity of consolidated entities	$ **809**	$ 680	$ 611	$ 563	$ 572
Company-obligated mandatorily redeemable securities of affiliate holding solely Company securities	**—**	—	—	400	—
Forward purchase contracts and put options	**—**	—	—	—	769
Stockholders' equity	**4,407**	6,209	5,702	4,762	4,405
Cash Flow Data:					
Cash provided by operating activities	$ **3,049**	$ 2,166	$ 2,750	$ 1,413	$ 1,547
Cash used in investing activities	**(1,688)**	(2,862)	(1,740)	(1,300)	(1,087)
Cash (used in) provided by financing activities	**(1,347)**	650	(934)	(342)	(336)
Operating Data:					
Number of hospitals at end of period(a)	**182**	184	173	178	187
Number of freestanding outpatient surgical centers at end of period(b)	**84**	79	74	76	75
Number of licensed beds at end of period(c)	**41,852**	42,108	39,932	40,112	41,009
Weighted average licensed beds(d)	**41,997**	41,568	39,985	40,645	41,659
Admissions(e)	**1,659,200**	1,635,200	1,582,800	1,564,100	1,553,500
Equivalent admissions(f)	**2,457,300**	2,405,400	2,339,400	2,311,700	2,300,800
Average length of stay (days)(g)	**5.0**	5.0	5.0	4.9	4.9
Average daily census(h)	**22,493**	22,234	21,509	21,160	20,952
Occupancy(i)	**54%**	54%	54%	52%	50%
Emergency room visits(j)	**5,219,500**	5,160,200	4,802,800	4,676,800	4,534,400
Outpatient surgeries(k)	**834,800**	814,300	809,900	804,300	823,500
Inpatient surgeries(l)	**541,000**	528,600	518,100	507,800	486,600
Days in accounts receivable(m)	**48**	52	52	49	49
Gross patient revenues(n)	$ **71,279**	$ 62,626	$ 53,542	$ 44,947	$ 39,975
Outpatient revenues as a % of patient revenues(o)	**38%**	37%	37%	37%	37%

(a) Excludes seven facilities in 2004, seven facilities in 2003, six facilities in 2002, six facilities in 2001 and nine facilities in 2000 that are not consolidated (accounted for using the equity method) for financial reporting purposes.
(b) Excludes eight facilities in 2004, four facilities in 2003, four facilities in 2002, three facilities in 2001 and three facilities in 2000 that are not consolidated (accounted for using the equity method) for financial reporting purposes.
(c) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.
(d) Weighted average licensed beds represents the average number of licensed beds, weighted based on periods owned.
(e) Represents the total number of patients admitted to HCA's hospitals and is used by management and certain investors as a general measure of inpatient volume.
(f) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue. The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume, resulting in a general measure of combined inpatient and outpatient volume.
(g) Represents the average number of days admitted patients stay in HCA's hospitals.
(h) Represents the average number of patients in HCA's hospital beds each day.
(i) Represents the percentage of hospital licensed beds occupied by patients. Both average daily census and occupancy rate provide measures of the utilization of inpatient rooms.
(j) Represents the number of patients treated in the Company's emergency rooms. Emergency room visits for 2003 were restated to conform to the 2004 presentation.
(k) Represents the number of surgeries performed on patients who were not admitted to the Company's hospitals. Pain management and endoscopy procedures are not included in outpatient surgeries.
(l) Represents the number of surgeries performed on patients who have been admitted to the Company's hospitals. Pain management and endoscopy procedures are not included in inpatient surgeries.
(m) Days in accounts receivable are calculated by dividing the revenues for the period by the days in the period (revenues per day). Accounts receivable, net of the allowance for doubtful accounts, at the end of the period is then divided by revenues per day.
(n) Gross patient revenues are based upon the Company's standard charge listing. Gross charges/revenues typically do not reflect what our hospital facilities are paid. Gross charges/revenues are reduced by contractual adjustments, discounts and charity care to determine reported revenues.
(o) Represents the percentage of patient revenues related to patients who are not admitted to HCA's hospitals.

The selected financial data and the accompanying consolidated financial statements present certain information with respect to the financial position, results of operations and cash flows of HCA Inc. which should be read in conjunction with the following discussion and analysis. The terms "HCA" or the "Company," as used herein, refer to HCA Inc. and its affiliates unless otherwise stated or indicated by context. The term "affiliates" means direct and indirect subsidiaries of HCA Inc. and partnerships and joint ventures in which such subsidiaries are partners.

Forward-Looking Statements

This annual report includes certain disclosures which contain "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," "initiative" or "continue." These forward-looking statements are based on the current plans and expectations of HCA and are subject to a number of known and unknown uncertainties and risks, many of which are beyond HCA's control, that could significantly affect current plans and expectations and HCA's future financial position and results of operations. These factors include, but are not limited to, (i) the increased leverage resulting from the financing of the recently completed tender offer, (ii) increases in the amount and risk of collectability of uninsured accounts and deductibles and copayment amounts for insured accounts, (iii) the ability to achieve operating and financial targets, achieve expected levels of patient volumes and control the costs of providing services, (iv) the highly competitive nature of the health care business, (v) the efforts of insurers, health care providers and others to contain health care costs, (vi) possible changes in the Medicare, Medicaid and other state programs that may impact reimbursements to health care providers and insurers, (vii) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (viii) potential liabilities and other claims that may be asserted against HCA, (ix) fluctuations in the market value of HCA's common stock, (x) the impact of HCA's charity care and uninsured discounting policy changes, (xi) changes in accounting practices, (xii) changes in general economic conditions, (xiii) future divestitures which may result in charges, (xiv) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xv) the availability and terms of capital to fund the expansion of the Company's business, (xvi) changes in business strategy or development plans, (xvii) delays in receiving payments for services provided, (xviii) the possible enactment of Federal or state health care reform, (xix) the outcome of pending and any future tax audits, appeals and litigation associated with HCA's tax positions, (xx) the outcome of HCA's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures and HCA's corporate integrity agreement with the government, (xxi) changes in Federal, state or local regulations affecting the health care industry, (xxii) the ability to successfully integrate the operations of Health Midwest, (xxiii) the ability to develop and implement the payroll and human resources information systems within the expected time and cost projections and, upon implementation, to realize the expected benefits and efficiencies, (xxiv) maintaining the increased quarterly cash dividend rate for the entire fiscal year, and (xxv) other risk factors described in this annual report. As a consequence, current plans, anticipated actions and future financial position and results may differ from those expressed in any forward-looking statements made by or on behalf of HCA. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report.

2004 Operations Summary

Net income totaled $1.246 billion, or $2.58 per diluted share, for the year ended December 31, 2004 compared to $1.332 billion, or $2.61 per diluted share, for the year ended December 31, 2003. The 2004 results include a favorable change in HCA's estimated provision for doubtful accounts totaling approximately $46 million, pretax, or $0.06 per diluted share, based upon refinements to its allowance for doubtful accounts estimation process related to estimated recoveries associated with Medicare copays and deductibles and collection agency placements. A $59 million reduction, or $0.07 per diluted share, to the Company's estimated professional liability insurance reserves also impacted the 2004 results. This positive change was determined based upon the semiannual, independent actuarial analyses which noted favorable claim and payment trends, the adoption of tort reform and limitations on losses in certain states and low inflation rates. HCA believes the favorable claim and payment trends are, in part, the result of the Company's patient safety programs. Two negative impacts on 2004 results include an estimated adverse financial impact from hurricanes Charley, Frances, Ivan and Jeanne of $40 million, or $0.05 per diluted share, and an asset impairment charge of $12 million, or $0.02 per diluted share, associated with the closure of San

Jose Medical Center, in San Jose, California. HCA repurchased 62.9 million shares of its common stock during the fourth quarter of 2004. HCA's shares used for diluted earnings per share for the year ended December 31, 2004 were 483.7 million shares, compared to 510.9 million shares for the year ended December 31, 2003.

Revenues rose 7.8% for the year ended December 31, 2004, revenue per equivalent admission increased 5.5%, admissions increased 1.5% and equivalent admissions increased 2.2% compared to the year ended December 31, 2003. While revenue per equivalent admission increased 5.5%, salaries per equivalent admission increased 6.2% and supplies per equivalent admission increased 8.5%.

The Company's provision for doubtful accounts increased to $2.669 billion, or 11.4% of revenues, for the year ended December 31, 2004, compared to $2.207 billion, or 10.1% of revenues, for the year ended December 31, 2003 due to continued trends associated with growth of uninsured accounts and a deterioration in the collectability of these accounts.

While the Company has faced both operational and investigation related challenges during the past three years, management believes that it is important to recognize that HCA has generated cash provided by operating activities of $3.049 billion, $2.166 billion and $2.750 billion during 2004, 2003 and 2002, respectively.

Investigations and Settlement of Certain Government Claims

Commencing in 1997, HCA became aware it was the subject of governmental investigations and litigation relating to its business practices. The investigations were concluded through a series of agreements executed in 2000 and 2003.

In January 2001, HCA entered into an eight-year Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services. If HCA were found to be in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, HCA could be subject to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Any such sanctions or expenses could have a material, adverse effect on HCA's financial position, results of operation and liquidity.

Business Strategy

HCA is committed to providing the communities it serves high quality, cost-effective, health care while maintaining consistency with HCA's ethics and compliance program, governmental regulations and guidelines, and industry standards. As a part of this strategy, HCA's management focuses on the following areas:

- *Commitment to the care and improvement of human life:* The foundation of HCA is built on putting patients first and providing quality health care services in the communities it serves. HCA continues to increase efforts and funding for the Company's patient safety agenda. Management believes patient outcomes will increasingly influence physician and patient choices concerning health care delivery.

- *Commitment to ethics and compliance:* HCA is committed to a corporate culture highlighted by the following values—compassion, honesty, integrity, fairness, loyalty, respect and kindness. The Company's comprehensive ethics and compliance program reinforces HCA's dedication to these values.

- *Focus on core communities:* HCA strives to maintain market-leading positions in large, growing urban and suburban communities, primarily in the Southern and Western regions of the United States.

- *Becoming the health care employer of choice:* HCA uses a number of industry-leading practices to help ensure its hospitals are a health care employer of choice in their communities. The Company's labor initiatives provide strategies to the hospitals for recruiting, compensation and productivity, and include various leadership and career development programs. The Company also maintains an internal contract labor agency to provide improved quality and reduce costs.

- *Continuing to strive for operational excellence:* The Company's focus on operational excellence includes a group purchasing organization that achieves pricing efficiencies in purchasing and supply contracts. HCA also uses a shared services model to process revenue and accounts receivable through ten regional patient accounting services centers. HCA has increased its focus on operating outpatient services with improved

accessibility and more convenient service for patients and increased predictability and efficiency for physicians. As part of this focus, HCA may buy or build outpatient facilities to improve its market presence.

- *Allocating capital to strategically complement its operational strategy and enhance stockholder value:* HCA's capital spending is intended to increase bed capacity, provide new or expanded services in existing facilities, maintain or replace equipment and renovate existing facilities or construct replacement facilities. The Company also selectively evaluates acquisitions that may complement its strategies in existing or new markets. Capital may also be allocated to take advantage of opportunities such as repayment of indebtedness, stock repurchases and payment of dividends.

Critical Accounting Policies and Estimates

The preparation of HCA's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. HCA's management base their estimates on historical experience and various other assumptions that they believe are reasonable under the circumstances. Management evaluates its estimates on an ongoing basis and makes changes to the estimates and related disclosures as experience develops or new information becomes known. Actual results may differ from these estimates.

Management believes that the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenues

Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from payers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The estimated reimbursement amounts are made on a payer-specific basis and are recorded based on the best information available regarding management's interpretation of the applicable laws, regulations and contract terms. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals. Management has invested significant resources to refine and improve its computerized billing system and the information system data used to make contractual allowance estimates. Management has developed standardized calculation processes and related training programs to improve the utility of the patient accounting systems.

The Emergency Medical Treatment and Active Labor Act ("EMTALA") requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency room for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. Federal and state laws and regulations, including but not limited to EMTALA, and HCA's commitment to providing quality patient care encourages the Company to provide services to patients who are financially unable to pay for the health care services they receive.

HCA does not pursue collection of amounts related to patients that meet the Company's guidelines to qualify as charity care; therefore, they are not reported in revenues. The revenues associated with uninsured patients that do not meet the Company's guidelines to qualify as charity care have generally been reported in revenues at gross charges. During 2003, the Company announced that patients treated at an HCA wholly-owned hospital for nonelective care, who have income at or below 200% of the Federal poverty level, are eligible for charity care, a standard HCA estimates that 70% of its affiliated hospitals were previously using. The Federal poverty level is established by the Federal government and is based on income and family size. On January 1, 2005, HCA modified its policies to provide discounts to uninsured patients who do not qualify for Medicaid or charity care. These discounts

are similar to those provided to many local managed care plans. In implementing the discount policy, HCA will first attempt to qualify uninsured patients for Medicaid, other Federal or state assistance or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount will be applied. HCA expects that this new policy will lower revenues and the provision for doubtful accounts by generally corresponding amounts.

Due to the complexities involved in these estimations of revenues earned, the health care services authorized and provided and related reimbursement are often subject to interpretations that could result in payments that are different from our estimates. A hypothetical 1% change in receivables that are net of contractual discounts at December 31, 2004, would result in an impact on pretax earnings of approximately $23 million.

Provision for Doubtful Accounts and the Allowance for Doubtful Accounts

The collection of outstanding receivables from Medicare, managed care payers, other third-party payers and patients is HCA's primary source of cash and is critical to the Company's operating performance. The primary collection risks relate to the uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to amounts due directly from patients. An estimated allowance for doubtful accounts is recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. HCA considers the return of an account from the primary external collection agency to be the culmination of its reasonable collection efforts and the timing basis for writing off the account balance. Writeoffs are based upon specific identification and the writeoff process requires a writeoff adjustment entry to the patient accounting system. Because HCA does not pursue collection of amounts related to patients that meet the Company's guidelines to qualify as charity care, they are not reported in revenues and do not have an impact on the provision for doubtful accounts. On January 1, 2005, HCA began providing a discount to uninsured patients who do not qualify for Medicaid or charity care. HCA expects that this new policy will lower revenues and the provision for doubtful accounts by generally, corresponding amounts.

The amount of the provision for doubtful accounts is based upon management's assessment of historical writeoffs and expected net collections, business and economic conditions, trends in Federal and state governmental and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical writeoffs and recoveries at facilities that represent a majority of HCA's revenues and accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of HCA's accounts receivable. Prior to the third quarter of 2003, the Company performed the hindsight analysis on an annual basis. The results of the annual hindsight analysis that was completed during the second quarter of 2003 indicated an increasing proportion of accounts receivable being comprised of uninsured accounts and the collectability of this category of accounts had deteriorated. Beginning with the third quarter of 2003, HCA began performing a quarterly, rolling twelve-month hindsight analysis to enable a more timely reaction to trends affecting the collectability of the accounts receivable. The provision for doubtful accounts for the year ended December 31, 2004 includes a favorable change in the estimated provision totaling approximately $46 million pretax, or $0.06 per diluted share, based upon refinements to the allowance for doubtful accounts estimation process related to estimated recoveries associated with Medicare copayments and deductibles and collection agency placements. At December 31, 2004, the Company's allowance for doubtful accounts represented approximately 78% of the $3.762 billion patient due accounts receivable balance, including accounts related to patients for which eligibility for Medicaid coverage was being evaluated ("pending Medicaid accounts"). The Company's allowance for doubtful accounts represented approximately 90% of the $3.254 billion patient due accounts receivable balance, excluding pending Medicaid accounts. Revenue days in accounts receivable were 48 days, 52 days and 52 days at December 31, 2004, 2003 and 2002, respectively. The provision for doubtful accounts increased to 11.4% of revenues for 2004, from 10.1% of revenues for 2003 and from 8.0% of revenues in 2002. Management expects a continuation of the challenges related to the collection of the patient due accounts. Adverse

changes in general economic conditions, business office operations, payer mix, or trends in Federal or state governmental and private employer health care coverage could affect HCA's collection of accounts receivable, cash flows and results of operations.

The approximate breakdown of accounts receivable by payor classification as of December 31, 2004 and 2003 is set forth in the following table:

	% of Accounts Receivable		
	Under 91 Days	91 — 180 Days	Over 180 Days
Accounts Receivable Aging at December 31, 2004:			
Medicare and Medicaid	11%	1%	2%
Managed care and other discounted	20	3	1
Uninsured	22	13	27
Total	53%	17%	30%
Accounts Receivable Aging at December 31, 2003:			
Medicare and Medicaid	11%	2%	2%
Managed care and other discounted	20	3	1
Uninsured	24	12	25
Total	55%	17%	28%

Investments of Insurance Subsidiary — Other-than-temporary Impairment Considerations

HCA's wholly-owned insurance subsidiary holds debt and equity security investments having an aggregate fair value of $2.322 billion at December 31, 2004. The fair value of the investment securities is generally based on quoted market prices. The investment securities are held for the purpose of providing the funding source to pay professional liability claims covered by the insurance subsidiary. Management's assessment each quarter of whether a decline in fair value is temporary or other-than-temporary involves multiple subjective judgments, often involves estimating the outcome of future events, and requires a significant level of professional judgment in determining whether factors exist that indicate an impairment has occurred. HCA evaluates, among other things, the financial position and near term prospects of the issuer, conditions in the issuer's industry, liquidity of the investment, changes in the amount or timing of expected future cash flows from the investment, and recent downgrades of the issuer by a rating agency to determine if, and when, a decline in the fair value of an investment below amortized cost is considered other-than-temporary. The length of time and extent to which the fair value of the investment is less than amortized cost and HCA's ability and intent to retain the investment to allow for any anticipated recovery of the investment's fair value are important components of management's investment securities evaluation process. During 2002, HCA recognized a $168 million other-than-temporary impairment charge related, primarily, to the insurance subsidiary's equity investment securities. There were no other-than-temporary declines in fair value during 2003 and 2004 and at December 31, 2004, the insurance subsidiary's investment security portfolio had unrealized gains of $233 million and unrealized losses of $2 million.

Professional Liability Claims

HCA, along with virtually all health care providers, operates in an environment with professional liability risks. A substantial portion of HCA's professional liability risks is insured through a wholly-owned insurance subsidiary. Reserves for professional liability risks were $1.593 billion and $1.624 billion at December 31, 2004 and December 31, 2003, respectively. The current portion of these reserves, $310 million at both December 31, 2004 and 2003, is included in "other accrued expenses." Obligations covered by reinsurance contracts remain on the balance sheet as the insurance subsidiary remains liable to the extent that reinsurers do not meet their obligations. Reserves for professional liability risks (net of $79 million and $147 million receivable under reinsurance contracts at December 31, 2004 and 2003, respectively) were $1.514 billion and $1.477 billion at December 31, 2004 and 2003, respectively. Reserves and provisions for professional liability risks are based upon actuarially determined estimates. The independent actuaries' estimated reserve ranges, net of amounts receivable under reinsurance contracts, were $1.296 billion to $1.530 billion at December 31, 2004 and $1.255 billion to $1.515 billion at December 31, 2003. Reserves for professional liability risks represent the estimated ultimate cost of all reported

and unreported losses incurred through the respective consolidated balance sheet dates. The reserves are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known.

The reserves for professional liability risks cover approximately 3,500 and 3,900 individual claims at December 31, 2004 and 2003, respectively, and estimates for potential unreported claims. The time period required to resolve these claims can vary depending upon the jurisdiction and whether the claim is settled or litigated. The estimation of the timing of payments beyond a year can vary significantly. Changes to the estimated reserve amounts are included in current operating results. Due to the considerable variability that is inherent in such estimates, there can be no assurance that the ultimate liability will not exceed management's estimates.

Provisions for losses related to professional liability risks were $291 million, $380 million and $315 million for the years ended December 31, 2004, 2003 and 2002, respectively. The provision for losses for the year ended December 31, 2004 includes a $59 million reduction to the Company's estimated professional liability insurance reserves. The amount of the change to the estimated professional liability insurance reserves was determined based upon the semiannual, independent actuarial analyses, which noted favorable claim and payment trends, the adoption of tort reform and limitations on losses in certain states and low inflation rates. HCA believes the favorable claim and payment trends are, in part, the result of the Company's patient safety programs.

Results of Operations

Revenue/Volume Trends

HCA's revenues depend upon inpatient occupancy levels, the ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the charge and negotiated payment rates for such services. HCA's facilities' gross charges typically do not reflect what the facilities are actually paid. HCA's facilities have entered into agreements with third-party payers, including government programs and managed care health plans, under which the facilities are paid based upon the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from gross charges.

Revenues increased 7.8% to $23.502 billion for the year ended December 31, 2004 from $21.808 billion for the year ended December 31, 2003 and increased 10.5% to $21.808 billion for the year ended December 31, 2003 from $19.729 billion for the year ended December 31, 2002. The increase in revenues in 2004 can be primarily attributed to a 1.3% increase in same facility equivalent admissions and a 6.0% increase in same facility revenue per equivalent admission compared to the prior year. For the year ended December 31, 2004, 89.8% of the $1.694 billion increase in revenues, compared to the year ended December 31, 2003, was related to the increase in same facility revenues and the remaining 10.2% of the increase relates to acquired facilities. The increase in revenues in 2003 can be primarily attributed to a 7.5% increase in same facility revenue per equivalent admission compared to 2002 and $698 million of revenues from the eleven Kansas City hospitals that were acquired during April 2003.

Same facility admissions increased by 0.7% in 2004 compared to 2003 and increased 0.6% in 2003 compared to 2002. Same facility inpatient surgeries increased 2.2% and same facility outpatient surgeries increased 1.4% during 2004 compared to 2003. Same facility inpatient surgeries decreased 0.2% and same facility outpatient surgeries decreased 3.0% during 2003 compared to 2002. Same facility emergency room visits increased 0.2% during 2004 compared to 2003 and increased 4.2% during 2003 compared to 2002.

Admissions related to Medicare, Medicaid, managed Medicaid, managed care and other discounted plans and uninsured for the years ended December 31, 2004, 2003 and 2002 are set forth below. Certain prior year amounts have been reclassified to conform to the 2004 presentation.

	Years Ended December 31,		
	2004	**2003**	**2002**
Medicare	**39%**	39%	38%
Medicaid	**10**	13	11
Managed Medicaid	**4**	(a)	(a)
Managed care and other discounted plans	**42**	44	47
Uninsured	**5**	4	4
	100%	100%	100%

(a) Prior to 2004, managed Medicaid admissions were classified as either Medicaid or managed care.

Same facility uninsured emergency room visits increased 7.6% and uninsured admissions increased 9.7% during 2004 compared to 2003. Same facility uninsured emergency room visits increased 10.5% and uninsured admissions increased 6.9% during 2003 compared to 2002.

Management cannot predict whether the current trends in uninsured admissions and net revenue per equivalent admission will continue. While complying with all Federal and state laws and regulations, including but not limited to the EMTALA, and the Company's commitment to providing quality patient care, the Company has begun implementing improvements in the following areas: treating patients in the most clinically appropriate and cost-effective setting; collecting appropriate patient information at the appropriate times; and improving cash collections earlier in the patient encounter and at the point of discharge.

At December 31, 2004, HCA owned and operated 40 hospitals and 28 surgery centers in the state of Florida. HCA's Florida facilities revenues totaled $6.036 billion and $5.545 billion for the years ended December 31, 2004 and 2003, respectively. At December 31, 2004, HCA owned and operated 36 hospitals and 19 surgery centers in the state of Texas. HCA's Texas facilities revenues totaled $3.725 billion and $3.520 billion for the years ended December 31, 2004 and 2003, respectively.

HCA recorded $124 million, $221 million, and $284 million of revenues related to Medicare operating outlier cases for the years ended December 31, 2004, 2003 and 2002, respectively. These amounts represent 2.0%, 3.7% and 5.1% of Medicare revenues and 0.5%, 1.0% and 1.4% of total revenues for the years ended December 31, 2004, 2003 and 2002, respectively. There can be no assurances that HCA will continue to receive these levels of Medicare outlier payments in future periods.

HCA provided $926 million, $821 million and $579 million of charity care and discounts to the uninsured during the years ended December 31, 2004, 2003 and 2002, respectively. On January 1, 2005, HCA modified its policies to provide a discount to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans. In implementing the discount policy, HCA will first attempt to qualify uninsured patients for Medicaid, other Federal or state assistance or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount will be applied.

The approximate percentages of inpatient revenues of the Company's facilities related to Medicare, Medicaid, managed Medicaid, managed care plans and other discounted plans and uninsured for the years ended December 31, 2004, 2003 and 2002 are set forth below. Certain prior year amounts have been reclassified to conform to the 2004 presentation.

	Years Ended December 31,		
	2004	**2003**	**2002**
Medicare	**37%**	38%	38%
Medicaid	**6**	8	6
Managed Medicaid	**3**	(a)	(a)
Managed care and other discounted plans	**46**	48	49
Uninsured	**8**	6	7
	100%	100%	100%

(a) Prior to 2004, managed Medicaid revenues were classified as either Medicaid or managed care.

HCA receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Legislative changes have resulted in limitations and even reductions in levels of payments to health care providers for certain services under these government programs.

Operating Results Summary

The following are comparative summaries of net income for the years ended December 31, 2004, 2003 and 2002 (dollars in millions, except per share amounts):

	2004		2003		2002	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Revenues	**$23,502**	**100.0**	$ 21,808	100.0	$ 19,729	100.0
Salaries and benefits	**9,419**	**40.1**	8,682	39.8	7,952	40.3
Supplies	**3,901**	**16.6**	3,522	16.2	3,158	16.0
Other operating expenses	**3,797**	**16.0**	3,676	16.8	3,341	16.9
Provision for doubtful accounts	**2,669**	**11.4**	2,207	10.1	1,581	8.0
(Gains) losses on investments	**(56)**	**(0.2)**	(1)	—	2	—
Equity in earnings of affiliates	**(194)**	**(0.8)**	(199)	(0.9)	(206)	(1.0)
Depreciation and amortization	**1,250**	**5.3**	1,112	5.1	1,010	5.0
Interest expense	**563**	**2.4**	491	2.3	446	2.3
Government settlement and investigation related costs	**—**	**—**	(33)	(0.2)	661	3.4
Gains on sales of facilities	**—**	**—**	(85)	(0.4)	(6)	—
Impairment of investment securities	**—**	**—**	—	—	168	0.9
Impairment of long-lived assets	**12**	**0.1**	130	0.6	19	0.1
	21,361	**90.9**	19,502	89.4	18,126	91.9
Income before minority interests and income taxes	**2,141**	**9.1**	2,306	10.6	1,603	8.1
Minority interests in earnings of consolidated entities	**168**	**0.7**	150	0.7	148	0.7
Income before income taxes	**1,973**	**8.4**	2,156	9.9	1,455	7.4
Provision for income taxes	**727**	**3.1**	824	3.8	622	3.2
Net income	**$ 1,246**	**5.3**	$ 1,332	6.1	$ 833	4.2
Earnings per share:						
Basic earnings per share	**$ 2.62**		$ 2.66		$ 1.63	
Diluted earnings per share	**$ 2.58**		$ 2.61		$ 1.59	
% changes from prior year:						
Revenues	**7.8%**		10.5%		9.9%	
Income before income taxes	**(8.5)**		48.2		(1.5)	
Net income	**(6.5)**		59.9		(12.8)	
Basic earnings per share	**(1.5)**		63.2		(10.4)	
Diluted earnings per share	**(1.1)**		64.2		(10.7)	
Admissions(a)	**1.5**		3.3		1.2	
Equivalent admissions(b)	**2.2**		2.8		1.2	
Revenue per equivalent admission	**5.5**		7.5		8.6	
Same facility % changes from prior year(c):						
Revenues	**7.3**		7.6		11.7	
Admissions(a)	**0.7**		0.6		2.5	
Equivalent admissions(b)	**1.3**		—		2.6	
Revenue per equivalent admission	**6.0**		7.5		8.8	

(a) Represents the total number of patients admitted to HCA's hospitals and is used by management and certain investors as a general measure of inpatient volume.

(b) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue. The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.

(c) Same facility information excludes the operations of hospitals and their related facilities that were either acquired or divested during the current and prior year.

Years Ended December 31, 2004 and 2003

Net income decreased 6.5% from $1.332 billion, or $2.61 per diluted share, for the year ended December 31, 2003 to $1.246 billion or $2.58 per diluted share, for the year ended December 31, 2004. The 2004 results include a favorable change in HCA's estimated provision for doubtful accounts totaling approximately $46 million, or $0.06 per diluted share, based upon refinements to its allowance for doubtful accounts estimation process related to estimated recoveries associated with Medicare copayments and deductibles and collection agency placements, a $59 million reduction, or $0.07 per diluted share, to the Company's estimated professional liability reserves, an adverse financial impact from hurricanes Charley, Frances, Ivan and Jeanne of $40 million, or $0.05 per diluted share, an impairment of long-lived assets of $12 million, or $0.02 per diluted share, and a favorable $19 million, or $0.04 per diluted share, reduction in the effective income tax rate. The 2003 results include a favorable settlement with the Federal government, net of investigation related costs, of $33 million, or $0.04 per diluted share, an asset impairment charge of $130 million, or $0.16 per diluted share, and gains on sales of facilities of $85 million, or $0.10 per diluted share.

In April 2003, HCA completed the acquisition of eleven hospitals in Kansas City. During the years ended December 31, 2004 and 2003, respectively, the acquired Kansas City hospitals produced revenues of $885 million and $698 million and losses before income taxes of $31 million and $35 million. The 2003 amounts include operations subsequent to the April 1, 2003 acquisition date.

Revenues increased 7.8% to $23.5 billion for the year ended December 31, 2004 compared to $21.8 billion for the year ended December 31, 2003. The increase was due to a 2.2% increase in equivalent admissions and an increase in revenue per equivalent admission of 5.5%. For the year ended December 31, 2004, admissions increased 1.5% and same facility admissions increased by 0.7% compared to 2003. Outpatient surgical volumes increased 2.5%, and increased 1.4% on a same facility basis.

Salaries and benefits, as a percentage of revenues, remained relatively flat at 40.1% in 2004 and 39.8% in 2003.

Supply costs increased, as a percentage of revenues, to 16.6% for the year ended December 31, 2004 compared to 16.2% for the year ended December 31, 2003. Supply costs continue to increase, particularly in the cardiac, orthopedic and pharmaceutical areas. Expenditures for drug-eluting stents increased from $49 million for 2003 to $137 million for 2004.

Other operating expenses (primarily consisting of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance and nonincome taxes), as a percentage of revenues, decreased to 16.0% in 2004 from 16.8% in 2003. The decrease, as a percentage of revenues, is primarily due to reductions in the Company's estimated provision for losses related to professional liability risks from $380 million for the year ended December 31, 2003 to $291 million for the year ended December 31, 2004. Other operating expenses were adversely affected during 2004 due to repairs and other miscellaneous expenses which resulted from the hurricanes and are estimated to have cost the Company $18 million, net of insurance recoveries. Other operating expenses also tend to decrease, as a percentage of revenues, when the Company experiences revenue increases, because the majority of these expenses include significant fixed cost components.

The provision for doubtful accounts, as a percentage of revenues, increased to 11.4% for the year ended December 31, 2004 from 10.1% for the year ended December 31, 2003. The factors influencing this increase include increasing patient financial responsibilities and uninsured accounts, and a deterioration in the collectability of these accounts. HCA believes the increases in uninsured patients and deterioration in the collectability of these accounts is caused by decreased medical benefits under certain plans, an increasing amount of patient financial responsibility under certain plans, high unemployment levels in certain of HCA's markets, growing numbers of employed individuals choosing not to buy health insurance and reductions in Medicaid benefits in certain states.

Gains on investments for the year ended December 31, 2004 of $56 million consist primarily of net gains on investment securities held by HCA's wholly-owned insurance subsidiary. Gains on investments for the year ended December 31, 2003 were $1 million. At December 31, 2004, HCA had net unrealized gains of $231 million on the insurance subsidiary's investment securities.

Equity in earnings of affiliates remained relatively flat and was $194 million for the year ended December 31, 2004 compared to $199 million for the year ended December 31, 2003.

Depreciation and amortization increased, as a percentage of revenues, to 5.3% in the year ended December 31, 2004 from 5.1% in the year ended December 31, 2003. The increase of $138 million of depreciation and

amortization is the result of $6.1 billion of capital spending, including acquisitions, during the last three years.

Interest expense increased to $563 million for the year ended December 31, 2004 from $491 million for the year ended December 31, 2003. The average rate for the Company's Credit Facility increased from 1.9% for the year ended December 31, 2003 to 2.2% for the year ended December 31, 2004, and the average rate for the Company's bank term loans increased from 2.2% for the year ended December 31, 2003 to 2.6% for the year ended December 31, 2004. At December 31, 2004, approximately 26.6% of HCA's debt portfolio was in variable rate debt, while at December 31, 2003, approximately 24.2% of HCA's debt portfolio was in variable rate debt. During 2003 interest rates were lower for variable rate debt than they were in 2004. The average of the beginning and ending debt balances for the Company increased from $7.825 billion for the year ended December 31, 2003 to $9.619 billion for the year ended December 31, 2004.

During 2004, HCA closed San Jose Medical Center in San Jose, California, resulting in a pretax charge of $12 million ($8 million after-tax). During 2003, HCA announced plans to discontinue activities associated with the internal development of a patient accounts receivable management system, resulting in a pretax charge of $130 million ($79 million after-tax).

During 2003, HCA recognized a pretax gain of $85 million ($49 million after-tax) on the sales of two leased hospitals and two consolidating hospitals, and a working capital settlement related to a sale completed in 2002.

Minority interests in earnings of consolidated entities increased to $168 million for the year ended December 31, 2004 compared to $150 million for the year ended December 31, 2003 due to improved operations during 2004 at HCA's joint ventures.

The effective income tax rate was 36.8% in 2004 and 38.2% in 2003. The Company's effective tax rate was adjusted to reduce estimated state taxes in the fourth quarter of 2004, resulting in a tax expense reduction of $19 million, or $0.04 per diluted share.

Years Ended December 31, 2003 and 2002

Net income totaled $1.332 billion, or $2.61 per diluted share, in 2003 compared to $833 million, or $1.59 per diluted share, in 2002. The operating results for 2003 include a favorable change in estimate related to Medicaid cost report balances for cost report years ended 1997, and prior, net of investigation related costs, of $33 million pretax, or $0.04 per diluted share, gains on sales of facilities of $85 million pretax, or $0.10 per diluted share, and an impairment of long-lived assets of $130 million pretax, or $0.16 per diluted share. The operating results for 2002 include a $661 million pretax charge, or $0.87 per diluted share, related to the settlement with government agencies and investigation related costs, gains on the sales of facilities of $6 million pretax, or $0.01 per diluted share, a $168 million pretax charge, or $0.20 per diluted share, on the impairment of investment securities, and an impairment of long-lived assets of $19 million pretax, or $0.03 per diluted share.

In April 2003, HCA completed the acquisition of eleven hospitals in Kansas City. During 2003, the acquired Kansas City hospitals produced revenues of $698 million and losses before income taxes of $35 million. The Kansas City hospitals are included in the Company's Western Group. The 2003 amounts include operations subsequent to the April 1, 2003 acquisition date.

For 2003, admissions increased 3.3% and same facility admissions increased by 0.6% compared to 2002. Outpatient surgical volumes increased 0.5%, but decreased 3.0% on a same facility basis. The weaker than expected volumes were the result of general economic conditions and increasing unemployment levels in certain markets. Additionally, in certain markets, physician issues related to physicians retiring or relocating due to rising physician malpractice insurance rates, managed care contract disputes and new competition, both in the inpatient and outpatient lines of business, contributed to a slower rate of volume growth.

Revenues for 2003 increased 10.5% compared to 2002. The 10.5% increase in revenues is primarily attributable to the 7.6% increase in same facility revenues and the $698 million of revenues related to the acquired Kansas City hospitals. The 7.6% increase in same facility revenues is primarily attributable to rate increases, as same facility equivalent admissions remained flat in 2003.

Salaries and benefits, as a percentage of revenues, decreased to 39.8% in 2003 from 40.3% in 2002. Excluding the acquired Kansas City hospitals, salaries and benefits, as a percentage of revenues, were 39.6% for 2003. The decreases reflect improvements in the utilization of contract labor. Contract labor per equivalent admission decreased 26.3% for 2003 compared to 2002.

Supply costs increased, as a percentage of revenues, to 16.2% for 2003 compared to 16.0% for 2002 due to rising supply costs, particularly in the cardiac, orthopedic and pharmaceutical areas.

Other operating expenses (primarily consisting of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance and nonincome taxes), as a percentage of revenues, decreased to 16.8% in 2003 from 16.9% in 2002. Excluding the acquired Kansas City hospitals, other operating expenses, as a percentage of revenues decreased to 16.5% for 2003.

The provision for doubtful accounts, as a percentage of revenues, increased to 10.1% in 2003 from 8.0% in 2002. The factors influencing this increase include the Company's recent experience of increasing patient due or uninsured accounts and a continued deterioration associated with the collectability of these accounts. The soft economic environment in many of the Company's markets, combined with increasing copayments and deductibles, are placing an increasing financial responsibility on the patient. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to uninsured amounts due directly from patients.

Equity in earnings of affiliates decreased from $206 million in 2002 to $199 million in 2003. The decrease was due to a decline in operating results at a hospital joint venture in California.

Depreciation and amortization remained relatively flat, as a percentage of revenues, at 5.1% in 2003 compared to 5.0% in 2002.

Interest expense increased to $491 million in 2003 from $446 million in 2002. The increase in interest expense was due to higher levels of debt in 2003 compared to 2002. Interest rates on the Company's debt were lower in 2003 than in 2002. HCA's ratio of current and long-term debt to current and long-term debt and common and minority equity was 55.8% at December 31, 2003 compared to 52.4% at December 31, 2002.

During 2003, HCA recognized pretax gains on sales of facilities of $85 million ($49 million after-tax), primarily on the sale of two leased hospitals. During 2002, HCA recognized pretax gains on sales of facilities of $6 million ($4 million after-tax) on the sales of two consolidating hospitals.

During 2002, due to the continued overall market decline and management's review and evaluation of the individual investment securities, management concluded that certain unrealized losses on HCA's equity investments should be classified as "other-than-temporary" and recorded a pretax impairment charge on investment securities of $168 million ($107 million after-tax).

During 2003, HCA announced plans to discontinue activities associated with the internal development of a patient accounts receivable management system, resulting in a pretax charge of $130 million ($79 million after-tax). During 2002, HCA management decided to delay the development and implementation of certain financial and procurement information systems, resulting in a pretax charge of $19 million.

During 2003 and 2002, respectively, HCA incurred $33 million of favorable and $661 million of unfavorable government settlement and investigation related costs. In 2003 and 2002, respectively, HCA incurred government settlements of $41 million favorable and $603 million unfavorable. The governmental investigations of the Company's business practices were concluded during 2003.

Minority interests in earnings of consolidated entities increased to $150 million for 2003 from $148 million for 2002.

The effective income tax rate was 38.2% in 2003 and 42.7% in 2002. The higher effective income tax rate in 2002 was due to the recording of a valuation allowance in 2002.

Liquidity and Capital Resources

Cash provided by operating activities totaled $3.049 billion in 2004 compared to $2.166 billion in 2003 and $2.750 billion in 2002. Working capital totaled $1.509 billion at December 31, 2004 and $1.654 million at December 31, 2003. The lower cash flow from operations in 2003 when compared to both 2004 and 2002 relates, primarily, to the Company making government settlement payments of $942 million in 2003.

Cash used in investing activities was $1.688 billion, $2.862 billion and $1.740 billion in 2004, 2003 and 2002, respectively. Excluding acquisitions, capital expenditures were $1.513 billion in 2004, $1.838 billion in 2003 and $1.718 billion in 2002. HCA expended $44 million, $908 million and $124 million for acquisitions and investments in and advances to affiliates during 2004, 2003 and 2002, respectively. During April 2003, HCA completed the acquisition of the Health Midwest system in Kansas City. The aggregate cash paid by HCA at closing was $855 million. During 2004 and 2002, the cash used in investing activities was generally for interests in joint ventures that are accounted for using the equity method. Capital expenditures in all three years were funded by a combination

of cash flows from operations and the issuance of debt. Annual planned capital expenditures are expected to approximate $1.6 billion in both 2005 and 2006. At December 31, 2004, there were projects under construction, which had an estimated additional cost to complete and equip over the next five years of $2.2 billion. HCA expects to finance capital expenditures with internally generated and borrowed funds.

Cash flows used in financing activities totaled $1.347 billion in 2004 and $934 million in 2002, compared to cash provided by financing activities of $650 million in 2003. During 2004 and 2003, HCA accessed the Credit Facility and the public debt market to raise capital. The primary source of funds for the cash used in financing activities was cash flow from operating activities. During 2004, HCA repurchased 77.4 million shares of its common stock for $3.109 billion. During the second quarter of 2004, HCA increased its quarterly dividend payment from $0.02 per share to $0.13 per share. In January 2005, HCA's Board of Directors approved another increase in its quarterly dividend from $0.13 per share to $0.15 per share. The Board declared the initial $0.15 per share dividend payable in the second quarter of 2005.

In addition to cash flows from operations, available sources of capital include amounts available under HCA's $1.75 billion revolving credit facility (the "Credit Facility") ($992 million and $1.378 billion as of December 31, 2004 and February 28, 2005, respectively) and anticipated access to public and private debt markets.

Investments of HCA's professional liability insurance subsidiary, to maintain statutory equity and pay claims, totaled $2.322 billion and $2.065 billion at December 31, 2004 and 2003, respectively. Claims payments, net of reinsurance recoveries, during the next twelve months are expected to approximate $275 million. HCA's wholly-owned insurance subsidiary has entered into certain reinsurance contracts, and the obligations covered by the reinsurance contracts remain on the balance sheet as the subsidiary remains liable to the extent that the reinsurers do not meet their obligations under the reinsurance contracts. To minimize its exposure to losses from reinsurer insolvencies, HCA evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar activities or economic characteristics of the reinsurers. The amounts receivable related to the reinsurance contracts were $79 million and $147 million at December 31, 2004 and 2003, respectively.

Share Repurchase Activities

In October 2004, HCA announced the authorization of a modified "Dutch" auction tender offer to purchase up to $2.501 billion of its common stock. In November 2004, HCA closed the tender offer to repurchase 62 million shares of the Company's common stock for $2.466 billion ($39.75 per share). The shares repurchased represented approximately 13% of the Company's outstanding shares at the time of the tender offer. HCA also repurchased 0.9 million shares of its common stock for $35 million through open market purchases which completed this $2.501 billion share repurchase authorization.

In April 2003, HCA announced an authorization to repurchase $1.5 billion of its common stock through open market purchases or privately negotiated transactions. During 2003, HCA repurchased under this authorization 25.3 million shares of its common stock for $900 million, through open market purchases. During 2004, HCA repurchased 14.5 million shares of its common stock for $600 million, through open market purchases, which completed this authorization.

In July 2002, HCA announced an authorization to repurchase up to 12 million shares of its common stock. During 2002, HCA made open market purchases of 6.2 million shares for $282 million. During 2003, HCA purchased 5.8 million shares for $214 million, through open market purchases which completed the repurchases under this authorization. The repurchases were intended to offset the dilutive effect of employee stock benefit plans.

During 2001, HCA entered into an agreement with a financial institution that resulted in the financial institution investing $400 million (at December 31, 2001) to capitalize an entity that would acquire HCA common stock. This consolidated affiliate acquired 16.8 million shares of HCA common stock in connection with HCA's settlement of certain forward purchase contracts. In June 2002, HCA repaid the financial institution and received the 16.8 million shares of the Company's common stock.

During 2004, 2003 and 2002, the share repurchase transactions reduced stockholders' equity by $3.109 billion, $1.114 billion and $282 million, respectively.

Financing Activities

HCA's revolving credit facility (the "Credit Facility") is a $1.75 billion agreement expiring November 2009. Interest under the Credit Facility is payable at either a spread to LIBOR, a spread to the prime lending rate or a competitive bid rate. The spread is dependent on HCA's credit ratings. The Credit Facility contains customary covenants which include (i) limitations on debt levels, (ii) limitations on sales of assets, mergers and changes of ownership, and (iii) maintenance of minimum interest coverage ratios. As of December 31, 2004, HCA was in compliance with all such covenants.

During March 2004, HCA issued $500 million of 5.75% notes due March 15, 2014. The proceeds from the issuance were used to repay a portion of the amounts outstanding under the Company's prior revolving credit facility and for general corporate purposes.

During November 2004, HCA entered into a $2.5 billion credit agreement (the "2004 Credit Agreement") with several banks. The 2004 Credit Agreement consists of a $750 million amortizing term loan which matures in 2009 (the "2004 Term Loan") and the Credit Facility. Proceeds from the 2004 Term Loan were used to refinance a prior bank loan and for general corporate purposes.

During November 2004, HCA issued $500 million of 5.5% notes due December 1, 2009 and issued $750 million of 6.375% notes due January 15, 2015. Proceeds from the notes were used to repay amounts outstanding under the Credit Facility and for general corporate purposes.

During the fourth quarter of 2004, in response to the Company's tender offer to repurchase the Company's common stock, Standard & Poor's downgraded HCA's senior debt rating from BBB- to BB+ and Fitch IBCA downgraded HCA's senior debt rating from BBB- to BB+. Moody's Investors Service downgraded HCA's senior debt rating from Bal to Ba2.

During December 2004, HCA filed a shelf registration statement and prospectus with the Securities and Exchange Commission that will allow the Company to issue, from time to time, up to $1.5 billion in debt securities. As of December 31, 2004, HCA had not issued any debt securities under this registration statement.

In February 2003, HCA issued $500 million of 6.25% notes due February 15, 2013. In July 2003, HCA issued $500 million of 6.75% notes due July 15, 2003. The proceeds from both issuances were used to repay a portion of the amounts outstanding under the Company's prior revolving credit facility and for general corporate purposes.

During November 2003, HCA issued $350 million of 5.25% notes due November 6, 2008 and issued $250 million of 7.5% notes due November 6, 2033. Proceeds from the notes were used to repay a portion of the amounts outstanding under the Company's prior revolving credit facility.

Management believes that cash flows from operations, amounts available under the Credit Facility and HCA's anticipated access to public and private debt markets will be sufficient to meet expected liquidity needs during the next twelve months.

Systems Development Projects

During 2003, HCA announced plans to discontinue activities associated with the development of a patient accounting software system, resulting in a pretax charge of $130 million. HCA had estimated that the patient accounting project would have required total expenditures of approximately $400 million to develop and install. HCA is in the process of implementing projects to replace its payroll and human resources information systems. Management estimates that the payroll and human resources system projects will require total expenditures of approximately $330 million to develop and install. At December 31, 2004, project-to-date costs incurred were $245 million ($151 million of the costs incurred have been capitalized and $94 million have been expensed). Management expects that the system development, testing, data conversion and installation activities will continue through 2006. There can be no assurance that the development and implementation of these systems will not be delayed, that the total cost will not be significantly more than currently anticipated, that business processes will not be interrupted during implementation or that HCA will realize the expected benefits and efficiencies from the developed products.

Contractual Obligations and Off-Balance Sheet Arrangements

As of December 31, 2004, maturities of contractual obligations and other commercial commitments are presented in the table below (dollars in millions):

	Payments Due by Period				
Contractual Obligations(a)	**Total**	**Current**	**2-3 years**	**4-5 years**	**After 5 years**
Long-term debt including interest, excluding the Credit Facility(b)	$ 16,734	$ 1,123	$ 2,260	$ 2,694	$ 10,657
Loans outstanding under the Credit Facility including interest(b)	839	29	57	753	—
Operating leases(c)	1,136	206	338	190	402
Purchase obligations(c)	14	6	6	2	—
Total contractual obligations	$ 18,723	$ 1,364	$ 2,661	$ 3,639	$ 11,059

	Commitment Expiration by Period				
Other Commercial Commitments Not Recorded on the Consolidated Balance Sheet	**Total**	**Current**	**2-3 years**	**4-5 years**	**After 5 years**
Letters of credit(d)	$ 70	$ 16	$ 41	$ 8	$ 5
Surety bonds(e)	86	85	1	—	—
Guarantees(f)	2	—	—	—	2
Total commercial commitments	$ 158	$ 101	$ 42	$ 8	$ 7

(a) The Company has not included obligations to pay its estimated professional liability claims ($1.593 billion at December 31, 2004) in this table. The estimated professional liability claims are expected to be funded by the designated investment securities that are restricted for this purpose ($2.322 billion at December 31, 2004).
(b) Estimate of interest payments assumes that subsequent to December 31, 2004, there were no changes in interest rates, HCA credit ratings or associated borrowing spreads or foreign currency exchange rates.
(c) Future operating lease obligations and purchase obligations are not recorded in the Company's consolidated balance sheet.
(d) Amounts relate primarily to instances in which HCA has letters of credit outstanding with insurance companies that issued workers compensation insurance policies to the Company in prior years. The letters of credit serve as security to the insurance companies for payment obligations retained by the Company.
(e) Amounts relate primarily to instances in which HCA has agreed to indemnify various commercial insurers who have provided surety bonds to cover damages for malpractice cases which were awarded to plaintiffs by the courts. These cases are currently under appeal and the bonds will not be released by the courts until the cases are closed.
(f) HCA has entered into guarantee agreements related to certain leases.

Market Risk

HCA is exposed to market risk related to changes in market values of securities. The investments in debt and equity securities of HCA's wholly-owned insurance subsidiary were $1.441 billion and $881 million, respectively, at December 31, 2004. These investments are carried at fair value with changes in unrealized gains and losses being recorded as adjustments to other comprehensive income. The fair value of investments is generally based on quoted market prices. If the insurance subsidiary were to experience significant declines in the fair value of its investments, this could require additional investment by the Company to allow the insurance subsidiary to satisfy its minimum capital requirements.

HCA evaluates, among other things, the financial position and near term prospects of the issuer, conditions in the issuer's industry, liquidity of the investment, changes in the amount or timing of expected future cash flows from the investment, and recent downgrades of the issuer by a rating agency to determine if and when a decline in the fair value of an investment below amortized cost is considered "other-than-temporary." The length of time and extent to which the fair value of the investment is less than amortized cost and HCA's ability and intent to retain the investment to allow for any anticipated recovery in the investment's fair value are important components of management's investment securities evaluation process. At December 31, 2004, HCA had a net unrealized gain of $231 million on the insurance subsidiary's investment securities.

HCA is also exposed to market risk related to changes in interest rates, and HCA periodically enters into interest rate swap agreements to manage its exposure to these fluctuations. HCA's interest rate swap agreements involve the exchange of fixed and variable rate interest payments between two parties, based on common notional principal amounts and maturity dates. The notional amounts and interest payments in these agreements match the cash flows of the related liabilities. The notional amounts of the swap agreements represent balances used to calculate the exchange of cash flows and are not assets or liabilities of HCA. Any market risk or opportunity associated with these swap agreements is offset by the opposite market impact on the related debt. HCA's credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements are settled on a net basis. These derivatives and the related hedged debt amounts have been recognized in the financial statements at their respective fair values.

With respect to HCA's interest-bearing liabilities, approximately $2.8 billion of long-term debt at December

31, 2004 is subject to variable rates of interest, while the remaining balance in long-term debt of $7.7 billion at December 31, 2004 is subject to fixed rates of interest. Both the general level of U.S. interest rates and, for the 2004 Credit Agreement, the Company's credit rating affect HCA's variable interest rates. HCA's variable rate debt is comprised of the Company's Credit Facility, on which interest is payable generally at LIBOR plus 0.4% to 1.0% (depending on HCA's credit ratings), a bank term loan, on which interest is payable generally at LIBOR plus 0.5% to 1.25%, and fixed rate notes on which interest rate swaps have been entered into, on which interest is payable at LIBOR plus 1.39% to 2.39%. Due to increases in LIBOR, the average rate for the Company's Credit Facility increased from 1.87% for the year ended December 31, 2003 to 2.18% for the year ended December 31, 2004, and the average rate for the Company's term loans increased from 2.21% for the year ended December 31, 2003 to 2.63% for the year ended December 31, 2004. The estimated fair value of HCA's total long-term debt was $10.8 billion at December 31, 2004. The estimates of fair value are based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities. Based on a hypothetical 1% increase in interest rates, the potential annualized reduction to future pretax earnings would be approximately $28 million. The impact of such a change in interest rates on the fair value of long-term debt would not be significant. The estimated changes to interest expense and the fair value of long-term debt are determined considering the impact of hypothetical interest rates on HCA's borrowing cost and long-term debt balances. To mitigate the impact of fluctuations in interest rates, HCA generally targets a portion of its debt portfolio to be maintained at fixed rates.

Foreign operations and the related market risks associated with foreign currency are currently insignificant to HCA's results of operations and financial position.

Effects of Inflation and Changing Prices

Various Federal, state and local laws have been enacted that, in certain cases, limit HCA's ability to increase prices. Revenues for general, acute care hospital services rendered to Medicare patients are established under the Federal government's prospective payment system. Total Medicare revenues approximated 27% in 2004 and 28% in both 2003 and 2002 of HCA's total patient revenues.

Management believes that hospital industry operating margins have been, and may continue to be, under significant pressure because of changes in payer mix and growth in operating expenses in excess of the increase in prospective payments under the Medicare program. In addition, as a result of increasing regulatory and competitive pressures, HCA's ability to maintain operating margins through price increases to non-Medicare patients is limited.

IRS Disputes

HCA is currently contesting before the Appeals Division of the Internal Revenue Service (the "IRS"), the United States Tax Court (the "Tax Court"), and the United States Court of Federal Claims, certain claimed deficiencies and adjustments proposed by the IRS in conjunction with its examinations of HCA's 1994-2000 Federal income tax returns, Columbia Healthcare Corporation's ("CHC") 1993 and 1994 Federal income tax returns, HCA-Hospital Corporation of America's ("Hospital Corporation of America") 1991 through 1993 Federal income tax returns and Healthtrust, Inc. — The Hospital Company's ("Healthtrust") 1990 through 1994 Federal income tax returns.

During 2003, the United States Court of Appeals for the Sixth Circuit affirmed a Tax Court decision received in 1996 related to the IRS examination of Hospital Corporation of America's 1987 through 1988 Federal income tax returns, in which the IRS contested the method that Hospital Corporation of America used to calculate its tax allowance for doubtful accounts. HCA filed a petition for review by the United States Supreme Court, which was denied in October 2004. Due to the volume and complexity of calculating the tax allowance for doubtful accounts, the IRS has not determined the amount of additional tax and interest that it may claim for subsequent taxable years. In December 2004, HCA made a deposit of $109 million for additional tax and interest, based on its estimate of amounts due for taxable periods through 1996.

Other disputed items include the timing of recognition of certain patient service revenues in 2000, the amount of insurance expense deducted in 1999 and 2000, and the amount of gain or loss recognized on the divestiture of certain noncore business units in 1998. The IRS has claimed an additional $404 million in income taxes and interest, through December 31, 2004 with respect to these issues.

During 2004, the IRS began an examination of HCA's 2001 through 2002 Federal income tax returns. The IRS has not determined the amount of any additional income tax and interest that it may claim upon completion of this examination.

Management believes that adequate provisions have been recorded to satisfy final resolution of the disputed issues. Management believes that HCA, CHC, Hospital Corporation of America and Healthtrust properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with the IRS during previous examinations and that final resolution of these disputes will not have a material adverse effect on the results of operations or financial position.

Report of Independent Registered Public Accounting Firm on Internal Control

The Board of Directors and Stockholders
HCA Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that HCA Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). HCA Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that HCA Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, HCA Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of HCA Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004, and our report dated March 10, 2005 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP
Ernst & Young LLP
Nashville, Tennessee
March 10, 2005

Report of Independent Registered Public Accounting Firm on Financial Statements

The Board of Directors and Stockholders
HCA Inc.

We have audited the accompanying consolidated balance sheets of HCA Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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 HCA Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of HCA Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 10, 2005 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP
Ernst & Young LLP
Nashville, Tennessee
March 10, 2005

Management's Responsibility for Financial Statements

To Our Stockholders:

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position, results of operations and cash flows in conformity with generally accepted accounting principles. Management also has included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent registered public accounting firm audits the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and provides an objective, independent review of the fairness of reported financial position, results of operations and cash flows.

The Board of Directors of the Company has an Audit Committee composed of five nonmanagement Directors. The committee meets periodically with financial management, the internal auditors and the independent registered public accounting firm to review accounting, control, auditing and financial reporting matters.

Jack O. Bovender, Jr., Chairman and Chief Executive Officer

R. Milton Johnson, Executive Vice President and Chief Financial Officer

Management's Report on Internal Control Over Financial Reporting

To Our Stockholders:

Our management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young's attestation report is included herein.

Jack O. Bovender, Jr., Chairman and Chief Executive Officer

R. Milton Johnson, Executive Vice President and Chief Financial Officer

HCA Inc. Consolidated Income Statements for the Years Ended December 31, 2004, 2003 and 2002

(Dollars in millions, except per share amounts)

	2004	2003	2002
Revenues	**$ 23,502**	$ 21,808	$ 19,729
Salaries and benefits	**9,419**	8,682	7,952
Supplies	**3,901**	3,522	3,158
Other operating expenses	**3,797**	3,676	3,341
Provision for doubtful accounts	**2,669**	2,207	1,581
(Gains) losses on investments	**(56)**	(1)	2
Equity in earnings of affiliates	**(194)**	(199)	(206)
Depreciation and amortization	**1,250**	1,112	1,010
Interest expense	**563**	491	446
Government settlement and investigation related costs	**—**	(33)	661
Gains on sales of facilities	**—**	(85)	(6)
Impairment of investment securities	**—**	—	168
Impairment of long-lived assets	**12**	130	19
	21,361	19,502	18,126
Income before minority interests and income taxes	**2,141**	2,306	1,603
Minority interests in earnings of consolidated entities	**168**	150	148
Income before income taxes	**1,973**	2,156	1,455
Provision for income taxes	**727**	824	622
Net income	**$ 1,246**	$ 1,332	$ 833
Earnings per share:			
Basic earnings per share	**$ 2.62**	$ 2.66	$ 1.63
Diluted earnings per share	**$ 2.58**	$ 2.61	$ 1.59

The accompanying notes are an integral part of the consolidated financial statements.

HCA Inc. Consolidated Balance Sheets December 31, 2004 and 2003

(Dollars in millions)

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 129**	$ 115
Accounts receivable, less allowance for doubtful accounts of $2,942 and $2,649	**3,083**	3,095
Inventories	**577**	520
Deferred income taxes	**467**	534
Other	**427**	558
	4,683	4,822
Property and equipment, at cost:		
Land	**1,185**	1,151
Buildings	**7,981**	7,520
Equipment	**10,127**	9,101
Construction in progress	**677**	913
	19,970	18,685
Accumulated depreciation	**(8,574)**	(7,620)
	11,396	11,065
Investments of insurance subsidiary	**2,047**	1,790
Investments in and advances to affiliates	**486**	527
Goodwill	**2,540**	2,481
Deferred loan costs	**99**	75
Other	**214**	303
	$ 21,465	$ 21,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 855**	$ 877
Accrued salaries	**579**	510
Other accrued expenses	**1,254**	1,116
Long-term debt due within one year	**486**	665
	3,174	3,168
Long-term debt	**10,044**	8,042
Professional liability risks	**1,283**	1,314
Deferred income taxes and other liabilities	**1,748**	1,650
Minority interests in equity of consolidated entities	**809**	680
Stockholders' equity:		
Common stock $0.01 par; authorized 1,600,000,000 voting shares and 50,000,000 nonvoting shares; outstanding 401,642,100 voting shares and 21,000,000 nonvoting shares — 2004 and 469,717,800 voting shares and 21,000,000 nonvoting shares — 2003	**4**	5
Other	**—**	5
Accumulated other comprehensive income	**193**	168
Retained earnings	**4,210**	6,031
	4,407	6,209
	$ 21,465	$ 21,063

The accompanying notes are an integral part of the consolidated financial statements.

HCA Inc. Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2004, 2003 and 2002

(Dollars in millions)

	Common Stock Shares (000)	Common Stock Par Value	Capital in Excess of Par Value	Other	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balances, December 31, 2001	509,297	$ 5	$ —	$ 7	$ 18	$ 4,732	$ 4,762
Comprehensive income:							
Net income						833	833
Other comprehensive income:							
Net unrealized gains on investment securities					27		27
Foreign currency translation adjustments					36		36
Defined benefit plan					(8)		(8)
Total comprehensive income					55	833	888
Cash dividends declared						(40)	(40)
Stock repurchases	(6,200)		(282)				(282)
Stock options exercised	9,170		306	(1)			305
Employee benefit plan issuances	1,909		69				69
Balances, December 31, 2002	514,176	5	93	6	73	5,525	5,702
Comprehensive income:							
Net income						1,332	1,332
Other comprehensive income:							
Net unrealized gains on investment securities					92		92
Foreign currency translation adjustments					11		11
Defined benefit plan					(8)		(8)
Total comprehensive income					95	1,332	1,427
Cash dividends declared						(39)	(39)
Stock repurchases	(31,144)		(327)			(787)	(1,114)
Stock options exercised	4,964		147	(1)			146
Employee benefit plan issuances	2,722		87				87
Balances, December 31, 2003	490,718	5	—	5	168	6,031	6,209
Comprehensive income:							
Net income						1,246	1,246
Other comprehensive income:							
Net unrealized gains on investment securities					10		10
Foreign currency translation adjustments					21		21
Defined benefit plan					(6)		(6)
Total comprehensive income					25	1,246	1,271
Cash dividends declared						(251)	(251)
Stock repurchases	(77,382)	(1)	(292)			(2,816)	(3,109)
Stock options exercised	7,032		224	(5)			219
Employee benefit plan issuances	2,274		68				68
Balances, December 31, 2004	422,642	$ 4	$ —	$ —	$193	$ 4,210	$ 4,407

The accompanying notes are an integral part of the consolidated financial statements.

HCA Inc. Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002

(Dollars in millions)

	2004	2003	2002
Cash flows from operating activities:			
Net income	**$ 1,246**	$ 1,332	$ 833
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful accounts	**2,669**	2,207	1,581
Depreciation and amortization	**1,250**	1,112	1,010
Income taxes	**333**	496	64
Settlement with government agencies	**—**	(971)	603
Gains on sales of facilities	**—**	(85)	(6)
Impairment of investment securities	**—**	—	168
Impairment of long-lived assets	**12**	130	19
Increase (decrease) in cash from operating assets and liabilities:			
Accounts receivable	**(2,648)**	(2,365)	(1,865)
Inventories and other assets	**(46)**	32	(88)
Accounts payable and accrued expenses	**119**	197	322
Other	**114**	81	109
Net cash provided by operating activities	**3,049**	2,166	2,750
Cash flows from investing activities:			
Purchase of property and equipment	**(1,513)**	(1,838)	(1,718)
Acquisition of hospitals and health care entities	**(44)**	(908)	(124)
Disposal of hospitals and health care entities	**48**	163	135
Change in investments	**(178)**	(298)	(27)
Other	**(1)**	19	(6)
Net cash used in investing activities	**(1,688)**	(2,862)	(1,740)
Cash flows from financing activities:			
Issuances of long-term debt	**2,500**	1,624	1,005
Net change in revolving bank credit facility	**190**	410	(655)
Repayment of long-term debt	**(912)**	(461)	(816)
Repurchases of common stock	**(3,109)**	(1,114)	(282)
Issuances of common stock	**224**	165	267
Repayment of mandatorily redeemable securities of affiliate	**—**	—	(400)
Payment of cash dividends	**(199)**	(39)	(40)
Other	**(41)**	65	(13)
Net cash (used in) provided by financing activities	**(1,347)**	650	(934)
Change in cash and cash equivalents	**14**	(46)	76
Cash and cash equivalents at beginning of period	**115**	161	85
Cash and cash equivalents at end of period	**$ 129**	$ 115	$ 161
Interest payments	**$ 533**	$ 458	$ 427
Income tax payments, net of refunds	**$ 394**	$ 328	$ 558

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 — ACCOUNTING POLICIES

Reporting Entity

HCA Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term "affiliates" includes direct and indirect subsidiaries of HCA Inc. and partnerships and joint ventures in which such subsidiaries are partners. At December 31, 2004, these affiliates owned and operated 182 hospitals, 84 freestanding surgery centers and provided extensive outpatient and ancillary services. Affiliates of HCA are also partners in joint ventures that own and operate seven hospitals and eight freestanding surgery centers, which are accounted for using the equity method. The Company's facilities are located in 23 states, England and Switzerland. The terms "HCA" or the "Company", as used in this annual report, refer to HCA Inc. and its affiliates unless otherwise stated or indicated by context.

Basis of Presentation

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. The majority of the Company's expenses are "cost of revenue" items. Costs that could be classified as general and administrative by HCA would include the HCA corporate office costs, which were $162 million, $156 million and $143 million for the years ended December 31, 2004, 2003 and 2002, respectively.

The consolidated financial statements include all subsidiaries and entities controlled by HCA. "Control" is generally defined by HCA as ownership of a majority of the voting interest of an entity. The consolidated financial statements include entities in which HCA 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. Significant intercompany transactions have been eliminated. Investments in entities that HCA does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method.

HCA has completed various acquisitions and joint venture transactions. The accounts of these entities have been consolidated with those of HCA for periods subsequent to the acquisition of controlling interests.

Revenues

Revenues consist primarily of net patient service revenues that are recorded based upon established billing rates less allowances for contractual adjustments. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers, including Federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Managed care agreements' contractual payment terms are generally based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process). The adjustments to estimated reimbursement amounts, which resulted in net increases to revenues, related to cost reports filed during the respective year were $44 million, $70 million and $45 million in 2004, 2003 and 2002, respectively. The adjustments to estimated

reimbursement amounts, which resulted in net increases to revenues, related to cost reports filed during previous years were $26 million, $26 million and $31 million in 2004, 2003 and 2002, respectively.

The Emergency Medical Treatment and Active Labor Act ("EMTALA") requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency room for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. Federal and state laws and regulations, including but not limited to EMTALA, require, and HCA's commitment to providing quality patient care encourages, the Company to provide services to patients who are financially unable to pay for the health care services they receive. Because HCA does not pursue collection of amounts determined to qualify as charity care, they are not reported in revenues. During 2003, the Company announced that patients treated at an HCA wholly-owned hospital for nonelective care, who have income at or below 200% of the Federal poverty level are eligible for charity care, a standard HCA estimates that 70% of its hospitals were previously using. The Federal poverty level is established by the Federal government and is based on income and family size. On January 1, 2005, HCA modified its policies to provide a discount to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans. In implementing the discount policy, HCA will first attempt to qualify uninsured patients for Medicaid, other Federal or state assistance or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount will be applied.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of three months or less when purchased. Carrying values of cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

Accounts Receivable

HCA receives payments for services rendered from Federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers and patients. During the years ended December 31, 2004, 2003 and 2002, approximately 27%, 28% and 28%, respectively, of HCA's revenues related to patients participating in the Medicare program. HCA recognizes that revenues and receivables from government agencies are significant to its operations, but does not believe that there are significant credit risks associated with these government agencies. HCA does not believe that there are any other significant concentrations of revenues from any particular payer that would subject it to any significant credit risks in the collection of its accounts receivable.

Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. Accounts written off as uncollectable are deducted from the allowance and subsequent recoveries are added. The amount of the provision for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and state governmental and private employer health care coverage and other collection indicators. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to "uninsured" amounts (including copayment and deductible amounts from patients who have health care coverage) due directly from patients. Accounts are written off when all reasonable internal and external collection efforts have been performed. HCA considers the return of an account from the primary external collection agency to be the culmination of its reasonable collection efforts and the timing basis for writing off the account balance. Writeoffs are based upon specific identification and the writeoff process requires a writeoff adjustment entry to the patient accounting system. Management relies on the results of detailed reviews of historical writeoffs and recoveries at facilities that represent a majority of HCA's revenues and accounts

receivable (the "hindsight analysis") as a primary source of information to utilize in estimating the collectability of HCA's accounts receivable. The Company had previously performed the hindsight analysis on an annual basis. During the third quarter of 2003, the Company began performing a quarterly, rolling twelve-month hindsight analysis to enable it to react more quickly to trends affecting the collectability of the accounts receivable. During the fourth quarter of 2004, HCA refined its allowance for doubtful accounts estimation process related to estimated recoveries associated with Medicare copayments and deductibles and collection agency placements. At December 31, 2004, HCA's allowance for doubtful accounts represented approximately 78% of the $3.762 billion patient due accounts receivable balance, including accounts related to patients for which eligibility for Medicaid coverage was being evaluated ("pending Medicaid accounts"). The Company's allowance for doubtful accounts represented approximately 90% of the $3.254 billion patient due accounts receivable balance, excluding pending Medicaid accounts. Revenue days in accounts receivable were 48 days, 52 days and 52 days at December 31, 2004, 2003 and 2002, respectively. Adverse changes in general economic conditions, business office operations, payer mix, or trends in Federal or state governmental health care coverage could affect HCA's collection of accounts receivable, cash flows and results of operations.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment and Amortizable Intangibles

Depreciation expense, computed using the straight-line method, was $1.248 billion in 2004, $1.108 billion in 2003, and $1.007 billion in 2002. Buildings and improvements are depreciated over estimated useful lives ranging generally from ten to 40 years. Estimated useful lives of equipment vary generally from four to ten years.

Debt issuance costs are amortized based upon the lives of the respective debt obligations. The gross carrying amount of deferred loan costs at December 31, 2004 and 2003 was $138 million and $107 million, respectively, and accumulated amortization was $39 million and $32 million at December 31, 2004 and 2003, respectively. Amortization of deferred loan costs is included in interest expense and was $14 million, $10 million and $11 million for 2004, 2003 and 2002, respectively.

When events, circumstances or operating results indicate that the carrying values of certain long-lived assets and related identifiable intangible assets (excluding goodwill) that are expected to be held and used, might be impaired, HCA prepares projections of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate that the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value. Fair value may be estimated based upon internal evaluations of each market that include quantitative analyses of revenues and cash flows, reviews of recent sales of similar facilities and independent appraisals.

Long-lived assets to be disposed of are reported at the lower of their carrying amounts or fair value less costs to sell or close. The estimates of fair value are usually based upon recent sales of similar assets and market responses based upon discussions with and offers received from potential buyers.

Goodwill

HCA adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") on January 1, 2002. Under SFAS 142, goodwill is not amortized, but is subject to annual impairment tests. In addition to the annual impairment reviews, impairment reviews are performed whenever circumstances indicate a possible impairment may exist. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, and HCA's impairment testing is performed at the operating division level. The Company compares the fair value of the reporting unit assets to the carrying amount

on at least an annual basis to determine if there is potential impairment. If the fair value of the reporting unit assets is less than its carrying value, the Company compares the fair value of the goodwill to its carrying value. If the fair value of the goodwill is less than its carrying value, an impairment loss is recognized. Fair value of goodwill is estimated based upon internal evaluations of the related long-lived assets for each reporting unit that include quantitative analyses of revenues and cash flows and reviews of recent sales of similar facilities. No goodwill impairment losses were recognized during 2004, 2003 or 2002.

During 2004, goodwill increased by $53 million related to acquisitions and increased by $6 million related to foreign currency translation adjustments. During 2003, goodwill increased by $491 million related to acquisitions, decreased by $13 million related to facilities that were sold and increased by $9 million related to foreign currency translation adjustments.

Professional Liability Claims

A substantial portion of HCA's professional liability risks is insured through a wholly-owned insurance subsidiary of HCA, which is funded annually. Reserves for professional liability risks were $1.593 billion and $1.624 billion at December 31, 2004 and 2003, respectively. The current portion of the reserves, $310 million at December 31, 2004 and 2003, is included in "other accrued expenses" in the consolidated balance sheet. Provisions for losses related to professional liability risks were $291 million, $380 million and $315 million for the years ended December 31, 2004, 2003 and 2002, respectively, and are included in "other operating expenses" in the Company's consolidated income statement. Provisions for losses related to professional liability risks are based upon actuarially determined estimates. Loss and loss expense reserves represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserves for unpaid losses and loss expenses are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The adjustments to the estimated reserve amounts are included in current operating results. The provision for losses for 2004 includes a $59 million reduction to the Company's estimated professional liability insurance reserves. The amount of the change to the estimated professional liability insurance reserves was determined based upon the semiannual, independent actuarial analyses, which noted favorable claim and payment trends, the adoption of tort reform and limitations on losses in certain states and low inflation rates. HCA believes the favorable claim and payment trends are, in part, the result of the Company's patient safety programs. The reserves for professional liability risks cover approximately 3,500 and 3,900 individual claims at December 31, 2004 and 2003, respectively, and estimates for potential unreported claims. The time period required to resolve these claims can vary depending upon the jurisdiction and whether the claim is settled or litigated. During 2004 and 2003, $268 million and $264 million, respectively, of payments (net of reinsurance recoveries of $21 million and $32 million, respectively) were made for professional and general liability claims. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, management believes that the reserves for losses and loss expenses are adequate; however, there can be no assurance that the ultimate liability will not exceed management's estimates.

HCA's facilities are insured by the wholly-owned insurance subsidiary for losses up to $25 million per occurrence. The insurance subsidiary has obtained reinsurance for professional liability risks above certain retention levels in prior periods, however, the insurance subsidiary obtained no reinsurance for 2004 and 2003. HCA also maintains professional liability insurance with unrelated commercial carriers for losses in excess of amounts insured by its insurance subsidiary.

The obligations covered by reinsurance contracts remain on the balance sheet, as the subsidiary remains liable to the extent that the reinsurers do not meet their obligations under the reinsurance contracts. The amounts receivable under the reinsurance contracts of $79 million and $147 million at December 31, 2004, and 2003, respectively, are included in other assets (including $25 million and $29 million at December 31, 2004 and 2003,

respectively, included in other current assets). Transactions commuting certain reinsurance contracts resulted in net increases to the reserves for professional liability risks of $14 million and $41 million during 2004 and 2003, respectively. During 2003, the reserves for professional liability risks were increased by $34 million related to the assumed obligations of facilities acquired.

Investments of Insurance Subsidiary

At December 31, 2004 and 2003, the investments of HCA's wholly-owned insurance subsidiary were classified as "available-for-sale" as defined in Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and are recorded in HCA's consolidated balance sheet at fair value. The investment securities are held for the purpose of providing the funding source to pay professional liability claims covered by the insurance subsidiary. Management performs a quarterly assessment of individual investment securities to determine whether declines in market value are temporary or other-than-temporary. Management's investment securities evaluation process involves multiple subjective judgments, often involves estimating the outcome of future events, and requires a significant level of professional judgment in determining whether factors exist that indicate an impairment has occurred. HCA evaluates, among other things, the financial position and near term prospects of the issuer, conditions in the issuer's industry, liquidity of the investment, changes in the amount or timing of expected future cash flows from the investment, and recent downgrades of the issuer by a rating agency to determine if, and when, a decline in the fair value of an investment below amortized cost is considered other-than-temporary. The length of time and extent to which the fair value of the investment is less than amortized cost and HCA's ability and intent to retain the investment, to allow for any anticipated recovery of the investment's fair value, are important components of management's investment securities evaluation process.

Minority Interests in Consolidated Entities

The consolidated financial statements include all assets, liabilities, revenues and expenses of less than 100% owned entities that are controlled by HCA. Accordingly, management has recorded minority interests in the earnings and equity of such entities.

Related Party Transactions

MedCap Properties, LLC ("MedCap")

In December 2000, HCA transferred 116 medical office buildings ("MOBs") to MedCap. HCA received approximately $250 million and a minority interest (approximately 48%) in MedCap in the transaction. MedCap is a private company that was formed by HCA and other investors to acquire the buildings. HCA did not recognize a gain or loss on the transaction. A relative of a Director and former executive officer of the Company served as the Chief Manager of MedCap.

In October 2003, MedCap sold its 113 MOB's to Health Care Property Investors, Inc. ("HCP"). The sale of MedCap to HCP included HCA's ownership interest in MedCap, and HCA has no ownership interest in HCP. The distribution of the MedCap sale proceeds resulted in HCA recording a deferred gain of $80 million. The transaction is being accounted for as a financing transaction and the potential gain amount is being deferred due to HCA's continuing involvement with the MOBs related to certain contingent, protective put and call rights. If the prohibited continuing involvement provisions were remedied, a portion of the deferred gain amount would be recognized currently and the remaining portion would be amortized over the applicable lease terms for the MOBs in which HCA leases space from HCP. The former Chief Manager of MedCap, continues to manage the MOBs as an employee of HCP.

HCA leased certain office space from MedCap and, during the years ended December 31, 2003 (through September 2003) and 2002, paid MedCap $16.1 million and $19.4 million, respectively, in rents for such leased office space. HCA continues to lease certain office space from HCP. HCA believes its transactions with MedCap were on terms no less favorable to HCA than those which would have been obtained from an unaffiliated party.

LifePoint Hospitals, Inc. ("LifePoint") and Triad Hospitals, Inc. ("Triad")

In May 1999, HCA completed the spin-offs of LifePoint and Triad (the "Spin-offs") through the distribution of shares of LifePoint common stock and Triad common stock to HCA stockholders. In connection with the Spin-offs, HCA entered into agreements to provide financial, clinical, patient accounting and network information services to LifePoint and Triad. The agreements have terms expiring in May 2009 for LifePoint and May 2008 for Triad. In addition, HCA's wholly-owned insurance subsidiary provides insurance and risk management services, negotiated on a year-to-year basis, to LifePoint and Triad. For the years ended December 31, 2004, 2003 and 2002, HCA recorded $16.2 million, $11.9 million and $11.8 million, respectively, related to LifePoint and $51.1 million, $43.8 million and $46.5 million, respectively, related to Triad pursuant to these agreements. The fees provided for in the agreements are intended to be market competitive and are based on HCA's costs incurred in providing the services.

Global Health Exchange, LLC ("GHX")

In 1999, HCA formed empactHealth.com, with the intent of improving its hospitals' efficiencies in the procurement of goods and supplies by utilizing the Internet. In January 2001, empactHealth.com merged with Medibuy, an unrelated competitor of empactHealth.com. As a result of the merger, HCA owned approximately 17% of Medibuy and HCA's directors and certain members of its management owned approximately 2%. During 2002, HCA paid $2.4 million to Medibuy for annual software license fees, transaction fees and related services, and paid and expensed $3 million of additional investment payments to Medibuy. During 2002, HCA's management and directors relinquished their ownership in Medibuy for no consideration. In December 2002, Medibuy merged with GHX. As a result of the merger, HCA owns approximately 7% of GHX and an officer of HCA serves on GHX's board of directors. In 2004, HCA and GHX entered into a master user agreement, which expires on December 31, 2008, pursuant to which GHX provides access to its e-commerce system, a license to certain requisitioning software and other services. During 2004 and 2003, HCA paid GHX $4 million and $3 million, respectively, for software and other related services. The user agreement with GHX provides for annual payments of $2.7 million each year for 2005 through 2006 and $2.6 million each year for 2007 through 2008. Healthtrust Purchasing Group ("HPG"), an affiliate of HCA, also entered into an e-commerce agreement with GHX, which commenced on January 1, 2003, pursuant to which HPG will be able to offer the GHX e-commerce system to HPG members. HCA believes its transactions with Medibuy and GHX are on terms no less favorable to HCA than those which would be obtained from unaffiliated parties.

HealthStream, Inc. ("HealthStream")

In October 2001, HCA entered into an amended four-year agreement with HealthStream to purchase internet-based education and training services. The agreement expires in 2005 and provides for minimum fees of $2.5 million in 2005. During 2004, 2003 and 2002, the Company paid HealthStream $3.2 million, $2.6 million, and $2.9 million which represented approximately 16%, 15% and 18%, respectively, of HealthStream's net revenues. The Chief Executive Officer, President and Chairman of the Board of Directors of HealthStream is a relative of a Director and former executive officer of HCA. HCA believes its transactions with HealthStream are on terms no less favorable to HCA than those which would be obtained from an unaffiliated party.

Share-Based Compensation

HCA applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock benefit plans. Accordingly, no compensation cost has been recognized for HCA's stock options granted under the plans because the exercise prices for options granted were equal to the quoted market prices on the option grant dates and all option grants were to employees or directors.

As required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), HCA has determined pro forma net income and earnings per share, as if compensation cost for HCA's employee stock option and stock purchase plans had been determined based upon fair values at the grant dates. These pro forma amounts are as follows (dollars in millions, except per share amounts):

	2004	2003	2002
Net income:			
As reported	$ 1,246	$ 1,332	$ 833
Share-based employee compensation expense determined under a fair value method, net of income taxes	191 (a)	89	151 (b)
Pro forma	$ 1,055	$ 1,243	$ 682
Basic earnings per share:			
As reported	$ 2.62	$ 2.66	$ 1.63
Pro forma	$ 2.22	$ 2.48	$ 1.33
Diluted earnings per share:			
As reported	$ 2.58	$ 2.61	$ 1.59
Pro forma	$ 2.18	$ 2.43	$ 1.30

(a) In December 2004, HCA accelerated the vesting of all unvested stock options awarded to employees and officers which had exercise prices greater than the closing price at December 14, 2004 of $40.89 per share. Options to purchase approximately 19.1 million shares became exercisable immediately as a result of the vesting acceleration. Assuming the Financial Accounting Standard Board (the "FASB") Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R") is adopted as expected, the decision to accelerate vesting of the identified stock options will result in the Company not being required to recognize share-based compensation expense, net of taxes, of approximately $26 million in 2005, $36 million in 2006, $19 million in 2007, and $2 million in 2008. The estimated $26 million amount for 2005 is based on the assumption that the Company will elect to apply the expense recognition provisions of SFAS 123R beginning July 1, 2005. The elimination of the requirement to recognize compensation expense in future periods related to the unvested stock options was management's basis for the decision to accelerate the vesting. The effect of accelerating the vesting for all unvested options with exercise prices greater than $40.89 per share was an increase to the pro forma share-based employee compensation expense for the year ended December 31, 2004 of $112 million after-tax ($0.24 per basic share and $0.23 per diluted share).

(b) HCA determines pro forma share-based employee compensation expense using an estimated forfeiture assumption. A forfeiture assumption of 50% had been used for periods through December 31, 2001. This 50% forfeiture assumption was reasonable for stock option grants made during the 1995 through 1998 period, but subsequent to the Company completing a major restructuring process that involved significant executive management turnover, the Spin-offs, and the sales of numerous facilities, HCA determined during 2002 that the forfeiture assumption for 1999 and subsequent grants should be lowered significantly. During 2002, HCA revised the expected forfeiture assumption for the 1999 and 2000 stock option grants to 15%, and a 10% forfeiture assumption has been used for 2001 and subsequent stock option grants. The changes in the estimated forfeiture assumptions for stock option grants made prior to 2002 increased the pro forma share-based employee compensation expense for the year ended December 31, 2002 by $64 million after-tax ($0.13 per basic share and $0.12 per diluted share).

For SFAS 123 purposes, the weighted average fair values of HCA's stock options granted in 2004, 2003 and 2002 were $12.90, $13.49 and $13.30 per share, respectively. The fair values were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	2004	2003	2002
Risk-free interest rate	2.56%	2.62%	2.17%
Expected volatility	35%	37%	37%
Expected life, in years	4	4	4
Expected dividend yield	1.18%	.19%	.18%

The expected volatility is derived using weekly, historical market price data for periods preceding the date of grant. The risk-free interest rate is the approximate yield on four-year United States Treasury Strips on the date of

grant. The expected life is an estimate of the number of years an option will be held before it is exercised. The valuation model was not adjusted for nontransferability, risk of forfeiture or the vesting restrictions of the options, all of which would reduce the value if factored into the calculation.

The pro forma compensation cost related to the shares of common stock issued under HCA's amended and restated Employee Stock Purchase Plan was $9 million, $16 million and $13 million for the years 2004, 2003 and 2002, respectively. These pro forma costs were determined based on the estimated fair values at the beginning of each subscription period.

Derivatives

HCA has designated its outstanding interest rate swap agreements as fair value hedges. HCA has determined that the current agreements are highly effective in offsetting the fair value changes in a portion of HCA's debt portfolio. These derivatives and the related hedged debt amounts have been recognized in the consolidated financial statements at their respective fair values.

Recent Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"), which requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, and is effective for public companies for interim or annual periods beginning after June 15, 2005. Retroactive application of the requirements of SFAS 123 (as a result of the adoption of SFAS 123R) to the beginning of the fiscal year that includes the effective date is permitted, but not required. HCA is required to adopt SFAS 123R in its financial statements for the quarter ending September 30, 2005, and has chosen not to apply SFAS 123 retroactively to the January 1, 2005 to June 30, 2005 period. SFAS 123R is expected to have a material effect on HCA's results of operations, but it will have no net impact on HCA's overall financial position. The impact on results of operations of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, the impact of the adoption of the SFAS 123R provisions on results of operations would have approximated, net of income taxes, $191 million, $89 million and $151 million for the years ended December 31, 2004, 2003 and 2002, respectively. SFAS 123R also requires the benefits of tax deductions in excess of amounts recognized as compensation cost to be reported as a financing cash flow, rather than an operating cash flow, as required under current accounting guidance. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were $50 million, $31 million and $82 million in 2004, 2003 and 2002, respectively.

The American Jobs Creation Act of 2004 (the "2004 Act") created a temporary incentive for U.S. companies to repatriate certain accumulated income earned abroad by providing a special 85 percent dividends received deduction (the "repatriation deduction"), subject to certain limitations and requirements, including adoption of a specific domestic reinvestment plan for the repatriated funds. In January 2005, the U.S. Department of the Treasury published initial guidance regarding the repatriation deduction. Certain technical corrections related to the repatriation deduction are currently pending before Congress and the Treasury Department is expected to issue additional guidance during 2005. In December 2004, the Financial Accounting Standards Board issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," which allows companies additional time to evaluate the effect of the repatriation deduction on their income tax expense and deferred tax liabilities. HCA has not yet completed this evaluation and accordingly, has not adjusted its tax expense or deferred tax liabilities to reflect the repatriation deduction. Based on its current understanding of the 2004 Act and its results of operations through December 31, 2004, HCA believes that it may repatriate from $0 to approximately $209 million in dividends eligible for the repatriation deduction during 2005, generating a corresponding tax provision benefit of $0 to approximately $17 million from the reversal of previously

provided deferred tax liabilities related to unremitted earnings of its foreign subsidiaries.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). This statement generally requires liability classification for two broad classes of financial instruments. Under SFAS 150, instruments that represent, or are indexed to, an obligation to buy back the issuer's shares, regardless of whether the instrument is settled on a net-cash or gross physical basis, are required to be classified as liabilities. Obligations that can be settled in shares, but either derive their value predominately from some other underlying, have a fixed value, or have a value to the counterparty that moves in the opposite direction as the issuer's shares, are also required to be classified as liabilities under this statement. In October 2003, the FASB voted to defer, for an indefinite period, the application of the SFAS 150 guidance to noncontrolling interests in limited-life subsidiaries. The FASB decided to defer this application of SFAS 150 to allow them the opportunity to consider possible implementation issues that would result from the proposed SFAS 150 guidance regarding measurement and recognition of noncontrolling interests. HCA will assess the impact of the FASB's reconsiderations, if any, on the Company's consolidated financial statements when they are finalized.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2004 presentation.

NOTE 2 — INVESTIGATIONS AND SETTLEMENT OF CERTAIN GOVERNMENT CLAIMS

Commencing in 1997, HCA became aware it was the subject of governmental investigations and litigation relating to its business practices. The investigations were concluded through a series of agreements executed in 2000 and 2003. In January 2001, HCA entered into an eight-year Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services.

During June 2003, HCA announced that the Company and the Centers for Medicare and Medicaid Services ("CMS") had signed an agreement, documenting the understanding announced in March 2002, to resolve all Medicare cost report, home office cost statement and appeal issues between HCA and CMS (the "CMS Agreement") for cost report periods ended before August 1, 2001. As a result of the CMS Agreement, HCA paid CMS $250 million in June 2003. HCA recorded a pretax charge of $260 million ($165 million after-tax), consisting of the accrual of $250 million for the settlement payment and the writeoff of $10 million of net Medicare cost report receivables during the year ended December 31, 2001.

During June 2003, HCA also announced that the Company and the Civil Division of the Department of Justice (the "DOJ") had signed agreements, documenting the understanding announced in December 2002, whereby the United States would dismiss the various claims it had brought related to physician relations, cost reports and wound care issues (the "DOJ Agreement"). The DOJ Agreement received court approval in July 2003, and HCA paid the DOJ $641 million (including accrued interest of $10 million) during July 2003. HCA also finalized an agreement with a negotiating team representing states that may have claims against the Company. Under this agreement, HCA paid $17.7 million in July 2003 to state Medicaid agencies to resolve these claims. HCA also paid $33 million for legal fees of the private parties who had brought *qui tam* actions against the Company. In connection with the DOJ Agreement, HCA recorded a pretax charge of $603 million ($418 million after-tax) in the fourth quarter of 2002. The consolidated income statement for the year ended December 31, 2003 includes a pretax favorable change in estimate of $41 million ($25 million after-tax) related to Medicaid cost report balances for cost report years ended December 31, 1997 and prior.

If HCA were found to be in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, HCA could be subject to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Any such sanctions or expenses could

have a material, adverse effect on HCA's financial position, results of operation and liquidity.

During 2003 and 2002, HCA recorded the following pretax settlements and costs in connection with the governmental investigations (dollars in millions):

	2003	2002
Settlement with government agencies	$ (41)	$ 603
Professional fees related to investigations	8	56
Other investigation related costs	—	2
Total net (benefit) expense	$ (33)	$ 661

NOTE 3 — ACQUISITIONS AND DISPOSITIONS

During 2004, HCA opened one hospital, sold one hospital, and closed two hospitals. During 2003, HCA recognized a net pretax gain of $85 million ($49 million after-tax) on the sales of two leased hospitals and two consolidating hospitals and a working capital settlement related to a sale completed in 2002. Proceeds from the sales were used to repay bank borrowings.

During 2004, HCA did not acquire any hospitals, but paid $44 million for other health care entities. During 2003, HCA completed the acquisition of the Health Midwest hospital system in Kansas City. The purchase price was allocated to the related assets acquired and liabilities assumed based upon their respective fair values. The consolidated financial statements include the accounts and operations of the Health Midwest entities subsequent to the April 1, 2003 acquisition date. The pro forma effect of the acquired entities on HCA's results of operations for periods prior to the acquisition date was not significant.

The following is a summary of hospitals and other health care entities acquired during 2003 (dollars in millions):

	2003
Number of hospitals	11
Number of licensed beds	2,292
Purchase price information:	
Hospitals:	
Fair value of assets acquired	$ 1,183
Liabilities assumed	(315)
Net assets acquired	868
Other health care entities acquired	40
Net cash paid	$ 908

The purchase price paid in excess of the fair value of identifiable net assets of acquired entities aggregated $38 million and $491 million in 2004 and 2003, respectively. In 2004, goodwill increased $15 million related to adjustments to 2003 acquisitions.

NOTE 4 — IMPAIRMENTS OF LONG-LIVED ASSETS

The carrying value for a hospital HCA closed during 2004 was reduced to fair value of $39 million, based upon estimates of sales value, resulting in a pretax charge of $12 million. The 2004 impairment charge affected HCA's Western Group.

During 2003, HCA announced plans to discontinue activities associated with the internal development of a patient accounts receivable management system, resulting in a pretax charge of $130 million. HCA reduced the carrying value for capitalized costs associated with the patient accounts receivable management system components that were discontinued.

During 2002, management decided to delay the development and implementation of certain financial and

procurement information system components of its enterprise resource planning program to concentrate and direct efforts to the patient accounting and human resources information system components. HCA reduced the carrying value for certain capitalized costs associated with the information system components that were delayed, resulting in a pretax charge of $19 million. The 2003 and 2002 impairment charges affected HCA's "Corporate and other" operating segment.

The asset impairment charges did not have a significant impact on the Company's operations or cash flows and are not expected to significantly impact cash flows for future periods. The impairment charges affected HCA's asset and liability categories, as follows (dollars in millions):

	2004	2003	2002
Property and equipment	$ 12	$ 105	$ 19
Other accrued expenses	—	25	—
	$ 12	$ 130	$ 19

NOTE 5 — IMPAIRMENT OF INVESTMENT SECURITIES

During 2002, HCA recorded an other-than-temporary impairment charge on investment securities of $168 million. The investment securities on which the impairment charge was recorded were primarily equity securities held by HCA's insurance subsidiary.

During the third quarter of 2002, HCA's equity investment portfolio experienced an increase in unrealized losses from $135 million at June 30, 2002 to $214 million at September 30, 2002. Management's quarterly investment securities impairment review process resulted in the determination it had become difficult to overcome the presumption the identified investment securities would not recover fair value equal to cost prior to implementing any investment alternatives being considered and a $168 million other-than-temporary impairment charge should be recognized in the third quarter of 2002. The investment securities on which the impairment charge was recognized were primarily concentrated in the communications and technology industries. Management's review of the individual investment securities included considerations of the amount of market decline, the length of time the securities had been in a decline position and issuer-specific financial attributes. See Note 8 — Investments of Insurance Subsidiary, for a summary of HCA's insurance subsidiary investment securities. The impairment charge affected the "Investments of insurance subsidiary" asset category and the "Corporate and other" operating segment.

NOTE 6 — INCOME TAXES

The provision for income taxes consists of the following (dollars in millions):

	2004	2003	2002
Current:			
Federal	$ 466	$ 193	$ 462
State	63	77	92
Foreign	25	18	17
Deferred:			
Federal	132	513	(24)
State	17	50	30
Foreign	24	12	6
Change in valuation allowance	—	(39)	39
	$ 727	$ 824	$ 622

A reconciliation of the Federal statutory rate to the effective income tax rate follows:

	2004	2003	2002
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	2.6	3.8	5.1
Non-deductible intangible assets	—	0.2	0.4
Valuation allowance	—	(1.7)	2.5
Other items, net	(0.8)	0.9	(0.3)
Effective income tax rate	36.8%	38.2%	42.7%

A summary of the items comprising the deferred tax assets and liabilities at December 31 follows (dollars in millions):

	2004		2003	
	Assets	Liabilities	Assets	Liabilities
Depreciation and fixed asset basis differences	$ —	$ 788	$ —	$ 658
Allowances for professional liability and other risks	122	—	143	—
Doubtful accounts	295	—	287	—
Compensation	157	—	156	—
Other	291	628	198	420
	$ 865	$ 1,416	$ 784	$ 1,078

Deferred income taxes of $467 million and $534 million at December 31, 2004 and 2003, respectively, are included in other current assets. Noncurrent deferred income tax liabilities totaled $1.018 billion and $828 million at December 31, 2004 and 2003, respectively.

The tax benefits associated with nonqualified stock options increased the current tax receivable by $50 million, $31 million, and $82 million in 2004, 2003 and 2002, respectively. Such benefits were recorded as increases to stockholders' equity.

At December 31, 2004, state net operating loss carryforwards (expiring in years 2005 through 2024) available to offset future taxable income approximated $178 million. Utilization of net operating loss carryforwards in any one year may be limited and, in certain cases, result in an adjustment to intangible assets. Net deferred tax assets related to such carryforwards are not significant.

IRS Disputes

HCA is currently contesting before the Appeals Division of the Internal Revenue Service (the "IRS"), the United States Tax Court (the "Tax Court"), and the United States Court of Federal Claims, certain claimed deficiencies and adjustments proposed by the IRS in conjunction with its examinations of HCA's 1994-2000 Federal income tax returns, Columbia Healthcare Corporation's ("CHC") 1993 and 1994 Federal income tax returns, HCA-Hospital Corporation of America's ("Hospital Corporation of America") 1991 through 1993 Federal income tax returns and Healthtrust, Inc. — The Hospital Company's ("Healthtrust") 1990 through 1994 Federal income tax returns.

During 2003, the United States Court of Appeals for the Sixth Circuit affirmed a Tax Court decision received in 1996 related to the IRS examination of Hospital Corporation of America's 1987 through 1988 Federal income tax returns, in which the IRS contested the method that Hospital Corporation of America used to calculate its tax allowance for doubtful accounts. HCA filed a petition for review by the United States Supreme Court, which was denied in October 2004. Due to the volume and complexity of calculating the tax allowance for doubtful

accounts, the IRS has not determined the amount of additional tax and interest that it may claim for subsequent taxable years. In December 2004, HCA made a deposit of $109 million for additional tax and interest, based on its estimate of amounts due for taxable periods through 1998.

Other disputed items include the timing of recognition of certain patient service revenues in 2000, the amount of insurance expense deducted in 1999 and 2000, and the amount of gain or loss recognized on the divestiture of certain noncore business units in 1998. The IRS has claimed an additional $404 million in income taxes and interest, through December 31, 2004, with respect to these issues.

During 2004, the IRS began an examination of HCA's 2001 through 2002 Federal income tax returns. The IRS has not determined the amount of any additional income tax and interest that it may claim upon completion of this examination.

Management believes that adequate provisions have been recorded to satisfy final resolution of the disputed issues. Management believes that HCA, CHC, Hospital Corporation of America and Healthtrust properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with the IRS during previous examinations and that final resolution of these disputes will not have a material adverse effect on results of operations or financial position.

NOTE 7 — EARNINGS PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the dilutive effect of outstanding stock options and other stock awards, computed using the treasury stock method.

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

	2004	2003	2002
Net income	$ 1,246	$ 1,332	$ 833
Weighted average common shares outstanding	475,620	501,799	511,824
Effect of dilutive securities:			
Stock options	6,315	7,231	11,850
Other	1,728	1,844	1,545
Shares used for diluted earnings per share	483,663	510,874	525,219
Earnings per share:			
Basic earnings per share	$ 2.62	$ 2.66	$ 1.63
Diluted earnings per share	$ 2.58	$ 2.61	$ 1.59

NOTE 8 — INVESTMENTS OF INSURANCE SUBSIDIARY

A summary of the insurance subsidiary's investments at December 31 follows (dollars in millions):

	2004			
	Amortized Cost	Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
United States Government	$ 2	$ —	$ —	$ 2
States and municipalities	1,219	50	(1)	1,268
Mortgage-backed securities	37	2	—	39
Corporate and other	82	1	—	83
Money market funds	48	—	—	48
Redeemable preferred stocks	1	—	—	1
	1,389	53	(1)	1,441
Equity securities:				
Perpetual preferred stocks	8	—	—	8
Common stocks	694	180	(1)	873
	702	180	(1)	881
	$ 2,091	$ 233	$ (2)	2,322
Amounts classified as current assets				(275)
Investment carrying value				$ 2,047

	2003			
	Amortized Cost	Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
United States Government	$ 20	$ —	$ —	$ 20
States and municipalities	982	64	—	1,046
Mortgage-backed securities	64	2	—	66
Corporate and other	61	4	—	65
Money market funds	166	—	—	166
Redeemable preferred stocks	4	—	—	4
	1,297	70	—	1,367
Equity securities:				
Perpetual preferred stocks	6	—	—	6
Common stocks	554	142	(4)	692
	560	142	(4)	698
	$ 1,857	$ 212	$ (4)	2,065
Amounts classified as current assets				(275)
Investment carrying value				$ 1,790

At December 31, 2004 and 2003, the investments of HCA's insurance subsidiary were classified as "available for sale." The fair value of investment securities is generally based on quoted market prices. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income. The aggregate common stock investment is comprised of 491 equity positions at December 31, 2004, with 468 positions reflecting unrealized gains and 23 positions reflecting unrealized losses (none of the individual unrealized loss positions exceed $1 million). None of the equity positions with unrealized losses at December 31, 2004 represent situations where there is a continuous decline of more than 20% from cost for more than one year. The equity positions (including those with unrealized losses) at December 31, 2004, are not concentrated in a particular industry.

Scheduled maturities of investments in debt securities at December 31, 2004 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 207	$ 208
Due after one year through five years	421	438
Due after five years through ten years	455	475
Due after ten years	269	281
	1,352	1,402
Mortgage-backed securities	37	39
	$ 1,389	$ 1,441

The average expected maturity of the investments in debt securities approximated 4.2 years at December 31, 2004. Expected and scheduled maturities may differ because the issuers of certain securities may have the right to call, prepay or otherwise redeem such obligations.

The cost of securities sold is based on the specific identification method. Sales of securities (including the securities on which the 2002 impairment charge was recorded, see Note 5 — Impairment of Investment Securities) for the years ended December 31 are summarized below (dollars in millions):

	2004	2003	2002
Debt securities:			
Cash proceeds	$ 181	$ 109	$ 128
Gross realized gains	6	3	4
Gross realized losses	2	6	28
Equity securities:			
Cash proceeds	$ 338	$ 36	$ 609
Gross realized gains	62	9	95
Gross realized losses	16	7	232

NOTE 9 — FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

HCA has entered into interest rate swap agreements to manage its exposure to fluctuations in interest rates. These swap agreements involve the exchange of fixed and variable rate interest payments between two parties based on common notional principal amounts and maturity dates. Pay-floating swaps effectively convert fixed rate obligations to LIBOR indexed variable rate instruments. The notional amounts and timing of interest payments in these agreements match the related liabilities. The notional amounts of the swap agreements represent amounts used to calculate the exchange of cash flows and are not assets or liabilities of HCA. Any market risk or opportunity associated with these swap agreements is offset by the opposite market impact on the related debt. HCA's credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements are settled on a net basis.

The following table sets forth HCA's interest rate swap agreements at December 31, 2004 (dollars in millions):

	Notional Amount	Termination Date	Fair Value
Pay-floating interest rate swap	$ 500	June 2006	$ 10
Pay-floating interest rate swap	350	November 2008	(2)
Pay-floating interest rate swap	500	December 2009	2

The fair value of the interest rate swaps at December 31, 2004 represents the estimated amounts HCA would have received or paid upon termination of these agreements. The fair values were based on valuations obtained from the financial institutions with which HCA has the interest rate swap agreements.

Fair Value Information

At December 31, 2004 and 2003, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated carrying values due to the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on quoted market prices, and the related carrying amounts are as follows (dollars in millions):

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Investments	$ 2,047	$ 2,047	$ 1,790	$ 1,790
Interest rate swaps	10	10	29	29
Liabilities:				
Long-term debt	10,530	10,789	8,707	9,253

NOTE 10 — LONG-TERM DEBT

A summary of long-term debt at December 31, including related interest rates at December 31, 2004, follows (dollars in millions):

	2004	2003
Senior collateralized debt (rates generally fixed, averaging 9.3%) payable in periodic installments through 2025	$ 191	$ 329
Senior debt (rates fixed, averaging 7.4%) payable in periodic installments through 2095	7,539	6,268
Senior debt (floating rates, averaging 4.2%) due through 2009	1,350	1,000
Bank term loan (floating rates, averaging 3.4%)	750	600
Bank revolving credit facility (floating rates, averaging 3.2%)	700	510
Total debt, average life of ten years (rates averaging 6.5%)	10,530	8,707
Less amounts due within one year	486	665
	$10,044	$ 8,042

Bank Revolving Credit Facility

HCA's revolving credit facility (the "Credit Facility") is a $1.75 billion agreement expiring November 2009. As of December 31, 2004, HCA had $700 million outstanding under the Credit Facility.

As of December 2004, interest is payable generally at either a spread to LIBOR, a spread to the prime lending rate or a competitive bid rate. The spread is dependent on HCA's credit ratings. The Credit Facility contains customary covenants which include (i) limitations on debt levels, (ii) limitations on sales of assets, mergers and changes of ownership and (iii) maintenance of minimum interest coverage ratios. As of December 31, 2004, HCA was in compliance with all such covenants.

Significant Financing Activities

2004

In March 2004, HCA issued $500 million of 5.75% notes due March 15, 2014. The proceeds from the issuance were used to repay a portion of the amounts outstanding under the Company's previous revolving credit facility and for general corporate purposes.

In November 2004, HCA entered into a $2.5 billion credit agreement (the "2004 Credit Agreement") with several banks. The 2004 Credit Agreement consists of a $750 million amortizing term loan which matures in 2009 (the "2004 Term Loan") and the Credit Facility. Proceeds from the 2004 Term Loan were used to refinance a prior bank loan and for general corporate purposes.

During November 2004, HCA issued $500 million of 5.5% notes due December 1, 2009 and issued $750 million of 6.375% notes due January 15, 2015. Proceeds from the notes were used to repay amounts outstanding under the Credit Facility and for general corporate purposes.

During the fourth quarter of 2004, in response to the Company's tender offer to repurchase the Company's common stock, Standard & Poor's downgraded HCA's senior debt rating from BBB- to BB+ and Fitch IBCA downgraded HCA's senior debt rating from BBB- to BB+. Moody's Investors Service downgraded HCA's senior debt rating from Bal to Ba2.

In December 2004, HCA filed a shelf registration statement and prospectus with the Securities and Exchange Commission that will allow the Company to issue, from time to time, up to $1.5 billion in debt securities. As of December 31, 2004, HCA has not issued any debt securities under this registration statement.

2003

In February 2003, HCA issued $500 million of 6.25% notes due February 15, 2013. In July 2003, HCA issued $500 million of 6.75% notes due July 15, 2013. Proceeds from both issuances were used to repay a portion of the amounts outstanding under the Company's previous revolving credit facility and for general corporate purposes.

During November 2003, HCA issued $350 million of 5.25% notes due November 6, 2008 and issued $250 million of 7.5% notes due November 6, 2033. Proceeds from the notes were used to repay a portion of the amounts outstanding under the Company's previous revolving credit facility.

General Information

Maturities of long-term debt in years 2006 through 2009 (excluding borrowings under the Credit Facility) are $647 million, $440 million, $746 million and $885 million, respectively.

The estimated fair value of the Company's long-term debt was $10.789 billion and $9.253 billion at December 31, 2004 and 2003, respectively, compared to carrying amounts aggregating $10.530 billion and $8.707 billion, respectively. The estimates of fair value are based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities.

NOTE 11 — CONTINGENCIES

Significant Legal Proceedings

HCA operates in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against the Company (see Note 2 — Investigations and Settlement of Certain Government Claims). The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse affect on HCA's results of operations and financial position in a given period.

General Liability Claims

HCA is subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants may seek punitive damages against HCA which may not be covered by insurance. It is management's opinion that the ultimate resolution of these pending claims and legal proceedings will not have a material, adverse effect on HCA's results of operations or financial position.

NOTE 12 — CAPITAL STOCK AND STOCK REPURCHASES

Capital Stock

The terms and conditions associated with each class of HCA's common stock are substantially identical, except for voting rights. All nonvoting common stockholders may convert their shares on a one-for-one basis into voting common stock, subject to certain limitations.

Stock Repurchase Programs

In October 2004, HCA announced the authorization of a modified "Dutch" auction tender offer to purchase up to $2.501 billion of its common stock. In November 2004, HCA closed the tender offer and repurchased 62 million shares of the Company's common stock for $2.466 billion ($39.75 per share). The shares repurchased represented approximately 13% of the Company's outstanding shares at the time of the tender offer. HCA also repurchased 0.9 million shares of its common stock for $35 million through open market purchases which completed this $2.501 billion share repurchase authorization.

In April 2003, HCA announced an authorization to repurchase $1.5 billion of its common stock through open market purchases or privately negotiated transactions. During 2003, HCA repurchased under this authorization 25.3 million shares of its common stock for $900 million, through open market purchases. During 2004, HCA repurchased 14.5 million shares of its common stock for $600 million, through open market purchases, which completed this authorization.

In July 2002, HCA announced an authorization to repurchase up to 12 million shares of its common stock. During 2002, HCA made open market purchases of 6.2 million shares for $282 million. During 2003, HCA purchased 5.8 million shares for $214 million, through open market purchases, which completed the repurchases under this authorization. The repurchases were intended to offset the dilutive effect of employee stock benefit plans.

During 2001, HCA entered into an agreement with a financial institution that resulted in the financial institution investing $400 million (at December 31, 2001) to capitalize an entity that would acquire HCA common stock. This consolidated affiliate acquired 16.8 million shares of HCA common stock in connection with HCA's settlement of certain forward purchase contracts. In June 2002, HCA repaid the financial institution and received the 16.8 million shares of the Company's common stock.

During 2004, 2003 and 2002, the share repurchase transactions reduced stockholders' equity by $3.109 billion, $1.114 billion and $282 million, respectively.

NOTE 13 — STOCK BENEFIT PLANS

In May 2000, the stockholders of HCA approved the HCA 2000 Equity Incentive Plan (the "2000 Plan"). The 2000 Plan is the primary plan under which options to purchase common stock and restricted stock may be granted to officers, employees and directors. The number of options or shares authorized under the 2000 Plan is 50,500,000 (which includes 500,000 shares authorized under a former plan). In addition, options granted under the former plan that are cancelled become available for subsequent grants. Exercise provisions vary, but options are generally exercisable, in whole or in part, beginning one to five years after the grant date and ending ten years after the grant date.

In December 2004, HCA accelerated the vesting of all unvested options awarded to employees and officers which had exercise prices greater than the closing price of the Company's common stock at December 14, 2004 of $40.89 per share. Options to purchase approximately 19.1 million shares became exercisable immediately as a result of the vesting acceleration.

Options to purchase common stock have been granted to officers, employees and directors under various predecessor plans. Generally, options have been granted with exercise prices no less than the market price on the

date of grant. Exercise provisions vary, but most options are exercisable in whole or in part beginning one to five years after the grant date and ending four to fifteen years after the grant date.

Information regarding these option plans for 2004, 2003 and 2002 is summarized below (share amounts in thousands):

	Stock Options	Option Price Per Share	Weighted Average Exercise Price
Balances, December 31, 2001	50,231	$ 0.14 to $46.36	$25.70
Granted	9,054	40.50 to 49.00	41.88
Exercised	(9,170)	0.38 to 45.12	24.20
Cancelled	(1,144)	7.35 to 45.12	29.07
Balances, December 31, 2002	48,971	0.14 to 49.00	28.90
Granted	9,301	31.95 to 42.36	41.86
Exercised	(4,964)	0.14 to 41.84	22.50
Cancelled	(1,627)	17.11 to 45.12	35.26
Balances, December 31, 2003	51,681	0.14 to 49.00	31.64
Granted	9,306	35.00 to 45.86	45.62
Exercised	(7,208)	0.14 to 43.66	23.79
Cancelled	(1,517)	0.38 to 45.86	41.11
Balances, December 31, 2004	52,262	0.14 to 49.00	34.94

	2004	2003	2002
Weighted average fair value per option for options granted during the year	$ 12.90	$ 13.49	$ 13.30
Options exercisable	50,112	31,564	26,710
Options available for grant	17,657	26,166	35,035

The following table summarizes information regarding the options outstanding at December 31, 2004 (share amounts in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/04	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/04	Weighted Average Exercise Price
$ 25.44 to $ 30.90	406	Less than 1 year	$ 26.68	406	$ 26.68
29.22 to 41.13	2,007	1 year	34.98	2,007	34.98
26.74 to 37.92	7,933	3 years	29.88	7,933	29.88
21.16 to 30.93	1,307	3 years	24.85	1,307	24.85
17.12 to 24.49	6,853	4 years	17.25	6,853	17.25
20.00 to 29.94	2,696	5 years	20.92	2,503	20.68
35.60 to 39.25	5,322	6 years	35.80	3,784	35.81
40.50 to 49.00	8,261	7 years	42.10	8,212	42.10
31.95 to 42.36	8,465	8 years	41.91	8,240	42.09
0.14	68	9 years	0.14	68	0.14
35.00 to 45.86	8,944	9 years	45.61	8,799	45.71
	52,262			50,112	

HCA's amended and restated Employee Stock Purchase Plan ("ESPP") provides an opportunity to purchase shares of its common stock at a discount (through payroll deductions over six-month periods) to substantially all employees. At December 31, 2004, 6,562,500 shares of common stock were reserved for HCA's employee stock purchase plan.

Under the 2000 Plan and the Management Stock Purchase Plan ("MSPP"), HCA has made grants of restricted shares or units of HCA's common stock to provide incentive compensation to employees. The MSPP allows eligible employees to defer an elected percentage (not to exceed 25%) of their base salaries through the purchase of restricted stock at a 25% discount from the average market price. Purchases of restricted shares are made twice a year and the shares vest after three years. Performance equity plan grants have been made annually, based upon the achievement of specified performance goals. Performance equity plan restricted shares vest over a two-year period.

At December 31, 2004, 1,520,400 shares were subject to restrictions, which lapse between 2005 and 2007. During 2004, 2003 and 2002, grants and purchases of 721,100, 1,039,900 and 870,900 shares, respectively, were made at weighted-average grant or purchase date fair values of $44.88, $42.08 and $42.72 per share, respectively, related to the performance equity plan. During 2004, 2003 and 2002, grants and purchases of 158,900, 148,900 and 113,300 shares, respectively, were made at weighted-average grant or purchase date discounted (25% discount) fair values of $29.64, $30.21 and $32.77 per share, respectively, related to the MSPP.

NOTE 14 — EMPLOYEE BENEFIT PLANS

HCA maintains noncontributory, defined contribution retirement plans covering substantially all employees. Benefits are determined as a percentage of a participant's salary and vest over specified periods of employee service. Retirement plan expense was $191 million for 2004, $166 million for 2003 and $140 million for 2002. Amounts approximately equal to retirement plan expense are funded annually.

HCA maintains contributory, defined contribution benefit plans that are available to employees who meet certain minimum requirements. Certain of the plans require that HCA match specified percentages of participants' contributions up to certain maximum levels (generally 50% of the first 3% of compensation deferred by participants). The cost of these plans totaled $51 million for 2004, $48 million for 2003 and $47 million for 2002. HCA's contributions are funded periodically during each year.

HCA maintains a Supplemental Executive Retirement Plan ("SERP") for certain executives. The plan is designed to ensure that upon retirement the participant receives a prescribed life annuity from a combination of the SERP and HCA's other benefit plans. Compensation expense under the plan was $8 million for 2004, $7 million for 2003 and $9 million for 2002. Accrued benefits liabilities under this plan totaled $52 million at December 31, 2004 and $44 million at December 31, 2003.

HCA maintains defined benefit pension plans that resulted from acquisitions of certain hospitals in prior years. Compensation expense under these plans was $26 million for 2004, $17 million for 2003, and $8 million for 2002. Accrued benefits liabilities under these plans totaled $55 million at December 31, 2004 and $28 million at December 31, 2003.

NOTE 15 — SEGMENT AND GEOGRAPHIC INFORMATION

HCA operates in one line of business, which is operating hospitals and related health care entities. During all three years ended December 31, 2004, 2003 and 2002, approximately 27%, 28% and 28%, respectively, of HCA's revenues related to patients participating in the Medicare program.

HCA's operations are structured in two geographically organized groups: the Eastern Group includes 91 consolidating hospitals located in the Eastern United States and the Western Group includes 83 consolidating hospitals located in the Western United States. HCA also operates eight consolidating hospitals in England and Switzerland and these facilities are included in the Corporate and other group.

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, government settlement and investigation related costs, gains on sales of facilities, impairment of investment securities, impairment of long-lived assets, minority interests and income taxes. HCA uses adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in

accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of HCA's revenues, equity in earnings of affiliates, adjusted segment EBITDA, depreciation and amortization, assets and goodwill are summarized in the following table (dollars in millions):

	For the Years Ended December 31,		
	2004	2003	2002
Revenues:			
Eastern Group	$ 11,427	$ 10,513	$ 9,896
Western Group	11,417	10,734	9,303
Corporate and other	658	561	530
	$ 23,502	$ 21,808	$ 19,729
Equity in earnings of affiliates:			
Eastern Group	$ (7)	$ (9)	$ (9)
Western Group	(178)	(185)	(196)
Corporate and other	(9)	(5)	(1)
	$ (194)	$ (199)	$ (206)
Adjusted Segment EBITDA:			
Eastern Group	$ 2,033	$ 2,053	$ 2,132
Western Group	2,013	2,065	2,051
Corporate and other	(80)	(197)	(282)
	$ 3,966	$ 3,921	$ 3,901
Depreciation and amortization:			
Eastern Group	$ 546	$ 485	$ 445
Western Group	550	492	432
Corporate and other	154	135	133
	$ 1,250	$ 1,112	$ 1,010
Adjusted Segment EBITDA	$ 3,966	$ 3,921	$ 3,901
Depreciation and amortization	1,250	1,112	1,010
Interest expense	563	491	446
Government settlement and investigation related costs	—	(33)	661
Gains on sales of facilities	—	(85)	(6)
Impairment of investment securities	—	—	168
Impairment of long-lived assets	12	130	19
Income before minority interests and income taxes	$ 2,141	$ 2,306	$ 1,603

	As of December 31,	
	2004	2003
Assets:		
Eastern Group	$ 7,870	$ 7,533
Western Group	8,704	8,549
Corporate and other	4,891	4,981
	$ 21,465	$ 21,063

	Eastern Group	Western Group	Corporate and Other	Total
Goodwill:				
Balance at December 31, 2003	$ 920	$ 1,327	$ 234	$ 2,481
Acquisitions	14	32	7	53
Foreign currency translation	—	—	6	6
Balance at December 31, 2004	$ 934	$ 1,359	$ 247	$ 2,540

NOTE 16 — OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income are as follows (dollars in millions):

	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balances at December 31, 2001	$ 19	$ (1)	$ —	$ 18
Unrealized losses on available-for-sale securities, net of $47 income tax benefit	(81)	—	—	(81)
Losses reclassified into earnings from other comprehensive income, net of $62 income tax benefit	108	—	—	108
Foreign currency translation adjustments, net of $8 income taxes	—	36	—	36
Defined benefit plans, net of $5 income tax benefit	—	—	(8)	(8)
Balances at December 31, 2002	46	35	(8)	73
Unrealized gains on available-for-sale securities, net of $52 of income taxes	92	—	—	92
Foreign currency translation adjustments, net of $20 of income taxes	—	11	—	11
Defined benefit plans, net of $5 income tax benefit	—	—	(8)	(8)
Balances at December 31, 2003	138	46	(16)	168
Unrealized gains on available-for-sale securities, net of $27 of income taxes	46	—	—	46
Gains reclassified into earnings from other comprehensive income, net of $20 of income taxes	(36)	—	—	(36)
Foreign currency translation adjustments, net of $11 of income taxes	—	21	—	21
Defined benefit plans, net of $4 income tax benefit	—	—	(6)	(6)
Balances at December 31, 2004	$148	$ 67	$(22)	$193

NOTE 17 — ACCRUED EXPENSES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary of other accrued expenses at December 31 follows (dollars in millions):

	2004	2003
Employee benefit plans	$ 186	$ 174
Workers compensation	31	31
Taxes other than income	155	142
Professional liability risks	310	310
Interest	132	115
Dividends	63	10
Other	377	334
	$ 1,254	$ 1,116

A summary of activity in HCA's allowance for doubtful accounts follows (dollars in millions):

	Balance at Beginning of Year	Provision for Doubtful Accounts	Accounts Written off, Net of Recoveries	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2002	$ 1,812	$ 1,581	$(1,348)	$ 2,045
Year ended December 31, 2003	2,045	2,207	(1,603)	2,649
Year ended December 31, 2004	2,649	2,669	(2,376)	2,942

HCA Inc. Quarterly Consolidated Financial Information (Unaudited)

(Dollars in millions, except per share amounts)

	2004			
	First	Second	Third	Fourth
Revenues	$ 5,937	$ 5,833	$ 5,792	$ 5,940
Net income	$ 345	$ 352	$ 227 (a)	$ 322
Basic earnings per share	$ 0.71	$ 0.73	$ 0.47 (a)	$ 0.71
Diluted earnings per share	$ 0.69	$ 0.72	$ 0.47 (a)	$ 0.70
Cash dividends declared	$ 0.13	$ 0.13	$ 0.13	$ 0.13
Market prices(f):				
High	$ 46.60	$ 43.24	$ 42.30	$ 41.64
Low	38.98	38.00	36.44	34.70

	2003			
	First	Second	Third	Fourth
Revenues	$ 5,273	$ 5,467	$ 5,471	$ 5,597
Net income	$ 469 (b)	$ 240 (c)	$ 306 (d)	$ 317 (e)
Basic earnings per share	$ 0.92 (b)	$ 0.47 (c)	$ 0.62 (d)	$ 0.64 (e)
Diluted earnings per share	$ 0.90 (b)	$ 0.47 (c)	$ 0.61 (d)	$ 0.63 (e)
Cash dividends declared	$ 0.02	$ 0.02	$ 0.02	$ 0.02
Market prices(f):				
High	$ 44.45	$ 41.36	$ 40.05	$ 43.45
Low	37.00	27.30	31.60	35.11

(a) Third quarter results include $8 million ($0.02 per basic and diluted share) of charges related to the impairment of long-lived assets (See NOTE 4 of the notes to consolidated financial statements).

(b) First quarter results include $42 million ($0.08 per basic and diluted share) of gains on sales of facilities (See NOTE 3 of the notes to consolidated financial statements).

(c) Second quarter results include $79 million ($0.16 per basic and $0.15 per diluted share) of charges related to the impairment of long-lived assets (See NOTE 4 of the notes to consolidated financial statements).

(d) Third quarter results include $7 million ($0.01 per basic and diluted share) of gains on sales of facilities (See NOTE 3 of the notes to consolidated financial statements).

(e) Fourth quarter results include $25 million ($0.05 per basic and diluted share) of benefits related to the government settlement and investigation related costs (See NOTE 2 of the notes to consolidated financial statements).

(f) Represents high and low sales prices of the Company's common stock which is traded on the New York Stock Exchange (ticker symbol HCA).

HCA Inc. Senior Officers

Jack O. Bovender, Jr.
Chairman of the Board and Chief Executive Officer

Richard M. Bracken
President, Chief Operating Officer and Director

David G. Anderson
Senior Vice President - Finance and Treasurer

Victor L. Campbell
Senior Vice President

Jeffrey T. Crudele
Chief Financial Officer - Eastern Group

Rosalyn S. Elton
Senior Vice President - Operations Finance

Charles R. Evans
President - Eastern Group

James A. Fitzgerald, Jr.
Senior Vice President - Supply Chain Operations

V. Carl George
Senior Vice President - Development

R. Sam Hankins, Jr.
Chief Financial Officer - Outpatient Services Group

Samuel N. Hazen
President - Western Group

Frank M. Houser, M.D.
Senior Vice President - Quality and Medical Director

R. Milton Johnson
Executive Vice President and Chief Financial Officer

Patricia T. Lindler
Senior Vice President - Government Programs

A. Bruce Moore, Jr.
Senior Vice President; and Chief Operating Officer - Outpatient Services Group

Richard J. Shallcross
Chief Financial Officer - Western Group

Joseph N. Steakley
Senior Vice President - Internal Audit Services

John M. Steele
Senior Vice President - Human Resources

Marilyn B. Tavenner
President - Outpatient Services Group

Beverly B. Wallace
President - Financial Services Group

Robert A. Waterman
Senior Vice President and General Counsel

Noel Brown Williams
Senior Vice President and Chief Information Officer

Alan R. Yuspeh
Senior Vice President - Ethics, Compliance, and Corporate Responsibility

HCA Inc. Board of Directors

C. Michael Armstrong
Retired Chairman, Comcast Corporation
Ethics, Compliance and Quality Care and Finance and Investments Committees

Magdalena H. Averhoff, M.D.
Practicing Physician
Ethics, Compliance and Quality Care and Nominating and Corporate Governance Committees

Jack O. Bovender, Jr.
Chairman and Chief Executive Officer, HCA

Richard M. Bracken
President and Chief Operating Officer, HCA

Martin Feldstein
Professor of Economics, Harvard University
President and CEO, National Bureau of Economic Research
Audit and Compensation Committees

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Chairman Emeritus, HCA
Finance and Investments Committee

Frederick W. Gluck
Retired Vice Chairman, Bechtel Group, Inc.
Retired Managing Partner, McKinsey & Company, Inc.
Audit and Compensation Committees

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Host of Syndicated Television Court Show, "Judge Hatchett"
Retired Chief Judge, Fulton County Juvenile Court
Ethics, Compliance and Quality of Care and Nominating and Corporate Governance Committees*

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Chairman and Chief Executive Officer, DuPont
Compensation and Nominating and Corporate Governance Committees

T. Michael Long
Partner, Brown Brothers Harriman & Co.
Finance and Investments and Nominating and Corporate Governance Committees*

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Audit and Finance and Investments Committees*

Kent C. Nelson
Retired Chairman and Chief Executive Officer, United Parcel Service
Audit and Finance and Investments Committees

Frank S. Royal, M.D.
Practicing Physician
Compensation and Ethics, Compliance and Quality of Care Committees*

Harold T. Shapiro
President Emeritus, Princeton University
Audit and Nominating and Corporate Governance Committees*

**Denotes chair of a committee*

Stock Information and Dividends

The Company's common stock is traded on the New York Stock Exchange (symbol "HCA"). At the close of business on March 28, 2005, there were approximately 13,700 holders of record of the Company's voting common stock and one holder of the Company's nonvoting common stock.

In January 2005, HCA increased its quarterly dividend from $0.13 per share to $0.15 per share. The Board declared the $0.15 per share dividend payable on June 1, 2005 to shareholders of record at May 1, 2005. While it is the present intention of the Company's Board of Directors to continue paying a quarterly dividend of $0.15 per share, the declaration and payment of future dividends by the Company will depend upon many factors including the Company's earnings, financial condition, business needs, capital and surplus and regulatory considerations.

Stockholder Information

Investor Relations Department
HCA
One Park Plaza
Nashville, TN 37203
(615) 344-9551

Stockholder Services

Questions concerning stock certificates and dividends should be addressed to HCA's transfer agent, National City Bank, Shareholder Services Group, P.O. Box 92301, Cleveland, OH 44193-0900; or call (800) 622-6757 or (216) 476-8663; or send an e-mail message to shareholder.inquiries@nationalcity.com.

Annual Meeting

The Annual Meeting of Stockholders of HCA will be held on May 26, 2005 at 1:30 p.m. Central Daylight Time, at the HCA Corporate Office, located at One Park Plaza, Nashville, Tennessee.

Additional Investor Information

Questions and requests from stockholders, security analysts, brokers and other investors for additional information should be addressed to the Investor Relations Department at the Corporate Office. Investor information may also be obtained by visiting the HCA website at www.hcahealthcare.com.

Earnings Webcast

HCA invites its stockholders to participate in the Company's quarterly earnings webcast. Information concerning date, time and Internet address may be obtained by logging onto the Investor Relations page at www.hcahealthcare.com.

Investor Contact

W. Mark Kimbrough
Vice President,
Investor Relations
(615) 344-2688
(615) 344-2266 (FAX)

Other Information

The Company has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2004 filed with the Securities and Exchange Commission certificates of the Chief Executive Officer and Chief Financial Officer of the Company certifying the quality of the Company's public disclosure, and the Company has submitted to the New York Stock Exchange a certificate of the Chief Executive Officer of the Company certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

A copy of HCA's 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission can be obtained free of charge from the Company's website (www.hcahealthcare.com) or from the Investor Relations Department at the Corporate Office.