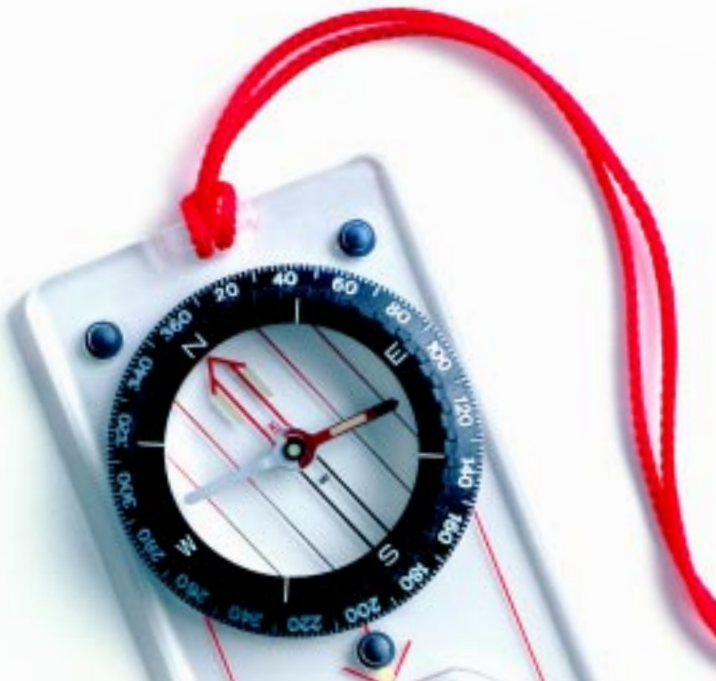


# HEALTH CARE REIT, INC. 1998 ANNUAL REPORT

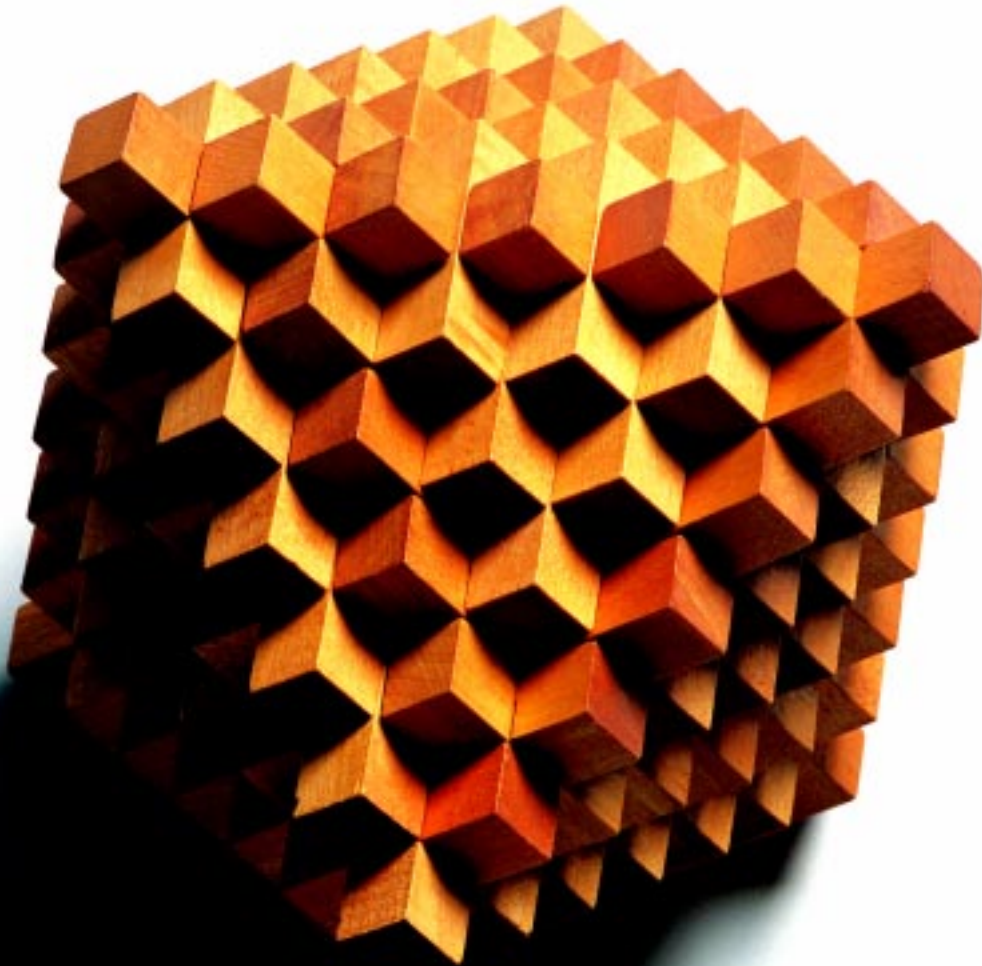


THE  
RESULTS  
SHOW  
OUR PLAN  
IS WORKING.



## OUR SYSTEMS ARE IN PLACE

OUR IMPLEMENTATION OF A PROPRIETARY STATE-OF-THE-ART MANAGEMENT INFORMATION SYSTEM COVERING ORIGINATION, UNDERWRITING, CLOSING, PORTFOLIO MONITORING AND INDUSTRY RESEARCH HAS BEEN CRITICAL TO OUR SUCCESS AND IS CONSIDERED TO BE AMONG THE MOST ADVANCED IN OUR SECTOR.

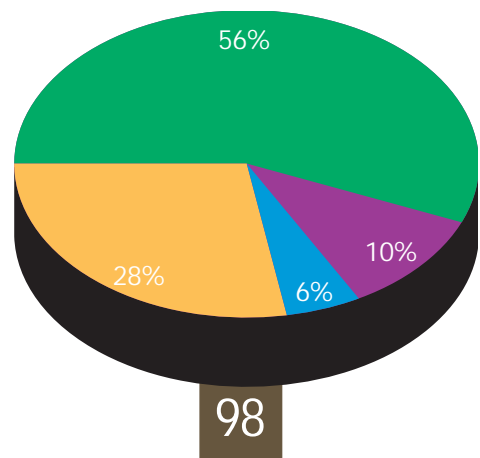
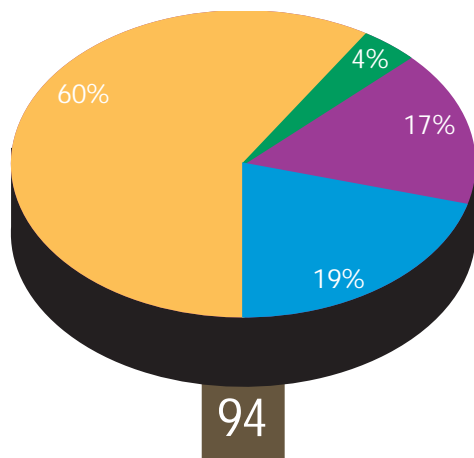




## WE HAVE KEPT OUR FOCUS

THE COMPANY HAS MAINTAINED ITS INVESTMENT FOCUS ON LONG-TERM CARE, WHICH HAS BEEN DRIVEN BY THE TREMENDOUS GROWTH IN THE ELDERLY POPULATION AND DEMAND FOR SENIOR HOUSING. AS OF DECEMBER 31, 1998, LONG-TERM CARE FACILITIES, WHICH INCLUDE NURSING HOMES, ASSISTED LIVING FACILITIES AND RETIREMENT CENTERS, COMPRISED 90% OF THE INVESTMENT PORTFOLIO.

- NURSING HOMES
- ASSISTED LIVING
- RETIREMENT CENTERS
- OTHER



## WE HAVE CUT OUR CAPITAL COSTS

DURING 1998, THE COMPANY DEMONSTRATED ITS ABILITY TO ACCESS CAPITAL BY RAISING MORE THAN \$250 MILLION TO FUND ITS INVESTMENT ACTIVITY. THE COMPANY GENERATED APPROXIMATELY \$100 MILLION OF DEBT PROCEEDS AND MORE THAN \$150 MILLION OF EQUITY PROCEEDS. ADDITIONALLY, IN JANUARY 1999 THE COMPANY ANNOUNCED THE PRIVATE PLACEMENT OF \$75 MILLION OF CONVERTIBLE PREFERRED STOCK TO A SINGLE BUYER. OVER THE LAST THREE YEARS, THE COMPANY HAS REDUCED ITS COST OF DEBT FROM APPROXIMATELY 8.75% TO APPROXIMATELY 7.5%.





## OUR MANAGEMENT TEAM IS MAKING THE RIGHT MOVES

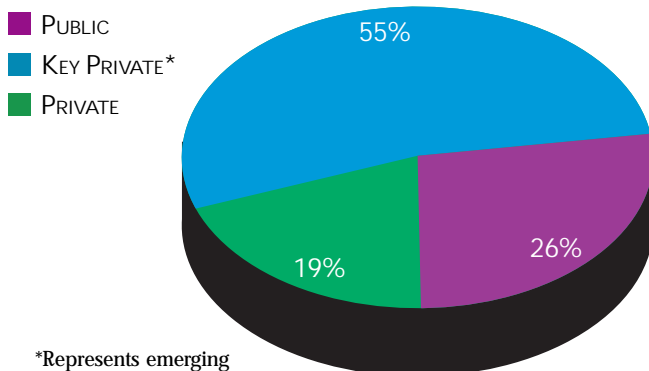
THE MANAGEMENT TEAM IS COMPRISED OF EIGHT INDIVIDUALS WHO HAVE AN AGGREGATE OF MORE THAN 90 YEARS EXPERIENCE IN HEALTH CARE REAL ESTATE FINANCE. MANAGEMENT'S EFFORTS ARE FURTHER BOLSTERED BY A BOARD OF DIRECTORS EXPERIENCED IN OUR SECTOR.



## WE HAVE ESTABLISHED KEY RELATIONSHIPS

THE COMPANY ESTABLISHES RELATIONSHIPS WITH EMERGING HEALTH CARE OPERATORS AND SEEKS TO PROVIDE FINANCING THROUGHOUT THEIR GROWTH CYCLES. THE COMPANY TARGETS OPERATORS WITH EXPERIENCED MANAGEMENT TEAMS, SUBSTANTIAL INSIDE OWNERSHIP INTERESTS, VENTURE CAPITAL BACKING AND SIGNIFICANT GROWTH POTENTIAL. THE COMPANY'S INVESTMENT STRATEGY RESULTED IN RECORD NEW INVESTMENTS OF \$397 MILLION IN 1998, AND TOTAL ASSETS REACHING APPROXIMATELY \$1.1 BILLION AT DECEMBER 31, 1998.

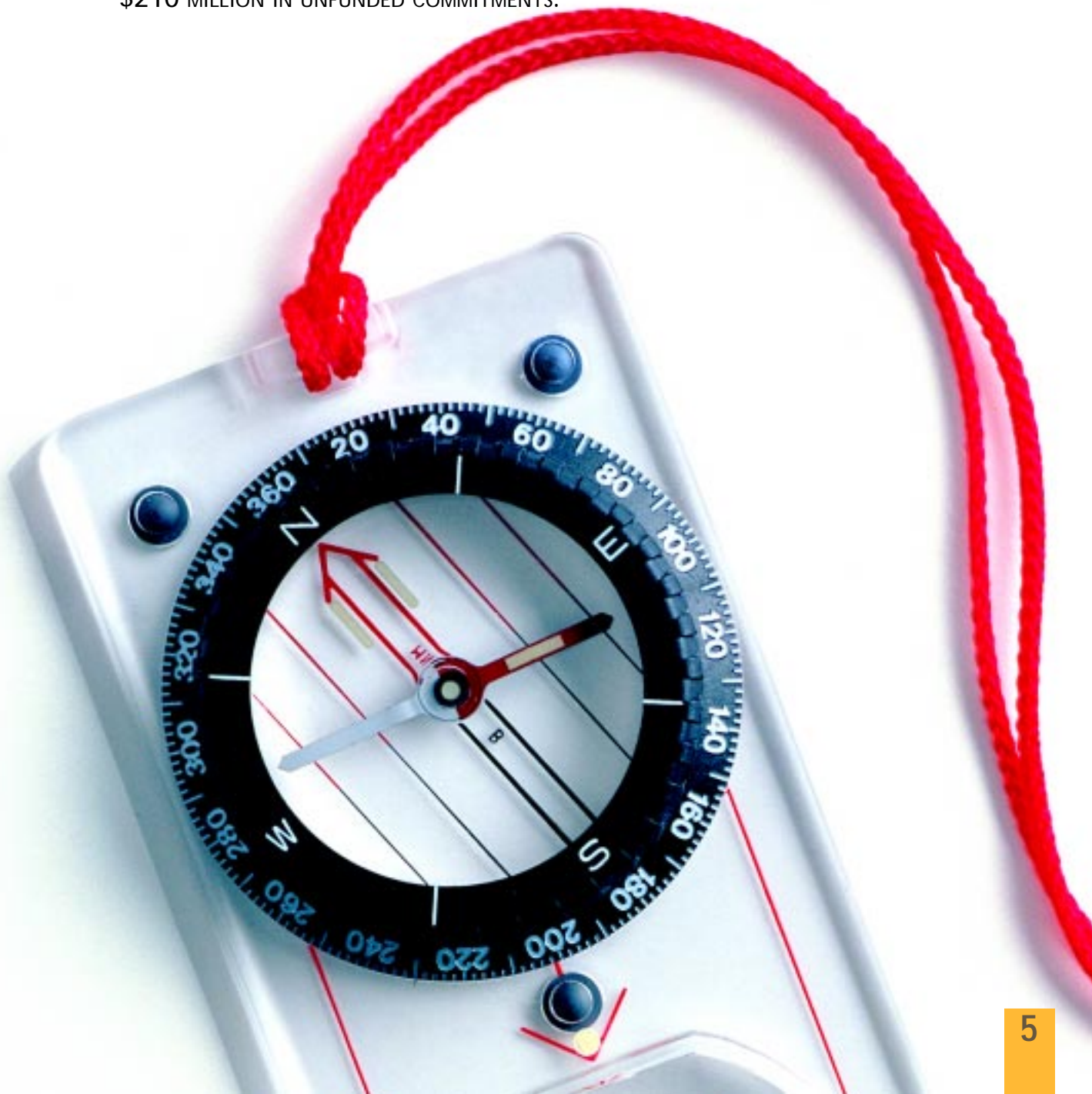
INVESTMENTS BY OWNER TYPE (AS OF DECEMBER 31, 1998)



\*Represents emerging privately held operators with venture capital backing.

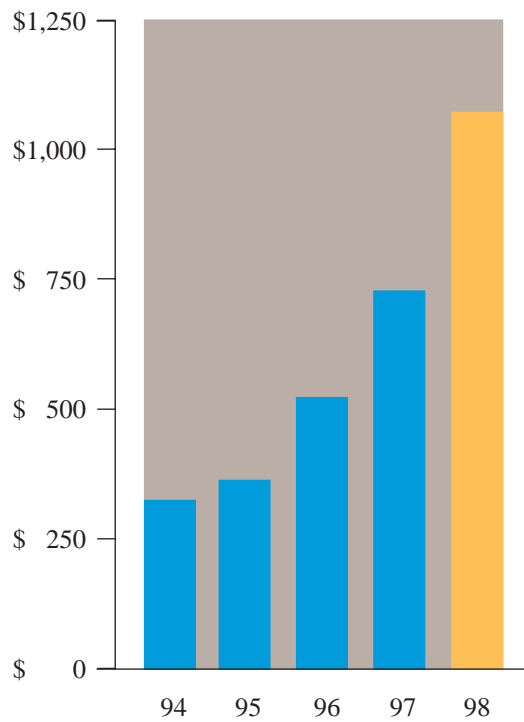
## WE HAVE SET THE COURSE FOR A POSITIVE FUTURE

BASED ON THE COMPANY'S RELATIONSHIPS WITH GROWTH-ORIENTED OPERATORS, THE COMPANY IS WELL POSITIONED TO PLAY AN IMPORTANT ROLE IN FINANCING THE CONSOLIDATION AND GROWTH OF THE LONG-TERM HEALTH CARE INDUSTRY IN THE FUTURE. AT DECEMBER 31, 1998, THE COMPANY HAD APPROXIMATELY \$210 MILLION IN UNFUNDED COMMITMENTS.

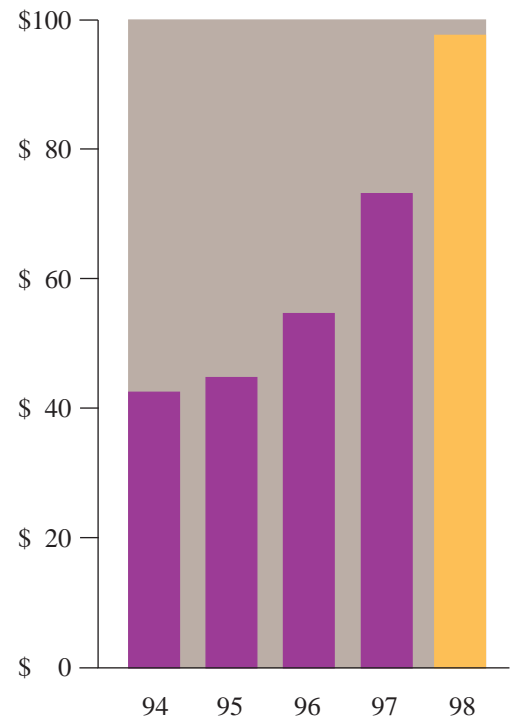


# ALL THIS HAS ADDED UP TO RESULTS

TOTAL ASSETS (DOLLARS IN MILLIONS)

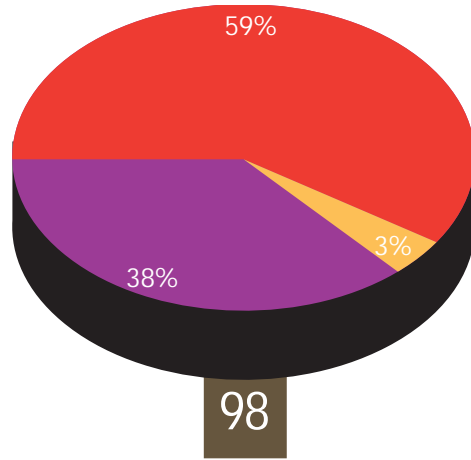
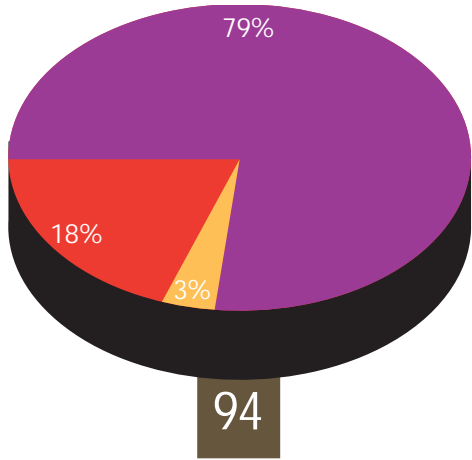


REVENUES (DOLLARS IN MILLIONS)

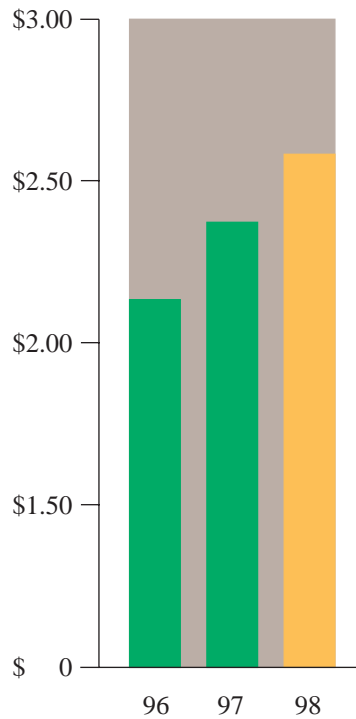


INVESTMENT MIX

- REAL PROPERTY
- LOANS
- OTHER



FUNDS FROM OPERATIONS (PER SHARE)



In 1996, the Company adopted the definition of Funds From Operations (FFO) prescribed by the National Association of Real Estate Investment Trusts (NAREIT). FFO is defined as net income available for common shareholders (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from debt restructuring and sales of property, plus real estate depreciation, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles, is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to net income available for common shareholders.

# HEALTH CARE REIT, INC. CORPORATE PROFILE

*Health Care REIT, Inc. (the "Company") is a self-administered real estate investment trust that invests in health care facilities, primarily nursing homes, assisted living facilities and retirement centers. The Company also invests in specialty care facilities. As of December 31, 1998, long-term care facilities, which include nursing homes, assisted living facilities and retirement centers, comprised approximately 90% of the investment portfolio. Founded in 1970, the Company was the first real estate investment trust to invest exclusively in health care facilities.*

*As of December 31, 1998, the Company had \$1,042,058,000 of real estate investments, inclusive of credit enhancements, in 224 facilities located in 34 states and managed by 45 different operators. At that date, the portfolio included 147 assisted living facilities, 54 nursing homes, 15 retirement centers, six specialty care facilities, and two behavioral care facilities.*

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# FINANCIAL HIGHLIGHTS

The following selected financial data for the five years ended December 31, 1998 are derived from the audited consolidated financial statements of the Company.

	Year Ended December 31,				
	1998	1997	1996	1995	1994
(In thousands, except per share data)					
<b>Operating Data</b>					
Revenues	\$ 97,992	\$ 73,308	\$ 54,402	\$ 44,596	\$ 42,732
Expenses:					
Interest expense	18,030	15,365	14,635	12,752	9,684
Provision for depreciation	10,254	5,287	2,427	1,580	1,385
General and administrative and other expenses (1)	7,399	6,178	6,664	10,835	6,710
Settlement of management contract (2)	—	—	—	5,794	—
<b>Total expenses</b>	<b>35,683</b>	<b>26,830</b>	<b>23,726</b>	<b>30,961</b>	<b>17,779</b>
Net income	62,309	46,478	30,676	13,635	24,953
Preferred stock dividends	4,160	—	—	—	—
Net income available to common shareholders	\$ 58,149	\$ 46,478	\$ 30,676	\$ 13,635	\$ 24,953
<b>Other Data</b>					
Average number of common shares outstanding (3):					
Basic	25,579	21,594	14,093	11,710	11,519
Diluted	25,954	21,929	14,150	11,728	11,548
Cash available for distribution (4)	\$ 68,490	\$ 56,856	\$ 36,705	\$ 27,938	\$ 31,697
<b>Per Share</b>					
Net income available to common shareholders:					
Basic	\$ 2.27	\$ 2.15	\$ 2.18	\$ 1.16	\$ 2.17
Diluted	2.24	2.12	2.17	1.16	2.16
Cash distributions per common share	2.19	2.11	2.08	2.075	2.01

	December 31,				
	1998	1997	1996	1995	1994
(In thousands)					
<b>Balance Sheet Data</b>					
Real estate investments, net	\$ 1,027,706	\$ 713,557	\$ 512,894	\$ 351,924	\$ 318,433
Total assets	1,073,424	734,327	519,831	358,092	324,102
Total debt	418,979	249,070	184,395	162,760	128,273
Total liabilities	439,665	264,403	194,295	170,494	134,922
Total shareholders' equity	633,759	469,924	325,536	187,598	189,180

(1) General and administrative and other expenses include loan expense, management fees through November 30, 1995, provision for losses, expenses related to disposition of investments and other operating expenses.

(2) On November 30, 1995, the Company's advisor merged into the Company. Consideration for this transaction totaled approximately \$5,048,000 which was solely comprised of 282,407 Shares. In addition, the Company acquired approximately \$46,000 in net assets and incurred approximately \$792,000 of related transaction expenses. The consideration, plus related transaction expenses, were accounted for as a settlement of a management contract.

(3) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements.

(4) Cash available for distribution is defined as net cash provided from operating activities less preferred dividends, but does not consider the effects of changes in operating assets and liabilities such as other receivables and accrued expenses. The Company uses cash available for distribution in evaluating investments and the Company's operating performance. Cash available for distribution does not represent cash generated from operating activities in accordance with generally accepted accounting principles, is not necessarily indicative of cash available to fund cash needs, and should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

*During the last several Annual Reports, I discussed the repositioning and reengineering of your Company. Our investment strategy of “providing growth capital to emerging operators” kicked off in 1993, the Company became self-advised in 1995 with a well-defined succession plan in place, and the capital plan has been steadily executed. The “machine” is built.*

*In 1998, several significant accomplishments occurred:*

- *Funds From Operations (FFO), the standard measure of operating performance for the real estate investment trust industry, grew at a rate of nearly 10% for 1998. The 4th quarter of 1998 constituted the 12th consecutive quarter that FFO growth equaled or exceeded 9%;*
- *Record new investments of \$397 million were made, with total assets reaching approximately \$1.1 billion at December 31, 1998; and*
- *We are approaching our goal of “equity” REIT status as our owned properties represent 59% of the portfolio.*

*All of these and other accomplishments were quite gratifying to Management and the Board of Directors.*

*With the machine built and generating strong operating performance, I thought it appropriate to take a moment to address certain challenges we face, including the recent difficulties in accessing the capital markets as well as a disappointing stock price. It is small comfort that your Company was the top “performer” in the health care REIT sector in 1998 with a 0.2% total return compared to a sector average of -14.9%.*

*We have been caught up in “global” issues that overwhelmed the capital markets. These issues included a worldwide credit crunch that drove investors toward the large cap and selected technology stocks, a belief that the real estate industry had “matured”, and a congressional attack on the tax advantaged “paired share” REIT structure, although only four REITs out of approximately 211 public REITs were “paired share”.*

*At the same time these macroeconomic factors were wreaking havoc with the markets, the health care REIT sector had some of its own issues. One of the leading health care REITs broke new ground by investing outside of health care — in golf*

*courses, the hospitality industry, and even a racetrack. The racetrack company also was a “paired share” REIT. This controversial move away from health care investments negatively affected the health care REIT sector. Other health care REITs experienced unanticipated asset run-off, as well as operator financial difficulties. None of this helped stock prices in a skittish market.*

*Assisted living facilities and nursing homes, the staples of our portfolio, also faced challenges in 1998. There has been strong competition among assisted living facilities, especially in high-end markets. Some feared overbuilding could spread throughout the industry. One of the few positive effects of the global credit crunch was to substantially allay overbuilding fears.*

*In 1998, Medicare began phasing in a new nursing home reimbursement system, the Prospective Payment System (“PPS”). PPS replaced cost-based reimbursement with a fixed reimbursement system based on a patient’s condition. Several operators have experienced serious transitional difficulties. Within our portfolio, operator coverages remain quite strong. Our initial evaluation of the effects of PPS on our portfolio indicates that there could be a 3% decline in facility revenues, offset in part by cost reductions. We believe efficient operators with good systems will continue to be profitable — especially as PPS is fully implemented and some of the inequities are eliminated from the system.*

*In the face of these challenges, assisted living and nursing home companies are benefiting from industry consolidation and enhanced creditworthiness. As an investor, we also anticipate backing well-managed companies that wish to purchase facilities at reasonable prices from operators who have difficulty adjusting to market and regulatory changes.*

*Our focus will continue to be on the quality of operations and the ability of operators to replicate operating systems during expansion. Careful property underwriting and management team evaluation are required. After investments are made, no operator will be permitted to escape the regular, tough monitoring that has become synonymous with this management team. If problems develop, we will also be prepared to manage the portfolio by reallocating resources to more productive properties and management teams.*



George L. Chapman  
Chairman,  
Chief Executive Officer and  
President

## LETTER TO SHAREHOLDERS

*These capital and industry conditions have had a direct impact on the way we have operated the Company. We slowed our growth somewhat and re-priced our new investments to ensure they were accretive. In October, we completed a small \$56 million equity sale to replenish funds and maintain leverage at reasonable levels. A preferred offering to Rothschild Realty, Inc.'s investment fund, Five Arrows Realty Securities II, L.L.C., was closed in early 1999 providing additional funds while gaining the public support of a sophisticated, value-oriented investor. These equity sales were necessary to manage the balance sheet and maintain investment grade status. We believe we have been opportunistic in addressing this credit crisis, demonstrating access to capital even in the toughest of times. Unless the markets change markedly for the better, this same opportunistic capital markets approach will continue.*

*In addition to the active management of both our investment portfolio and capital plan, it has become extremely important for us to define what your Company is . . . and is not. HCN is not a "growth" stock. Management originates conservative investment opportunities, carefully evaluates the properties and management teams, and then invests at a return appropriate to the risk. Over time, investors should expect total return consisting of a dividend and a stock price component reflecting growth in FFO. While 1998 reminded us all of the vagaries of the capital markets, you should note that the total returns for the Company's shareholders have been approximately 13.9%, 21.4%, and 15.6% for the last 5 years, 10 years, and 15 years, respectively. We believe that such returns are excellent on a risk-adjusted basis.*

*Management's confidence in our direction, programs and systems has been bolstered over the last few years as a number of high-caliber individuals have accepted invitations to join our Board. We previously announced the elections of Bill Ballard and Jeff Donahue to the Board in 1996 and 1997, respectively. In January 1999, Peter Grua, president and principal of HLM Management Company, Inc., was elected to the Board. HLM is a registered investment adviser with a focus on entrepreneurially managed growth companies. Scott Trumbull, executive vice president International Operations & Corporate Development at Owens-Illinois, Inc., has also agreed to stand for election as a new Board member at the 1999 Annual Meeting of Shareholders.*

*A bittersweet part of the Company's evolution is the departure of Directors who*

*have been integral to the success of the Company. In 1998, Dick Glowacki retired from the Board after 17 years of service. Of particular note was Dick's distinguished service on the audit committee and on the committee spearheading the Company's 1995 conversion to self-administered status. In 1999, Bruce Douglas and Fritz Wolfe retire from the Board. Bruce has served on the Board since 1975 and has been particularly valuable on the investment committee where his involvement as a contractor in the health care industry has afforded him unique insight into the industry. In 1970, Fritz Wolfe co-founded the Company primarily as a provider of capital to a nursing home company that ultimately became HCR Manor Care. Few individuals have been a founder of two such highly successful public companies. Few can match Fritz's devotion to the Company and its shareholders. The management team would like to thank Dick, Bruce and Fritz for their many years of committed service to the Company. Management will continue to draw on their insights, knowledge and wisdom as we go forward.*

*Our long history and experience gives us a unique, long-term perspective on the health care sector and capital markets even as we address shorter-term issues such as capital crunches, facility supply-demand imbalances and reimbursement changes. Each of these issues is important yet we have faced each challenge before and will again. Difficult operator and property allocation decisions must be made in terms of initiating a relationship and investment, actively monitoring the portfolio and, if needed, restructuring our existing portfolio. Tough decisions need to be made on capital sources in stingy capital markets. In balancing all of these issues, we will maintain our investment focus on long-term care as the most stable, need-driven part of the health care delivery system, and continue building an infrastructure capable of executing our business plan. We believe our investment strategy is sound and, with proactive, consistent management, will be rewarded over time.*



George L. Chapman  
*Chairman, Chief Executive Officer and  
President*



# PORTFOLIO REVIEW

The following table summarizes certain information about Health Care REIT's portfolio as of December 31, 1998:

## REAL ESTATE OWNED: (1)

	Number of Facilities	Year(s) Built	Year(s) Acquired	Gross Amount at Which Carried at Close of Period			
				Land	Building & Improvements	Total	Accumulated Depreciation
<b>Nursing Homes:</b>							
Arizona	1	1995	1998	\$ 180	\$ 3,988	\$ 4,168	\$ 73
California	2	1961-1968	1998	2,640	5,212	7,852	96
Colorado	1	1989	1998	370	6,051	6,421	108
Connecticut	1	1975	1993	937	9,563	10,500	1,424
Florida	5	1984	1998	3,312	32,488	35,800	676
Idaho	3	1985-1996	1998	2,010	20,662	22,672	341
Illinois	1	1973	1998	610	7,143	7,753	9
Kentucky	1	1967	1993	130	4,870	5,000	634
Massachusetts	8	1961-1982	1995-1997	3,548	33,929	37,477	2,119
Ohio	2	1983	1989	786	8,778	9,564	597
Oklahoma	1	1958	1998	470	5,673	6,143	24
Oregon	1	1982	1998	300	5,316	5,616	92
Pennsylvania	2	1959-1982	1993	669	12,356	13,025	1,402
Texas	1	1978	1993	663	12,587	13,250	2,006
Construction in Process						769	
	30			16,625	168,616	186,010	9,601
<b>Assisted Living Facilities:</b>							
Arizona	1	1998	1998	110	2,244	2,354	8
Connecticut	1	1998	1998	660	8,812	9,472	114
Florida	14	1988-1997	1996-1997	2,747	34,917	37,664	1,342
Idaho	1	1997	1997	200	2,500	2,700	98
Massachusetts	1	1998	1998	810	10,500	11,310	161
Montana	1	1998	1998	360	3,282	3,642	19
Nevada	1	1998	1998	380	9,220	9,600	30
New Jersey	1	1993	1996	3,297	14,233	17,530	734
New Mexico	1	1996	1997	233	5,355	5,588	165
New York	1	1996	1996	400	10,528	10,928	314
North Carolina	2	1986-1997	1997-1998	2,140	8,440	10,580	222
Ohio	7	1985-1998	1997-1998	3,123	30,495	33,618	937
Oklahoma	15	1995-1996	1995-1996	1,703	21,408	23,111	1,617
Pennsylvania	6	1989-1998	1996-1998	3,938	34,628	38,566	1,563
Tennessee	1	1998	1998	330	2,292	2,622	8
Texas	21	1984-1998	1992-1998	5,396	64,333	69,729	2,520
Construction in Process	28					128,462	
	103			25,827	263,187	417,476	9,852
<b>Retirement Centers:</b>							
North Carolina	1			2,270	11,771	14,041	171
Construction in Process	7					22,086	
	8			2,270	11,771	36,127	171
<b>Total Real Estate</b>	<b>141</b>			<b>\$44,722</b>	<b>\$443,574</b>	<b>\$639,613</b>	<b>\$ 19,624</b>

## MORTGAGE AND CONSTRUCTION LOANS RECEIVABLE:

	Number of Facilities	Interest Rate	Maturity Date(s)	Periodic Payment Terms	Face Amount	Carrying Value
<b>Nursing Homes:</b>						
Florida	1	10.96%	2015	Monthly Principal & Interest	\$ 5,410	\$ 5,345
Massachusetts	6	9.15% to 10.66%	2010-2017	Monthly Principal & Interest	47,492	47,405
Michigan	1	12.52%	2008	Monthly Principal & Interest	2,950	2,733
Missouri	1	11.04%	2009	Monthly Principal & Interest	7,072	6,982
New York	1	11.33%	2016	Monthly Principal & Interest	8,215	7,833
Ohio	4	11.92% to 12.19%	2008-2012	Monthly Principal & Interest	13,593	13,290
Oklahoma	1	9.28%	2005	Monthly Interest Only	12,204	12,204
Pennsylvania	1	12.31%	2008	Monthly Principal & Interest	7,400	7,280
Texas	6	10.78%	2007	Monthly Principal & Interest	12,198	8,193
	22				116,534	111,265
<b>Assisted Living Facilities:</b>						
Alabama	2	11.15%	2009	Monthly Interest Only	10,498	2,865
California	2	10.39% to 10.80%	2009	Monthly Interest Only	8,423	6,053
Colorado	1	11.15%	2009	Monthly Interest Only	3,890	2,454
Georgia	3	12.00%	2007	Monthly Interest Only	26,670	19,932
Louisiana	1	11.15%	2009	Monthly Interest Only	6,312	2,649
Montana	1	10.38%	2009	Monthly Interest Only	4,522	1,739
New Mexico	1	10.29%	2015	Monthly Principal & Interest	2,500	2,464
New York	5	8.89% to 11.50%	2016	Monthly Principal & Interest	52,185	51,897
North Carolina	8	9.66% to 10.12%	2007-2017	Monthly Interest Only	24,793	24,345
Texas	14	9.22% to 11.70%	2007-2011	Monthly Interest Only	55,966	55,782
Virginia	1	10.86%	2010	Monthly Principal & Interest	4,810	4,752
	39				200,569	174,932
<b>Retirement Centers:</b>						
Arizona	1	12.97%	2007	Monthly Principal & Interest	2,396	2,369
California	1	12.97%	2007	Monthly Principal & Interest	2,396	2,369
North Carolina	1	10.00%	1999	Monthly Principal & Interest	4,500	769
Texas	1	10.79%	2016	Monthly Principal & Interest	4,536	4,498
	4				13,828	10,005
<b>Specialty Care Facilities:</b>						
Arkansas	1	11.76%	2012	Monthly Interest Only	29,000	29,000
California	2	12.13% to 12.47%	2015-2016	Monthly Principal & Interest	32,500	31,894
Minnesota	1	12.50%	2001	Monthly Principal & Interest	904	394
Texas	1	10.63%	2010	Monthly Interest Only	13,750	13,633
Washington, D.C.	1	12.48%	2015	Monthly Principal & Interest	17,350	17,073
	6				93,504	91,994
<b>Behavioral Care Facilities:</b>						
Florida	2	10.50%	2001		10,780	10,486
<b>Total Mortgage and Construction Loans</b>	<b>73</b>				<b>\$435,215</b>	<b>\$398,682</b>

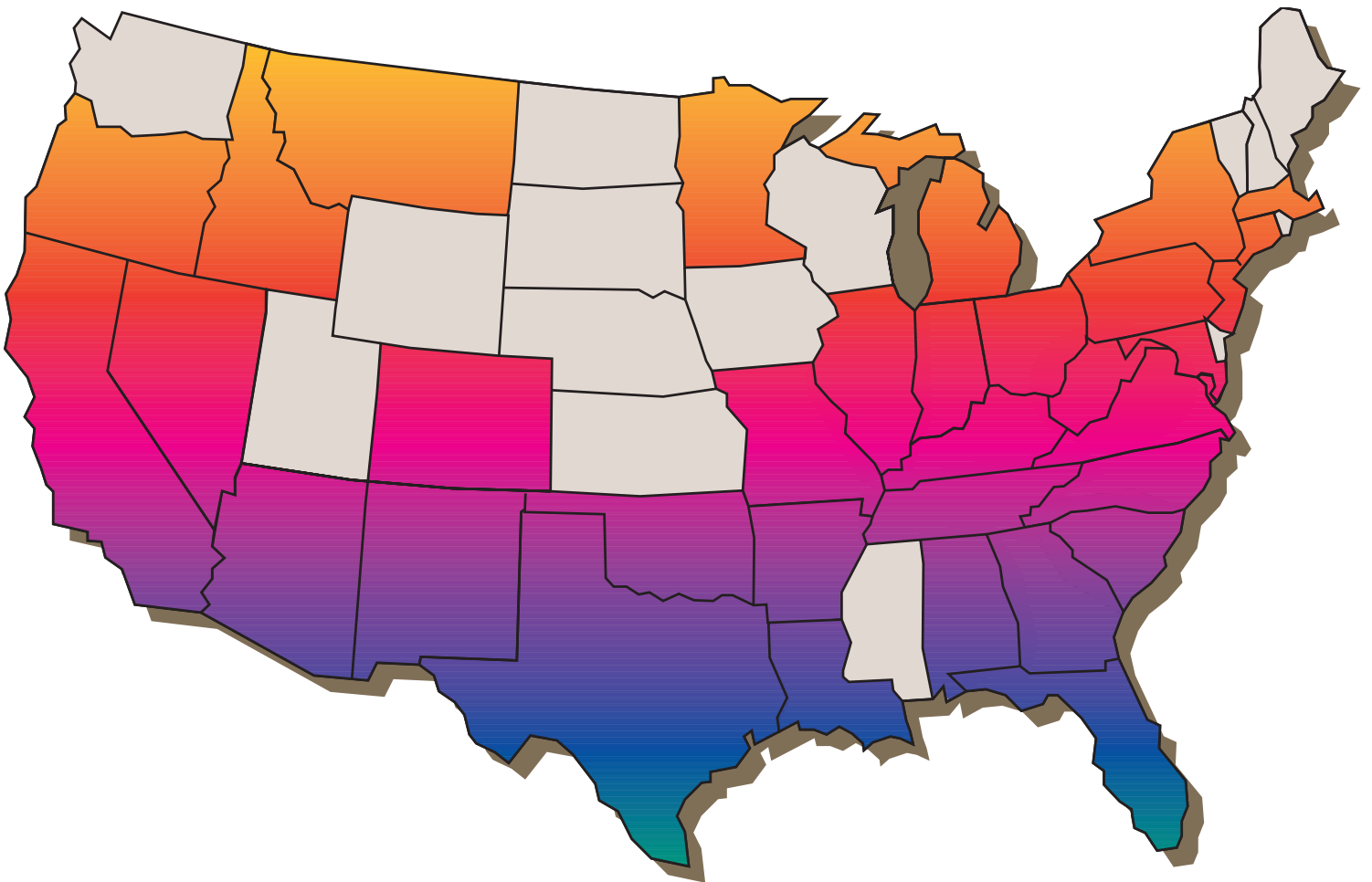
## OTHER REAL ESTATE INVESTMENTS (1)

\$ 23,387

(1) Includes direct financing leases, working capital loans and credit enhancements.

# FACILITY LOCATIONS

- 147 Assisted Living Facilities
- 54 Nursing Homes
- 15 Retirement Centers
- 6 Specialty Care Facilities
- 2 Behavioral Care Facilities
- 224 *Total Number of Facilities*



# FINANCIAL REVIEW

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998, the Company's net real estate investments totaled approximately \$1,027,706,000, which included 147 assisted living facilities, 54 nursing facilities, 15 retirement centers, six specialty care facilities and two behavioral care facilities. The Company attempts to match fund its investments through a combination of long-term and short-term financing, utilizing both debt and equity.

During 1998, the Company invested \$110,432,000 in real property, provided permanent mortgage financings of \$52,897,000, made construction advances of \$211,968,000, and funded \$22,203,000 of equity related investments. During 1998, the Company received principal payments on real estate mortgages of \$5,788,000, net payments on working capital loans of \$117,000 and proceeds of \$32,724,000 from the prepayment of mortgage loans.

During 1998, ten of the above-mentioned construction projects completed the construction phase of the Company's investment process and were converted to permanent real property investments, with an aggregate investment of \$55,315,000, and ten construction loans converted to permanent mortgage loans with an aggregate investment balance of \$37,375,000.

As of December 31, 1998, the Company had shareholders' equity of \$633,759,000 and a total outstanding debt balance of \$418,979,000, which represents a debt to equity ratio of 0.66 to 1.0.

In March 1998, the Company completed the sale of \$100 million of 7.625% Senior Unsecured Notes due March 15, 2008 (the "Senior Unsecured Notes Due 2008").

In March 1998, the Company issued 913,242 shares of Common Stock, \$1.00 par value per share, at the price of \$27.375 per share, which generated net proceeds to the Company of \$23,721,000.

In May 1998, the Company issued 3,000,000 shares of 8.875% Cumulative Redeemable Preferred Stock at the price of \$25.00 per share, which generated net proceeds to the Company of \$72,210,000.

In October 1998, the Company issued 2,546,000 shares of Common Stock, \$1.00 par value per share, at the price of \$23.9375 per share, which generated net proceeds to the Company of \$57,631,000.

As of December 31, 1998, the Company had an unsecured revolving line of credit expiring March 31, 2001 in the amount of \$175,000,000 bearing interest at the lender's prime rate or LIBOR plus 1.0%. In addition, the Company had an unsecured revolving line of credit in the amount of \$15,000,000 bearing interest at the lender's prime rate expiring January 31, 2000. At December 31, 1998, under the Company's line of credit arrangements, available funding totaled \$18,450,000.

In January 1999, the Company announced the sale of 3,000,000 shares of cumulative convertible preferred stock with a liquidation price of \$25 per share, which generated net proceeds to the Company of \$73,125,000.

As of March 1, 1999, the Company has effective shelf registrations on file with the Securities and Exchange Commission under which the Company may issue up to \$380,319,000 of securities including debt, convertible debt, common and preferred stock. The Company anticipates issuing securities under such shelf registrations to invest in additional health care facilities and to repay borrowings under the Company's line of credit arrangements.

As of December 31, 1998, the Company had approximately \$209,900,000 in unfunded commitments. The Company believes its liquidity and various sources of available capital are sufficient to fund operations, meet debt service and dividend requirements, and finance future investments.

## RESULTS OF OPERATIONS DECEMBER 31, 1998 vs. DECEMBER 31, 1997

Revenues for the year ended December 31, 1998 were \$97,992,000 compared to \$73,308,000 for the year ended December 31, 1997, an increase of \$24,684,000 or 34%. Revenue growth resulted primarily from increased operating rent income of \$19,775,000, interest income of \$1,516,000, and loan and commitment fees of \$2,245,000 from additional real estate investments made during the past twelve to fifteen months.

*Expenses for the year ended December 31, 1998, totaled \$35,683,000, an increase of \$8,853,000 from expenses of \$26,830,000 for the year ended December 31, 1997. The increase in total expenses for the year ended December 31, 1998 was primarily related to an increase in interest expense, additional expense associated with the provision for depreciation, and an increase in general and administrative expenses.*

*Interest expense for the year ended December 31, 1998 was \$18,030,000 compared with \$15,365,000 for the year ended December 31, 1997. The increase in interest expense during 1998 was primarily due to the issuance in March 1998 of the Senior Unsecured Notes Due 2008, which was offset by the amount of capitalized interest recorded in 1998.*

*The Company capitalizes certain interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing. The Company's interest expense is reduced by the amount capitalized. Capitalized interest for the year ended December 31, 1998 totaled \$7,740,000, as compared with \$2,306,000 for the same period in 1997.*

*The provision for depreciation for the year ended December 31, 1998 totaled \$10,254,000, an increase of \$4,967,000 over the year ended 1997 as a result of additional operating lease investments.*

*General and administrative expense for the year ended December 31, 1998 totaled \$6,114,000 as compared with \$4,858,000 for the year ended December 31, 1997. The expenses for the year ended December 31, 1998 were 6.24% of revenues as compared with 6.63% for the year ended December 31, 1997.*

*Dividend payments associated with the Company's outstanding preferred stock for the year ended December 31, 1998 totaled \$4,160,000. There were no such dividend payments in 1997.*

*As a result of the various factors mentioned above, net income available for common shareholders for the year ended December 31, 1998 was \$58,149,000, or \$2.24 per share, as compared with \$46,478,000, or \$2.12 per share for the year ended December 31, 1997.*

## **RESULTS OF OPERATIONS DECEMBER 31, 1997 vs. DECEMBER 31, 1996**

*Revenues for the year ended December 31, 1997 were \$73,308,000 compared with \$54,402,000 for the year ended December 31, 1996, an increase of \$18,906,000 or 35%. Revenue growth resulted primarily from increased operating lease rent of \$12,330,000, interest income of \$9,264,000, and loan and commitment fees of \$429,000 from additional real estate investments made during the past twelve to fifteen months.*

*The growth in interest and rental income for the year ended December 31, 1997 was offset by prepayment fees and gains on the sale of properties earned during 1996, which totaled \$3,059,000 and \$576,000, respectively, as compared with prepayment fees of \$529,000 earned during 1997.*

*Expenses for the year ended December 31, 1997, totaled \$26,830,000, an increase of \$3,104,000 from expenses of \$23,726,000 for the year ended December 31, 1996. The increase in total expenses for the year ended December 31, 1997 was primarily related to an increase in interest expense, additional expense associated with the provision for depreciation, and an increase in general and administrative expenses. Expenses for the year ended December 31, 1996 were negatively influenced by an \$808,000 disposition of investment expense associated with the Company's elimination of certain investments in behavioral care facilities.*

*Interest expense for the year ended December 31, 1997 was \$15,365,000 compared with \$14,635,000 for the year ended December 31, 1996. The increase in interest expense during 1997 was primarily due to the issuance of \$80,000,000 Senior Unsecured Notes in April 1997. The increase in the 1997 period was offset by the amount of capitalized interest recorded in 1997.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*The Company capitalizes certain interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing. The Company's interest expense is reduced by the amount capitalized. Capitalized interest for the year ended December 31, 1997 totaled \$2,306,000, as compared with \$287,000 for the same period in 1996.*

*The provision for depreciation for the year ended December 31, 1997 totaled \$5,287,000, an increase of \$2,860,000 over the year ended 1996 as a result of additional operating lease investments.*

*General and administrative expense for the year ended December 31, 1997 totaled \$4,858,000 as compared with \$4,448,000 for the year ended December 31, 1996. The expenses for the year ended December 31, 1997 were 6.63% of revenues as compared with 8.18% for the year ended December 31, 1996.*

*As a result of the various factors mentioned above, net income for the year ended December 31, 1997 was \$46,478,000, or \$2.12 per share, as compared with \$30,676,000, or \$2.17 per share for the year ended December 31, 1996. Net income for the year ended December 31, 1996 included \$3,635,000, or \$0.26 per share, of prepayment fees and gains on the exercise of purchase options, as compared with \$529,000, or \$0.02 per share, for the year ended December 31, 1997. All per share amounts represent diluted earnings per share.*

## **IMPACT OF INFLATION**

*During the past three years, inflation has not significantly affected the earnings of the Company because of the moderate inflation rate. Additionally, earnings of the Company are primarily long-term investments with fixed interest rates. These investments are mainly financed with a combination of equity, senior notes and borrowings under the revolving lines of credit. During inflationary*

*periods, which generally are accompanied by rising interest rates, the Company's ability to grow may be adversely affected because the yield on new investments may increase at a slower rate than new borrowing costs. Presuming the current inflation rate remains moderate and long-term interest rates do not increase significantly, the Company believes that equity and debt financing will continue to be available.*

## **MARKET RISK**

*The Company is exposed to various market risks, including the potential loss arising from adverse changes in interest rates. The Company seeks to mitigate the effects of fluctuations in interest rates by matching the term of new investments with new long-term fixed rate borrowings to the extent possible.*

*The market value of the Company's long-term fixed rate borrowings is subject to interest rate risk. Generally, the market value of fixed rate financial instruments will decrease as interest rates rise and increase as interest rates fall. The estimated fair value of the Company's total long-term borrowings at December 31, 1998 was \$239 million. A 1% increase in interest rates would result in a decrease in fair value of long-term borrowings by approximately \$11 million.*

*The Company is subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. The majority of the Company's borrowings were completed pursuant to indentures or contractual agreements which limit the amount of indebtedness the Company may incur. Accordingly, in the event that the Company is unable to raise additional equity or borrow money because of these limitations, the Company's ability to acquire additional properties may be limited.*

*At December 31, 1998, the Company's variable interest rate debt exceeded its variable interest rate assets, presenting an exposure to rising interest rates. The Company may or may*

*not elect to use financial derivative instruments to hedge variable interest rate exposure. Such decisions are principally based on the Company's policy to match its variable rate investments with comparable borrowings, but is also based on the general trend in interest rates at the applicable dates and the Company's perception of future volatility of interest rates.*

## **YEAR 2000 COMPLIANCE**

*The Year 2000 compliance issue concerns the inability of certain systems and devices to properly use or store dates beyond December 31, 1999. This could result in system failures, malfunctions, or miscalculations that disrupt normal operations. This issue affects most companies and organizations to large and small degrees, at least to the extent that potential exposures must be evaluated.*

*The Company believes its own internal operations, technology infrastructure, information systems and software applications are Year 2000 compliant. The Company is reviewing the impact of outside vendors and tenants/borrowers. The Company initially focused this review on mission-critical operations, recognizing that other potential effects are expected to be less material. In those cases where there are external compliance issues, these are considered to be minor in nature. Expenditures for any remedies will not be material.*

*With respect to the Company's tenants, borrowers and properties, the Company is assessing the tenants and borrowers compliance efforts, the possibility of any interface difficulties or electromechanical problems relating to compliance by material vendors, the effects of potential non-compliance, and remedies that may mitigate or obviate such effects. The Company plans to process information from tenant surveys beginning in 1999 and complete its assessment by mid-1999.*

*Because the Company's evaluation of these issues has been conducted by its own personnel or by selected inquiries of its vendors and tenants in connection with their routine servicing operations, the Company believes that its expendi-*

*tures for assessing Year 2000 issues, though difficult to quantify, have not been material. In addition, the Company is not aware of any issues that will require material expenditures by the Company in the future.*

*Based upon current information, the Company believes that the risk posed by foreseeable Year 2000 related problems with its internal systems (including both information and non-information systems) is minimal. Year 2000 related problems with the Company's software applications and internal operational programs are unlikely to cause more than minor disruptions in the Company's operations. Year 2000 related problems at certain of its third-party service providers, such as its banks, payroll processor, and telecommunications provider is marginally greater, though, based upon current information, the Company does not believe any such problems would have a material effect on its operations. For example, Year 2000 related problems at such third-party service providers could delay the processing of financial transactions and the Company's payroll and could disrupt the Company's internal and external communications.*

*The Company believes that the risk posed by Year 2000 related problems at its properties or with its tenants is marginally greater, though, based upon current information, the Company does not believe any such problems would have a material effect on its operations. Year 2000 related problems at certain governmental agencies and third-party payers could delay the processing of tenant financial transactions, though, based upon current information, the Company does not believe any such problems would have a material long-term effect on its operations. Year 2000 related problems with the electromechanical systems at its properties are unlikely to cause more than minor disruptions in the Company's operations.*

*The Company intends to complete outstanding assessments, implement identified remedies, continue to monitor Year 2000 issues, and develop contingency plans if, and to the extent deemed, necessary. However, based upon current*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*information and barring developments, the Company does not anticipate developing any substantive contingency plans with respect to Year 2000 issues. In addition, the Company has no plans to seek independent verification or review of its assessments.*

*While the Company believes that it will be Year 2000 compliant by December 31, 1999, there can be no assurance that the Company will be successful in identifying and assessing all compliance issues, or that the Company's efforts to remedy all Year 2000 compliance issues will be effective such that they will not have a material adverse effect on the Company's business or results of operations.*

## OTHER INFORMATION

*This document and supporting schedules may contain "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause the Company's actual results in the future to differ materially from expected results. These risks and uncertainties include, among others, competition in the financing of health care facilities, the availability of capital, and regulatory and other changes in the health care sector, as described in the Company's filings with the Securities and Exchange Commission.*

# REPORT OF INDEPENDENT AUDITORS

## SHAREHOLDERS AND DIRECTORS

### HEALTH CARE REIT, INC.

*We have audited the accompanying consolidated balance sheets of Health Care REIT, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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 exam-*

*ining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.*

*In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Care REIT, Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.*

*Ernst + Young LLP*

January 20, 1999  
Toledo, Ohio

# CONSOLIDATED BALANCE SHEETS

(In thousands)	December 31	
	1998	1997
<b>Assets</b>		
Real estate investments:		
Real property owned		
Land	\$ 44,722	\$ 22,445
Buildings & improvements	443,574	239,549
Construction in progress	151,317	47,050
	639,613	309,044
Less accumulated depreciation	(19,624)	(11,769)
	619,989	297,275
Total real property owned	619,989	297,275
Loans receivable	405,963	412,734
Direct financing leases	6,741	7,935
	1,032,693	717,944
Less allowance for loan losses	(4,987)	(4,387)
Net real estate investments	1,027,706	713,557
Other Assets:		
Direct investments	26,180	4,964
Marketable securities	4,106	4,671
Deferred loan expenses	2,389	2,276
Cash and cash equivalents	1,269	1,381
Receivables and other assets	11,774	7,478
	45,718	20,770
Total assets	\$1,073,424	\$ 734,327
<b>Liabilities and shareholders' equity</b>		
Liabilities:		
Borrowings under line of credit arrangements	\$ 171,550	\$ 78,400
Senior unsecured notes	240,000	162,000
Bonds and mortgages payable	7,429	8,670
Accrued expenses and other liabilities	20,686	15,333
Total liabilities	439,665	264,403
Shareholders' equity:		
Preferred Stock, \$1.00 par value:		
Authorized - 10,000,000 shares		
Issued and outstanding — 3,000,000 in 1998 at liquidation preference	75,000	
Common Stock, \$1.00 par value:		
Authorized - 40,000,000 shares		
Issued and outstanding — 28,240,025 shares in 1998 and 24,341,030 shares in 1997	28,240	24,341
Capital in excess of par value	520,692	435,603
Undistributed net income	10,434	8,841
Accumulated other comprehensive income	3,982	4,671
Unamortized restricted stock	(4,589)	(3,532)
Total shareholders' equity	633,759	469,924
Total liabilities and shareholders' equity	\$1,073,424	\$ 734,327

See accompanying notes

# CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Year ended December 31		
	1998	1997	1996
<b>Revenues:</b>			
Interest income	\$ 47,515	\$ 45,999	\$ 36,735
Prepayment fees	588	529	3,059
Operating lease rents	41,953	22,178	9,848
Gains on sale of properties	1,049		576
Direct financing lease income	973	1,238	1,464
Loan and commitment fees	5,281	3,036	2,607
Other income	633	328	113
	97,992	73,308	54,402
<b>Expenses:</b>			
Interest expense	18,030	15,365	14,635
Provision for depreciation	10,254	5,287	2,427
General and administrative	6,114	4,858	4,448
Loan expense	685	720	808
Provision for loan losses	600	600	600
Disposition of investment			808
	35,683	26,830	23,726
Net income	62,309	46,478	30,676
Preferred stock dividends	4,160		
Net income available to common shareholders	\$ 58,149	\$ 46,478	\$ 30,676
<b>Average number of common shares outstanding:</b>			
Basic	25,579	21,594	14,093
Diluted	25,954	21,929	14,150
<b>Net income available to common shareholders per share:</b>			
Basic	\$ 2.27	\$ 2.15	\$ 2.18
Diluted	\$ 2.24	\$ 2.12	\$ 2.17

See accompanying notes

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Undistributed Net Income	Accumulated Other Comprehensive Income	Unamortized Restricted Stock	Total
Balances at January 1, 1996	\$	\$ 12,034	\$ 168,800	\$ 5,918	\$ 845	\$	\$ 187,597
Comprehensive income:							
Net income				30,676			30,676
Other comprehensive income:							
Unrealized loss on marketable securities					(77)		(77)
Total comprehensive income							30,599
Proceeds from issuance of shares from dividend reinvestment and stock incentive plans		176	3,479				3,655
Proceeds from sale of shares, net of expenses of \$6,433,000		6,110	126,002				132,112
Cash dividends paid — \$2.08 per share				(28,427)			(28,427)
Balances at December 31, 1996		18,320	298,281	8,167	768		325,536
Comprehensive income:							
Net income				46,478			46,478
Other comprehensive income:							
Unrealized gain on marketable securities					3,903		3,903
Total comprehensive income							50,381
Proceeds from issuance of shares from dividend reinvestment and stock incentive plans		455	10,179			(3,789)	6,845
Amortization of restricted stock grants						257	257
Proceeds from sale of shares, net of expenses of \$7,477,000		5,566	127,143				132,709
Cash dividends paid — \$2.11 per share				(45,804)			(45,804)
Balances at December 31, 1997		24,341	435,603	8,841	4,671	(3,532)	469,924
Comprehensive income:							
Net income				62,309			62,309
Other comprehensive income:							
Unrealized loss on marketable securities					(565)		(565)
Foreign currency translation adjustment					(124)		(124)
Total comprehensive income							61,620
Proceeds from issuance of shares from dividend reinvestment and stock incentive plans		440	9,986			(1,658)	8,768
Amortization of restricted stock grants						601	601
Proceeds from sale of shares, net of expenses of \$4,599,000		3,459	77,893				81,352
Net proceeds from sale of Preferred Stock	75,000		(2,790)				72,210
Cash dividends paid:							
Common stock — \$2.19 per share				(56,556)			(56,556)
Preferred stock — \$1.39 per share				(4,160)			(4,160)
Balances at December 31, 1998	\$75,000	\$28,240	\$520,692	\$ 10,434	\$ 3,982	\$ (4,589)	\$633,759

See accompanying notes

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year ended December 31		
	1998	1997	1996
<b>Operating activities</b>			
Net income	\$ 62,309	\$ 46,478	\$ 30,676
Adjustments to reconcile net income to net cash provided from operating activities:			
Provision for depreciation	10,348	5,361	2,461
Amortization	1,306	980	810
Provision for losses	600	600	600
Disposition of investment			808
Loan and commitment fees earned less than cash received	1,222	4,642	1,764
Direct financing lease income less than cash received	292	372	90
Rental income in excess of cash received	(3,047)	(1,548)	(370)
Interest income more than cash received	(380)	(29)	(134)
Increase in accrued expenses and other liabilities	4,133	790	401
Increase in receivables and other assets	(1,037)	(1,638)	(886)
<b>Net cash provided from operating activities</b>	<b>75,746</b>	<b>56,008</b>	<b>36,220</b>
<b>Investing activities</b>			
Investment in real property	(270,015)	(135,835)	(66,083)
Investment in loans receivable	(105,282)	(123,376)	(168,845)
Other investments	(20,965)	(4,964)	
Principal collected on loans	38,629	49,750	60,659
Proceeds from sale of properties	11,378	2,569	9,508
Other	(328)	(213)	(221)
<b>Net cash used in investing activities</b>	<b>(346,583)</b>	<b>(212,069)</b>	<b>(164,982)</b>
<b>Financing activities</b>			
Net (decrease) increase under line of credit arrangements	93,150	(13,725)	(14,575)
Borrowings under senior notes	100,000	80,000	30,000
Assumption of mortgage loan payable			6,539
Principal payments on other long-term obligations	(23,241)	(1,600)	(329)
Net proceeds from the issuance of Common Stock	90,120	139,554	135,767
Net proceeds from the issuance of Preferred Stock	72,210		
Increase in deferred loan expense	(798)	(1,564)	(492)
Cash distributions to shareholders	(60,716)	(45,804)	(28,427)
<b>Net cash provided from financing activities</b>	<b>270,725</b>	<b>156,861</b>	<b>128,483</b>
Increase (decrease) in cash and cash equivalents	(112)	800	(279)
Cash and cash equivalents at beginning of year	1,381	581	860
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,269</b>	<b>\$ 1,381</b>	<b>\$ 581</b>
<b>Supplemental Cash Flow Information-Interest Paid</b>	<b>\$ 23,714</b>	<b>\$ 16,444</b>	<b>\$ 14,211</b>

See accompanying notes

## 1 ACCOUNTING POLICIES AND RELATED MATTERS

**INDUSTRY** *The Company is a self-administered real estate investment trust that invests primarily in long-term care facilities, which include nursing homes, assisted living facilities, and retirement centers. The Company also invests in specialty care facilities.*

**PRINCIPLES OF CONSOLIDATION** *The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after the elimination of all significant intercompany accounts and transactions.*

**USE OF ESTIMATES** *The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.*

**LOANS RECEIVABLE** *Loans receivable consist of long-term mortgage loans, construction-period loans maturing in two years or less, and working capital loans. Interest income on loans is recognized as earned based upon the principal amount outstanding. The loans are generally collateralized by a first or second mortgage on or assignment of partnership interest in the related facilities which consist of nursing homes, assisted living facilities, retirement centers, behavioral care facilities, and specialty care hospitals.*

**REAL PROPERTY INVESTMENTS** *Certain properties owned by the Company are leased under operating leases and are recorded at cost. The carrying value of long-lived assets is reviewed quarterly on a property by property basis to determine if facts and circumstances suggest that the assets may be impaired or that the depreciation life may need to be changed. The Company considers external factors relating to each asset. If these external factors and the projected undiscounted cash flows of the Company over the remaining amortization period indicate that the asset will not be recoverable, the carrying value will be adjusted to the estimated fair value. As of December 31, 1998, the Company does not believe there is any indication that the carrying value or the amortization*

*period of its assets needs to be adjusted. The leases generally extend for a minimum ten year period and provide for payment of all taxes, insurance and maintenance by the lessees. In general, operating lease income includes base rent payments plus fixed annual rent increases, which are recognized on a straight-line basis over the minimum lease period. This income is greater than the amount of cash received during the first half of the lease term.*

**DIRECT FINANCING LEASES** *Certain properties owned by the Company are subject to long-term leases which are accounted for by the direct financing method. The leases provide for payment of all taxes, insurance and maintenance by the lessees. The leases are generally for a term of 20 years and include an option to purchase the properties generally after a period of five years. Option prices equal or exceed the Company's original cost of the property. Income from direct financing leases is recorded based upon the implicit rate of interest over the lease term. This income is greater than the amount of cash received during the first six to seven years of the lease term.*

**CAPITALIZATION OF CONSTRUCTION PERIOD INTEREST** *The Company capitalizes interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing.*

*The Company capitalized interest costs of \$7,740,000, \$2,306,000 and \$287,000 during 1998, 1997 and 1996, respectively, related to construction of real property owned by the Company. The Company's interest expense has been reduced by the amounts capitalized.*

**ALLOWANCE FOR LOAN LOSSES** *The allowance for loan losses is maintained at a level believed adequate to absorb potential losses in the Company's loans receivable. The determination of the allowance is based on a quarterly evaluation of these loans, including general economic conditions and estimated collectibility of loan payments.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**DEFERRED LOAN EXPENSES** *Deferred loan expenses are costs incurred by the Company in connection with the issuance of short-term and long-term debt. The Company amortizes these costs over the term of the debt using the straight-line method, which approximates the interest yield method.*

**CASH AND CASH EQUIVALENTS** *Cash and cash equivalents consist of all highly liquid investments with an original maturity of three months or less.*

**DIRECT INVESTMENTS** *Management determines the appropriate classification of a direct investment at the time of acquisition and reevaluates such designation as of each balance sheet date. Debt securities which are classified as held to maturity are stated at historical cost. Equity investments are stated at historical cost. Direct investments included the preferred stock of one private corporation, subordinated debt in eight private corporations, and ownership representing a 31% interest in Atlantic Healthcare Finance L.P., a property investment group that specializes in the financing, through sale and leaseback transactions, of nursing homes located in the United Kingdom and continental Europe.*

**MARKETABLE SECURITIES** *Marketable securities available for sale are stated at market value with unrealized gains and losses reported in a separate component of shareholders' equity. Marketable securities reflect the market value of the common stock of two publicly owned corporations, which were obtained by the Company at no cost, and the fair value of the common stock related to warrants in one publicly owned corporation in excess of the exercise price.*

**LOAN AND COMMITMENT FEES** *Loan and commitment fees are earned by the Company for its agreement to provide direct and standby financing to, and credit enhancement for, owners of health care facilities. The Company amortizes loan and commitment fees over the initial fixed term of the lease, the mortgage or the construction period related to such investments.*

**FEDERAL INCOME TAX** *No provision has been made for federal income taxes since the Company has elected to be treated as a real estate investment trust under the applicable provisions of the Internal Revenue Code, and the Company believes that it has met the requirements for qualification as such for each taxable year. See Note 11.*

**NET INCOME PER SHARE** *Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.*

**COMPREHENSIVE INCOME** *As of January 1, 1998, the Company adopted Statement 130, Reporting Comprehensive Income. Statement 130 establishes new rules for the reporting and display of comprehensive income and its components. The adoption of this Statement had no impact on the Company's net income or shareholders' equity. Statement 130 requires unrealized gains or losses on the Company's marketable securities and foreign currency translation adjustments to be included in comprehensive income. Prior to adoption of Statement 130, these items were reported separately in shareholders' equity. Prior year financial statements have been reclassified to conform to the requirements of Statement 130.*

**NEW ACCOUNTING STANDARD** *In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities," which is effective January 1, 2000. The impact that this statement will have on the Company has not been determined.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2 LOANS RECEIVABLE

The following is a summary of loans receivable (in thousands):

	December 31	
	1998	1997
Mortgage loans	\$ 355,974	\$ 375,693
Mortgage loans to related parties	0	1,945
Construction loans	42,708	27,698
Working capital	5,532	3,551
Working capital loans to related parties	1,749	3,847
<b>TOTALS</b>	<b>\$ 405,963</b>	<b>\$ 412,734</b>

Loans to related parties (various entities whose ownership includes two Company directors and former officers) included above are at competitive rates and are equal to or greater than the Company's net interest cost on borrowings to support such loans. The amount of interest income and loan and commitment fees from related parties amounted to \$1,236,000, \$980,000 and \$3,089,000 for 1998, 1997 and 1996, respectively.

The following is a summary of mortgage loans at December 31, 1998 (in thousands):

Final Payment Due	Number of Loans	Payment Terms	Principal Amount at Inception	Carrying Amount
1999	1	Monthly payment at \$8,600, including interest at 10.00%	\$ 4,500	\$ 769
2001	3	Monthly payments from \$20,282 to \$71,471, including interest from 10.50% to 12.50%	11,684	10,880
2006	1	Monthly payment at \$94,378, including interest at 9.28%	12,204	12,204
2007	3	Monthly payments from \$28,020 to \$73,081, including interest from 10.70% to 12.97%	16,990	12,930
2008	5	Monthly payments from \$18,619 to \$85,879, including interest from 11.92% to 13.46%	20,100	19,521
2009	1	Monthly payment at \$69,467, including interest at 11.04%	7,072	6,983
2010	4	Monthly payments from \$40,554 to \$186,177, including interest from 10.57% to 10.96%	42,042	41,780
2011	9	Monthly payments from \$18,921 to \$38,703, including interest from 9.28% to 11.70%	30,791	30,697
2012	4	Monthly payments from \$38,000 to \$284,200, including interest from 9.50% to 12.19%	42,511	42,449
2015	5	Monthly payments from \$23,954 to \$119,385, including interest from 10.29% to 12.58%	36,260	35,572
2016	7	Monthly payments from \$36,980 to \$228,417, including interest from 10.58% to 12.13%	65,436	64,432
2017	3	Monthly payments from \$24,008 to \$80,121 including interest from 10.15% to 10.66%	16,191	16,188
2018	10	Monthly payments from \$21,660 to \$155,575 including interest from 8.89% to 10.31%	61,569	61,569
<b>TOTALS</b>			<b>\$ 367,350</b>	<b>\$ 355,974</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3 DIRECT FINANCING LEASES

The following are the components of investments in direct financing leases (in thousands):

	December 31	
	1998	1997
Total minimum lease payments receivable	\$11,092	\$13,602
Estimated unguaranteed residual values of leased properties	2,994	3,437
Unearned income	(7,345)	(9,104)
Investment in direct financing leases	\$ 6,741	\$ 7,935

The leases contain an option to purchase the leased property. Total minimum lease payments are computed assuming that the purchase options are not exercised.

At December 31, 1998, future minimum lease payments receivable (assuming that purchase options are not exercised) are as follows (in thousands):

1999	\$ 1,009
2000	1,027
2001	1,044
2002	1,076
2003	747
Thereafter	6,189
TOTAL	\$ 11,092

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 4 REAL ESTATE INVESTMENTS

The following table summarizes certain information about Health Care REIT's real estate properties as of December 31, 1998.

	Number of Facilities	Land	Building & Improvements	Total Investment	Accumulated Depreciation
<b>Nursing Homes:</b>					
Arizona	1	\$ 180	\$ 3,988	\$ 4,168	\$ 73
California	2	2,640	5,212	7,852	96
Colorado	1	370	6,051	6,421	108
Connecticut	1	937	9,563	10,500	1,424
Florida	5	3,312	32,488	35,800	676
Kentucky	1	130	4,870	5,000	634
Idaho	3	2,010	20,662	22,672	341
Illinois	1	610	7,143	7,753	9
Massachusetts	8	3,548	33,929	37,477	2,119
Ohio	2	786	8,778	9,564	597
Oklahoma	1	470	5,673	6,143	24
Oregon	1	300	5,316	5,616	92
Pennsylvania	2	669	12,356	13,025	1,402
Texas	1	663	12,587	13,250	2,006
Construction in Process				769	
	30	16,625	168,616	186,010	9,601
<b>Assisted Living Facilities:</b>					
Arizona	1	110	2,244	2,354	8
Connecticut	1	660	8,812	9,472	114
Florida	14	2,747	34,917	37,664	1,342
Idaho	1	200	2,500	2,700	98
Massachusetts	1	810	10,500	11,310	161
Montana	1	360	3,282	3,642	19
Nevada	1	380	9,220	9,600	30
New Jersey	1	3,297	14,233	17,530	734
New Mexico	1	233	5,355	5,588	165
New York	1	400	10,528	10,928	314
North Carolina	2	2,140	8,440	10,580	222
Ohio	7	3,123	30,495	33,618	937
Oklahoma	15	1,703	21,408	23,111	1,617
Pennsylvania	6	3,938	34,628	38,566	1,563
Tennessee	1	330	2,292	2,622	8
Texas	21	5,396	64,333	69,729	2,520
Construction in Process	28			128,462	
	103	25,827	263,187	417,476	9,852
<b>Retirement Centers:</b>					
North Carolina	1	2,270	11,771	14,041	171
Construction in Process	7			22,086	
	8	2,270	11,771	36,127	171
<b>Total Real Estate</b>	<b>141</b>	<b>\$44,722</b>	<b>\$443,574</b>	<b>\$639,613</b>	<b>\$19,624</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 4 REAL ESTATE INVESTMENTS, CONTINUED

At December 31, 1998, future minimum lease payments receivable under operating leases are as follows (in thousands):

1999	\$ 61,807
2000	73,392
2001	75,240
2002	76,965
2003	78,521
Thereafter	517,289
<b>TOTAL</b>	<b>\$ 883,214</b>

The Company converted \$73,430,000, \$13,103,000, and \$40,567,000 of mortgage loans into operating lease properties in 1998, 1997, and 1996, respectively. This noncash activity is appropriately not reflected in the accompanying statements of cash flows.

The Company is constructing six assisted living facilities for an operator that has a director who is also a director of the Company. These facilities will be leased to this related party upon completion.

## 5 CONCENTRATION OF RISK

As of December 31, 1998, long-term care facilities, which include nursing homes, assisted living facilities, and retirement centers, comprised 90% of the Company's real estate investments and were located in 34 states. Investments in assisted living facilities comprised 56% of the Company's real estate investments. The Company's investments with the three largest operators totaled approximately 25%. No single operator has a real estate investment balance which exceeds 10% of total real estate investments, including credit enhancements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 6 ALLOWANCE FOR LOAN LOSSES

The following is a summary of the allowance for loan losses (in thousands):

	1998	1997	1996
Balance at beginning of year	\$ 4,387	\$ 9,787	\$ 9,950
Provision for loan losses	600	600	600
Disposition of investment			808
Charge-offs		(6,000)	(1,571)
Balance at end of year	\$ 4,987	\$ 4,387	\$ 9,787

During 1997, two loans with an aggregate balance of \$12,073,000 and a specifically identified allowance of \$6,000,000 were extinguished. The Company recognized payments of \$6,073,000 and recorded a charge of \$6,000,000 against the allowance for loan losses.

## 7 BORROWINGS UNDER LINE OF CREDIT ARRANGEMENTS AND RELATED ITEMS

The Company has an unsecured credit arrangement with a consortium of ten banks providing for a revolving line of credit (revolving credit) in the amount of \$175,000,000 which expires on March 31, 2001. The agreement specifies that borrowings under the revolving credit are subject to interest payable in periods no longer than three months on either the agent bank's base rate of interest or 1.0% over LIBOR interest rate (based at the Company's option). The effective interest rate at December 31, 1998 was 6.58%. In addition, the Company pays a commitment fee ranging from an annual rate of 0.20% to 0.375% and an annual agent's fee of \$50,000. Principal is due upon expiration of the agreement. The Company has another line of credit with a bank for a total of \$15,000,000 which expires January 31, 2000. Borrowings under this line of credit are subject to interest at the bank's prime rate of interest (7.75% at December 31, 1998) and are due on demand.

The following information relates to aggregate borrowings under the line of credit arrangements (in thousands except percentages):

	Year Ended December 31		
	1998	1997	1996
Balance outstanding at December 31	\$171,550	\$ 78,400	\$ 92,125
Maximum amount outstanding at any month end	171,550	158,950	142,600
Average amount outstanding (total of daily principal balances divided by days in year)	103,739	78,826	110,667
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	6.90%	7.63%	7.72%

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 8 SENIOR NOTES AND OTHER LONG-TERM OBLIGATIONS

The Company has \$240,000,000 of unsecured Senior Notes with interest ranging from 7.06% to 8.34% and maturing at various dates to 2008.

The following information relates to other long-term obligations (in thousands):

	December 31	
	1998	1997
Mortgage notes payable, collateralized by two health care facilities, interest rates from 7.625% to 12%, maturing at various dates to 2034	\$7,429	\$ 7,510
Other long-term obligations, interest at 11.25% for 1997	0	1,160
<b>TOTALS</b>	<b>\$7,429</b>	<b>\$ 8,670</b>

At December 31, 1998, the annual principal payments on these long-term obligations are as follows (in thousands):

	Senior Notes	Other
1999	\$ 0	\$ 90
2000	35,000	99
2001	10,000	109
2002	20,000	121
2003	35,000	133
2004	40,000	186
2005	0	549
2006	0	62
2007	0	67
2008	100,000	72
Thereafter	0	5,941
<b>TOTALS</b>	<b>\$240,000</b>	<b>\$ 7,429</b>

## 9 STOCK INCENTIVE PLANS AND RETIREMENT ARRANGEMENTS

The Company's 1995 Stock Incentive Plan authorized up to 2,200,000 shares of Common Stock to be issued at the discretion of the Board of Directors. The 1995 Plan replaced the 1985 Incentive Stock Option Plan. The options granted under the 1985 Plan continue to vest through 2005 and expire ten years from the date of grant. Officers and key salaried employees of the Company are eligible to participate in the 1995 Plan. The 1995 Plan allows for the issuance of stock options, restricted stock grants and Dividend Equivalency Rights. In addition, during 1997 the Company adopted a Stock Incentive Plan for Non-Employee Directors which authorizes up to 192,000 shares to be issued.

(continued on following page)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9 STOCK INCENTIVE PLANS AND RETIREMENT

### ARRANGEMENTS, CONTINUED

The following summarizes the activity in the Plans for the years ended December 31 (shares in thousands):

	1998		1997		1996	
	Shares	Average Exercise Price	Shares	Average Exercise Price	Shares	Average Exercise Price
<b>Stock Options</b>						
Options at beginning of year	1,126	\$ 21.56	749	\$ 19.51	485	\$ 19.95
Options granted	362	23.00	475	24.44	425	19.14
Options exercised	(67)	18.57	(84)	19.16	(44)	17.66
Options terminated	(7)	24.90	(14)	23.61	(117)	20.67
	<b>1,418</b>	<b>\$ 22.06</b>	<b>1,126</b>	<b>\$ 21.56</b>	<b>749</b>	<b>\$ 19.51</b>
<b>At end of year:</b>						
Shares exercisable	466	\$ 20.83	406	\$ 20.79	226	\$ 21.45
Weighted average fair value of options granted during the year		\$ 1.98		\$ 1.97		\$ 1.78

The stock options generally vest over a five year period and expire ten years from the date of grant. Options at December 31, 1998 had exercise prices ranging from \$17.875 to \$27.375 per share and a weighted average contractual life of 8.6 years.

The Company issued 71,850 and 157,000 restricted shares during 1998 and 1997 respectively, including 2,250 shares and 2,000 shares for directors in 1998 and 1997, respectively. Vesting periods range from six months for directors to periods of five to ten years for officers. Expense, which is recognized as the shares vest based on the market value at the date of the award, totaled \$601,000 in 1998 and \$257,000 in 1997.

The Company has elected to follow APB Opinion No. 25, Accounting for Stock Issued to Employees in accounting for its employee stock options as permitted under FASB Statement No. 123 ("FASB 123"), Accounting for Stock-Based Compensation, and, accordingly, recognizes no compensation expense for the stock option grants when the market price on the underlying stock on the date of grant equals the exercise price of the Company's employee stock option.

Pro forma information has been determined as if the Company had accounted for its employee stock options and restricted shares under the fair value method. The pro forma disclosures are not likely to be representative of the effects on reported net income for future years because they do not take into consideration stock based incentives granted prior to 1995. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following range of assumptions: risk-free interest rates from 5.10% to 7.60%, dividend yields of 8% to 9%, expected lives of seven years, and expected volatility of .18% to .23%. Had compensation cost for the stock based compensation plans been determined in accordance with FASB 123, net income would have been reduced by \$393,000, \$212,000, and \$105,000 in 1998, 1997 and 1996, respectively.

The Company has a 401-(k) Profit Sharing Plan covering all eligible employees. Under the Plan, eligible employees may make contributions, and the Company may make a profit sharing contribution. Company contributions to this Plan totaled \$120,000, \$110,000, and \$90,000 in 1998, 1997, and 1996, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 10 PREFERRED STOCK

In May 1998, the Company sold 3,000,000 shares of 8.875% Series B Cumulative Redeemable Preferred Stock with a liquidation preference of \$25 per share. Dividends are payable quarterly in arrears. On and after May 1, 2003, the Preferred Stock may be redeemed for cash at the option of the Company, in whole or in part, at \$25 per share, plus accrued and unpaid dividends thereon to the redemption date.

## 11 DISTRIBUTIONS

To qualify as a real estate investment trust for federal income tax purposes, 95% of taxable income (not including capital gains) must be distributed to shareholders. Real estate investment trusts which do not distribute a certain amount of current year taxable income in the current year are also subject to a 4% federal excise tax. The Company's excise tax expense was \$315,000, \$360,000 and \$317,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Undistributed net income for federal income tax purposes amounted to \$16,353,000 at December 31, 1998. The principal reasons for the difference between undistributed net income for federal income tax purposes and financial statement purposes are the use of the operating method of accounting for leases for federal income tax purposes and the provision for losses for reporting purposes versus bad debt expense for tax purposes. Cash distributions paid to shareholders, for federal income tax purposes, are as follows:

	Year Ended December 31		
	1998	1997	1996
Per Share:			
Ordinary income	\$ 2.142	\$ 2.085	\$ 2.030
Capital gains	.048	.025	.050
<b>TOTALS</b>	<b>\$ 2.190</b>	<b>\$ 2.110</b>	<b>\$ 2.080</b>

## 12 COMMITMENTS AND CONTINGENCIES

At December 31, 1998, the Company had outstanding commitments to provide financing for facilities in the approximate amount of \$209,900,000 for ongoing construction activity and acquisitions expected over the next twelve to fifteen months. The above commitments are generally on similar terms as existing financings of a like nature with rates of return to the Company based upon current market rates at the time of the commitment.

The Company has agreements to purchase two health care facilities, or the loans with respect thereto, in the event that the present owners default upon their obligations. In consideration for these agreements, the Company receives and recognizes fees annually related to these agreements. Although the terms of these agreements vary, the purchase prices are equal to the amount of the outstanding obligations financing the facility. These agreements expire through the year 2005. At December 31, 1998, obligations under these agreements for which the Company was contingently liable aggregated approximately \$9,365,000, all of which were with related parties.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13 SHAREHOLDER RIGHTS PLAN

Under the terms of a Shareholder Rights Plan approved by the Board of Directors in July 1994, a Preferred Share Right (Right) is attached to and automatically trades with each outstanding share of Common Stock.

The Rights, which are redeemable, will become exercisable only in the event that any person or group becomes a holder of 15% or more of the Common Stock, or commences a tender or exchange offer which, if consummated, would result in that person or group owning at least 15% of the Common Stock. Once the Rights become exercisable, they entitle all other shareholders to purchase one one-thousandth of a share of a new series of junior participating preferred stock for an exercise price of \$48.00. The Rights will expire on August 5, 2004 unless exchanged earlier or redeemed earlier by the Company for \$.01 per Right at any time before public disclosure that a 15% position has been acquired.

## 14 EARNINGS PER SHARE

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

	1998	1997	1996
Numerator for basic and diluted earnings per share — income available to common shareholders	\$58,149	\$46,478	\$30,676
Denominator for basic earnings per share — weighted average shares	25,579	21,594	14,093
Effect of dilutive securities:			
Employee stock options	174	182	57
Nonvested restricted shares	201	153	
Dilutive potential common shares	375	335	57
Denominator for diluted earnings per share — adjusted weighted average shares	25,954	21,929	14,150
Basic earnings per share	\$ 2.27	\$ 2.15	\$ 2.18
Diluted earnings per share	\$ 2.24	\$ 2.12	\$ 2.17

The diluted earnings per share calculation for 1998 excludes the dilutive effect of 179,000 shares because the exercise price is greater than the average market price.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 15 DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

**Mortgage Loans**—The fair value of all mortgage loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

**Working Capital and Construction Loans**—The carrying amount is a reasonable estimate of fair value for working capital and construction loans because the interest earned on these instruments is variable.

**Cash and Cash Equivalents**—The carrying amount approximates fair value because of the short maturity of these financial instruments.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1998 and 1997 are as follows (in thousands):

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Mortgage loans	\$ 355,974	\$ 375,252	\$ 377,638	\$ 402,348
Working capital and construction loans	49,989	49,989	35,096	35,096
Cash and cash equivalents	1,269	1,269	1,381	1,381
Marketable securities	4,106	4,106	4,671	4,671
Direct investments	26,180	26,180	4,964	4,964
<b>Financial Liabilities:</b>				
Borrowings under line of credit arrangements	171,550	171,550	78,400	78,400
Senior unsecured notes	240,000	239,396	162,000	167,113
Industrial development bonds	0	0	1,160	1,225
Mortgage notes payable	7,429	7,429	7,510	7,445

**Marketable Securities**—The assets are recorded at their fair market value.

**Direct Investments**—Direct investments are recognized at historical cost, which the Company believes approximates fair market value.

**Borrowings Under Line of Credit Arrangements**—The carrying amount of the line of credit approximates fair value because the borrowings are interest rate adjustable.

**Senior Unsecured Notes and Industrial Development Bonds**—The fair value of the senior unsecured notes payable and the industrial development bonds was estimated by discounting the future cash flow using the current borrowing rate available to the Company for similar debt.

**Mortgage Notes Payable**—Mortgage notes payable is a reasonable estimate of fair value.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16 SUBSEQUENT EVENT

On January 19, 1999 the Company announced the sale of 3,000,000 shares of cumulative convertible preferred stock. These shares have a liquidation value of \$25 per share and will pay dividends equivalent to the greater of \$0.5625 or the quarterly dividend then payable per common share. The preferred shares are convertible into common stock at a conversion price of \$25.625 per share. The Company has the right to redeem the preferred shares after five years.

## 17 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations of the Company for the years ended December 31, 1998 and 1997 (in thousands except per share data):

	Year Ended December 31, 1998			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 21,226	\$ 23,159	\$ 25,837	\$ 27,770
Net Income Available to Common Shareholders	13,409	13,907	14,365	16,468
Net Income Available to Common Shareholders				
Basic	.55	.55	.57	.60
Diluted	.54	.54	.56	.59

	Year Ended December 31, 1997			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 16,569	\$ 18,448	\$ 18,559	\$ 19,448
Net Income Available to Common Shareholders	9,826	11,928	11,773	12,667
Net Income Available to Common Shareholders				
Basic	.51	.55	.54	.55
Diluted	.51	.54	.53	.54

## MARKET AND DIVIDEND INFORMATION

The following table sets forth, for the periods indicated, the high and low prices of the Company's Common Stock on the New York Stock Exchange, as reported on the Composite Tape and dividends paid per share. There were 5,555 shareholders of record as of December 31, 1998.

1998	Sales Price		Dividends Paid
	High	Low	
First Quarter	\$ 29.2500	\$26.625	\$ 0.540
Second Quarter	28.4375	25.375	0.545
Third Quarter	27.5000	22.375	0.550
Fourth Quarter	26.6250	20.000	0.555

1997	Sales Price		Dividends Paid
	High	Low	
First Quarter	\$ 25.500	\$ 23.625	\$ 0.520
Second Quarter	25.000	22.250	0.525
Third Quarter	27.625	24.250	0.530
Fourth Quarter	28.750	25.500	0.535

## INCOME TAX INFORMATION

	1998 Dividend Report Dates				
	Feb. 20	May 20	Aug. 20	Nov. 20	Total
Ordinary Income	\$ 0.540	\$ 0.545	\$ 0.550	\$ 0.507	\$ 2.142
Short-Term Capital Gain	0.000	0.000	0.000	0.000	0.000
Mid-Term Capital Gain	0.000	0.000	0.000	0.000	0.000
Long-Term Capital Gain	0.000	0.000	0.000	0.010	0.010
Unrecaptured Sec. 1250 Gain	0.000	0.000	0.000	0.038	0.038
Return of Capital	0.000	0.000	0.000	0.000	0.000
<b>Total</b>	<b>\$ 0.540</b>	<b>\$ 0.545</b>	<b>\$ 0.550</b>	<b>\$ 0.555</b>	<b>\$ 2.190</b>
Foreign Tax Credit	0.000	0.000	0.000	0.000	0.000
Tax Exempt Interest	0.000	0.000	0.000	0.000	0.000

## BOARD OF DIRECTORS

**William C. Ballard, Jr.**  
4, 5, 6  
*Of Counsel*  
*Greenebaum Doll & McDonald PLLC*  
*Louisville, Kentucky*

**Pier C. Borra**  
3, 4, 6  
*Chairman, President and Chief Executive Officer*  
*CORA Health Services, Inc.*  
*Lima, Ohio*

**George L. Chapman**  
2, 4, 5, 6  
*Chairman, Chief Executive Officer and President*  
*Health Care REIT, Inc.*  
*Toledo, Ohio*

**Jeffrey H. Donahue**  
3, 4, 6  
*Executive Vice President and Chief Financial Officer*  
*The Rouse Company*  
*Columbia, Maryland*

**Bruce Douglas**  
4, 6  
*Chairman*  
*The Douglas Company*  
*Toledo, Ohio*

**Peter J. Grua**  
4, 5, 6  
*Principal and President*  
*HLM Management Company, Inc.*  
*Boston, Massachusetts*

**Sharon M. Oster**  
1, 4, 6  
*Professor of Management*  
*Yale School of Management*  
*Yale University*  
*New Haven, Connecticut*

**Bruce G. Thompson**  
2, 4, 6  
*President*  
*First Toledo Corporation*  
*Toledo, Ohio*

**Richard A. Unverferth**  
1, 2, 3, 4, 5, 6  
*Chairman*  
*Unverferth Manufacturing Company, Inc.*  
*H.C.F., Inc.*  
*Kalida, Ohio*

**Frederic D. Wolfe**  
4, 6  
*Chairman*  
*First Toledo Corporation*  
*Toledo, Ohio*

### *Committees:*

- 1. Audit Committee*
- 2. Executive Committee*
- 3. Compensation Committee*
- 4. Investment Committee*
- 5. Nominating Committee*
- 6. Planning Committee*

## SHAREHOLDER INFORMATION

**Officers**  
**George L. Chapman**  
*Chairman, Chief Executive Officer and President*

**Raymond W. Braun**  
*Vice President and Chief Operating Officer*

**Edward F. Lange, Jr.**  
*Vice President, Chief Financial Officer and Treasurer*

**Erin C. Ibele**  
*Vice President and Corporate Secretary*

**Michael A. Crabtree**  
*Controller*

**J. Michael Stephen**  
*Vice President, Marketing*

**Steven A. VanCamp**  
*Investment Officer*

**Todd B. Cermak**  
*Portfolio Officer*

**General Offices**  
**Health Care REIT, Inc.**  
One SeaGate, Suite 1500  
P. O. Box 1475  
Toledo, Ohio 43603-1475  
419/247-2800  
419/247-2826 Fax  
www.hcreit.com

**Legal Counsel**  
Shumaker, Loop & Kendrick,  
LLP  
Toledo, Ohio

**Independent Auditors**  
Ernst & Young LLP  
Toledo, Ohio

**Transfer Agent**  
ChaseMellon Shareholder  
Services, L.L.C.  
85 Challenger Road  
Overpeck Centre  
Ridgefield Park, New Jersey  
07660  
888/216-7206  
www.chasemellon.com

**Dividend Reinvestment  
Administrator**  
ChaseMellon Shareholder  
Services, L.L.C.  
85 Challenger Road  
Overpeck Centre  
Ridgefield Park, New Jersey  
07660  
888/216-7206  
www.chasemellon.com

**Annual Meeting**  
The Annual Meeting of  
Shareholders is scheduled  
for Tuesday, April 20, 1999  
in Toledo, Ohio

**Form 10-K**  
The Company's Form 10-K  
Annual Report, filed with  
the Securities and Exchange  
Commission, is available at  
no charge upon written  
request to the Corporate  
Secretary.

**Exchange Listing**  
New York Stock Exchange  
Trading Symbol: HCN

**Member**  
National Association of  
Real Estate Investment  
Trusts, Inc.



HEALTH CARE REIT, INC.

One SeaGate  
Suite 1500  
P.O. Box 1475  
Toledo, Ohio 43603-1475

419/247-2800  
419/247-2826 Fax  
[www.hcreit.com](http://www.hcreit.com)