



Community Health Systems, Inc.

Annual Report To Shareholders

2003

BUILDING A
BETTER FUTURE—
ONE COMMUNITY
AT A TIME



Company Profile

Located in the Nashville, Tennessee, suburb of Brentwood, Community Health Systems is a leading operator of general acute care hospitals in non-urban communities throughout the country. Through its subsidiaries, the Company currently owns, leases or operates 72 hospitals in 22 states. Its hospitals offer a broad range of inpatient medical and surgical services, outpatient treatment and skilled nursing care.

Shares in Community Health Systems, Inc. are traded on the New York Stock Exchange under the symbol "CYH."

ALABAMA

Woodland Community Hospital, Cullman
Parkway Medical Center, Decatur
Lakeview Community Hospital, Eufaula
South Baldwin Regional Medical Center, Foley
L.V. Stabler Memorial Hospital, Greenville
Hartselle Medical Center, Hartselle
Edge Regional Hospital, Troy

ARIZONA

Western Arizona Regional Medical Center,
Bullhead City
Payson Regional Medical Center, Payson

ARKANSAS

Helena Regional Medical Center, Helena
Harris Hospital, Newport
Randolph County Medical Center, Pocahontas

CALIFORNIA

Barstow Community Hospital, Barstow
Fallbrook Hospital, Fallbrook
Watsonville Community Hospital, Watsonville

FLORIDA

North Okaloosa Medical Center, Crestview
Lake Wales Medical Center, Lake Wales

GEORGIA

Fannin Regional Hospital, Blue Ridge

ILLINOIS

Crossroads Community Hospital, Mt. Vernon
Gateway Regional Medical Center, Granite City
Heartland Regional Medical Center, Marion
Red Bud Regional Hospital, Red Bud

KENTUCKY

Parkway Regional Hospital, Fulton
Three Rivers Medical Center, Louisa
Kentucky River Medical Center, Jackson

LOUISIANA

Byrd Regional Hospital, Leesville
Sabine Medical Center, Many
River West Medical Center, Plaquemine

MISSISSIPPI

King's Daughters Hospital, Greenville

MISSOURI

Northeast Regional Medical Center, Kirksville
Moberly Regional Medical Center, Moberly

NEW JERSEY

Memorial Hospital of Salem County, Salem

NEW MEXICO

Mimbres Memorial Hospital, Deming
Northeastern Regional Hospital, Las Vegas
Eastern New Mexico Medical Center, Roswell

NORTH CAROLINA

Martin General Hospital, Williamston

PENNSYLVANIA

Berwick Hospital, Berwick
Brandywine Hospital, Coatesville
Easton Hospital, Easton
Lock Haven Hospital, Lock Haven
Jennersville Regional Hospital, West Grove
Pottstown Memorial Center, Pottstown

SOUTH CAROLINA

Marlboro Park Hospital, Bennettsville
Chesterfield General Hospital, Cheraw
Springs Memorial Hospital, Lancaster

TENNESSEE

Haywood Park Community Hospital, Brownsville,
Cleveland Community Hospital, Cleveland
Dyersburg Regional Medical Center, Dyersburg
Regional Hospital of Jackson, Jackson
Henderson County Community Hospital, Lexington
Volunteer Community Hospital, Martin
McKenzie Regional Hospital, McKenzie
Lakeway Regional Hospital, Morristown
Scott County Hospital, Oneida
McNairy Regional Hospital, Selmer,
White County Community Hospital, Sparta

TEXAS

Big Bend Regional Medical Center, Alpine
Scenic Mountain Medical Center, Big Spring
Northeast Medical Center, Bonham
Cleveland Regional Medical Center, Cleveland
Lake Granbury Medical Center, Granbury
Hill Regional Hospital, Hillsboro
Highland Medical Center, Lubbock
South Texas Regional Medical Center, Jourdanton
Laredo Medical Center, Laredo

UTAH

Mountain West Medical Center, Tooele

VIRGINIA

Southern Virginia Regional Medical Center, Emporia
Southampton Memorial Hospital, Franklin
Russell County Medical Center, Lebanon
Southside Regional Medical Center, Petersburg

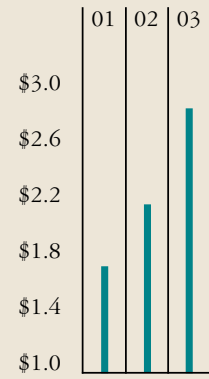
WEST VIRGINIA

Plateau Medical Center, Oak Hill

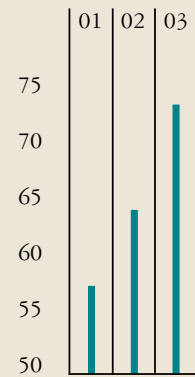
WYOMING

Evanston Regional Hospital, Evanston

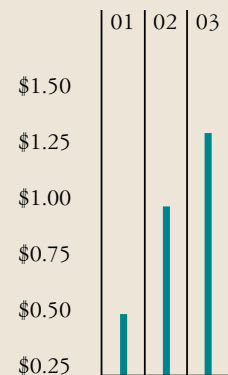
Operating Revenues (in billions)



Hospitals



Earnings Per Share (diluted)



FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

	Year Ended December 31,	
	2003	2002
Operating Results		
Net operating revenues	\$ 2,834,624	\$ 2,200,417
Net income	\$ 131,472	\$ 99,984
Net Income per share		
Basic	\$ 1.34	\$ 1.02
Diluted	\$ 1.30	\$ 1.00 ^(a)
Weighted average number of shares outstanding:		
Basic	98,392	98,421
Diluted	108,095 ^{(b)(c)}	108,378 ^(b)

	As of December 31,	
	2003	2002
Balance Sheet Data		
Working capital	\$ 298,016	\$ 329,296
Total assets	3,350,211	2,809,496
Long-term obligations	1,601,558	1,276,761
Stockholders' equity	1,350,589	1,214,305

	Year Ended December 31,					
	Consolidated			Same Store		
	2003	2002	% Change	2003	2002	% Change
Selected Operating Data						
Number of hospitals (at end of period)	72	63		62	62	
Licensed beds (at end of period)	7,810	6,310		6,178	6,247	
Beds in service (at end of period)	6,180	4,939		4,932	4,900	
Admissions	254,867	209,967	21.4%	211,954	208,840	1.0%
Adjusted admissions	465,848	387,311	20.3%	385,404	387,049	-0.4%
Patient days	1,005,712	809,166	24.3%	835,127	808,681	3.3%
Average length of stay (days)	3.9	3.9		3.9	3.9	
Occupancy rate (average beds in service)	48.5%	47.9%		48.6%	47.9%	
Net operating revenues	\$2,834,624	\$ 2,200,417	28.8%	\$2,385,404	\$ 2,198,479	8.5%
Net inpatient revenue as a % of total net operating revenues	51.3%	52.5%		51.5%	52.5%	
Net outpatient revenue as a % of total net operating revenues	47.5%	46.2%		47.3%	46.2%	

(a) To conform to the requirements of SFAS No. 145, the extraordinary loss from early extinguishment of debt reported in 2002 is no longer classified as an extraordinary item. Had income before extraordinary item been shown for 2002 as previously reported, income before extraordinary item would have been \$105,258, or \$1.05 per share (diluted), for the year ended December 31, 2002.

(b) Adjusted to include assumed exercise of employee stock options and assumed conversion of convertible notes. Since the income per share impact of the conversion of the convertible notes is less than the basic income per share for both periods presented, the convertible notes are dilutive and accordingly, must be included in the fully diluted calculation (after tax interest savings of \$2.2 million per quarter and 8.6 million shares added to the number of weighted average diluted shares).

(c) The 0.3% decrease in the weighted average number of shares (diluted) outstanding for the year ended December 31, 2003, compared to the same period last year is due primarily to the weighted average number of shares repurchased under the Company's share repurchase program. As of December 31, 2003, the Company repurchased 790,000 shares, at an average stock price of \$18.57 per share.

LETTER TO SHAREHOLDERS



W. LARRY CASH
*Executive Vice President
Chief Financial Officer*

WAYNE T. SMITH
*Chairman of the Board,
President and Chief
Executive Officer*

2003 was another outstanding year of growth and improvement for Community Health Systems. In a challenging economic environment where enduring success is often difficult to achieve, we continued to execute with excellent results. Community Health Systems has adhered to a proven business strategy that balances our objective to consistently deliver value to our shareholders with our mission to enhance the level of healthcare in communities across the country. By every measure, this strategy has served to strengthen both the Company and the hospitals in the communities we serve.

Our ability to focus on the key areas for success in our business – an effective standardized operating platform, a proven acquisition strategy, successful physician recruitment, and a favorable reputation in the marketplace – resulted in an impressive financial and operating performance in 2003. For the year, consolidated net revenues were up nearly 29 percent, net income was up over 31 percent and admissions increased over 21 percent over 2002. In addition, ten new hospitals were added to our portfolio through acquisitions, again leading our peers in the non-urban hospital industry and marking 2003 as the best acquisition year for Community Health Systems since 1997. Furthermore, the potential to substantially improve these recently acquired hospitals will be a key driver of our future growth.

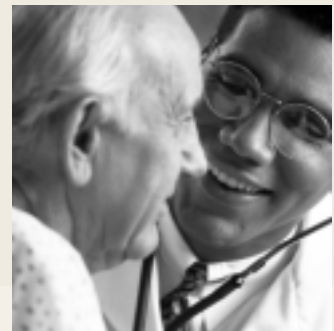
While we are pleased with our financial achievements in 2003, the recognition we received for the way we do business was equally gratifying. Over the last two years, the Company had 42 hospitals surveyed by the Joint Commission of Accreditation of Healthcare Organizations (JCAHO). The Company's average scores have been an outstanding 96 out of 100 for these surveys.

During 2003, two of our hospitals, Kentucky River Medical Center in Jackson, Kentucky, and Fannin Regional Hospital in Blue Ridge, Georgia, were named in the nation's 100 top performing hospitals according to Solucient, Inc.'s annually published study "100 Top Hospitals; National Benchmarks for Success – 2002." This study identifies industry benchmarks by recognizing U.S. hospitals that demonstrate superior clinical, operational, and financial performance.

Notably, Community Health Systems was also included in Forbes magazine list of "Best Managed Companies in America" published on January 12, 2004. More than 1,000 publicly traded companies with revenue in excess of \$1.0 billion were considered for this award, with 400 companies eventually being selected for inclusion in this prestigious listing. It is particularly gratifying to be recognized not only for our strong financial and operating performance, but also as a noted leader among our peers in the healthcare industry.

Each Community Health Systems' hospital benefits from our proven standardized and centralized operating platform. As we continue to assimilate new hospitals into our system, our local management teams have access to considerable resources to improve the financial and operating performance of their respective facilities. While we recognize that each community and hospital possess unique strengths and challenges – we develop our strategy around those criteria to ultimately deliver favorable and consistent results. Through our efforts, we have achieved greater operating efficiencies and reduced supply and labor costs as we increased revenues and improved the overall profitability of these hospitals. Our ultimate objective is to insure

“ *Making a positive impact on the communities we serve remains the cornerstone of our Company.* ”





these facilities provide our communities with the healthcare services they need close to home. Our same-store growth metrics reflect the benefits of this strategy in 2003 as evidenced by 8.5 percent growth in revenues, 1.0 percent growth in admissions and 10.7 percent increase in operating income over the prior year – significant achievements in the face of a difficult economy. Our ability to consistently deliver improved same-store growth tells us we are doing the right things. However, our greatest success is beyond financial measure. The communities we serve continue to reward us with their trust and confidence in our steadfast commitment to enhance the level of healthcare and build a better future for their families.

While we have been highly successful in the markets we serve, Community Health Systems has continued to identify opportunities to acquire additional non-urban hospitals that meet our criteria. Without question, our acquisition strategy has been a key driver of our success. In 2003, we again led the non-urban hospital industry with the completion of ten acquisitions, adding 1,632 beds. Over the last three years, the Company has completed 21 acquisitions with pre-acquisition trailing net operating revenue of approximately \$1.0 billion. These acquisitions have and will continue to provide substantial growth opportunities for the Company going forward. Our track record in integrating and improving the financial and operating performance of these acquired hospitals, and more importantly, developing positive community relations, has continued to be a distinct competitive advantage for Community Health Systems. We believe the investment opportunity in well-managed non-urban hospitals continues to look favorable. With the increasing need to expand services, recruit quality physicians and stem patient outmigration while facing limited access to capital – a growing number

of non-urban facilities are looking for a proven partner to provide the resources that will enable them to deliver quality healthcare in their communities. Community Health Systems' growing reputation as the acquirer of choice reflects our commitment to meet their expectations.

Making a positive impact on the communities we serve remains the cornerstone of our Company. At the heart of our efforts in each of these markets is one common goal. Above all, we seek to benefit the people who live and work in these communities and rely on our employees, physicians and facilities to provide them comprehensive and cost-effective healthcare services. We recognize that hospitals are a vital resource to the community as a whole and, as we strengthen our facilities, we are building a better future for the entire community. Over the past year we have invested over \$105 million in capital projects designed to add services and improve hospital facilities, including \$43 million for replacement hospitals. We always seek to identify and meet the unique needs of each community, whether it is a new emergency room, improved surgical facilities, outpatient centers or enhanced diagnostic capabilities. In each of 72 communities in 22 states, Community Health Systems continues to make a positive difference each and every day.

Also essential to this important objective is recruiting and retaining quality physicians. We successfully recruited 508 new physicians in our markets in 2003, well ahead of 447 in 2002. Approximately 60 percent of these new physicians are specialists. Our ability to attract new physicians to these communities, particularly in certain specialties, is critical to our mission. We are committed to finding the best practitioners who not only raise the level of services in our facilities, but also become an integral part of the community. These physicians, in turn, have enabled our hospitals to provide a continuum of quality,

cost-effective healthcare and meet our goal to keep more patients and revenues within the local community.

As noted at the beginning of this letter, 2003 was an outstanding year for Community Health Systems. We are extremely proud of our accomplishments and our demonstrated ability to leverage our growth and success into value for our shareholders. More importantly, we are grateful to the many extraordinary people associated with Community Health Systems who play a vital role in making a positive difference in the communities we serve. From the physicians, nurses and administrators in our hospitals to our employees and board of directors – we appreciate your passion and commitment to our ongoing success.

We enter 2004 with great enthusiasm and do not intend to rest on our past achievements. We believe that the greatest opportunities are still ahead for Community Health Systems. Our goal is to turn these opportunities into greater value for our shareholders and build a better future for the communities we serve. Thank you for the support your investment provides and we hope that you will continue to be a part of our future.

Sincerely,

Wayne T. Smith
*Chairman of the Board, President and
Chief Executive Officer*

W. Larry Cash
*Executive Vice President and
Chief Financial Officer*

Board of Directors

Wayne T. Smith
*Chairman of the Board,
President and Chief Executive
Officer*

W. Larry Cash
*Executive Vice President
and Chief Financial Officer*

John A. Clerico ⁽¹⁾
*Co-founder and Chairman
ChartMark Investments, Inc.*

Robert J. Dole
*Former U.S. Senator
Former Senate Majority Leader*

J. Anthony Forstmann ⁽²⁾
*Managing Director
J.A. Forstmann*

Theodore J. Forstmann
*Senior Founding Partner
Forstmann Little & Co.*

Dale F. Frey ^{(1) (3)}
*Former Chairman and
President
General Electric Investment Corp.*

Sandra J. Horbach ⁽⁴⁾
*General Partner
Forstmann Little & Co.*

Harvey Klein, M.D. ⁽³⁾
*Professor of Clinical Medicine
Cornell University Medical
College*

Thomas H. Lister ^{(3) (4)}
*General Partner
Forstmann Little & Co.*

Michael A. Miles ^{(1) (2) (4)}
*Former Chairman and Chief
Executive Officer
Philip Morris*

⁽¹⁾ *Member of the Audit and
Compliance Committee*

⁽²⁾ *Member of the
Compensation Committee*

⁽³⁾ *Member of the Governance
and Nominating Committee*

⁽⁴⁾ *Member of the Finance
Committee*

Officers

Wayne T. Smith
*Chairman of the Board,
President and Chief Executive
Officer*

W. Larry Cash
*Executive Vice President
and Chief Financial Officer*

William S. Hussey
*Senior Vice President – Group
Operations*

David L. Miller
*Senior Vice President – Group
Operations*

Gary D. Newsome
*Senior Vice President – Group
Operations*

Michael T. Portacci
*Senior Vice President – Group
Operations*

Kenneth D. Hawkins
*Senior Vice President –
Acquisitions and
Development*

Carolyn S. Lipp
*Senior Vice President –
Quality and Resource
Management*

Martin G. Schweinhart
*Senior Vice President –
Operations*

Rachel A. Seifert
*Senior Vice President,
Secretary and General
Counsel*

T. Mark Buford
*Vice President and Corporate
Controller*

James W. Doucette
Vice President and Treasurer

Robert A. Horrar
*Vice President –
Administration*

Linda K. Parsons
*Vice President – Human
Resources*

J. Gary Seay
*Vice President – Information
Systems*

Gerald A. Weissman
*Vice President – Medical
Staff Development*

This Annual Report contains forward looking statements made pursuant to the “safe-harbor” provisions of the Private Securities Litigation Reform Act of 1995. Important factors that could cause our actual results to differ materially from the results contemplated by the forward looking statements are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) and included with this Annual Report and in subsequent filings with the SEC.

Corporate Information / COMMUNITY HEALTH SYSTEMS

Corporate Office

Community Health Systems, Inc.
155 Franklin Road, Suite 400
Brentwood, Tennessee 37027
615.373.9600
www.chs.net

Form 10-K/Investor Contact

A copy of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, may be obtained from the Company at no charge. Requests for the Annual Report on Form 10-K and other investor information should be directed to Investor Relations at the Company's corporate office or at www.chs.net.

Registrar and Transfer Agent

Mellon Investor Services LLC
200 Galleria Parkway, Suite 1900
Atlanta, Georgia 30339
770.916.4186

Independent Auditors

Deloitte & Touche LLP
Nashville, Tennessee

Annual Shareholders' Meeting

The annual meeting of shareholders will be held on Tuesday, May 25, 2004, at 8:30 a.m. local time at JPMorganChase & Co., 270 Park Avenue, 11th Floor - Room C, New York, New York.

Common Stock Information

The Company's common stock trades on the New York Stock Exchange under the symbol CYH. As of March 31, 2004, Community Health Systems had approximately 8,970 beneficial holders of its common stock. Of that total, 69 were stockholders of record. To date, the Company has not paid cash dividends on its common stock.

The following table sets forth the high and low sales price information as reported by the New York Stock Exchange during the period indicated.

Stock Price

2003	High	Low
First Quarter	\$20.99	\$15.84
Second Quarter	\$21.20	\$17.70
Third Quarter	\$23.44	\$18.25
Fourth Quarter	\$27.46	\$20.50

2002	High	Low
First Quarter	\$25.25	\$20.29
Second Quarter	\$30.55	\$21.76
Third Quarter	\$27.50	\$21.20
Fourth Quarter	\$27.85	\$18.50

C O M M U N I T Y H E A L T H S Y S T E M S , I N C .

155 Franklin Road, Suite 400

Brentwood, Tennessee 37027

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